

Company number: 05966431

Caspian Sunrise plc

Annual report and financial statements
for the year ended 31 December 2020

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Directors

Mr C Carver	Chairman
Mr K Oraziman	Chief Executive Officer
Mr S Shin	Chief Operating Officer
Lord Limerick	Non-Executive Director
Mr A Oraziman	Non-Executive Director
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CHAIRMAN'S STATEMENT

Introduction

Without doubt 2020 was our toughest year to date. Actions taken at the onset of Covid-19 together with the recovery in international oil prices ensured the Group's survival, however, progress on our medium / longer term objectives was limited during the year under review.

Now, with a much improved international oil price and a recently doubled domestic price together with positive recent news at 3A Best and the Caspian Explorer, we are on a path to recovery.

The impact of Covid-19

We were fortunate that when Covid-19 struck we had sufficient production from the shallow MJF structure at our flagship BNG asset from which to fund the Group's day-to-day operations. Nevertheless we were forced to take some difficult decisions.

Cost cutting

It was clear to the Board that Covid-19 would severely affect the Group both financially and operationally. The sharp fall in international and domestic prices began in Q1 2020 followed by disruption to operations, most notably crew changeovers and the supply of almost everything required to make an oilfield work meant we had to make changes.

In March 2020, principally in light of restrictions in crew changeovers, we announced that the suspension of all new drilling activities and that we would focus only on the completion of work likely to generate early revenue. In early May 2020, as part of wider measures we announced that following earlier reductions the costs of the Board had been further reduced to 25% of previous levels and these reductions remain in place. In addition we announced cuts to the workforce in the field and in the corporate offices in Almaty. We also announced that we had secured additional financial support from local oil traders.

£1 million equity placing

Our policy where possible is to avoid dilutive equity placings to fund day-to-day operations. However, the Covid-19 induced squeeze on an already tight working capital position meant we were obliged to raise £1 million before expenses by issuing 36,363,629 new shares at a price of 2.75p per share. The funds raised were used to pay existing liabilities.

Oil prices

International prices have recovered from a low of approximately \$16 per barrel to approximately \$75 per barrel and this additional revenue has been instrumental in the Group's survival. However, the domestic price at which we are obliged to sell 40-45% of oil produced fell from approximately \$19 per barrel before Covid-19 to approximately \$6 per barrel during the period under review, which resulted in a loss on each barrel sold to the domestic market. After the period end the domestic price doubled to approximately \$12 per barrel and has recently increased further to approximately \$18 per barrel.

Our oil & gas assets

BNG Contract Area

The Group's principal asset is its 99% interest in the BNG Contract Area. We first took a stake in the BNG Contract Area in 2008, as part of the acquisition of 58.41% of portfolio of assets owned by Eragon Petroleum Limited.

In 2017, we increased our stake to 99% upon the completion of the merger with Baverstock GmbH. Since 2008, approximately \$100 million has been spent at BNG.

The BNG Contract Area is located in the west of Kazakhstan 40 kilometers southeast of Tengiz on the edge of the Mangistau Oblast, covering an area of 1,561 square kilometers of which 1,376 square kilometers has 3D seismic coverage acquired in 2009 and 2010. We became operators at BNG in 2011, since when we have identified and developed both shallow and deep structures.

Shallow structures

There are two confirmed and producing shallow structures at BNG with the possibility of a third.

MJF structure

In 2013, we announced the discovery of the MJF structure and have subsequently drilled 8 wells of which 6 are currently producing with an aggregate capacity of approximately 1,300 bopd.

The productive Jurassic aged reservoir consists of stacked pay intervals with most ranging in thickness from two meters to 17 meters. The current mapped lateral extent of the MJF field is now approximately 13km².

The producing wells range in depth from 2,192 meters to 2,450 meters.

In December 2018, we applied to move the MJF structure, which was part of the overall BNG licence, from an appraisal licence to a full production licence, under which the majority of the oil produced from the MJF wells may be sold by reference to world rather than domestic Kazakh prices. The full production licence became effective in July 2019, with the first revenues based on international prices received in August 2019.

Following the award of the MJF export licence the Kazakh regulatory authorities assessed historic costs of \$32 million against the MJF structure, repayable quarterly over a 10 year period. As previously announced we believe such an assessment to be mistaken as despite the MJF structure representing only 1% of the surface area of the BNG Contract Area it has been assessed to bear 100% of the BNG historic costs. However, the Kazakh courts have recently denied our appeal and we have no further appeal options open to us.

Well 154 has a Planned Depth of 2,480 meters and will be the first horizontal well drilled on the BNG Contract Area. The well is targeting a Middle Jurassic reservoir.

South Yelemes

This structure remains the subject of a slow moving licence upgrade application for a separate 25 year production licence. Until the application is approved we are unable produce from the four existing wells on the structure.

The first wells were drilled on the South Yelemes structure during the Soviet era. Well 54 was intermittently active between periods of being shut in to allow pressure to be restored. There are three other wells at South Yelemes (805, 806 & 807). The production capacity from the existing wells at South Yelemes was in aggregate approximately 300 bopd.

Until recently these older wells were the only wells on the BNG Contract Area to use artificial lift to assist the oil to flow to the surface. We believe the structure may have untapped quantities of oil at higher levels than previously explored making it potentially suitable for a horizontal drilling campaign once the improved licence is awarded.

Deep structures

We have identified two deep structures at the BNG Contract Area. The first is the Airshagyl structure, which extends to 58 km². The second is the Yelemes Deep structure which extends over an area of 36 km².

Sub-surface conditions at the two discovered deep structures at BNG present significant technical challenges in drilling and completing the wells. These are the extremely high temperature and extreme over pressure that exist below the salt layer. At the Airshagyl structure the salt layer is typically found at depths between 3,700 and 4,000 meters where at the Yelemes Deep structure the salt layer is typically found at depths between 3,000 and 3,500 meters.

The extreme pressure below the salt layer requires the use of high density drilling fluid to maintain control of the well during drilling. The high density drilling fluid's principal role is to help prevent dangerous blow-outs. The attributes of the high density barite weighted drilling fluid, which allow the wells to be controlled during the drilling phase, act against us when we attempt to clear the well for production.

To the extent that drilling fluids, which include solid particles added to increase density, are not fully recovered they can form a barrier between the wellbore and the reservoir impeding the flow of hydrocarbons into the well.

Competent third party experience has been difficult to find, as the exceptional temperature and pressure are unusual for many international consultancies more used to conventional shallower exploration. We have however, developed our drilling techniques and now use drilling fluids with lower density, which we have found easier to remove once drilling has been completed.

3A Best

In January 2019, we acquired 100% of the 3A Best Group JSC, a Kazakh corporation owning an existing Contract Area of some 1,347 sq. km located near the Caspian port city of Aktau, for a final consideration of \$11.8 million payable by the issue of 149,253,732 Caspian Sunrise shares issued at a price of 6.15p per share.

The Contract Area, which has been designated by the Kazakh authorities as a strategic national asset, surrounds and goes below the established shallow field at Dunga, currently owned by Total, which we believe to be producing at the rate of approximately 15,000 bopd.

In June 2021, we announced a farm out of 15% of the 3A Best Contract Area in return for our new partners assuming responsibility for the current 3A Best work programme commitments, the farm out is conditional on the deferral of obligations under the licence and the extension of the license to be granted. We also granted our new partners an option to acquire the remaining 85%, exercisable after completion of the current work programme commitments, at a price to be determined by an independent expert.

Caspian Explorer

In January 2020, we announced the proposed acquisition of the Caspian Explorer for a headline consideration of \$25 million to be satisfied by the issue of 160,256,410 shares at an issue price of 12p per share.

In parts of the northern Caspian Sea, where we believe there are attractive oil producing prospects, the water levels are extremely shallow and the prospects cannot be explored with traditional deep water rigs. The principal ways of exploring these properties are either from a land base or by the use of a specialist shallow drilling vessel such as the Caspian Explorer, which we believe to be the only one of its class operational in the Caspian Sea.

Land based options typically involve either the creation of man-made islands from which to drill as if onshore or less commonly drilling out from an onshore location. Both are expensive compared to the use of a specialist drilling platform such as the Caspian Explorer.

The acquisition completed in October 2020, by when the fall in the Company's share price reduced the headline price paid to \$3.7 million. The acquisition of the Caspian Explorer marks the Group's first step into off-shore exploration, which is typically more expensive and complicated than on-shore exploration but if successful can provide greater returns.

We were pleased in June 2021, to announce the first charter for the Caspian Explorer being a part of the Group. The charter is with the North Caspian Operating Company ("NCOC") the principal operator in the region, comprising the Republic of Kazakhstan working through KazMunaiGas (KMG), and international oil companies including Shell, ExxonMobil, Eni, Total and CNPC, the consortium operating the Kashagan field. The charter, which will be undertaken in Q3 2021, is safety related rather than new drilling. We look forward to further charters as development of the northern Caspian Sea progresses.

Licences & Work Programmes

BNG

BNG LLP Ltd holds two contracts for a subsoil use. The first is the exploration contract, covering the full extent of the BNG Contract Area (except the MJF structure), originally issued in 2007 and successively extended until 2024.

The second is the export contract covering just the MJF structure which runs to 2043 and under which the majority of oil produced may be sold by reference to international rather than domestic prices.

During 2020, certain work programme obligations at the BNG Contract Area were deferred from 2020 to 2021. While we are yet to fully comply with both the BNG work programme commitments and payment of the social obligations, given the issues imposed by Covid-19, the Board are not unduly concerned about any impact on the BNG licence given the penalties can be applied until the commitments are fulfilled and the absence of a significant non-compliance.

The Company is in discussions with third parties to work together to drill A9, a further deep well which forms part of the current BNG work commitment.

3A Best

Similarly at 3A Best we are not in compliance with existing work programme commitments, largely as we have been waiting for a revised work programme, which is agreed in principle but yet to be formally confirmed. The Group has applied for a deferral of the amounts due and work program commitments during 2020. On the date of this report the Group is still negotiating with the Ministry and local officials. The recent farm-out transaction has been structured such that our new partners will fund drilling the well forming the bulk of the existing work programme, following which we would be in compliance.

Accordingly, the Board does not believe the level of compliance with the previous work programme is a threat to the licence.

Reserves

BNG

In 2011 Gaffney Cline & Associates (“GCA”) undertook a technical audit of the BNG license area and subsequently Petroleum Geology Services (“PGS”) to undertake depth migration work, based on the 3D seismic work carried out in 2009 and 2010.

The work of GCA resulted in confirming total unrisks resources of 900 million barrels from 37 prospects and leads mapped from the 3D seismic work undertaken in 2009 and 2010. The report of GCA also confirmed risks resources of 202 million barrels as well as Most-Likely Contingent Resources of 13 million barrels on South Yelemes.

In September 2016 GCA assessed the reserves attributable to the BNG shallow structures (MJF & South Yelemes). Between then and the end of 2020, approximately 2.5 mmbls of oil were produced, which under financial reporting rules are deducted from the assessment of reserves as at 31 December 2020.

	As at 31 December 2020	As at 31 December 2019
	mmbls	mmbls
BNG		
Shallow P1	15.6	16.1
Shallow P2	26.8	27.3
Deep P1	Nil	Nil
Deep P2	Nil	Nil

Operational review

Introduction

The impact of Covid-19 meant we did not drill any new wells in the period under review. All operational activities were targeted at improving production at producing wells and in getting wells previously drilled to flow.

MJF structure

Approximately 96% of all the oil produced in 2020 was from the MJF structure.

The first wells were drilled on the MJF structure in 2016, since when it has produced in aggregate approximately 2.1 million barrels. As the original wells drilled continue to age additional work is required to keep them operational.

During the period under review we produced 545,667 barrels of oil at an average of 1,491 bopd (2019: 506,620 barrels at an average of 1,388 bopd). Subsequently, Well 154 was spudded in April 2021 with a

Planned Measured Depth of 2,480 meters. Drilling is nearing completion with much of the casing laid. This is the first horizontal well on the BNG Contract Area.

South Yelemes structure

Test production commenced in 1994 on the South Yelemes structure. Since 2010 it has produced approximately 405,000 barrels. No production has been allowed at this structure since May 2020 when we submitted our application to upgrade the structure to a 25 year production licence under which a majority of the oil produced could be sold by reference to international rather than domestic prices.

Typically such an application would take 6 months. We therefore believe it to be an indirect casualty of the impact of Covid-19. Our expectation is for a Q3 2021 approval.

Airshagyl structure

Three deep wells have been drilled to date on the Airshagyl structure, A5, A6 & A8.

A5

Well A5 was spudded in July 2013, and drilled to a total depth of 4,442 meters with casing set to a depth of 4,077 meters to allow open-hole testing. Core sampling revealed the existence of a gross oil-bearing interval of at least 105 meters from 4,332 meters to at least 4,437 meters.

We have struggled during the period under review and subsequently with stuck pipes in this well. Remedial work undertaken in the period under review and subsequently to remove the obstructions in the well has not proved successful. At various times work paused to allow equipment and crews to be used on other wells. Our intention is now to drill a new side-track from a depth of 4,500 meters.

Other deep wells

A local contractor has been hired for hydraulic fracking at Deep Wells A6, A8 & 801, which if successful could lead to H2 production. Commencement of the work has been delayed pending final agreement of the chemical composition of the materials to be used given the extreme temperatures in the wells.

A6

The second well drilled on the Airshagyl structure was Deep Well A6, which was spudded in 2015 and drilled to a depth of 4,528 meters. Initially problems in perforating the well prevented it being put on test. Latterly the issue has been blockages from unrecovered drilling fluid. During the period under review we conducted several acid treatments to clear the well ready for commercial production but these were not successful.

A8

In November 2018, Deep Well A8 was spudded with a planned Total Depth of 5,300 meters, initially targeting the same pre-salt carbonates that were successfully identified in the Deep Well A5 at depths of 4,342 meters but with a prime target being the deeper carbonate of the Devonian to Mississippian ages towards the planned Total Depth of 5,300 meters.

We identified intervals of interest at depths of 4,342 meters. We then had to decide whether to seek to produce from the intervals identified or whether to continue to the original Total Depth of 5,300 meters.

Using pipes and crews previously in use at Deep Well A5 further we tried to clear the well to allow production from the interval between 4,343 meters and 4,499 meters. While this resulted in limited gas and oil shows they were not at commercial levels.

Our intention is to fracture and complete the well at the current 4,500 meter depth. In the event this does not result in commercial quantities of oil we plan to drill a further 800 meters to the original Devonian target at a depth of 5,300 meters.

New wells

We are looking at ways of partnering with others to drill a fourth deep well, A9, to comply with the existing 2021 work programme commitments.

Yelemes Deep structure

The only well drilled to date on the Yelemes Deep Structure is Deep well 801 which was drilled in 2014 / 2015 to a depth of 5,050 meters.

No significant development work was conducted on the Yelemes Deep Structure in the period under review or subsequently. As noted above the next event will be the fracking exercise.

3A Best

No work was undertaken in the period under review or subsequently, in part as we were waiting on the Kazakh authorities to agree to a revised licence and work programme schedule. Our new partners have taken responsibility for compliance with existing work programme commitments, which include drilling a well to a depth of 2,500 metres, which we expect to cost approximately \$2.5 million and would bring us into compliance with the existing work programme commitments.

Caspian Explorer

We became owner of the Caspian Explorer in October 2020. In the period under review and subsequently the Caspian Explorer has been inactive and is moored at its home port of Aktau.

In addition to the safety related charter announced in June 2021, we have held discussions with potential hirers, which could lead to contracts in 2022 and beyond, However, there are no other contracts yet in place.

Financial review

Review of the results for the 12 months to 31 December 2020

Revenue

Revenue in 2020 increased by approximately 18 per cent to \$14.3 million (2019: \$12.1 million)

Oil prices

Export prices fell from the mid \$60's per barrel to a low of \$16 per barrel before recovering steadily to the mid / high \$60's per barrel per barrel. Domestic prices fell from approximately \$19 per barrel at the start of the period to approximately \$6 per barrel as the full impact of Covid-19 bit and have yet to recover.

Production volumes

Production volumes in 2020 were some 7.7% higher at 545,667 barrels at an average of 1,491 bopd compared to 506,620 barrels in 2019 at an average of 1,388 bopd. This increase is despite the missing contribution from the South Yelemes field.

International vs Domestic sales

The proportion of oil sold on the international market in 2020 was materially greater than in 2019, as the export licence only became effective in August 2019.

Net effect

The combination of greater production volumes, lower prices and a greater portion of sales being to the export market resulted in an 18 per cent increase in revenues for 2020.

Gross profit

The method of accounting for production sold under an exploration phase of an appraisal licence differs from the sale of oil under a full production licence in which commercial production is considered to have been reached.

Under an appraisal licence revenues are treated as a contribution to the costs associated with the main objective, which is to ascertain the productive capabilities of the producing wells concerned. Therefore, whilst revenue is recorded and equivalent amount is included as a cost of sale resulting in a zero gross profit.

Under a production licence only the actual costs of production are recorded as costs of sales so that any excess of receipts over direct costs is shown as gross profit.

Gross profit increased by approximately 84 per cent to \$9.4 million (2019: \$5.1 million), principally as the result of a greater proportion of sales being for the export market.

Selling expenses

Selling expenses were \$3.9 million (2019: \$2.2 million) and relate to export and customs duties.

Other administrative expenses

Other administrative expenses declined by 6 per cent to \$3.7 million (2019: \$3.9 million).

Loss for the year

The loss for the year before tax was \$1.7 million of which approximately \$2.6 million related to impairment provisions (2019: profit of \$0.9 million).

Tax charge

The tax charge for 2020 fell by approximately 25 per cent to \$1.8 million (2019: \$2.3 million).

Oil and gas assets

Unproven oil & gas assets

The carrying value of unproven oil and gas assets increased to \$61.4 million (2019: \$60.0 million).

Plant, property and equipment

The value of plant property and equipment increased to approximately \$52.8 million (2019: \$51.3 million), reflecting the acquisition in the year of the Caspian Explorer.

Other receivables

Other receivables fell from \$11.4 million to \$10.4 million as the result of a \$1 million fall in prepayments resulting from the diminished drilling activities, an increase of \$0.5 million in recoverable VAT and a decrease of \$0.5 million in other receivables.

Cash position

At the year-end we had cash balances of approximately \$0.3 million (2019: \$4.1 million). This reflects the extremely tight working capital position following the impact of Covid-19.

Liabilities

Trade and other payables under 12 months

Trade and other payables fell to approximately \$11.0 million (2019: 14.8 million), short term borrowings increased to \$5.6 million (2019: \$4.1 million) and the provisions for payments in less than 12 months stayed broadly similar at approximately \$9.3 million (2019: \$9.5 million) of which the provision for BNG licence payments was \$3.2 million in both years.

Historic costs estimate

Following the award of the MJF export licence the Kazakh regulatory authorities assessed historic costs of \$32 million against the MJF structure, repayable quarterly over a 10 year period. This is in addition to the extremely, low domestic price for oil is too great a financial burden for the MJF structure to bear and produce significant additional cash for further drilling.

As previously announced we believe such an assessment to be mistaken as despite the MJF structure representing only 1% of the surface area of the BNG Contract Area it has been assessed to bear 100% of the BNG historic costs. However, the Kazakh courts have recently denied our appeal and we have no further appeal options open to us. We will therefore continue to make the quarterly payments of approximately \$800,000. The aggregate liability, discounted over the period to 2029 fell from \$27.4 million at 31 December 2019 to \$25.1 million at 31 December 2020 as the results of payments made in the period under review.

Production from other structures on the BNG Contract Area should be without further assessed historic costs as these have been fully allocated against the MJF structure.

Cashflows

During the period under review approximately \$10.8 million was received from customers and approximately \$12.5 million paid out to suppliers, creditors and staff with a further \$1.5 million spent on

unproven oil and gas assets and \$3.0 million spent on property, plant and equipment. This was in part funded by \$2.5 million raised via the issue of equity and additional loans and resulted in cash balances at the year falling by \$3.7 million to \$0.3 million.

Oraziman family loans

During the period under review the support from the Oraziman family in the form of subordinated loans increased from \$4.1 million to \$5.6 million.

Funding Policy

Our approach to funding the business since our IPO in 2007 is where possible to minimise the issuance of equity and therefore to use other forms of funding to develop our assets. In this way we seek to preserve the upside for existing shareholders, even if this is at the expense of higher costs in the short term.

However, the full impact of the Covid-19 virus hit the Group at a time when our finances were already stretched following the move of the MJF structure to a full production licence, with the associated working capital hit. Accordingly we were forced to raise £1 million to meet existing liabilities not capable of being funded from the reduced operational cashflow.

Going concern

The financial outlook has improved when compared to the position 12 months ago but not yet to the point where the material uncertainty in respect of going concern highlighted in the 2019 Financial Statements and the 2020 interim statements has fully receded.

At 31 December 2020, the Group had cash of \$0.3 million and net current liabilities of \$19.0 million. The imbalance reflects the financial impact of Covid-19 and market volatility in respect of commodity prices. As at 1 June 2021 the Group had cash of approximately \$0.7 million.

On the brighter side the dramatic decline in international prices, which fell as low as \$16 per barrel has been reversed with the Brent price recently exceeding \$75 per barrel. As is the case with domestic prices which have recently tripled.

The Caspian Explorer has its first charter as part of the Group and the current work programme costs at 3A Best are to be funded by our new partners subject to the license extension.

On the negative side we have yet to see any meaningful production from any of the deep wells and the BNG historic costs on the MJF structure, which were assessed and now confirmed at \$32 million payable quarterly over a ten year period will continue to consume a large proportion of the cash generated from international sales at the MJF structure.

The Board have assessed cash flow forecasts prepared for a period of at least 12 months from the of approval of the financial statements and assessed the risks and uncertainties associated with the operations and funding position, including the potential further effects of the COVID-19 pandemic.

Inevitably, there is an international price below which the Group would need to take further action to conserve costs or raise additional funding. The Board considers that price to be around the \$54 per barrel level.

The Group's liquidity remains dependent on a number of key factors:

- The Group continues to forward sell its domestic production and receive advances from oil traders with \$2.5m currently advanced and the continued availability of such arrangements is important to working capital. Whilst the Board anticipate such facilities remaining available given its trader relationships and recent oil price increases, should they be withdrawn or reduced more quickly than forecast cash flows allow then additional funding would be required.
- The Group has approximately \$0.2m of aged creditors which are being settled over the coming months from operating cash flows. Whilst relations are positive with the suppliers, if their support is withdrawn additional funding may be required.
- The Group has \$5.6m of loans due on demand or within the forecast period to its largest shareholder and their connected companies. Whilst the Board has received assurances that the facilities will not be called for payment unless sufficient liquidity exists, there are no binding agreements currently in place to this effect and if repayment was required additional funding would be needed.

- The Group has \$6.0m of liabilities due on demand under social development program and \$3.2 of BNG licence payments due within the forecast period to the Kazakh government. Whilst the Board has forecasted the payment of BNG licence payments, there are no payments planned for social development program within the forecast period as the Board expects additional payment deferrals to be approved.
- The Group is looking to partner with others to drill further deep wells thereby reducing the costs.
- As noted above, the forecasts remain sensitive to oil prices, which have shown significant volatility. Independent of the factors above, if international oil prices fell below \$54/bbl additional actions would be required including some or all of the following: further cost reductions, additional payment deferrals and raising funds.

These circumstances continue to indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Notwithstanding the material uncertainty described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group will continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Board changes

In August 2020, Aibek Oraziman joined the board as a non-executive director.

By Q4 2020, it became clear that the temporary cost saving measures announced earlier in the year would need to be extended. Accordingly, Tim Field who had been a non-executive director since January 2019, left the board and I ceased to be Executive Chairman and Chief Financial Officer and became a non-executive director.

Talgat Kuzbakov, who has been with the Group for 10 years was appointed Chief Financial Officer but not a board member.

In December 2020, we also announced that Seokwoo Shin our Chief Operating Officer who has been with the Group for three years and had previously spent more than 30 years with the Korea National Oil Corporation would join the Board.

The board now comprises two executive directors and three non-executive directors. The composition of the various board committees has been updated to reflect these changes as is set out more fully in the Corporate Governance Report.

Employees

The Group currently employs 201 staff, including Directors, of whom 200 are based in Kazakhstan and split principally between the corporate offices in Almaty and in the field.

Outlook

To benefit from the expected upturn in economic activity we first needed to survive. In the absence of further unexpected shocks we believe the actions taken to deal with the impact of Covid-19 has secured that survival.

The dramatic recovery in international and domestic oil prices provides a significant boost to operating cashflows. A much greater positive impact would be for one or more of our deep wells to start to flow at commercial rates, which remains our principal objective.

Clive Carver
Chairman
28 June 2021

Qualified Person & Glossary

Qualified Person

Mr. Assylbek Umbetov, a member Association of Petroleum Engineers, has reviewed and approved the technical disclosures in these financial statements.

Glossary

SPE – the Society of Petroleum Engineers

Bopd – barrels of oil per day mmbbls – million barrels.

Proven reserves

Proven reserves (P1) are those quantities of petroleum which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered.

If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable reserves

Probable reserves are those additional reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated proved plus probable reserves (2P).

In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Possible reserves

Possible reserves are those additional reserves which analysis of geosciences and engineering data indicate are less likely to be recovered than probable reserves.

The total quantities ultimately recovered from the project have a low probability to exceed the sum of proved plus probable plus possible (3P), which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Contingent resources

Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.

Contingent resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality.

Contingent resources are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Prospective resources

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects.

The Kazakh oil and gas licensing and taxation environment

Introduction

Oil & gas is a heavily regulated industry throughout the world, with strict rules on licensing and taxation. Set out below is a summary of the position in Kazakhstan.

Licensing

Exploration licences

The initial licence to develop a field is typically an exploration licence where the focus is on completing agreed work programmes. Exploration licences are typically two years in duration and it is usual for there to be several consecutive two-year exploration licence extensions agreed during the exploration phase.

Appraisal licences

In the event the project appears commercial, the exploration licence is usually upgraded to an appraisal licence.

Under an appraisal licence, oil produced incidentally while exploring and assessing may be sold but only at domestic prices. Taxation under an appraisal licence is limited with only modest deductions. Changes to the legislation in the last few years has reduced the length of appraisal licences from six to five years, with a concession of reduced social obligation payments.

Full production licences

To sell oil by reference to world prices requires either the Contract Area as a whole or a particular structure to be upgraded to a full production licence. Under a full production licence there is only limited scope to develop areas not already drilled. Additionally, a significant minority portion of production typically remains at domestic prices although the majority is sold by reference to world prices.

Taxes

There are five different taxes that apply to Kazakh oil & gas producers. Each has its own basis of calculation with some being related to profits, others by reference to world oil prices and yet others by reference to the volume of oil sold.

The overall impact is that as world prices increase so does the percentage taken by the Kazakh state.

Strategic Report

The Directors present their strategic report on the Group for the year ended 31 December 2020.

Introduction

This strategic report comprises: the Group's objectives; the strategy; the business model; and a review of the Group's business using key performance indicators. The Chairman's statement, which also forms the main part of the strategic review, contains a review of the development and performance of the Group's business during the financial year, and the position of the Group's business at the end of that year. Additionally, a summary of the principal risks and uncertainties facing the business is set out immediately after the Directors' report.

Objectives

The Group's objective is to create shareholder value from the development of oil and gas projects and associated activities. However, as set out in the Chairman's statement as the impact of Covid-19 struck the Board's immediate focus switched to survival.

The Group has a number of secondary objectives, including promoting the highest level of health and safety standards, developing our staff to their highest potential and being a good corporate citizen in our chosen countries of operations.

Strategy

The Group's long-term strategy is to build an attractive portfolio of oil and gas exploration and production assets initially in Central Asia, and in particular Kazakhstan where the board has the greatest experience. Additionally, the Group will seek to exploit associated opportunities where the board believes it can add significant value and contribute towards the success of the Group as a whole.

The Group's principal asset is its 99 per cent interest in BNG. Additionally, the Group owns a 100 per cent interest in the 3A Best Contract Area, of which it has agreed to sell 15% to fund existing 3A Best work programme commitments and granted an option for the sale of the remaining 85% at a valuation to be assessed by an independent expert. During 2020 the Group also acquired a 100% interest in the Caspian Explorer, a shallow water drilling vessel designed for the Northern parts of the Caspian Sea.

Business model

The business model is straightforward. To take assets at any stage of the development cycle and to improve them to the point they contribute to the Group's profitability or that they may be sold on at a profit to provide funding for additional development.

Our main asset BNG has been developed over the past 13 years with more than \$100 million spent and is set to be a very substantial asset for many years to come.

While we seek to grow our asset portfolio with appropriately timed acquisitions we are also prepared and able to sell assets when their value to others exceeds the value we can see. This was the case in 2015, when, in poor market conditions, we sold our then second asset Galaz for a headline price of \$100 million, which represented a profit of \$15 million on our interest in the asset, and which provided \$33 million to re-invest into BNG.

Further growth by acquisition

When appropriate the Group will consider acquiring additional assets or related businesses where the Board believes they would increase shareholder value, including by providing funding or infrastructure to develop the Group's other assets.

In Kazakhstan the Directors believe the Group is exceptionally well placed through its local presence to identify and buy undervalued oil and gas assets on an opportunistic basis.

Key performance indicators

The Non-Financial Key Performance Indicators are:

- Operational (wells drilled at end of year) 2020: 17 (2019: 17)
- Aggregate production for 2020 was 545,667 barrels (2019: 506,620) an increase of approximately 7.7%
- Reserves at 31 December 2020 P1 15.6 mmbbls & P2 26.8 mmbbls (2019: P1 16.1 mmbbls & P2 27.3 mmbbls)

The Financial Key Performance Indicators are:

- Revenue: up 18% at \$14.3 million (2019: \$12.1 million)
- Loss after tax for the year \$3.5 million (2019: \$1.4 million)
- Cash at bank: \$0.3 million (2019: \$4.1 million)
- Total assets: \$125.7 million (2019: \$127.5 million)
- Exploration assets \$61.4 million (2019: \$60.0 million)
- Plant, property & equipment \$52.8 million (2019: \$51.3 million)

January – May 2021 production was at the average rate of 1,379 bopd, with a production capacity of 2,000 bopd from existing wells including those at South Yelemes

Assets & Reserves

Details of the Group's assets and reserves are set out in the Chairman's statement.

Financial

At current international prices and with current levels of production the income from export sales is sufficient to cover day to day Group operations and G&A costs but insufficient to fund significant additional drilling.

In the event any of our four deep wells already drilled start to produce oil, the associated revenues should transform the Group's cash flows. The same would be the case in the event the Caspian Explorer is chartered at market rates.

Drilling wells at a rate faster than could be funded from oil sales, would require additional funding, as would any acquisitions to be funded by cash. Potential sources of such funding would include: further advances from local oil traders for the sale of oil yet to be produced; industry funding in the form of partnerships with larger industry players; further support from existing shareholders; and equity funding from financial institutions. Additionally, funding may be available from selected asset sales.

Dividends

It is the policy of the Board to work towards a position where meaningful dividends can be paid. This requires not only consistently profitable trading but also in all likelihood a corporate reorganisation to create distributable reserves. New corporate subsidiaries have been incorporated in the UAE, with a view improving and simplifying the Group structure and easing the future payment of dividends.

Any dividend declared will be set at an affordable level that does not conflict with the need to fund value enhancing growth, whether by further investments in our existing fields or by acquisition.

S 172 Statement

The Board is mindful of the duties of directors under S.172 of the Companies Act 2006.

Directors act in a way they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members. In doing so, they each have regard to a range of matters when making decisions for the long term success of the Company.

Our culture is that of treating everyone fairly and with respect and this extends to all our principal stakeholders. Through engaging formally and informally with our key stakeholders, we have been able to develop an understanding of their needs, assess their perspectives and monitor their impact on our strategic ambition.

As part of the Board's decision-making process, the Board and its Committees consider the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions on the long term.

Our objective is to act in way that meets the long term needs of all our main stakeholder groups. However, in so doing we pay particular regard to the longer term needs of shareholders.

We engage with investors on our financial performance, strategy and business model and until the Covid-19 virus struck our Annual General Meeting provided an opportunity for investors to meet and engage with members of the Board.

In particular during the period under review and subsequently the Board concluded that the Group's survival during unprecedented conditions was the best way to seek to meet stakeholders expectations over the medium / longer term.

The Board continues to encourage senior management in each location to engage with staff, suppliers, customers and the community in order to assist the Board in discharging its obligations.

During 2020 the Board has been particularly mindful of the impact of the ongoing Covid-19 pandemic when making any decision. This has impacted all areas of decision making and is not limited to ensuring that its impact on employees, contractors, suppliers and the communities in which we operate is factored into any decision, but also to ensure that its reputational, financial and other impact is also considered. As a consequence of this focus additional prudent precautionary measures were designed in to operational proposals made to the Board, the 2020 drilling activities were revised, additional equity funds raised, certain work programme obligations of BNG were deferred to 2021, work program commitments of 3A Best were applied for a deferral, these decision were made to ensure financial sustainability (see Chairman's Statement for more information).

Further details of how the Directors have had regard to the issues, factors and stakeholders considered relevant in complying with S 172 (1) (a)-(f), the methods used to engage with stakeholders and the effect on the Group's decisions during the year can be found throughout this report and in particular at page 4 (in relation to decision-making), page 15 (where the Group's strategy, objectives and business model are addressed), page 18 (in relation to employees) the ESG report on page 24 (in relation to social and environmental matters).

We seek to attract and retain staff by acting as a responsible employer. The health and safety of our employees is important to the Company and an area we have to regularly report on the Kazakh regulatory authorities.

We continue to provide support to communities and governments through the provision of employment, the payment of taxes and supporting social and economic development in the surrounding areas, both through social investment and local procurement. We have contributed to a range of social programmes for well over a decade.

We have established long-term partnerships that complement our in-house expertise, and have built a network of specialised partners within the industry and beyond.

Clive Carver
Chairman
28 June 2021

Directors' report

The Directors present their annual report on the operations of the Company and the Group, together with the audited financial statements for the year ended 31 December 2020.

The Strategic report forms part of the business review for this year.

Principal activity

The principal activity of the Group is oil and gas exploration and production.

Results and dividends

The consolidated statement of profit or loss is set out on page 40 and shows a \$3.5 million loss for the year after tax (2019: US\$1.4 million).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2020 (2019: US\$ nil).

The position and performance of the Group is discussed below and further details are given in the business review.

Review of the year

The review of the year and the Directors' strategy are set out in the Chairman's Statement and the Strategic Report.

Events after the reporting period

Other than the operational and financial matters set out in these financial statements there have been no material events between 31 December 2020, and the date of this report, which are required to be brought to the attention of shareholders. Please refer to note 28 of these financial statements for further details.

Board changes

On 24 August 2020 Aibek Oraziman joined the Board as a non-executive director

On 1 December 2020; Tim Field, a non-executive director since January 2019, left the board Clive Carver, previously Executive Chairman and Chief Financial Officer, reverted to being non-executive Chairman.

On 4 March 2021, Seokwoo Shin joined the Board as Chief Operating Officer, an executive director.

Employees

Staff employed by the Group are based primarily in Kazakhstan.

The recruitment and retention of staff, especially at management level, is increasingly important as the Group continues to build its portfolio of oil and gas assets. As well as providing employees with appropriate remuneration and other benefits together with a safe and enjoyable working environment, the Board recognises the importance of communicating with employees to motivate them and involve them fully in the business.

For the most part, this communication takes place at a local level and staff are kept informed of major developments through email updates. They also have access to the Group's website.

The Group has taken out full indemnity insurance on behalf of the Directors and officers.

Health, safety and environment

It is the Group's policy and practice to comply with health, safety and environmental regulations and the requirements of the countries in which it operates, to protect its employees, assets and environment.

Charitable and Political donations

During the year the Group made no charitable or political donations.

Directors and Directors' interests

The Directors of the Group and the Company who held office during the period under review and up to the date of the Annual Report are as follows:

Directors' interests

Director	Number of Ordinary Shares	
	As at 31 December 2020	As at 31 December 2019
Clive Carver	2,245,000	nil
Kuat Oraziman*	41,485,330	41,485,330
Edmund Limerick	7,911,583	6,430,000
Tim Field	1,461,987	nil
Aibek Oraziman**	861,944,255	N/A
Seokwoo Shin	nil	nil

* taken together on 31 December 2020 Mr Oraziman and his adult children held 903,429,585 shares representing 43.2% of the issued share capital shares

** Aibek Oraziman and his sister Aidana Urazimanova each hold a 50% stake in Akku Investments LLP, which held 861,944,255 Caspian Sunrise shares, including 57,369,124 shares previously held by the late Rafik Oraziman.

Biographical details of the current Directors are set out on the Company's website www.caspiansunrise.com.

Details of the Directors' individual remuneration, service contracts and interests in share options are shown in the Remuneration Committee Report.

Shareholders over 3% at the date of this report

Shareholder	Shares held	%
Akku Investments LLP	861,944,255	41.22
Dae Han New Pharm Co Limited	224,830,964	10.75
Kairat Satylganov	221,625,001	10.60
Raushen Sagdieyva	66,425,290	3.18

Financial instruments

Details of the use of financial instruments by the Group and its subsidiary undertakings are contained in note 25 of the financial statements.

Statement of disclosure of information to auditor

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditor for the purposes of their audit and to establish that the auditors are aware of that information.

The Directors are not aware of any relevant audit information of which the auditor is unaware.

Auditor BDO LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the London Stock Exchange AIM Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006.

They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

The maintenance and integrity of the Group's website is the responsibility of the Directors.

The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Clive Carver
Chairman
28 June 2021

Principal and other risks and uncertainties facing the business

Introduction

Risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system.

Oil & gas exploration and production is a dangerous activity and as such is necessarily subject to an extremely rigorous health and safety regime. The Board aims to identify and evaluate the risks the Group faces or is likely to face in future both from its immediate activities and from the wider environment. This helps to inform and shape the Group's strategy and to quantify its tolerance to risk.

Operational success generally helps to mitigate financial risks. Typically with increases in production as new wells come on stream the ability to generate cash improves the Group's financial position which can then lead to further operational success.

As the Group develops, its approach to risk management and mitigation will be refined. In due course we plan to include a formal risk register including all the principal operational and non-operational risks to the business. Such a risk register would be reviewed and assessed at least once a year by our new Corporate Governance Committee.

The Group is subject to various risks relating to political, economic, legal, social, industry, business and financial conditions. The following risk factors, which are not exhaustive, are particularly relevant to the Group's business activities and are listed in the Board assessment in the order of greatest potential impact.

Covid-19 risk

A significant and current risk to the business is the prolonged worldwide impact of the COVID-19 pandemic.

As set out more fully in the Chairman's Statement and the Strategic Report the impact to date has been extensive both financially in the sharp decline in revenues and operationally as getting crews, equipment and consumables to site has proved difficult under extensive lockdown restrictions.

We have sought to mitigate the impact of Covid-19 by cost cutting and reducing the pace of new drilling operations. At this stage however, it is not possible to know how long the impact of Covid-19 will last and its long term impact on the Group.

Pricing risk

As has been witnessed following Covid-19 the Group's financial performance will be adversely affected by a prolonged fall in the price of oil, international or domestic.

Brent oil prices below \$54 per barrel for a prolonged period would require further cost cutting and may require raising additional equity funding on onerous terms.

Financing risks

Despite owning our own rigs exploring for oil is still an expensive business. However, the relatively low value of the Kazakh Tenge compared to the US\$ reduces the costs of exploration and production as most staff costs and some equipment costs are denominated in Kazakh Tenge.

For domestic sales the Group typically enters into contracts with oil traders to forward sell its production and receives advances as part of its operating activities. With respect to export sales again we typically use different local oil traders but usually have to wait two months for payment. The continued availability of such arrangements is important to working capital and, in the event the Group was unable to continue to access these arrangements, additional funding would be required.

The risk is considered reduced given the expected growth in production revenues and is mitigated by maintaining strong relationships with the oil traders.

Group financial forecasts based on revenues from export sales indicate sufficient working capital is available to meet all shallow structure cost and the Group's G&A expenditure.

However, pending any meaningful contribution from oil sales from our deep wells new drilling will require additional funding. Potential sources of funding include further advances from local traders; industry funding in the form of partnerships with larger industry player; if appropriate equity funding from financial institutions; further support from existing shareholders; and selected asset sales.

Refer to note 1.1 for further details on funding and going concern.

Exploration risk

Despite the success of our shallow wells there is no assurance that the Group's future exploration activities will continue to be successful. In particular, the high pressure and high temperature encountered when drilling below the salt layer has proved extremely difficult to control to allow prolonged flow tests to commence.

The Group seeks to reduce this risk by acquiring and evaluating 3D seismic information before committing to drill exploration and appraisal wells.

The Group also seeks to engage suitably skilled personnel either as employees or contractors to undertake detailed assessments of the areas under exploration.

Operational risks

It is the nature of oil and gas operations that each project is long term. It can be many years before the exploration and evaluation expenditures incurred are proven to be viable and can progress to reach commercial production.

To control these risks the Board arranges for the provision of technical support, directly or through appointed agents and also as appropriate commissions technical research and feasibility studies both prior to entering into these commitments and subsequently in the life of these projects.

In addition, operational risks include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is project operator, it takes an increased responsibility for ensuring that the Group is compliant with all relevant legislation. The Group endeavours to use competent people with appropriate skills to manage such risks at the appropriate levels within the Group structure. Additionally, where appropriate the Group engages expert contractors.

Permitting risks

We operate in a highly regulated industry. As such we are only able to fulfil our work programme obligations once agreed with the Kazakh regulatory authorities after we receive all the required permits, licences and other permissions. Delays in receiving these regulatory clearances usually results in additional costs.

Regulatory delays are inevitable, common place and likely to increase as a result of the impact of the Covid-19 virus. Our experienced Kazakh workforce has both a thorough knowledge of the complex rules and a detailed practical understanding of the workings of each of the regulatory bodies with whom we need to deal. Accordingly, we believe we are well placed to minimise the financial impact of regulatory delays.

Covid-19 has resulted in work programmes being deferred from one year to another, as is the case at the BNG Contract Area, and management have detected a more lenient approach from the Kazakh regulatory authorities.

The recent 3A Best farm-out has been entered into to provide the funding to meet existing work programme commitments.

Environmental

Risks relating to environmental matters are now set out in the new Environmental, Social and Governance Report.

Other regulatory requirements

Existing and possible future legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted.

Before exploration and production can commence the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that new rules and regulations will not be enacted or existing legislations will not be applied in a manner, which could limit or curtail the Group's activities.

The Group employs staff experienced in the requirements of the Kazakh environmental authorities and seeks through their experience to mitigate the risk of non-compliance with accepted best practice.

The impact of the Covid-19 virus is likely to add to the times required to obtain the required regulatory approvals.

The impact of the BNG historic costs assessed against the MJF structure and the delays in renewing licences at 3A Best and the BNG South Yelemes structure indicate the financial consequences of regulatory issues.

Political risk

To date the Group operates solely in Kazakhstan. The nature of the Group's investments requires the commitment of significant funding to facilitate exploration and evaluation expenditure in Kazakhstan.

While the Group enjoys good working relationships with the Kazakh regulatory authorities there can be no assurances that the laws and regulations and their reinterpretation will not change in future periods and that, as a result, the Group's activities would be affected.

However, the Directors believe with the exceptionally high proportion of Kazakh nationals in key positions and the Group's prolonged experience of operating in Kazakhstan, it is as well placed as any internationally listed company operating in Kazakhstan to avoid inadvertently falling foul of local regulations or customs.

Exchange rate risk

The Group's income is denominated in US\$ and its expenditure is denominated in US\$ and Kazakh Tenge. In the year under review the Tenge depreciated against the US\$ by approximately 11%. In the event that the Kazakh Tenge is devalued further against the US\$, the Group benefits as income is unaffected. With approximately 50% of the Group's costs incurred in Tenge the depreciation of the Tenge against the US\$ materially benefits the Group commercially. Given the relative strengths of the US\$ and the Kazakh Tenge, the Group has decided not to seek to hedge this foreign currency exposure.

Environmental, Social and Governance (ESG) Report

Introduction

This report covers our ESG approach and performance for the year ended 31 December 2020.

We aim to work in an open and transparent manner, both within the Company and with all our stakeholders, including:

- Employees
- Local communities
- Shareholders
- Suppliers
- Contractors
- Regulators

ENVIRONMENTAL

Introduction

Oil and gas exploration and production is a long term activity requiring effective environmental stewardship. We have operated in Kazakhstan now for more than 15 years and have only been able to do by complying with all applicable environmental standards.

We recognise that society is transitioning towards a low-carbon future, and we support this goal. However, even in the most ambitious scenarios, this shift will be gradual, and will require significant energy and economic prosperity to be achieved.

We believe that oil will continue to play an important role in the global economy for decades to come, and new sources of oil supply are required for a sustainable energy transition.

Climate change

Assessing the risks

We have no particular insights into assessing climate control risks beyond those underpinning the regulations in Kazakhstan. We therefore look to the Kazakh regulatory authorities to set the standards to which we work.

Compliance with the standards

We comply with all relevant Kazakh environmental requirements, including environmental laws and regulations and industry guidelines.

Specific initiatives

- We seek to recycle gas produced as a by-product at BNG to power the Contract Area's day-to-day operations.
- We seek wherever possible to avoid flaring, which in any event is a regulated activity.
- Our workers at the BNG Contract Area are drawn from the local community, lessening the transportation carbon footprint
- We make extensive use of existing oil pipelines to move our oil
- Largely as the result of Covid-19 restriction the use of international travel for management and board meetings has been severely restricted with no full face to face board meetings for more than 12 months

Health and safety

Our daily operations prioritise health and safety and protecting the environment and we seek to comply with all health and safety related regulations.

SOCIAL

Since the Group's formation in 2006, the social obligations payments made principally to the authorities in the regions in which the group operates have funded a range of projects for the benefit of the local communities concerned.

GOVERNANCE

Introduction

In 2019 we introduced a new Corporate Governance committee to oversee the way the Group conducts itself.

The Committee currently comprises Clive Carver, Edmund Limerick and Aibek Oraziman with Clive Carver acting as chairman.

Remit of the Committee

Overall compliance with the Group's compliance, corporate governance, risk management, market disclosure and related obligations rests with the Board. Nonetheless, the Board recognises that the Group is required to assess such matters on an ongoing basis and make timely and accurate disclosure of price sensitive the Market Abuse Regulations and the AIM Rules for Companies.

At the appropriate time the Board plans to include a formal risk register including all the principal operational and non-operational risks to the business to be considered by the Governance & Risk Committee. This will be in addition to the procedures already in place as set out elsewhere in this document. The Board changes noted above have delayed the adoption of the formal risk register.

Meetings of the Committee

The committee intends to meet at least once a year.

Share dealing policy

The Group has adopted and operates a share dealing code for Directors and employees in accordance with the AIM Rules.

Internal controls

The Board acknowledges responsibility for maintaining appropriate internal control systems and procedures to safeguard the shareholders' investments and the assets, employees and the business of the Group.

The Board intends to establish and operate a policy of continuous review and development of appropriate financial controls together with operating procedures consistent with the accounting policies of the Group. The Board notes however, that in periods of severe cost cutting it becomes more difficult to implement and operate control systems reliant on the fullest segregation of duties.

Internal audit

The Board does not consider it appropriate for the current size of the Group to establish an internal audit function. However, this will be kept under review.

Bribery and corruption

The Bribery Act 2010 came into force on 1 July 2011.

The Company is committed to acting ethically, fairly and with integrity in all its endeavours and compliance with legislation is monitored. The principal terms of the Bribery Act have been translated into Russian and circulated to our Kazakh based staff. Consideration of the Bribery Act is a standing item at board meetings.

The Company's culture

Our culture might best be described as one where we strive for commercial success while treating others fairly and with respect. The Board firmly believes that sustained success will best be achieved by following this simple philosophy. Accordingly, in dealing with each of the Groups principal stakeholders, we encourage our staff to operate in an honest and respectful manner.

Given the simplicity of the culture we do not believe lengthy illustrations of our culture in action add much. We also believe in getting proper value for money spent. Given the high percentage of the Groups shares represented by senior management figures we seek to spend the Groups money very carefully. We believe this goes hand in hand with being a low-cost operator.

Kazakhstan plays an important part in the Group's culture. It is where we operate; where almost all staff are based; it is the nationality of most staff and of the majority of shareholders.

The Group is committed to promoting a culture based on ethical values and behaviours across the business. Policies are in place covering key matters such as equality, protection of sensitive information, conflicts of interest, whistleblowing and health and safety as well as environmental concerns.

The impact of Covid-19

The cost saving measures introduced in response to the severe impact of Covid-19 on the business and in particular the changes at board level have inevitably resulted in a slowing of the pace at which we seek to move to a better level of Corporate Governance. In particular none of the Group's non-executive directors qualifies as fully independent, either for reasons of length of service, previous executive roles or being a significant shareholder.

QCA Code

In September 2018, new regulations took force under which all companies with shares trading on AIM were required to comply with a recognised corporate governance code and to disclose how the implementation of the governance code has been applied or to explain any areas of departure from its requirements.

Caspian Sunrise, in line with the majority of AIM companies, elected to apply the rules of the Quoted Companies Alliance (QCA) Corporate Governance Code ("QCA Code"), which is based around 10 broad principles.

The QCA Code requires significant additional disclosures which have been made to our corporate website www.caspiansunrise.com. It also requires explanations of departures from the guidelines of the QCA code.

Under the QCA regulations we have the option to cross refer to disclosures made on the website rather than repeat them all in this annual report.

The principal disclosures such as the Remuneration Committee and Directors' report will continued to be included in this annual report. However, for a full assessment of the Company you are encouraged to review the website for both the regulatory disclosures, and as we progress, more information on the activities of the Company.

Board composition, skills and capabilities

- Between 1 January 2020 and 21 August 2020, the Board had two executive directors and two non-executive directors.
- Between 21 August and 1 December 2020, the Board had two executive directors and three non-executive directors
- Between 1 December and 31 December 2020, the Board comprise one executive director and three non-executive directors.

The Board currently comprises two executive directors and three non-executive directors.

Clive Carver, non-executive Chairman

Clive is a fellow of the Institute of Chartered Accountants in England and Wales (FCA) and a fellow of the Association of Corporate Treasurers (FCT). He was from 2012 until 1 December 2020, Executive Chairman and Chief Financial Officer. He is an experienced non-executive director having been chairman of a number of AIM companies in recent years. He is currently Executive Chairman and Chief Financial Officer of an unquoted technology company and an non-executive director of the UK's only listed architectural practice.

Kuat Oraziman, Chief Executive Officer

Kuat Oraziman runs the Company's operations in Kazakhstan. Kuat Oraziman is a trained geologist and member of the Academy of Sciences. He has more than 26 years oil and gas experience in Kazakhstan. The Oraziman family hold in aggregate approximately 43% of the Company's shares and as at 31 December 2020 provided \$5.6 million by way of cash advances against a master loan agreement.

Seokwoo Shin, Chief Operating Officer

Seokwoo Shin was educated at Sungkyunkwan University in Korea. He worked for the Korean National Oil Corporation from 1987 until 2019 with spells in Korea, the United Kingdom, Russia and most recently

Kazakhstan, where he was responsible for KNOC's Kazakh oil fields. He joined Caspian Sunrise in 2018 and on 4 March 2021, was appointed the board as chief Operating Officer.

Edmund Limerick, Senior Non-Executive Director

Edmund is a Russian speaking former lawyer and investment banker who ran an institutional investment fund focused on Central Asia. Edmund was called to the Bar in 1987, and served as an officer in the Foreign & Commonwealth Office until 1992 with postings in Paris, Dakar and Amman. He was an international corporate lawyer at Clifford Chance, Freshfields and Milbank Tweed (where he headed the Moscow Office) before joining Deutsche Bank as a director in Moscow, London and Dubai. In 2006, he joined Altima Partners where he managed the Altima Central Asia Fund, focusing on Kazakhstan. Edmund has served as a director of Caspian Sunrise plc since 2010, and chairs the Audit and Remuneration Committees.

Aibek Oraziman, Non-executive director

Aibek Oraziman was educated in Kazakhstan and in the United Kingdom. He more than 12 years oil and gas experience in Kazakhstan, including 3 years in the field at Aktobe working for a local oil company. He was appointed to the Caspian Sunrise board on 21 August 2020 and together with his sister he holds 861,944,255 shares representing 41.3% of the shares in issue.

The Board believes it possesses the skills required to build a successful and durable oil and gas business focused on Kazakhstan.

Operational skills are maintained through an active day-to-day interaction with leading international consultancies and contractors engaged to assist in the development of the Group's assets. Non-operational skills are maintained principally via the Group's interaction with its professional advisers plus the experience gained from sitting on the boards of other commercial enterprises. Where gaps are identified as the Group evolves and as funding permits, new appointments will be made. The Board retains full and effective control over the Group.

The Group holds at least four Board meetings each year, at which operational, financial and other reports are considered and, where appropriate, voted on.

The Board also has a list of standing items, including compliance with the UK Bribery Act, litigation and existence of open and closed periods for director dealings, which are considered at each meeting. Apart from these formal board meetings, which have taken place in the year, additional meetings and calls are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resource and environmental management.

The Group currently does not evaluate board performance on a formal basis. However, it intends at the appropriate time to formalise the assessment of both executive and non-executive board members.

The Group is aware of its need to facilitate succession planning and in the period under review conducted a detailed assessment of the risks relating to succession. Currently board audit, remuneration and corporate governance committees contain only non-executive directors.

Board and committee meetings

Attendances of Directors at board and committee meetings convened in the year, and which they were eligible to attend in person or by phone, are set out below:

Director	Board meetings attended	Remuneration Committees attended	Audit Committee attended
Clive Carver	6 of 6	N/A	N/A
Kuat Oraziman	6 of 6	N/A	N/A
Edmund Limerick	6 of 6	2 of 2	2 of 2
Tim Field	5 of 5	2 of 2	2 of 2
Aibek Oraziman	2 of 2	N/A	1 of 1

Aibek Oraziman joined the board on 21 August 2020

Tim Field resigned from the board on 1 December 2020

Board committee membership in 2020

Director	Audit Committee		Remuneration Committee		Corporate Governance Committee	
	Served from	Served to	Served from	Served to	Served from	Served to
Clive Carver	1 December	31 December	1 December	31 December	1 December	31 December
Kuat Oraziman	N/A	N/A	N/A	N/A	N/A	N/A
Edmund Limerick	1 January	31 December	1 January	31 December	1 January	31 December
Tim Field	1 January	30 November	1 January	30 November	1 January	30 November
Aibek Oraziman	21 August	31 December	21 August	31 December	21 August	31 December

The Board has established the following committees:

Audit Committee

The Audit Committee which currently comprises Edmund Limerick, Aibek Oraziman and Clive Carver, with Edmund Limerick acting as Chairman, determines and examines any matters relating to the financial affairs of the Group including the terms of engagement of the Group's auditors and, in consultation with the auditors, the scope of the audit.

The Audit Committee receives and reviews reports from the management and the external auditors of the Group relating to the annual and interim amounts and the accounting and internal control systems of the Group. In addition, it considers the financial performance, position and prospects of the Group and the Company and ensures they are properly monitored and reported on.

Remuneration Committee

The Remuneration Committee, which currently comprises Edmund Limerick Aibek Oraziman and Clive Carver, with Edmund Limerick acting as Chairman, reviews the performance of the senior management, sets and reviews their remuneration and the terms of their service contracts and considers the Group's bonus and option schemes.

28 June 2021

Remuneration Committee Report

Remuneration Committee

The Remuneration Committee currently comprises Edmund Limerick, Aibek Oraziman and Clive Carver and is chaired by Edmund Limerick.

Remuneration policy

The Group's and the Company's policy is to provide remuneration packages that will attract, retain and motivate its executive Directors and senior management. This consists of a basic salary, ancillary benefits and other performance-related remuneration appropriate to their individual responsibilities and having regard to the remuneration levels of comparable posts.

The Remuneration Committee determines the contract term, basic salary, and other remuneration for the members of the Board and the senior management team.

Service contracts

Details of the current Directors' service contracts are as follows:

Executive	Date of service agreement / appointment letter	Date of last renewal of appointment
Clive Carver	20 March 2019	21 June 2019
Kuat Oraziman	6 December 2019	19 June 2018
Edmund Limerick	25 January 2019	13 June 2017
Aibek Oraziman	21 August 2020	N/A
Seokwoo Shin	4 March 2021	N/A

Notwithstanding their service agreements or letters of appointment the directors who served throughout the period under review have agreed until further notice to restrict their remuneration to approximately 25% of previous amounts without any accrual for the 75% sacrificed.

Basic salary and benefits

The basic salaries of the Directors who served during the financial year are established by reference to their responsibilities and individual performance.

Directors		2020 Salary / fees US\$	2020 Share options US\$	2020 Total US\$	2019 Total US\$
Clive Carver	Chairman	311,800	-	311,800	425,289
Kuat Oraziman	CEO	251,393	-	251,393	170,620
Edmund Limerick	Non-executive	40,320	10,839	51,159	81,781
Tim Field	Non-executive	39,020	10,839	49,859	76,996
Total		642,533	21,678	664,211	754,686

Share option amounts refer to the IFRS 2 accounting charge.

There were no company pension contributions in respect of any director

A significant portion of the reduced amounts relating to 2020 were taken in the form of Ordinary Shares, issued at a price of 3.2p per share.

Bonus schemes

All Executive Directors are eligible for consideration of participation in the Company bonus scheme. However, as in previous years no bonuses are payable in respect of the year ended 31 December 2020 (2019: nil).

Long term incentives

Share options

The current interests as at approval of accounts of the current Directors in share options agreements are as follows:

Directors	Granted	Exercise price	Expiry Date
Clive Carver	2,400,000	4p	14 December 2021
Directors			
Clive Carver	3,000,000	20p	21 August 2024
Kuat Oraziman	3,000,000	20p	21 August 2024
Edmund Limerick	750,000	20p	21 August 2024
Edmund Limerick	1,000,000	20p	5 June 2029
Seokwoo Shin	nil	[Nil]	N/A

There were no options exercised in 2020.

The following options have lapsed to date in 2021

Directors	Expired	Exercise price	Expiry date
Clive Carver	750,000	13p	12 January 2021
Kuat Oraziman	3,090,000	13p	12 January 2021
Edmund Limerick	750,000	13p	12 January 2021

Cash based incentives

In May 2019, we introduced a cash based long term incentive arrangements for the senior management team since 2012, Kuat Oraziman and Clive Carver.

Under these arrangements, provided the share price growth exceeds pre-set targets starting at 17.23p, then for every \$500 million increase in the Group's market capitalisation above \$300 million, as adjusted to take account of dividends paid, both Kuat Oraziman and Clive Carver, would receive payments of \$3 million each.

The principal hurdles under these arrangements are set out in the table below.

Market cap threshold \$' billion	Share price target Pence per share	Pay-out rate (each) %	Pay-out amount (each) \$' million
0.8	17.23	0.6	3.0
1.3	20.67	0.6	3.0
1.8	24.81	0.6	3.0
2.3	29.77	0.6	3.0
2.8	35.72	0.6	3.0

The scheme continues beyond the numbers in the table such that with the threshold for market capitalisation increasing at the rate of \$0.5 billion and the corresponding share price threshold increasing from the earlier threshold by a constant factor of 1.2.

Each threshold must be sustained for at least 30 consecutive days for the awards to be triggered. There may be only one pay-out for each market capitalisation threshold crossed no matter how many times it is crossed.

For the avoidance of doubt the arrangements described above remain in full force despite the changes to board composition and roles as set out in this Remuneration Committee report and elsewhere in these financial statements.

Whilst the Incentive Scheme is in place neither of the recipients will be granted any further options.

On behalf of the Directors of Caspian Sunrise plc
Edmund Limerick
Chairman of Remuneration Committee
28 June 2021

Audit Committee Report

The Audit Committee

The Audit Committee, which currently comprises Edmund Limerick, Clive Carver and Aibek Oraziman, with Edmund Limerick acting as Chairman, determines and examines any matters relating to the financial affairs of the Group including the terms of engagement of the Group's auditors and, in consultation with the auditors, the scope of the audit.

Role and responsibilities

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Group's internal control and risk management systems.

In addition, it considers the financial performance, position and prospects of the Group and the Company and ensures they are properly monitored and reported on. It oversees the relationship with the Auditor (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The committee met on two occasions during the year under review.

The Board and the Audit Committee do not consider it appropriate for the current size of the Group to establish an internal audit function. However, this will be kept under review.

Edmund Limerick
Chairman of Audit Committee
28 June 2021

Independent auditor's report to the members of Caspian Sunrise plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Caspian Sunrise plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Parent Company Statement of Financial Position, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty in relation to going concern

We draw attention to note 1.1 in the financial statements concerning the Group and the Parent Company's ability to continue as a going concern. Note 1.1 highlights that Group and Parent Company's ability to meet its liabilities and commitments as they fall due without additional funding is sensitive to the oil prices realised across the forecast period and, separately, it is dependent upon the deferral of financial obligations and drilling commitments associated with its licences, the continued availability of oil trader advances and the continued support of certain creditors together with other matters set out therein. These factors are outside the control of the Group and the Parent Company and there is no certainty that any funding that may therefore be required can be secured within the necessary timescales. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We consider going concern to be a Key Audit Matter based on our assessment of the risk and the effect on our audit.

Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting, and our response to this key audit matter included:

- We discussed the potential impact of Covid-19 with management and the Audit Committee including their assessment of risks and uncertainties associated with areas such as production disruption, commodity price volatility and the impact on the availability of funding. We formed our own assessment of risks and uncertainties based on our understanding of the business and oil sector.
- We obtained management’s cash flow forecasts and critically assessed the key inputs. In doing so, we compared oil prices to market data, production levels to recent performance trends and operating costs to historical data.
- We evaluated the completeness of forecast licence related expenditure against the licence work programs and payments due under the 3A Best licence. We inspected submissions made to the relevant authorities for deferral of work program commitments and payments due and held discussions with management and the Audit Committee regarding the status of such applications.
- We compared the forecast cash payments in respect of the BNG production licence award against the \$32m assessment received from the Government payable in instalments over 10 years. We discussed the status of the court process with management and the Audit Committee which seeks to reduce the payments, while noting the relevant instalments are included in the forecast.
- We considered the appropriateness of the Board’s judgment regarding the availability of sufficient oil trader funding through the forecast period. In doing so, we considered factors such as the production profile, oil price trends, the terms of the arrangements and the history of transactions with the oil traders.
- We assessed the terms of the loans provided from the Group’s largest shareholder and his connected companies, the dependence on continued support and the Board’s conclusion that the loans will not be called for payment for at least the next 12 months unless the Group has sufficient liquidity. We obtained written representation from the Board regarding this assessment.
- We evaluated management’s sensitivity analysis and performed our own sensitivity analysis in respect of the key assumptions underpinning the forecasts, including specific scenarios such as reduced revenue cash flows or the impact of one or more adverse events such as withdrawal of facilities, withdrawal of creditor support or licence payments or commitments being enforced.
- We assessed the validity of any mitigating actions identified by Management.
- We reviewed the adequacy and completeness of the disclosure included within the financial statements in respect of going concern against the requirement of the accounting standards and the results of our audit testing.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	<i>81% (FY19: 83%) of Group (loss)/profit before tax, 100% (FY19:100%) of Group revenue and 92% (FY19: 90%) of Group total assets.</i>		
Key audit matters		2020	2019
	Carrying value of non-current assets	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	BNG production licence payment obligations	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Going concern	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Revenue recognition	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Revenue recognition was identified as a key audit matter in 2019 as that was the first year of export related revenues following the award of the production licence which required greater allocation of resource and audit effort by the engagement team in the first year the accounting policy was established.		

Materiality	<i>Group financial statements as a whole</i>
	US\$1.9m (2019: US\$1.9m) based on 1.5% (2019: 1.5%) of total assets

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group’s system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group’s operations principally comprise oil and gas exploration and production in Kazakhstan. We assessed there to be four significant components comprising BNG, 3A Best, Caspian Explorer and the Parent Company. These components, which were subject to full scope audit procedures, represent the principal business units.

Non-BDO member firms performed a full scope audit of BNG, 3A Best and Caspian Explorer in Kazakhstan, under our direction and supervision as Group auditors. The audit of the Parent Company and the Group consolidation were performed in the United Kingdom by the Group audit team.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- Detailed Group reporting instructions were sent to the component auditors, which included the significant areas to be covered by the audit.
- We reviewed the component auditor’s work papers remotely, as a result of Covid-19 travel restrictions, reviewed Group reporting submissions received and held regular calls with the component audit teams during the planning and completion phases of their audit to discuss significant findings from their audit.
- We held calls and meetings with members of Group and component management to discuss accounting and audit matters arising.
- The Group audit team was actively involved in the direction of the audits performed by the component auditors, along with the consideration of findings and determination of conclusions drawn. We performed additional procedures in respect of the significant risk areas where considered necessary.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How the scope of our audit addressed the key audit matter
<i>Carrying value of non-current assets</i> As at 31 December 2020, the Group’s oil and gas assets related to the 3A Best exploration licence, the BNG exploration and production	<u>3A Best</u> We assessed whether indicators of impairment existed in respect of the 3A Best unproven oil and gas assets.

<p>licences, and the drilling rig vessel related to Caspian Explorer. These were carried at US\$114.3m as shown in notes 11 and 12. At each reporting period end, management are required to assess the non-current assets for indicators of impairment and, where such indicators exist, perform an impairment test.</p> <p>In performing the impairment indicator review for the unproven oil and gas assets in the exploration phase, management are required to make a number of judgements as detailed in notes 1.8 and 2.1. In respect of the 3A Best oil and gas assets, as detailed in note 2.1 the company is not in compliance with its licence commitments and management has applied significant judgment in concluding that its application to the Government for deferral of the payments due in July 2020 under the licence will be successful and that the licence will be renewed. As a result of the impairment assessment, no impairment was recorded by management.</p> <p>In respect of the BNG production and exploration licences and the drilling rig vessel, as detailed in note 2.3 and 2.6 management assessed there was no impairment trigger and the carrying amounts were recoverable.</p> <p>Given the judgment and estimation required by management, we considered this area to be a key focus for our audit.</p>	<p>Audit procedures performed included reviewing correspondence from the Government regarding licence payment obligations which, as unfulfilled, provide the Government with the right to withdraw the licence. We discussed management’s judgment that the obligations would ultimately be deferred and the licence be extended with the Audit Committee. In assessing this judgment, we inspected applications submitted to the Government, the history of investment in Kazakh oil fields by the Group and the previous extensions and revisions to work program commitments and obligations. We also reviewed the disclosures of this risk included in note 2.1 of the financial statements.</p> <p><u>BNG production and exploration assets</u> We inspected the licences to confirm valid title and assessed the compliance with the licence conditions through review of correspondence with the authorities and inquiries of management.</p> <p>For the exploration licence, we inspected budgets and work programs submitted to the Kazakh authorities to confirm that further drilling and exploration is planned for the licence. We considered the results of exploration activity in the period for indications that the licences would be abandoned or that the recoverable value would be below cost. We also reviewed the disclosures of this risk included in note 2.1 and 11 of the financial statements.</p> <p>For the production licence we reviewed management’s impairment indicator analysis and formed our own assessment of potential impairment indicators. As part of the impairment indicator analysis we evaluated management’s ceiling test by assessing the inputs into the net present value forecasts. In doing so, we compared the oil price forecasts as at 31 December 2020 to market consensus forecasts and compared operational production and cost assumptions to the 2015 Competent Person’s Report, historical data and other third party sources. We recalculated the discount rate and performed sensitivity analysis in respect of significant inputs. We also reviewed the disclosures of this risk included in note 2.3 and 12 of the financial statements.</p> <p>We relied on our previous years work on evaluation of the independence and competence of the Competent Person as a management expert and assessed if any changes were required.</p> <p><u>Caspian explorer vessel</u> Due to the lack of charters since the asset was acquired, we obtained and challenged management’s vessel valuation, which supports the carrying value of the vessel through resale.</p> <p>In addition we obtained the signed charter agreement for the vessels use in Q3 2021, which provides evidence to support management’s plans to realise the</p>
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	<p>value of the vessel through future charters. We also reviewed the disclosures of this risk included in note 2.6 and 12 of the financial statements.</p> <p>Key observations: We found management’s conclusion that the carrying value of the 3A Best, BNG oil and gas assets and Caspian Explorer drilling rig vessel are supportable to be appropriate. We found the judgments made by management to be reasonable and the disclosures in the notes to be sufficient.</p>
<p><i>BNG production licence payment obligations</i></p> <p>Under the terms of the BNG licence, on award of the production contract the Group incurred an obligation for payments under the licence as detailed in note 2.7 and 20. Whilst the quantum to be paid has been assessed by the Government authorities, it remains subject to dispute. Management recorded a provision of \$25.1m as at 31 December 2020. The estimate of the provision requires Management to exercise judgment and estimate in terms of the extent of the obligation and the applicable discount rate.</p> <p>Given the judgment and estimation required and the material impact of the transaction, this was considered to be a focus for our audit and a key audit matter.</p>	<p>We reviewed the terms of the licence to confirm that a payment obligation was triggered upon award of the contract.</p> <p>We reviewed correspondence with the relevant authorities regarding the assessment of the quantum of the payment due and the terms of payment which formed the basis for the amounts recorded as a provision.</p> <p>We recalculated the provision and compared the discount rate to market bond yield data for similar termed instruments.</p> <p>We evaluated the accounting policy established by management against relevant IFRS literature and the nature of the transaction. In particular, this involved assessing the extent to which capitalisation of the cost was appropriate in conjunction with our technical specialists.</p> <p>We assessed the disclosures included in the financial statements at notes 2.7 and 20.</p> <p>Key observations: We found the judgments and estimates made by management in respect of the BNG production licence payment obligations to be appropriate.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2020 US\$	2019 US\$	2020 US\$	2019 US\$
Materiality	1,900,000	1,900,000	1,500,000	1,710,000
Basis for determining materiality	1.5% of total assets		80% of Group materiality	90% of Group materiality
Rationale for the benchmark applied	We have determined an asset based measure is appropriate as the Group continues to focus on developing its oil and gas projects that requires significant capital expenditure.			
Performance materiality	1,200,00	1,425,000	1,000,000	1,280,000
Basis for determining performance materiality	65% of Group Materiality considering the nature of activities and historic audit adjustments	75% of Group Materiality considering the nature of activities and historic audit adjustments	65% of Parent Company Materiality considering the nature of activities and historic audit adjustments	75% of Parent Company Materiality considering the nature of activities and historic audit adjustments

Component materiality

We set materiality for each component of the Group based on a percentage of between 26% and 80% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from US\$500,000 to US\$1,500,000. In the audit of each component, we further applied performance materiality levels of 65% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of US\$95,000 (2019: US\$70,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: <ul style="list-style-type: none">• the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: <ul style="list-style-type: none">• adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or• the Parent Company financial statements are not in agreement with the accounting records and returns; or• certain disclosures of Directors' remuneration specified by law are not made; or• we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine 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, the Directors are responsible for assessing the Group's and the Parent 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 the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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 (UK) 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Holding discussions with management and the audit committee to understand the laws and regulations relevant to the Group and the Parent company. These included the significant laws and regulations of Kazakhstan to be those relating to the oil and gas industry, elements of financial reporting framework, tax legislation and environmental regulations;
- Holding discussions with management and the audit committee to determine any known or suspected instances of non-compliance with laws and regulations or fraud identified by them;
- Testing the appropriateness of journal entries made through the year by applying specific criteria to detect possible irregularities and fraud;
- Reviewing the licences to assess the extent to which the Group was in compliance with the conditions of the licence and considering management's assessment of the impact of instances of non-compliance where applicable;
- Performing a detailed review of the Group's year-end adjusting entries and investigating any that appear unusual as to nature or amount and agreeing to supporting documentation;
- For significant and unusual transactions, particularly those occurring at or near year-end, obtaining evidence for the rationale of these transactions and the sources of financial resources supporting the transactions;
- Assessing the judgements made by management when making key accounting estimates and judgements, and challenging management on the appropriateness of these judgements (refer to key audit matters above);
- Reviewing minutes from board meetings of those charges with governance to identify any instances of non-compliance with laws and regulations;
- Communicating relevant identified laws and regulations and potential fraud risks to all engagement team members and remaining alert to any indications of fraud or non-compliance with laws and regulations throughout the audit; and
- Directing the auditors of the significant components to ensure an assessment is performed on the extent of the components compliance with the relevant local and regulatory framework.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ryan Ferguson (Senior Statutory Auditor)
 For and on behalf of BDO LLP, Statutory Auditor
 London,
 United Kingdom

28 June 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Profit or Loss

	Notes	Year to 31 December 2020 US\$'000	Year to 31 December 2019 US\$'000
Revenue	3	14,298	12,108
Cost of sales		(4,864)	(6,971)
Gross profit		9,434	5,137
Selling expense		(3,897)	(2,220)
Impairment reversal of unproven and proved oil and gas assets	12	-	2,414
Provision for expected credit losses of long-term assets	15	(2,551)	-
Share-based payments		(22)	(31)
Other administrative costs		(3,662)	(3,907)
Total administrative expenses		(6,235)	(1,524)
Operating (loss) / income	4	(698)	1,393
Finance cost	7	(1,067)	(452)
Finance income	8	20	-
(Loss) / Profit before taxation		(1,745)	941
Tax charge	9	(1,748)	(2,343)
Loss after taxation from continuing operations		(3,493)	(1,402)
Loss for the year from discontinued operations		-	-
Loss for the year		(3,493)	(1,402)
Loss attributable to owners of the parent		(3,413)	(1,278)
Loss attributable to non-controlling interest		(80)	(124)
Loss for the year		(3,493)	(1,402)
<i>Basic and diluted profit/(loss) per ordinary share (US cents)</i>		(0.18)	(0.07)

The notes on pages 47 to 77 are essential part of these financial statements

Consolidated Statement of Comprehensive Income

	Year ended 31 December 2020 US\$000	Year ended 31 December 2019 US\$000
Loss after taxation	(3,493)	(1,402)
Other comprehensive income:		
Exchange differences on translating foreign operations	403	268
Total comprehensive loss for the year	(3,090)	(1,134)
Total comprehensive loss attributable to:		
Owners of parent	(3,010)	(1,010)
Non-controlling interest	(80)	(124)

The notes on pages 47 to 77 are essential part of these financial statements

Consolidated Statement of Changes in Equity

	Share capital US\$'000	Share premium US\$'000	Deferred shares US\$'000	Cumulative translation reserve US\$'000	Other reserves US\$'000	Retained deficit US\$'000	Total attributable to the owner of the Parent US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Total equity as at 1 January 2020	28,120	246,299	64,702	(55,643)	(2,362)	(220,477)	60,639	(5,729)	54,910
Loss after taxation	-	-	-	-	-	(3,413)	(3,413)	(80)	(3,493)
Exchange differences on translating foreign operations and recycling of exchange differences on disposal of subsidiaries	-	-	-	403	-	-	403	-	403
Total comprehensive income/(loss) for the year	-	-	-	403	-	(3,413)	(3,010)	(80)	(3,090)
Shares issue	2,095	1,571	-	-	-	-	3,666	-	3,666
Debts to equity conversion (note 17)	112	246	-	-	-	-	358	-	358
Shares placing in cash (note 17)	477	834	-	-	-	-	1,311	-	1,311
Arising on employee share options	-	-	-	-	-	22	22	-	22
Total equity as at 31 December 2020	30,804	248,950	64,702	(55,240)	(2,362)	(223,868)	62,986	(5,809)	57,177
	Share capital US\$'000	Share premium US\$'000	Deferred shares US\$'000	Cumulative translation reserve US\$'000	Other reserves US\$'000	Retained deficit US\$'000	Total attributable to the owner of the Parent US\$'000	Non-controlling interests US\$'000	Total equity US\$'000
Total equity as at 1 January 2019	25,416	229,020	64,702	(55,911)	(2,362)	(219,230)	41,635	(5,605)	36,030
Loss after taxation	-	-	-	-	-	(1,278)	(1,278)	(124)	(1,402)
Exchange differences on translating foreign operations and recycling of exchange differences on disposal of subsidiaries	-	-	-	268	-	-	268	-	268
Total comprehensive income/(loss) for the year	-	-	-	268	-	(1,278)	(1,010)	(124)	(1,134)
Shares issue	2,648	17,115	-	-	-	-	19,763	-	19,763
Share options exercised	56	164	-	-	-	-	220	-	220
Arising on employee share options	-	-	-	-	-	31	31	-	31
Total equity as at 31 December 2019	28,120	246,299	64,702	(55,643)	(2,362)	(220,477)	60,639	(5,729)	54,910

Equity	Description and purpose
Share capital	The nominal value of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Deferred shares	The nominal value of deferred shares issued
Cumulative translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into US Dollars, less amounts recycled on disposal of subsidiaries and joint ventures
Other reserves	Fair value of warrants issued and capital contribution arising on discounted loans
Retained deficit	Cumulative losses recognised in the consolidated statement of profit or loss, adjustments on the acquisition of non-controlling interests and transfers in respect of share based payments
Non-controlling interest	The interest of non-controlling parties in the net assets of the subsidiaries

The notes on pages 47 to 77 are essential part of these financial statements

Parent Company Statement of Changes in Equity

	Share capital US\$'000	Share premium US\$'000	Deferred shares US\$'000	Other reserves US\$'000	Retained deficit US\$'000	Total attributable to the owner of the Parent US\$'000
Total equity as at 1 January 2020	28,120	246,299	64,702	-	(138,167)	200,954
Total comprehensive loss for the year	-	-	-	-	(104,436)	(104,436)
Shares issue	2,095	1,571	-	-	-	3,666
Debts to equity conversion (note 17)	112	246	-	-	-	358
Shares placing in cash (note 17)	477	834	-	-	-	1,311
Arising on employee share options	-	-	-	-	22	22
Total equity as at 31 December 2020	30,804	248,950	64,702	-	(242,581)	101,875
<hr/>						
Total equity as at 1 January 2019	25,416	229,020	64,702	14,936	(144,911)	189,163
Total comprehensive loss for the year	-	-	-	-	(8,223)	(8,223)
Restructuring of Intragroup Debt (note 17)	-	-	-	(14,936)	14,936	-
Shares issue	2,648	17,115	-	-	-	19,763
Stock options exercised	56	164	-	-	-	220
Arising on employee share options	-	-	-	-	31	31
Total equity as at 31 December 2019	28,120	246,299	64,702	-	(138,167)	200,954

Equity	Description and purpose
Share capital	The nominal value of shares issued
Share premium	Amount subscribed for share capital in excess of nominal value
Deferred shares	The nominal value of deferred shares issued
Other reserves	Capital contribution arising on discounted loans
Retained deficit	Cumulative losses recognised in the profit or loss

The notes on pages 47 to 77 are essential part of these financial statements

Consolidated Statement of Financial Position

Company number 5966431	Notes	Group 2020 US\$'000	Group 2019 US\$'000
Assets			
Non-current assets			
Unproven oil and gas assets	11	61,413	60,040
Property, plant and equipment	12	52,845	51,326
Other receivables	15	4,246	5,745
Restricted use cash		241	241
Total non-current assets		118,745	117,352
Current assets			
Inventories	14	392	384
Other receivables	15	6,195	5,663
Cash and cash equivalents	16	329	4,060
Total current assets		6,916	10,107
Total assets		125,661	127,459
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital	17	30,804	28,120
Share premium		248,950	246,299
Deferred shares	17	64,702	64,702
Other reserves		(2,362)	(2,362)
Retained deficit		(223,868)	(220,477)
Cumulative translation reserve		(55,240)	(55,643)
Equity attributable to the owners of the Parent		62,986	60,639
Non-controlling interests	27	(5,809)	(5,729)
Total equity		57,177	54,910
Current liabilities			
Trade and other payables	18	11,012	14,836
Short - term borrowings	19	5,600	4,050
Provision for BNG licence payment	20	3,178	3,178
Other current provisions	20	6,117	6,304
Total current liabilities		25,907	28,368
Non-current liabilities			
Deferred tax liabilities	23	6,629	7,244
Provision for BNG licence payment	20	21,887	24,216
Other non-current provisions	20	413	428
Other payables	18	13,648	12,293
Total non-current liabilities		42,577	44,181
Total liabilities		68,484	72,549
Total equity and liabilities		125,661	127,459

Approved by the Board and authorized for issue:

Clive Carver,

Chairman,
28 June 2021

Company number: 5966431

The notes on pages 47 to 77 are essential part of these financial statements

Parent Company Statement of Financial Position

Company number 05966431	Notes	Company 2020 US\$'000	Company 2019 US\$'000
Assets			
Non-current assets			
Investments in subsidiaries	13	15,487	223,781
Other receivables	15	89,265	10,704
Total non-current assets		104,752	234,485
Current assets			
Other receivables	15	9	7
Cash and cash equivalents	16	3	87
Total current assets		12	94
Total assets		104,764	234,579
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital	17	30,804	28,120
Share premium		248,950	246,299
Deferred shares	17	64,702	64,702
Retained deficit		(242,581)	(138,167)
Equity attributable to the owners of the Parent		101,875	200,954
Total equity		101,875	200,954
Current liabilities			
Short-term borrowings	19	2,069	1,814
Trade and other payables	18	820	31,811
Total current liabilities		2,889	33,625
Non-current liabilities			
Total non-current liabilities		-	-
Total liabilities		2,889	33,625
Total equity and liabilities		104,764	234,579

The Company incurred a loss for the year ended 31 December 2020 in the amount of US\$ 104,436,000 (2019: loss of US\$ 8,223,000).

Approved by the Board and authorized for issue:

Clive Carver,

Chairman,
28 June 2021

Company number: 05966431

The notes on pages 47 to 77 are essential part of these financial statements

Consolidated and Parent Company Statements of Cash Flows

	Notes	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
Cash flows from operating activities					
Cash received from customers		10,807	16,465	-	-
Payments made to suppliers for goods and services		(11,124)	(6,767)	(1,263)	(1,128)
Payments made to employees		(1,423)	(1,226)	(399)	(597)
Net cash flow from operating activities		(1,740)	8,472	(1,662)	(1,725)
Cash flows from investing activities					
Purchase of property, plant and equipment		(3,019)	(669)	-	-
Additions to unproven oil and gas assets		(1,520)	(5,822)	-	-
Advances repaid by subsidiaries		-	-	302	108
Advances issued to subsidiaries		-	-	(35)	(100)
Net cash flow from investing activities		(4,539)	(6,491)	267	8
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		1,311	220	1,311	220
Loans repaid	25	-	(28)	-	-
Loans received	25	1,237	1,330	-	1,330
Repayment of loans provided by subsidiaries		-	-	-	(38)
Net cash flow from financing activities		2,548	1,522	1,311	1,512
Net increase/(decrease) in cash and cash equivalents		(3,731)	3,503	(84)	(205)
Cash and cash equivalents at the beginning of the year		4,060	557	87	292
Cash and cash equivalents at the end of the year	16	329	4,060	3	87

Significant non-cash transactions include the following and details can be found in notes 6, 7, 9, 11, 12, 13, 16, 17:

- Acquisition of 100% interest at KC Caspian Explorer in exchange of issue of 160,256,410 new Caspian Sunrise with the consideration value of US\$ 3,666,000 on the date (2019: Acquisition of 100% interest at 3A Best in exchange of issue of 149,253,732 new Caspian Sunrise shares with the consideration value of US\$ 11,795,000);
- Share-based payments in the amount of US\$ 22,000 (2019: US\$ 31,000);
- Withholding tax in the amount of US\$ 1,748,000 (2019: US\$ 1,860,000);
- Exchange differences on translating foreign operations of US\$ 6,000 (2019: US\$ 49,000);
- Depreciation charge of US\$ 1,688,000 (2019: US\$ 148,000);
- Interest expense of US\$ 1,067,000 (2019: US\$ 452,000);
- Issuance of 8,938,570 ordinary shares at 3.2 pence per share with the consideration value of US\$ 357,319 in settlement of outstanding salary and expenses.
- Impairment of \$145.7 million to the Parent Company's investment in subsidiaries arising following a reduction in the Group's market capitalisation.

* Additions to unproven oil and gas assets contain the amount of US\$ 8,275 in relation to payroll expenses capitalized (2019: US\$ 185,500).

The notes on pages 47 to 77 form part of these financial statements

Notes to the Financial Statements

General information

Caspian Sunrise plc (“the Company”) is a public limited company incorporated and domiciled in England and Wales. The address of its registered office is 5 New Street Square, London, EC4A 3TW. These consolidated financial statements were authorised for issue by the Board of Directors on 28 June 2021.

The principal activities of the Group are exploration and production of crude oil.

1 Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

1.1 Basis of preparation

The Group’s and Parent’s financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006

Going concern

The financial outlook has improved when compared to the position 12 months ago but not yet to the point where the material uncertainty in respect of going concern highlighted in the 2019 Financial Statements and the 2020 interim statements has fully receded.

At 31 December 2020, the Group had cash of \$0.3 million and net current liabilities of \$19.0 million. The imbalance reflects the financial impact of Covid-19 and market volatility in respect of commodity prices. As at 1 June 2021 the Group had cash of approximately \$0.7 million.

On the brighter side the dramatic decline in international prices, which fell as low as \$16 per barrel has been reversed with the Brent price recently exceeding \$75 per barrel. As is the case with domestic prices which have recently tripled.

The Caspian Explorer is forecast to start generating income H2 and the current work programme costs at 3A Best are to be funded by our new partners subject to the license extension.

On the negative side we have yet to see any meaningful production from any of the deep wells and the BNG historic costs on the MJF structure, which were assessed and now confirmed at \$32 million payable quarterly over a ten-year period will continue to consume a large proportion of the cash generated from international sales at the MJF structure.

The Board have assessed cash flow forecasts prepared for a period of at least 12 months from the approval of the financial statements and assessed the risks and uncertainties associated with the operations and funding position, including the potential further effects of the COVID-19 pandemic.

Inevitably, there is an international price below which the Group would need to take further action to conserve costs or raise additional funding. The Board considers that price to be around the \$54 per barrel level in the absence of any reduction to the assessed BNG historic costs.

The Group’s liquidity remains dependent on a number of key factors:

- The Group continues to forward sell its domestic production and receive advances from oil traders with \$2.5m currently advanced and the continued availability of such arrangements is important to working capital. Whilst the Board anticipate such facilities remaining available given its trader relationships and recent oil price increases, should they be withdrawn or reduced more quickly than forecast cash flows allow then additional funding would be required.
- The Group has approximately \$0.2m of aged creditors which are being settled over the coming months from operating cash flows. Whilst relations are positive with the suppliers, if their support is withdrawn additional funding may be required.
- The Group has \$5.6m of loans due on demand or within the forecast period to its largest shareholder and their connected companies. Whilst the Board has received assurances that the facilities will not be called for payment unless sufficient liquidity exists, there are no binding agreements currently in place to this effect and if repayment was required additional funding would be needed.
- The Group has \$6.0m of liabilities due on demand under social development program and \$3.2m of BNG licence payments due within the forecast period to the Kazakh government. Whilst the Board has forecasted the payment of BNG licence payments, there are no payments planned for social development program within the forecast period as the Board expects additional payment deferrals to be approved.
- The Group is looking to partner with others to drill further deep wells thereby reducing the costs.
- As noted above, the forecasts remain sensitive to oil prices, which have shown significant volatility. Independent of the factors above, if international oil prices fell below \$54/bbl additional actions would be required including some or all of the following: further cost reductions, additional payment deferrals and raising funds.

These circumstances continue to indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Notwithstanding the material uncertainty described above, after making enquiries and assessing the progress against the forecast, projections and the status of the mitigating actions referred to above, the Directors have a reasonable expectation that the Group will continue in operation and meet its commitments as they fall due over the going concern period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit or loss in these financial statements.

The preparation of financial statements in conformity with IFRSs requires the Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements.

The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 2.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.2 New and revised standards and interpretations

The Group applied for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and effect of the changes that result from the adoption of these new standards are described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Amendments to IFRS 3: Definition of a Business

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

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

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

Amendments to IAS 1 and IAS 8 Definition of Material

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

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

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

New standards, interpretations and amendments not yet effective

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions.

	Effective for annual periods beginning on or after
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	01-Jan-22
Reference to the Conceptual Framework – Amendments to IFRS 3	01-Jan-22
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	01-Jan-22
Annual Improvements to IFRS Standards 2018–2020	01-Jan-22
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	01-Jan-23
IFRS 17, 'Insurance contracts'	01-Jan-23

1.3 Basis of consolidation

Subsidiary undertakings are entities that are directly or indirectly controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

1.4 Operating Loss

Operating loss is stated after crediting all operating income and charging all operating expenses, but before crediting or charging the financial income or expenses.

1.5 Foreign currency translation

1.5.1 Functional and presentational currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US Dollars ("US\$"), which is the Group's presentational currency. Beibars Munai LLP, Munaily Kazakhstan LLP, BNG Ltd LLP and Roxi Petroleum Kazakhstan LLP, 3A_Best Group JSC, and Caspian Technical Services LLP subsidiary undertakings of the Group during the period, undertake their activities in Kazakhstan and the Kazakh Tenge is the functional currency of these entities. The functional currency for the Company, Beibars BV, Ravniinnoe BV, Galaz Energy BV, BNG Energy BV and Eragon Petroleum FZE is USD as USD reflects the underlying transactions, conducts and events relevant to these companies.

1.5.2 Transactions and balances in foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items, including the parent's share capital, that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

1.5.3 Consolidation

For the purpose of consolidation all assets and liabilities of Group entities with a functional currency that is not US\$ are translated at the rate prevailing at the reporting date. The profit or loss is translated at the exchange rate approximating to those ruling when the transaction took place. Exchange difference arising on retranslating the opening net assets from the opening rate and results of operations from the average rate are recognised directly in other comprehensive income (the "cumulative translation reserve"). On disposal of a foreign operator, related cumulative foreign exchange gains and losses are reclassified to profit and loss and are recognized as part of the gain or loss on disposal.

1.6 Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

In case of the uncertainty of the tax treatment, the Group assess, whether it is probable or not, that the tax treatment will be accepted, and to determine the value, the Group use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

Withholding tax payable at Kazakhstan

According to requirements of the Tax Code of Kazakhstan, withholding taxes payable for non-residents should be withheld from the total amount of interest income of non-residents and paid to the government when interest is paid (in cash) to non-residents. The companies should pay taxes from non-residents' interest income derived from sources in the Republic of Kazakhstan on behalf of these non-residents.

1.7 Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences can be utilised.

1.8 Unproven oil and gas assets

The Group applies the full cost method of accounting for exploration and unproven oil and gas asset costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring for and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cost pools. Such cost pools are based on license areas. The Group currently has two cost pools.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

Exploration and evaluation costs include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the profit or loss as they are incurred.

Plant and equipment assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such asset is consumed in developing an unproven oil and gas asset, the amount reflecting that consumption is recorded as part of the cost of the unproven oil and gas asset.

The amounts included within unproven oil and gas assets include the fair value that was paid for the acquisition of partnerships holding subsoil use in Kazakhstan. These licenses have been capitalised to the Group's full cost pool in respect of each license area.

Exploration and unproven oil and gas assets related to each exploration license/prospect are not amortised but are carried forward until the technical feasibility and commercial feasibility of extracting a mineral resource are demonstrated.

Commercial reserves are defined as proved oil and gas reserves.

Proven oil and gas properties

Once a project reaches the stage of commercial production and production permits are received, the carrying values of the relevant exploration and evaluation asset are assessed for impairment and transferred to proven oil and gas properties and included within property plant and equipment. The costs transferred comprise direct costs associated with the relevant wells and infrastructure, together with an allocation of the wider unallocated exploration costs in the cost pool such as original acquisition costs for the field.

Proven oil and gas properties are accounted for in accordance with provisions of the cost model under IAS 16 "Property Plant and Equipment" and are depleted on unit of production basis based on commercial reserves of the pool to which they relate.

As part of the Kazakh licencing regime, upon award of a production contract in respect of the BNG licence area, an obligation to make a payment to the licencing authority is triggered, settled over a 10 year period in equal quarterly instalments. Such payments are considered to form a cost of the licence and are capitalised to proven oil and gas assets and subsequently depreciated on a units of production basis in accordance with the Group's depreciation policy. In circumstances where the amount assessed by the authorities is contested, the Group records a provision discounted using a Kazakh government bond yield with a term approximating the payment profile and the discount is unwound over the payment term and charged to finance costs. Payments made are charged against the provision.

Impairment

Exploration and unproven intangible assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable as at the reporting date. Intangible exploration and evaluation assets that relate to exploration and evaluation activities that are not yet determined to have resulted in the discovery of the commercial reserve remain capitalised as intangible exploration and evaluation assets subject to meeting a pool-wide impairment test as set out below.

In accordance with IFRS 6 the Group firstly considers the following facts and circumstances in their assessment of whether the Group's exploration and evaluation assets may be impaired, whether:

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

If any such facts or circumstances are noted, the Group perform an impairment test in accordance with the provisions of IAS 36. The aggregate carrying value is compared against the expected recoverable amount of the cash generating unit, being the relevant cost pool. The recoverable amount is the higher of value in use and the fair value less costs to sell.

An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Impairment of development and production assets and other property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its PP&E to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value less costs to sell is determined by discounting the post-tax cash flows expected to be generated by the cash-generating unit, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value including future capital expenditure and development cost for extraction of the field reserves. 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 estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Workovers/Overhauls and maintenance

From time to time a workover or overhaul or maintenance of existing proven oil and gas properties is required, which normally falls into one of two distinct categories. The type of workover dictates the accounting policy and recognition of the related costs:

Capitalisable costs – cost will be capitalised where the performance of an asset is improved, where an asset being overhauled is being changed from its initial use, the assets' useful life is being extended, or the asset is being modified to assist the production of new reserves.

Non-capitalisable costs – expense type workover costs are costs incurred as maintenance type expenditure, which would be considered day-to-day servicing of the asset. These types of expenditures are recognised within cost of sales in the statement of comprehensive income as incurred. Expense workovers generally include work that is maintenance in nature and generally will not increase production capability through accessing new reserves, production from a new zone or significantly extend the life or change the nature of the well from its original production profile.

1.9 Abandonment

Provision is made for the present value of the future cost of the decommissioning of oil wells and related facilities. This provision is recognised when the asset is installed. The estimated costs, based on engineering cost levels prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of decommissioning. The corresponding amount is capitalised as a part of the oil and gas asset and, when in production is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of decommissioning is capitalised, while the charge arising from the unwinding of the discount applied to the decommissioning provision is treated as a component of the interest charge.

1.10 Restricted use cash

Restricted use cash is the amount set aside by the Group for the purpose of creating an abandonment fund to cover the future cost of the decommissioning of oil and gas wells and related facilities and in accordance with local legal rulings.

Under the Subsoil Use Contracts the Group must place 1% of the value of exploration costs in an escrow deposit account, unless agreed otherwise with the Ministry of Energy. At the end of the contract this cash will be used to return the field to the condition that it was in before exploration started.

1.11 Property, plant and equipment

All property, plant and equipment assets are stated at cost or fair value on acquisition less accumulated depreciation. Depreciation is provided on a straight-line basis, at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. Expected useful economic life and residual values are reviewed annually.

The annual rates of depreciation for class of property, plant and equipment are as follows:

- | | |
|------------------|----------------|
| - motor vehicles | 4-5 years |
| - other | over 2-4 years |

The Group assesses at each reporting date whether there is any indication that any of its property, plant and equipment has been impaired. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value.

1.12 Investments (Company)

Investments in subsidiary undertakings are shown at cost less allowance for impairment. Long-term advances to subsidiaries are discounted at estimated market rate of interest with the difference between a fair value and a face value of the advance being recorded within investments. Loan are amortised cost is assessed for expected credit loss under IFRS 9.

1.13 Financial instruments

The Group classifies financial instruments, or their component parts on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

Financial assets

Financial assets are classified as either financial assets at amortised cost, at fair value through other comprehensive income (“FVTOCI”) or at fair value through profit or loss (“FVPL”) depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset.

A loss allowance for expected credit losses is determined for all financial assets, other than those at FVPL, at the end of each reporting period. The Group applies a simplified approach to measure the credit loss allowance for any trade receivables using the lifetime expected credit loss provision. The lifetime expected credit loss is evaluated for each trade receivable taking into account payment history, payments made subsequent to year end and prior to reporting, past default experience and the impact of any other relevant and current observable data. The Group applies a general approach on all other receivables classified as financial assets. The general approach recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. The Group derecognises financial liabilities when the Group’s obligations are discharged, cancelled or have expired.

The Group’s financial assets consist of cash and other receivables. Cash and cash equivalents are defined as short term cash deposits which comprise cash on deposit with an original maturity of less than 3 months. Other receivables are initially measured at fair value and subsequently at amortised cost.

The Group’s financial liabilities are non-interest bearing trade and other payables, other interest bearing borrowings. Non-interest bearing trade and other payables and other interest bearing borrowings are stated initially at fair value and subsequently at amortised cost.

Where a loan is renegotiated on substantially different terms, this is treated as an extinguishment of the original financial liability and the recognition of a new financial liability with a gain or loss recorded in the income statement. In accordance with IFRS 9, following a modification or renegotiation of a financial asset or financial liability that does not result in de-recognition, an entity is required to recognise any modification gain or loss immediately in profit or loss. Any gain or loss is determined by recalculating the gross carrying amount of the financial liability by discounting the new contractual cash flows using the original effective interest rate. The difference between the original contractual cash flows of the liability and the modified cash flows discounted at the original effective interest rate is recorded in the income statement.

Share capital issued to extinguish financial liabilities is fair valued with any difference to the carrying value of the financial liability taken to the profit or loss.

1.14 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

1.15 Other provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.16 Share capital

Ordinary and deferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.17 Share-based payments

The Group has used shares and share options as consideration for services received from employees.

Equity-settled share-based payments to employees and others providing similar services are measured at fair value at the date of grant. The fair value determined at the grant date of such an equity-settled share-based instrument is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of the shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair value determined at the grant date of such an equity-settled share-based instrument is expensed since the shares vest immediately. Where the services are related to the issue of shares, the fair values of these services are offset against share premium where permitted.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted based on the Management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the Financial Statements (continued)

1 Principal accounting policies (continued)

1.18 Warrants

Warrants are separated from the host contract as their risks and characteristics are not closely related to those of the host contracts. Where the exercise price of the warrants is in a different currency to the functional currency of the Company, at each reporting date the warrants are valued at fair value with changes in fair values recognised through profit or loss as they arise. The fair values of the warrants are calculated using the Black-Scholes model. Where the warrant exercise price is in the same currency as the functional currency of the issuer and involve the issuance of a fixed number of shares the warrants are recorded in equity.

1.19 Revenue

Revenue from contracts with customers is recognised when or as the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil sold by the Group usually coincides with title passing to the customer. The Group satisfies its performance obligations at a point in time.

Under the terms of domestic oil sales arrangements, the performance obligation is satisfied when the local refinery provides the seller and the customer with the act of acceptance of crude oil of quantity and quality according to the agreement between the parties.

Under the terms of export sales arrangements, the performance obligation is satisfied when the Ocean Bill of Lading is issued by the transport company that reflects the fact of boarding the crude oil of specified quantity and quality on the tanker.

Revenue is measured at the fair value of the consideration received, excluding value added tax ("VAT") and other sales taxes or duty. Royalties are not included in revenue, they are paid on production and recorded within cost of sales.

Payments in advance by oil traders are recorded initially as deferred revenue, reflecting the nature of the transaction. Subsequently, the deferred revenue is reduced and revenue is recorded, as sales are made under the Group's revenue recognition policy with the performance obligation satisfied.

Revenue from the use by third parties of the Caspian Explorer will be recognised when the contracted services are performed.

1.20 Cost of sales

The Group started to calculate the cost of sales on crude oil sold during 2019 because its asset BNG has received the production license on part of its contract territory in July 2019. On the rest of its territory (%) BNG continues to work under Exploration license. During test production on Exploration cost of sales cannot be reliably estimated and therefore a cost of sales equal to revenue is recognised and credited to the unproven oil and gas assets.

1.21 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments and making strategic decisions, has been identified as the Board of Directors. The Group has one operating segment being oil exploration and production in Kazakhstan and therefore one reporting segment. The Group has several cost pools divided based on the different contractual territory of its assets. As the activity of all cost pools is the same (oil exploration and production) and all of them operate geographically in Kazakhstan, the Group reports one segment in its financials.

1.22 Interest receivable and payable

Interest income and expense are reported on an accrual basis using the effective interest rate method.

1.23 Forward Sales

Advance payments are taken for oil to be sold on the domestic market with the liability reduced over time as oil is delivered based on the then prevailing domestic oil price.

1.24 Exchange rates

For reference the year end exchange rate from sterling to US\$ was 1.36 and the average rate during the year was 1.3. The year-end exchange rate from KZT to US\$ was 420.91 and the average rate during the year was 412.95.

Notes to the Financial Statements (continued)

2 Critical accounting estimates and judgements

In the process of applying the Group's accounting policies, which are described in note 1, Management has made the following judgements and key assumptions that have the most significant effect on the amounts recognised in the financial statements.

2.1 Carrying value of exploration and evaluation costs (note 11)

Under the full cost method of accounting for exploration and evaluation costs, such costs are capitalised as intangible assets by reference to appropriate cost pools, and are assessed for impairment on a concession basis based on the impairment indicators detailed in accounting policy note 1.8. As at 31 December 2020, the Group assessed the exploration and evaluation assets disclosed in note 11 and determined that no indicators of impairment existed at a cost pool level in respect of the BNG cost pool. The Group also considered whether the factors that gave rise to the original impairment loss no longer existed and reversal of the impairment is appropriate. In forming this assessment, the Board considered the oil reserves and resources associated with the licence area, the results of exploration activity to date, the successful transition to production of the MJF licence area in the previous year and the net present value of the shallow structures, the status of licences and future plans for the licence areas. In forming its assessment, the Board considered the Group's commitments under the licence detailed in note 20 and the impact of outstanding obligations. Having undertaken this assessment the Group concluded that no indicators of impairment existed and that no reversal in respect of previous impairment provisions attributable to the unproven oil and gas assets of US\$9,479,000 was yet appropriate given the absence of a significant breakthrough on the deep structures at 31 December 2020.

Judgment has been applied in assessing whether impairment of the exploration and evaluation assets asset of 3A Best is required at 31 December 2020 noting that the application for deferral of obligations under the licence and the extension of the license has been submitted and management anticipate such approvals being provided given the impact of Covid-19, their understanding of the Kazakh market and plans for the asset. However, the authorities have the right to withdraw the licence as payments due by July 2020 have not been made in respect of obligations. The Board considers the risk of the licence being withdrawn to be remote given the history of investment by the Group in Kazakhstan, the impact of COVID-19 in 2020 on the Group's cash generation and ability to undertake work program commitments and past experience. An application to extend the licence has been submitted together with an application to defer the obligations and commitments in 2020. In addition, the carrying value of 3A Best has not been impaired based on discussions before the year end which resulted in a farm out of 15% of the Contract Area for a deemed cost of \$2.5 million, which implies a cost of 100% greater than its carrying value.

The Beibars cost pool remains impaired based on the continuance of the force majeure. The Group has decided to formally relinquish any interest in Beibars.

2.2 Transfer of costs to proven oil and gas assets (prior year) (note 11 & 12)

Judgment has been applied in assessing that the MJF area assets meets the criteria for reclassification to proven oil and gas assets under the Group's accounting policy in note 1.8. In concluding that it was appropriate to transfer the asset to proven oil and gas assets management took account of the award of a production licence enabling exports and sales at international prices together with the production volumes. In August 2019 BNG has received the required production license for its MJF structure and got the export permission starting September 2019. According to the approach above BNG moved the related O&G assets to the production stage in August 2019 and accordingly started charging DD&A expense. The Board considers the remaining BNG contract area to remain in an exploration phase given the level of wells and production relative to plans for the field, the exploration status of the licence and the requirement to sell its test oil in the domestic market which represents a substantial discount to the international market such that production is primarily a by product of continued exploration and appraisal.

2.3 Recoverability of proven oil and gas assets (note 12)

The proven oil and gas assets, representing the MJF structure, have been assessed for indicators of impairment at 31 December 2020 including assessment of the discounted cash flows indicated by the Group's field plan. This analysis required judgment and estimation in determining forecast prices as at 31 December 2020 based on conditions existing at that time, future production and reserves, operating costs and development costs for the field and the discount rate. The forecasts demonstrated significant headroom with prices based on forward prices of \$51 bbl adjusted for net back adjustments, reserves calculated using the most recent Competent Person's report and discount rates run at 10% and 15%. Having undertaken this assessment the Group concluded that no indicators of impairment existed.

Having undertaken this assessment at 31 December 2019 the Group concluded that the factors no longer applied, noting the successful exploration activity and the transition to commercial production and decided to release the previous impairment attributable to the unproven oil and gas assets of US\$2,414,000. The allocation between proven and unproven oil and gas assets required judgment and was based on relative costs incurred between the proven and unproven asset categories as the original impairment arose when the proven oil and gas assets formed part of the single BNG unproven oil and gas cost pool.

2.4 Recoverability of VAT (note 15)

The Group holds VAT receivables of \$3.8 million (2019: \$3.3million) as detailed in note 15 which are anticipated to be primarily recovered through offset of future VAT payable in accordance with Kazakh legislation. Management have assessed the recoverability of the asset based on forecast levels of VAT payables which demonstrate that the balance will be recovered within 3 years (2019: 3.5 years). This required estimates regarding future production, oil prices and expenditure.

2.5 Decommissioning (note 20)

Provision has been made in the accounts for future decommissioning costs to plug and abandon wells in note 20. The costs of provisions have been added to the value of the unproven oil and gas asset and will be depreciated on a unit of production basis.

The decommissioning liability is stated in the accounts at discounted present value and accreted up to the final expected liability by way of an annual finance charge. The Group has potential decommissioning obligations in respect of its interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. Actual costs incurred in future periods may substantially differ from the amounts of provisions. In addition, future changes in environmental laws and regulations, estimates of deposit useful lives and discount rates may affect the carrying value of this provision.

Notes to the Financial Statements (continued)

2 Critical accounting estimates and judgements (continued)

2.6 Acquisition of Caspian Explorer (note 22)

Judgment was required in assessing the accounting treatment for the purchase of Caspian Explorer as an asset purchase rather than a business combination. In forming this assessment, management elected to make the optional concentration test according to IFRS. 80% of the total assets of the acquired entities were represented by the carrying value of the submersible drilling rig and related assets (the barge). Therefore, the management concluded that the fair value of the gross assets acquired were concentrated in a single identifiable asset (group of assets). As such, the fair value of the purchase consideration was allocated to the assets and liabilities acquired, costs associated with the transaction capitalised and no deferred tax arose on the transaction.

Judgment has been applied in assessing whether impairment of the asset is required at 31 December 2020 noting that the scrap value of the barge plus the cost of the separate drilling rig supported by a clear comparable sale approach as well as the future expected cash flows and supports the recoverability of the vessel's carrying value.

2.7 Provision for BNG licence payments (note 10, 11, 20)

As part of the Kazakh licencing regime, upon award of a production contract in respect of the BNG licence area, an obligation to make a payment to the licencing authority was triggered, settled over a 10 year period in equal quarterly instalments. Judgment was required in assessing the appropriate accounting policy for the transaction including assessment of the terms of the arrangement. Such payments are considered to form a cost of the licence and are capitalised to proven oil and gas assets. As at 31 December 2020, the Group was contesting the amount levied by the authorities although at the date of these financial statements final judgment has been made against the company. As such, a provision for the amounts due has been made based on the received judgment. Estimation was also required in selecting an appropriate discount rate for the provision and a rate of 2.7% has been applied, based on US dollar Eurobonds yields in Kazakhstan with a comparable term. Estimation was also required in selecting an appropriate discount rate for the provision and a rate of 2.7% has been applied, based on US dollar Eurobonds yields in Kazakhstan with a comparable term.

2.8 Uncertain tax positions (note 20)

As detailed in note 20, judgment has been applied in assessing the extent to which tax treatments adopted by the Group historically will be accepted or rejected by the relevant tax authority and the resulting measurement of uncertain tax positions in circumstances where it is probable that the treatment will be challenged.

2.9 Indemnity receivables in relation to 3A Best acquisition (note 21)

Under the terms of the SPA for 3A Best, the three vendors provided indemnities that obligations related to the period prior to acquisition would be reimbursed. Judgment has been applied in assessing the recoverability of the indemnity receivables detailed in note 21, which included assessment of the terms of the SPA, confirmations received from the vendors and assessments of the ability to meet such payments. The Board while still intending to obtain full recovery has made a provision for two thirds of the amounts due on the expected credit losses as at 31 December 2020 (note 15).

2.10 Recoverability of investments (note 13)

The recoverability of investments is dependent upon the future production of the subsidiaries from existing producing assets and unproven exploration assets, and future prices achieved, which will determine if any provision is required against investments. The directors have assessed the impairment indicators, and made judgements in reflection to recoverability and make impairments as appropriate. The management has estimated that a provision was required of US\$145.7m at the year end (2019: nil).

2.11 Estimation of credit losses of receivables from subsidiaries (note 15)

In the parent company there are substantial receivables from the subsidiaries. Management has used judgement to determine the expected credit losses against these receivable's which involves estimates of over the ability of the subsidiaries to repay these loans. Management has estimated an expected credit loss was required of US\$19.9m at the year end (2019: US\$12.9m).

3 Segment reporting & revenue

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments and making strategic decisions, has been identified as the Board of Directors. The Group operated in two operating segments during 2020: Exploration for and production of oil and oil and gas services in Kazakhstan. All revenues from test phase and commercial phase production are generated domestically in Kazakhstan. 100% of the Group's oil revenue was derived from three major customers (two local market operators – 15% and the export trader – 85%). The revenue split of oil sales in 2020 between the domestic traders (ANK-Energo LLP, Petro Synthesis) and the export trader (Euro-Asian Oil SA) was US \$2,112,000 and US \$12,186,000 respectively.

Revenue

The Group's revenues are derived from the sale of oil in Kazakhstan. After moving part of O&G assets into Production phase The Group started to receive export revenues in September 2019.

Under the terms of sales on the local market, the performance obligation is the supply of oil and the performance obligation is satisfied at a point in time, being the delivery of oil to the refinery. Control passes to the customer at this point with title and risk transferred.

Under the terms of export sales control over the oil delivered is with the Group until the customer confirms it has been shipped on the board of the tanker. When advances are received from oil traders for delivery of future production at specified prices, deferred revenue is recorded and the liability reduced as oil is delivered.

Where advances are made for future production and the financing component of such transactions is material, a finance charge is recorded based on the market rate of interest.

No trade receivables or accrued income was applicable at year end (2019: \$Nil).

Notes to the Financial Statements (continued)

4 Operating (loss)/income

Group operating (loss)/income for the year has been arrived after charging:

	Group 2020 US\$'000	Group 2019 US\$'000
Staff costs (note 6)	(1,256)	(1,420)
Depreciation of property, plant and equipment (note 12)	(1,688)	(148)
Auditors' remuneration (note 5)	(188)	(196)
Share based payment remuneration (note 6)	(22)	(31)
Expected credit loss provision against amount due in respect of 3A Best (note15)	(2,551)	-
Reversal of impairment (notes 11 and 12)	-	2,414

5 Group Auditor's remuneration

Fees payable by the Group to the Company's auditor BDO and its member firms in respect of the year:

	Group 2020 US\$'000	Group 2019 US\$'000
Fees for the audit of the annual financial statements	146	153
Audit related services	5	9
Other services – tax related	9	8
	160	170

Fees payable by the Group to Grant Thornton and its associates in respect of the year:

	Group 2020 US\$'000	Group 2019 US\$'000
Auditing of accounts of subsidiaries of the Company	28	26
	28	26

6 Employees and Directors

Staff costs during the year	Group 2020 US\$'000	Company 2020 US\$'000	Group 2019 US\$'000	Company 2019 US\$'000
Wages and salaries	1,256	432	1,420	590
Social security costs	56	-	76	12
Pension costs	83	-	90	-
Share-based payments	22	22	31	31
	1,417	454	1,617	633

Payroll expenses were capitalized in the amount of US\$8,275 (2019: US\$185,500) and expensed as cost of sales in the amount of US\$258,510 (2019: US\$ \$109,315).

Average monthly number of people employed (including executive Directors)	Group 2020	Company 2020	Group 2019	Company 2019
Technical	9	-	11	1
Field operations	145	-	47	-
Finance	8	2	9	2
Administrative and support	19	2	16	2
	181	4	83	5

Directors' remuneration	Group 2020 US\$'000	Group 2019 US\$'000
Director's emoluments	643	729
Share-based payments	22	25
	665	754

The Directors are the key management personnel of the Company and the Group. Details of Directors' emoluments and interests in shares are shown in the Remuneration Committee Report. The highest paid director had emoluments totalling US\$312,000 (2019: US\$425,289).

7 Finance cost

	Group 2020 US\$'000	Group 2019 US\$'000
Loan interest payable	368	82
Unwinding of discount on BNG licence payment provision (note 20)	685	368
Unwinding of discount on provisions (note 20)	14	2
	1,067	452

8 Finance income

	Group 2020 US\$'000	Group 2019 US\$'000
Interest income at BNG LLP and KC Caspian	20	-

9 Taxation

Analysis of charge for the year	Group 2020 US\$'000	Group 2019 US\$'000
Current tax charge	1,748	1,860
Deferred tax charge (note 23)	-	483
	1,748	2,343

	Group 2020 US\$'000	Group 2019 US\$'000
(Loss) / Profit before tax	(1,745)	941
Tax on the above at the standard rate of corporate income tax in the UK 19% (2019: 19%)	(332)	179
<i>Effects of:</i>		
Non-deductible expenses	-	1,183
Withholding tax on interest expense	1,748	1,860
Utilization of tax losses not previously recognized	(1,070)	(1,888)
Unrecognised tax losses carried forward	1,402	1,009
	1,748	2,343

10 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the income/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year including shares to be issued.

There is no difference between the basic and diluted loss per share as the Group made a loss for the current and prior year. Dilutive potential ordinary shares include share options granted to employees and directors where the exercise price (adjusted according to IAS33) is less than the average market price of the Company's ordinary shares during the period.

The calculation of earnings/(loss) per share is based on:

	2020	2019
The basic weighted average number of ordinary shares in issue during the year	1,871,288,151	1,824,955,952
The earnings / (loss) for the year attributable to owners of the parent from continuing operations (US\$'000)	(3,413)	(1,278)
The loss for the year attributable to owners of the parent from discontinued operations (US\$'000)	-	-

There were 2,500,000 potentially dilutive instruments in the year (2019: 3,000,000).

Notes to the Financial Statements (continued)

11 Unproven oil and gas assets

COST		Group US\$'000
Cost at 1 January 2019		68,488
Additions		8,886
Sales from test production net of costs of sales		(5,466)
Acquisitions (note 21)		11,293
Reclassification to PP&E		(12,000)
Foreign exchange difference		(1,507)
Cost at 31 December 2019		69,694
Additions		1,520
Sales from test production net of cost of sales		(149)
Foreign exchange difference		(173)
Cost at 31 December 2020		70,892
ACCUMULATED IMPAIRMENT		Group US\$'000
Accumulated impairment at 1 January 2019		12,801
Reclassification to PP&E		(2,414)
Foreign exchange difference		(733)
Accumulated impairment at 31 December 2019		9,654
Foreign exchange difference		(175)
Accumulated impairment at 31 December 2020		9,479
Net book value at 1 January 2019		55,687
Net book value at 31 December 2019		60,040
Net book value at 31 December 2020		61,413

Unproven oil and gas assets represent license acquisition costs and subsequent exploration expenditure in respect of two licenses held by Kazakh group entities. The carrying values of those assets at 31 December 2020 were as follows: 3A Best-Group JSC US\$11,521,000 (2019: US\$ 12,666,000) and BNG Ltd LLP US\$49,892,000 (2019: US\$47,374,000).

The Directors have carried out an impairment review of these assets on a cost pool level as detailed in note 2.1. A previous impairment provision amount of US\$12,068,000 (US\$ 9,654,000 net of deferred tax) was partly reversed in 2019. The reversal of US\$ 2,414,000 has been made by the means of reclassification to proved oil and gas assets in 2019. At 31.12.2020 the balance of accumulated impairment was US\$ 9,479,000 (see note 2).

Notes to the Financial Statements (continued)

12 Property, plant and equipment

Following the commencement of commercial production in July 2019 the Group reclassified part of BNG assets from unproven oil and gas assets to proven oil and gas assets.

Group	Proved oil and gas assets	Motor Vehicles	Other	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Cost at 1 January 2019	-	56	266	322
Additions	564	-	8,071*	8,635
Transferred from unproved oil and gas assets	12,000**	-	-	12,000
Additions to Proved O&G assets related to BNG licence payment provision	28,335***	-	-	28,335
Reversal of impairment (note 11)	2,414	-	-	2,414
Disposals	-	-	(3)	(3)
Foreign exchange difference	5	-	-	5
Cost at 31 December 2019	43,318	56	8,334	51,708
Additions	1,366	-	19	1,385
Acquisitions (Caspian Explorer) (note 22)	-	-	2,837	2,837
Foreign exchange difference	(962)	-	(13)	(975)
Cost at 31 December 2020	43,722	56	11,177	54,955
Depreciation at 1 January 2019	-	31	203	234
Charge for the year	130	8	10	148
Disposals	-	-	(3)	(3)
Foreign exchange difference	-	-	3	3
Depreciation at 31 December 2019	130	39	213	382
Charge for the year	1,230	8	450	1,688
Foreign exchange difference	30	-	10	40
Depreciation at 31 December 2020	1,390	47	673	2,110
Net book value at:				
01 January 2019	-	25	63	88
31 December 2019	43,188	17	8,121	51,326
31 December 2020	42,332	9	10,504	52,845

*\$7,966,000 of \$8,071,000 relate to the acquisition during 2019 of drilling rigs and other fixed assets. The Group acquired the drilling rigs in September 2019 with 58,333,333 shares issued as consideration with the assets recorded based on the market price of the shares issued.

**\$12,000,000 – the amount of O&G assets transferred from Unproved O&G to Proved O&G assets at BNG asset for the MJF structure. Refer to note 2.

*** Refer to notes 20 and 2 for details.

Notes to the Financial Statements (continued)

13 Investments (Company)

Investments	Company US\$'000
Cost	
At 1 January 2019	276,239
Increase in investments	11,795
At 31 December 2019	288,034
Increase in investments	3,666
Reclassification related to intercompany restructuring	(66,259)
At 31 December 2020	225,441
Impairment	-
At 31 December 2019	64,253
Impairment	145,701
At 31 December 2020	209,954
<i>Net book value at:</i>	
31 December 2019	223,781
31 December 2020	15,487

During 2020 the Company acquired 100% interest at Caspian Explorer for US\$3,666,000 by means of issuing the Company's shares. The carrying value of the investments has been assessed by the Directors including the fair value associated with the asset (please see note 22 for the transaction details).

During 2020 the Group simplified its intragroup loans as follows: (i) the Company acquired Eragon Petroleum Limited's long term receivable of \$18.9m due from BNG Ltd LLP in exchange for a loan payable to Eragon Petroleum Limited; (ii) the Company's long term receivables from BNG Ltd LLP were transferred to Eragon FZE in exchange for a receivable from Eragon FZE; (iii) Eragon UK declared a dividend of \$49.3m to Caspian Sunrise plc which it settled by offset against receivables due from Caspian Sunrise (see note 18). The receivable from Eragon FZE is repayable on demand but is classified as long term because this reflects the expected timing of actual funds flow. As part of the restructuring US\$ 66m at the Company's standalone accounts were reclassified from the investments to the receivables from subsidiaries (note 15).

The directors review the investments recoverability on a regular basis, together with the associated future cash flows of each company. During 2020 the reduction in the Group's market capitalisation was considered an impairment trigger. The discount rate used for the assessment was 15%, which the Directors believe to appropriate in the circumstances. Based on this assessment the Company considers that the carrying value of the investments may not be fully recoverable as the subsidiaries may not generate sufficient future profits and accordingly, these amounts have been impaired. The Company recorded an impairment in relation to the investments of \$145.7m as at 31 December 2020 (2019: nil).

During 2019 the Company acquired 100% interest at 3A-Best group JSC for US\$11,975,000 by means of issuing the Company's shares. The carrying value of the investments has been assessed by the Directors including consideration of the discounted cash flows associated with the proven oil and gas assets, underlying BNG and 3A-Best contract area progress and the continued exploration value of the assets.

Notes to the Financial Statements (continued)

13 Investments (Company, continued)

Direct investments

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2020	Effective holding and proportion of voting rights held at 31 December 2019	Registered address	Nature of business
Eragon Petroleum Limited	United Kingdom	100%	100%	5 New Street Square London EC4A 3TW	Holding Company
Eragon Petroleum FZE	Dubai	100%	100%	CN-135789, Jebel Ali, Dubai, UAE	Management Company
Beibars BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
Ravninnoe BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
Roxi Petroleum Kazakhstan LLP	Kazakhstan	100%	100%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Management Company

Indirect investments held by Eragon Petroleum Limited

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2020	Effective holding and proportion of voting rights held at 31 December 2019	Registered address	Nature of business
Galaz Energy BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
BNG Energy BV	Netherlands	100%	100%	Utrechtseweg 79 1213 TM Hilversum The Netherlands	Holding Company
BNG Ltd LLP	Kazakhstan	99%	99%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Oil Production Company
3A-Best Group JSC	Kazakhstan	100%	100%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Exploration Company
CTS LLP	Kazakhstan	100%	100%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Drilling & Service Company
Prosperity Petroleum Ltd*	UAE	100%	-	CN-135789, Jebel Ali, Dubai, UAE	Management Company
KC Caspian LLP*	Kazakhstan	100%	100%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Drilling Vessel owner

13 Investments (Company, continued)

*During 2020 the Company has acquired 100% interest in Prosperity Petroleum Ltd and KC Caspian LLP, the companies owning submersible drilling vessel (pls see note 22 for details).

During 2019 Eragon Petroleum FZE has established the subsidiary with 100% interest: Caspian Technical Services LLP (CTS LLP). The main activity of the new subsidiary is drilling services for the companies of the group.

Indirect investments held by Beibars BV

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held at 31 December 2018	Effective holding and proportion of voting rights held at 31 December 2017	Registered address	Nature of business
Beibars Munai LLP	Kazakhstan	50%	50%	152/140 Karasay Batyr Str., Almaty, Kazakhstan	Exploration Company

Beibars Munai LLP is a subsidiary as the Group is considered to have control over the financial and operating policies of this entity. Its results have been consolidated within the Group.

Notes to the Financial Statements (continued)

14 Inventories

	Group 2020 US\$'000	Group 2019 US\$'000
Materials and supplies	392	384
	392	384

15 Other receivables

	Group 2020 US\$ '000	Group 2019 US\$ '000	Company 2020 US\$ '000	Company 2019 US\$'000
Amounts falling due after one year:				
Prepayments made	435	2,459	-	-
VAT receivable	3,811	3,286	53	69
Intercompany receivables (note 13)	-		89,212	10,635
	4,246	5,745	89,265	10,704
Amounts falling due within one year:				
Prepayments made	2,187	1,159	9	7
Other receivables*	4,008	4,504	-	-
	6,195	5,663	9	7

The VAT receivables relate to purchases made by operating companies in Kazakhstan and will be recovered through VAT payable resulting from sales to the local market.

*US\$1,275,000 out of US\$4,008,000 (2019: US\$3,826,000) at Other receivables of the Group accounts represent the amounts reimbursable by the vendors of 3A Best under the indemnities provided on acquisition of the exploration asset (note 21). At 31.12.2020 the amount is shown net of provision for expected credit losses: during 2020 the amount has been impaired on US\$2,551,000 or 2/3 of the originally recognised due to the uncertainty of the 100% recoverability the receivable in future periods.

The current intercompany receivables bear interest rates between LIBOR + 2% and LIBOR + 7%.

Inter-company receivables has been assessed for expected credit losses considering factors such as the status of underlying licenses, reserves, financial models and future risks and uncertainties. The provision substantially refers to balances considered credit impaired. Inter-company receivables from the subsidiaries in the table above are shown net of provisions of US\$19.9 million (2019: US\$12.9 million). The movement in the expected credit loss provision related to the inter-company receivables was as follows:

Denomination	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
As at 1 January	-	-	12,913	12,212
Charge	-	-	6,999	701
As at 31 December	-	-	19,912	12,913

The Company recognised US\$ 6,999,000 of expected loss on provisions in relation to its receivables from subsidiaries in 2020 (2019: loss of US\$ 701 thousand).

Notes to the Financial Statements (continued)

16 Cash and cash equivalents

	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
Cash at bank and in hand	329	4,060	3	87

Funds are held in US Dollars, Sterling and Kazakh Tenge currency accounts to enable the Group to trade and settle its debts in the currency in which they occur and in order to mitigate the Group's exposure to short-term foreign exchange fluctuations. All cash is held in floating rate accounts.

Denomination	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
US Dollar	292	3,842	1	87
Sterling	2	-	2	-
Kazakh Tenge	35	218	-	-
	329	4,060	3	87

17 Called up share capital

Group and Company

	Number of ordinary shares	US\$'000	Number of deferred shares	US\$'000
Balance at 1 January 2019	1,670,873,820	25,416	373,317,105	64,702
Share options exercised	4,200,000	56	-	-
Acquisition of 100% interest at 3A Best-Group JSC (note 21)	149,253,732	1,919	-	-
Equipment bought during 2019 (note 11)	58,333,333	729	-	-
Balance at 31 December 2019	1,882,660,885	28,120	373,317,105	64,702
Shares issued to the directors to repay salary debts*	8,938,570	112	-	-
Shares issued in exchange of £1m cash**	36,363,629	477	-	-
Acquisition of 100% interest at KC Caspian Explorer (note 22)	160,256,410	2,095	-	-
Balance at 31 December 2020	2,088,219,494	30,804	373,317,105	64,702

Caspian Sunrise Plc has authorised share capital of £100,000,000 divided into 6,640,146,055 ordinary shares of 1p each and 373,317,105 deferred shares of 9p each.

* On 6 July 2020 the Company has issued total 8,938,570 ordinary shares at 3.2 pence per share in settlement of outstanding salary and expenses.

** On 4 August 2020 the Company raised £1 million through placing of 36,363,629 new ordinary shares to new and existing investors at an issue price of 2.75 pence per share. The cash has entirely been spent on repayments to the Company creditors.

18 Trade and other payables – current

	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
Trade payables	2,892	1,384	191	575
Taxation and social security	1,629	1,813	22	22
Accruals	136	282	109	172
Other payables	3,369	4,368	382	364
Intercompany payables	-	-	116	30,678
Advances received (deferred revenue)	2,986	6,989	-	-
	11,012	14,836	820	31,811

As at 31 December 2020 and 31 December 2019, the Group received a significant amount of prepayments from the oil traders in relation to increasing production on the BNG oil field.

Notes to the Financial Statements (continued)

During 2020 the Group simplified its intragroup loans as follows: (i) the Company acquired Eragon Petroleum Limited's long term receivable of \$18.9m due from BNG Ltd LLP in exchange for a loan payable to Eragon Petroleum Limited; (ii) the Company's long term receivables from BNG Ltd LLP were transferred to Eragon FZE in exchange for a receivable from Eragon FZE; (iii) Eragon UK declared a dividend of \$49.3m to Caspian Sunrise plc which it settled by offset against receivables due from Caspian Sunrise (see note 13).

18 Trade and other payables – non-current

	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
Intercompany payables	-	-	-	-
Taxation	13,648	12,293	-	-
	13,648	12,293	-	-

Taxation payable relate to withholding tax accrued on the interest expense at the BNG subsidiary level.

19 Short-term borrowings

	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
Mr. Oraziman (a)	3,624	2,288	777	727
Fosco BV (b)	672	661	-	-
Other borrowings (c)	1,304	1,101	1,292	1,087
	5,600	4,050	2,069	1,814

a) At the start 2019 Eragon Petroleum FZE, a wholly owned subsidiary, had an outstanding loan of US\$ 913,000 from Kuat Oraziman. Caspian Sunrise had an outstanding loan of US\$ 400,000 from Kuat Oraziman. During 2019 Mr. Oraziman provided an additional US\$300,000 to Caspian Sunrise. The total balance of these loans as at 31 December 2019, including the accrued interest, was US\$ 1,704,000. Additionally, during 2019 a loan due from Roxi Kazakhstan LLP to KC Caspian Explorer, an entity controlled by Aibek Oraziman, was assigned to Kuat Oraziman. The balance of the loan at 31 December 2020 was US\$ 531,000 (2019: US\$ 584,000).

During 2020 the companies of the Group accrued US\$ 145,000 of interest on the existing loans. In addition Kuat Oraziman has provided direct loans to the following subsidiaries: US\$ 616,000 to CTS LLP, US\$ 575,000 to BNG LLP. Both loans are not interest bearing and were nominated in Kazakh tenge.

b) During July 2016 Fosco BV, a company controlled by Mr Oraziman, therefore a related party of the Group, provided an on demand loan to BNG LLP in the amount of US\$ 0.63 million. The loan is interest bearing with the rate of Libor+ 1%.

c) The total amount borrowed by the Group at 31 December 2020 US\$1,304,000 (2019: US\$1,101,000) was payable to Kuat Oraziman and a legal entities controlled by Mr Oraziman. The loans are interest bearing with the rate of 7% and repayable during 2021.

During 2021 all the loans payable by the Group to Mr. Kuat Oraziman and the related companies have been assigned to Akku Investment LLP, the company controlled by Oraziman family.

Notes to the Financial Statements (continued)

20 Provisions and contingencies

Group only	BNG licence payments*	Employee holiday provision	Liabilities under Social Development Program and historical cost	Abandonment fund	2019 Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2019	-	75	3,440	125	3,640
Increase in provision	28,652	-	3,048	450	32,150
Paid in the year	(1,626)	(75)	(339)	-	(2,040)
Unwinding of discount	368	-	-	2	370
Foreign exchange difference	-	-	5	1	6
Balance at 31 December 2019	27,394	-	6,154	578	34,126
Non-current provisions	24,216	-	-	428	24,644
Current provisions	3,178	-	6,154	150	9,482
Balance at 31 December 2019	27,394	-	6,154	578	34,126

Group only	BNG licence payments*	Employee holiday provision	Liabilities under Social Development Program and historical cost	Abandonment fund	2020 Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 January 2020	27,394	-	6,154	578	34,126
Increase in provision	-	-	-	91	91
Change in estimate	-	-	-	(81)	(81)
Paid in the year	(3,014)	-	-	-	(3,014)
Unwinding of discount	685	-	-	14	699
Foreign exchange difference	-	-	(181)	(45)	6
Balance at 31 December 2020	25,065	-	5,973	557	31,595
Non-current provisions	21,887	-	-	413	22,300
Current provisions	3,178	-	5,973	144	9,295
Balance at 31 December 2020	25,065	-	5,973	557	31,595

*The subsoil use contract held by BNG Ltd for the Yelemes field stipulates that it must make a payment to the Kazakhstan Government upon award of a production contract after commercial feasibility. The Kazakhstan Government has assessed the amount payable as a total of US\$32.5m. The sum is paid on a quarterly basis from 1 July 2019 in equal instalments and the final payment is due to be paid on 1 April 2029. The payments have been discounted to their net present value. This discounted value has been capitalised as Property, plant and equipment (note 11) and will be amortised over the productive period. Any changes in estimated payments and discount rate are dealt with prospectively and result in a corresponding adjustment to property plant and equipment. The Group is currently contesting the value of the amount assessed.

Amounts in relation to Subsoil Use Contracts are included in the table above and relate to the licence areas disclosed below:

a) BNG Ltd LLP

BNG Ltd LLP a subsidiary, signed a contract #2392 dated 7 June 2007 with the Ministry of Energy and Mineral Resources of RK for exploration at Airshagyl deposit, located in Mangistau region. Under addendum No.1 dated 17 April 2008, the Contract Area was increased. The contract was valid for 4 years and expired on 7 June 2011. Addendum No. 6 to the Subsoil Use Contract for extension of exploration period up to June 2013 was obtained on 13 July 2011. On 16 July 2013 BNG Ltd LLP signed Addendum No. 7 extending the exploration period for two consecutive years until June 2015. On 22 June 2015 BNG Ltd LLP signed Addendum No. 9 extending the exploration period for three consecutive years until June 2018. On 24 December 2015 BNG Ltd LLP signed Addendum No.10 according to which the geological territory was extended by 140.6 sq kilometres. On 23 September 2016 addendum No.11 was signed that reduced the penalties for non-fulfilment of the contractual obligations from 30% to 1%. On 20 December 2017 BNG Ltd LLP signed addendum No.12 where amended its contractual obligations increasing the minimal work program for 2016-2018 from US\$16.5 million to US\$21.5 million. All other obligations, including social obligations, remained the same. In June 2018 BNG Ltd LLP signed the Addendum No.13 with the Ministry of Energy for the 6 years appraisal period on the BNG oilfield until June 2024.

Notes to the Financial Statements (continued)

20 Provisions and contingencies (continued)

In accordance with the terms of the addendum #13, BNG Ltd LLP remains committed to the following:

- For the six-year appraisal period US\$238,000 per annum should be invested in the social development of the region starting from January 2019;
- To fund minimum cumulative work program during the appraisal period of US\$ 28,103,000
- Investing not less than 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract; and
- Transferring, on an annual basis, 1% of exploration expenditures to a liquidation fund through a special deposit account in a bank located within the Republic of Kazakhstan.

The license commitments are established for the license term as a whole, with annual schedules contained therein under the license. Should the company have unfulfilled commitments or outstanding payments under social programs, a 1% penalty is applied until the commitments are fulfilled. Refer to table above. During 2020, certain work programme obligations at the BNG Contract Area were deferred from 2020 to 2021. While we are yet to fully comply with both the BNG work programme commitments and payment of the social obligations, given the issues imposed by Covid-19, the Board are not unduly concerned about any impact on the BNG licence given the penalties can be applied until the commitments are fulfilled and the absence of a significant noncompliance.

On 11 July 2019, BNG Ltd LLP has signed the Production contract with the Ministry of Energy of Republic of Kazakhstan on the part of the territory. The Contract is valid during 25 years till 2043.

b) 3A-Best Group JSC

As at 31.12.2019 3A-Best had the following debts related to its SSU contract: US\$2,500,000 of social development payment and about \$US 1,000,000 of the debts related to previous years' work program obligations. According to the Addendum #8 to the Contract signed by the company on January 20 2020 3A-Best has agreed the following schedule of payments related to the social development and the work program related to previous SSUC extension(s):

- To make payment of US\$580,000 quarterly during 6 quarters till June 2021;
- To drill 2 shallow wells with the total depth of 5,750 meters during the period January-June 2020;
- To make investments of approximately US\$2,350,000 during the period January-June 2020.

According to the SPA related to the acquisition of 3A-Best the Company has been indemnified by the previous owners from any previous debts (quarterly payments of US\$580,000 to discharge the historic obligations) and they guaranteed to make repayments on a timely basis. The Group is responsible for the work program obligations agreed with the Ministry of Energy of Kazakhstan for the period January-June 2020 (US\$2,350,000). The Group is not in compliance with these work program obligations. The Group has applied for a deferral of the amounts due and work program commitments during 2020. On the date of this report the Group is still negotiating the payments schedule with the Ministry and local officials.

The recent farm-out of 15% of the 3A Best Contract Area is expected to provide the funding required to bring the work programme into compliance. The Group continues to pursue the 3A Best vendors for the historic amounts due.

Contingent liabilities

A subsidiary of the Group is subject to an open tax assessment in respect of the 2012 tax year. The Group has taken professional advice and continues to dispute the assessment. If the Group is unsuccessful in defending its position, the amount payable based on the assessment would be US\$2 million plus potential fines and penalties. The assessment involves interpretation of contractual arrangements between companies in the Group. The matter is considered to represent an uncertain tax position under IFRS and management have determined that the most likely outcome method of measurement is most appropriate. Based on professional advice, the development of the matter over several years and all relevant facts and circumstances no provision is considered to be applicable.

Notes to the Financial Statements (continued)

21 Purchase of 3A-Best Group JSC

On 21 January 2019, the Company acquired 100% of the shares of 3A-Best Group JSC, a company that owns a 1,347 sq km Contract Area located close to the Caspian port city of Aktau in the Mangystau Province of Kazakhstan.

The purchase price is satisfied by the issue of 149,253,732 new Companies shares at the price of 6.15 p per share, that represents closing price of Company's shares at the date the SPA was signed and the substantive conditions had been met such that control passed to the Company, notwithstanding delays in the shares of 3A-Best being legally transferred to the Company and associated issuance of the Company's shares in consideration owing to procedural delays. Management have analysed the structure of the transaction and the underlying activities and concluded that the transaction represents an asset purchase.

The fair value of the identifiable assets and liabilities of 3ABest as at the date of acquisition were:

	US\$'000
Exploration assets	6,404
Receivable from sellers recognized in other non-current receivables*	3,826
Other non-current receivables	502
Total assets	10,732
Current contractual provisions	2,906
Other payables related to contractual obligations	920
Total liabilities	3,826
Total identifiable net assets at fair value	6,906
<i>Total value of shares issued as consideration</i>	<i>11,795</i>
Additional fair value recorded to unproven oil and gas assets	4,889

* Based on the terms of SPA previous owners of 3A-Best must compensate the Group for all contractual obligations of 3ABest incurred in the period up to SPA sign off date under an indemnification in the SPA. Therefore, the Group has recognized the receivable equal to the contractual provisions and other payables related to the contractual obligations in the completion date balance sheet. The Group assessed the receivable for expected credit losses, considering scenarios around the probability of default by one or more of the vendors and concluded no expected credit loss is applicable as 31 December 2019.

Notes to the Financial Statements (continued)

22 Purchase of Caspian Explorer

On 19 October 2020 the Company announced the completion of the transaction to acquire Caspian Explorer, the entities (Prosperity Petroleum Limited and KC Caspian Explorer LLP) owning a drilling vessel that designed to operate in the shallow waters of the northern Caspian Sea. The consideration has been satisfied by the issue of 160,256,410 new Caspian Sunrise shares at a price of 1.75p per share (the "Consideration Shares"). The acquisition was approved by independent shareholders in February 2020. Management has analysed the structure of the transaction and the underlying activities and concluded that the transaction represents an asset purchase.

The fair value of the identifiable assets and liabilities of Caspian Explorer as at the date of acquisition were:

	US\$'000
Property, Plant and Equipment	2,837
Other non-current assets	96
Other current assets*	833
Total assets	3,776
Trade and other payables	100
Total liabilities	100
Total identifiable net assets at fair value	3,666
<i>Total value of shares issued as consideration</i>	<i>3,666</i>

* US \$ 530,000 of this amount was receivable from EPC-Munai LLP at the date of acquisition, the related party to the Company (note 26.1).

23 Deferred tax

Deferred tax liabilities comprise:

	Group 2020 US\$'000	Group 2019 US\$'000
Deferred tax on exploration and evaluation assets acquired	6,629	7,244
	6,629	7,244

The Group recognises deferred taxation on fair value uplifts to its oil and gas projects arising on acquisition. These liabilities reverse as the fair value uplifts are depleted or impaired.

The movement on deferred tax liabilities was as follows:

	Group 2020 US\$'000	Group 2019 US\$'000
At beginning of the year	7,244	6,733
Deferred tax related to impairment reversal	-	483
Foreign exchange	(615)	28
	6,629	7,244

As at 31 December 2020 the Group has accumulated deductible tax expenditure related to BNG expenditure of approximately US\$85 million (31 December 2019 US\$89 million) available to carry forward and offset against future profits. This represents an unrecognised deferred tax asset of approximately US\$17 million (31 December 2019: US\$17.8 million). Given the uncertainties regarding such deductions and the developing nature of the relevant tax system no deferred tax asset is recorded. Beibars have tax losses carried forward of US\$5.1 million (31 December 2019: US\$5.1 million). This asset is fully impaired and there is insufficient certainty of future profitability to utilise these deductions.

Notes to the Financial Statements (continued)

24 Share option scheme and LTIP scheme

During the year the Group and the Company had in issue equity-settled share-based instruments to its Directors and certain employees. Equity-settled share-based instruments have been measured at fair value at the date of grant and are expensed on a straight-line basis over the vesting period, based on an estimate of the shares that will eventually vest. Options generally vest in three equal tranches over the three years following the grant.

The options were issued to Directors and employees as follows:

	Number of options granted	Number of options expired	Options exercised	Total options outstanding	Weighted average exercise price in pence (p) per share
As at 31 December 2019	91,458,226	(55,818,226)	(15,300,000)	20,340,000	15
Directors	-	(1,000,000)	-	(1,000,000)	-
Employees and others	-	(2,950,000)	-	(2,950,000)	-
As at 31 December 2020	91,458,226	(59,768,226)	(15,300,000)	16,390,000	15

16,390,000 outstanding options as at 31 December 2020 are exercisable.

The range of exercise prices of share options outstanding at the yearend is 4p – 20p (2019: 4p – 20p). The weighted average remaining contractual life of share options outstanding at the end of the year is 2.9 years (2019: 4.3 years).

Long Term Incentive Plan (LTIP) scheme:

On 5 June 2019 the Company made awards under a long term incentive plan. Clive Carver, Non-executive Chairman, and Kuat Oraziman, Chief Executive Officer, are entitled to receive cash payments to be triggered by the Company's attainment of both pre-set market capitalisation and share price targets as follows:

Market cap threshold \$ billion	Share price target Pence per share	Pay-out rate (each) %	Pay-out amount (each) \$' million
0.8	17.23	0.6	3.0
1.3	20.67	0.6	3.0
1.8	24.81	0.6	3.0
2.3	29.77	0.6	3.0
2.8	35.72	0.6	3.0

The scheme continues beyond the numbers in the table such that with the threshold for market capitalisation increasing at the rate of \$0.5 billion and the corresponding share price threshold increasing from the earlier threshold by a constant factor of 1.2. Each threshold must be sustained for at least 30 consecutive days for the awards to be triggered. Payments shall be made only when the Company has free cash either in the form of distributable reserves or as a result of a non interest bearing subordinated shareholder loan or an equity placing at a price not below the relevant share price threshold.

There may be only one pay-out for each market capitalisation threshold crossed no matter how many times it is crossed.

The Group has determined that at inception and 31 December 2019 and 2020, the fair value of the cash settled share based payment award is immaterial based on analysis of the thresholds, historical volatility rates and the applicable share price and market capitalisation in the period.

Notes to the Financial Statements (continued)

25 Financial instrument risk exposure and management

In common with all other businesses, the Group and Company are exposed to risks that arise from its use of financial instruments. This note describes the Group and Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

There have been no substantive changes in the Group or Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

Principal financial instruments

The principle financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

Financial assets	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
Intercompany receivables	-	-	89,212	10,635
Other receivables	4,008	4,504	-	-
Restricted use cash	241	241	-	-
Cash and cash equivalents	329	4,060	3	87
	4,625	4,979	96,504	10,722
Financial liabilities	Group 2020 US\$'000	Group 2019 US\$'000	Company 2020 US\$'000	Company 2019 US\$'000
Trade and other payables	6,397	6,634	682	1,111
Other payables - current	-	-	117	13,115
Other payables - non-current	-	-	-	17,563
Borrowings – current	5,600	4,050	2,069	1,814
	11,998	10,656	2,868	33,603

Notes to the Financial Statements (continued)

25 Financial instrument risk exposure and management (continued)

Changes in liabilities arising from financial activities

Below is the movement of financial liabilities of the Group for the years ended 31 December 2020 and 2019:

	1 January 2020	Loans received	Interest accrued	Disposal of loans	Repayment	Foreign exchange difference, net	31 December 2020
Financial liabilities							
Borrowings	4,050	1,237	313	-	-	-	5,600

	1 January 2019	Loans received	Interest accrued	Disposal of loans	Repayment	Foreign exchange difference, net	31 December 2018
Financial liabilities							
Borrowings	2,572	1,330	160	-	(28)	3	4,050

Below is the movement of financial liabilities of the Company for the years ended 31 December 2020 and 2019:

	1 January 2020	Loans received	Interest accrued	Disposal of loans	Repayment	Foreign exchange difference, net	31 December 2020
Financial liabilities							
Borrowings	1,814	134	121	-	-	-	2,069

	1 January 2019	Loans received	Interest accrued	Conversion to equity	Repayment	Foreign exchange difference, net	31 December 2018
Financial liabilities							
Borrowings	400	1,330	84	-	-	-	1,814

Notes to the Financial Statements (continued)

25 Financial instrument risk exposure and management (continued)

Principal financial instruments

The principal financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

- other receivables
- cash at bank
- trade and other payables
- borrowings

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group and Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group and Company's finance function. The Board receives regular reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group and Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet which at the year end amounted to US\$ 4.6 million (2019: US\$ 8.8 million).

Credit risk with respect to Group receivables and advances is mitigated by active and continuous monitoring the credit quality of its counterparties through internal reviews and assessment.

The Company is exposed to credit risk on its receivables from its subsidiaries. The subsidiaries are exploration and development companies with no current commercial exploitation sales and therefore, whilst the receivables are due on demand, they are not expected to be paid until there is a successful outcome on a development project resulting in commercial exploitation sales being generated by a subsidiary. In application of IFRS 9 the Company has calculated the expected credit loss from these receivables (Note 15).

The carrying amount of financial assets recorded in the Group and Company financial statements, which is net of any impairment losses, represents the Group's and Company's maximum exposure to credit risk.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

Notes to the Financial Statements (continued)

25 Financial instrument risk exposure and management (continued)

Capital

The Company and Group define capital as share capital, share premium, deferred shares, other reserves, retained deficit and borrowings. In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or the issue of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

The Group's gearing ratio as at 31 December 2020 was 10% (2019: 9%).

There has been no other significant changes to the Group's Management objectives, policies and processes in the year.

Liquidity risk

Liquidity risk arises from the Group and Company's Management of working capital and the amount of funding committed to its exploration programme. It is the risk that the Group or Company will encounter difficulty in meeting its financial obligations as they fall due.

The Group and Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to raise funding through equity finance, debt finance and farm-outs sufficient to meet the next phase of exploration and where relevant development expenditure.

The Board receives cash flow projections on a periodic basis as well as information regarding cash balances. The Board will not commit to material expenditure in respect of its ongoing exploration programmes prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes.

For maturity dates of financial liabilities as at 31 December 2020 and 2019 see table below. The amounts are contractual payments and may not tie to the carrying value:

	On Demand	Less than 3 months	3-12 months	1- 5 years	Over 5 years	Total
Group 2020 US\$'000	5,600	2,891	3,506	-	-	11,997
Group 2019 US\$'000	4,050	1,384	5,222	-	-	10,656
Company 2020 US\$'000	2,069	681	117	-	-	2,867
Company 2019 US\$'000	1,814	575	536	-	30,678	33,603

Interest rate risk

The majority of the Group's borrowings are at fixed rate. As a result the Group is not exposed to the significant interest rate risk.

Currency risk

The Group and Company's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily US\$ and Kazakh Tenge) in that currency. Where the Group or Company entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

In order to monitor the continuing effectiveness of this policy, the Board receives a periodic forecast, analysed by the major currencies held by the Group and Company.

The Group and Company are primarily exposed to currency risk on purchases made from suppliers in Kazakhstan, as it is not possible for the Group or Company to transact in Kazakh Tenge outside of Kazakhstan. The finance team carefully monitors movements in the US\$/Kazakh Tenge rate and chooses the most beneficial times for transferring monies to its subsidiaries, whilst ensuring that they have sufficient funds to continue its operations. The currency risk relating to Tenge is significant.

In the event that Kazakhstani Tenge devalues against the US\$ by 30% the Group would incur foreign exchange losses in the amount of US\$40 million (2019: US\$49 million) that would be reflected in other comprehensive income. The impact of such a devaluation on the translation of monetary assets and liabilities (predominantly intercompany loans) held in Kazakhstan and denominated in non-Tenge currencies would be exchange losses recorded in the statement of changes in equity of US\$40 million (2019: US\$49 million).

Notes to the Financial Statements (continued)

26 Related party transactions (please see also note 27)

The Company has no ultimate controlling party.

26.1 Loan agreements

The Company has loans outstanding as at 31 December, 2020 and 2019 with members of the Oraziman family and legal entities controlled by the Oraziman family, details of which have been summarised in note 199.

At 31.12.2020 KC Caspian Explorer LLP, the group 100% subsidiary, had at its list of receivables the interest free loan provided to EPC-Munai LLP on the amount of US \$530,000. EPC-Munai is the company controlled by Oraziman family.

26.2 Key management remuneration

Key management comprises the Directors and details of their remuneration are set out in note 6.

* On 6 July 2020 the Company has issued total 8,938,570 ordinary shares at 3.2 pence per share in settlement of outstanding salary and expenses.

26.3 3A Best

At 31 December 2020, three Caspian Sunrise shareholders owed US\$ 1,275,000 each in respect of indemnities provided on the acquisition of 3A Best. During 2020 the Group recognised a credit loss provision of US \$2,551,000 related to the asset (note 15). The liability of one of the shareholders, the late Rafik Oraziman, is covered by amounts due by the Company to the Oraziman family. The Company continues to work with the other two shareholder to recover the amounts due but in these financial statements has provided in full for the amounts due.

26.4 Caspian Explorer

The purchase of the Caspian Explorer and 3A Best (note 22) was from vendors including members of the Oraziman family.

26.5 Purchases

During 2019 the Group had purchased drilling and workover services from the related party KazSmartEnerKon LLP, a company registered in Kazakhstan, which was owned by Mr. Kuat Oraziman, amounted US\$ 3 million. These expenses were capitalized to unproven oil and gas assets. At 31.12.2020 the Group has no payable and receivable from KazSmartEnerKon LLP in relation to these drilling services.

27 Non-controlling interest

	Group 2020	Group 2019
	US\$'000	US\$'000
Balance at the beginning of the year	(5,729)	(5,605)
Share of loss for the year	(80)	(124)
	(5,809)	(5,729)

As at 31 December 2020 non-controlling interest represents minority share in BNG Ltd LLP and Beibars Munai LLP (as at 31 December 2019: BNG Ltd LLP and Beibars Munai LLP).

Notes to the Financial Statements (continued)

28 Events after the reporting period

Issue of shares

On 13 May 2021 the Company has issued 3,017,956 ordinary shares at the price of 2.35p per share to satisfy a non-related party existing debt.

3A-Best farm-out

On 3 June 2021, the Group announced that Eragon Petroleum FZE, its 100% subsidiary, has entered into a farm out agreement with a local partner under which that partner has agreed to complete the outstanding work programme commitments in return for a 15% interest in the 3A Best Contract Area conditional on the license extension.

The work in question is principally the drilling of a 2,250 meter well at an expected approximate cost of \$2.5 million.

The local partner has also been granted an option, exercisable after the completion of the current work programme commitments, to acquire the remaining 85% of the 3A Best Contract Area at a price to be determined by an independent expert to be appointed by the parties should the option be exercised by the local partner.

Caspian Explorer

Also on 3 June 2021, the Group announced the first charter for the Caspian Explorer, the shallow water drilling vessel acquired in 2020 and specialising in operations in the shallow northern Caspian Sea.

The charter is with North Caspian Operating Company (“NCOC”) the principal operator in the region, comprising the Republic of Kazakhstan working through KazMunaiGas (KMG), and international oil companies including Shell, ExxonMobil, Eni, Total and CNPC, the consortium operating the Kashagan field.

The charter, which will be undertaken this year, is safety related rather than new drilling. Accordingly the period of the charter is shorter than for a new drill and the fee much lower.