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Caspian Sunrise plc
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Caspian Sunrise PLC

("Caspian Sunrise", "the "Company" or the "Group" as appropriate)

Preliminary Unaudited Revenue Statement for the year ended 31 December 2023

Introduction

The Board of Caspian Sunrise is pleased to present its review of 2023 including key revenue numbers derived from the unaudited results for the year ended 31 December 2023.

As completion of the Group's audit will not be finalised before the end of June 2024, and in accordance with AIM Rules, the Company's shares will be suspended from trading at 7.30am on Monday 1 July 2024.

The Board does not expect the trading suspension to be lengthy and that it will be lifted on the publication of the full audited financial statements for the year ended 31 December 2023, by when we expect further information on the well tests at BNG wells 155 and 803 and details of the Caspian Explorer charter will be available.

HIGHLIGHTS

2023 Financial highlights

- Total revenues $36.7 million (Restated 2022: $40.9 million)
  - Oil sales revenues $21.6 million (Restated 2022: $39.2 million)
  - Oil trading revenues $10.3 million (2022: nil)
  - Oil services revenues $4.1 million. (Restated 2022: $1.6 million)

2023 Operational highlights

- Production volumes 665,114 barrels (bbls) (2022: 792,284 bbls)
- Commencement of oil trading
- Continuing workover programme at MJF structure
- Horizontal drilling approach at Soviet era South Yelemes wells
- Deep Well 803 spudded - the third deep well on the Yelemes Deep structure
- Two new deep wells completed at Block 8
- First commercial drilling contract signed for the Caspian Explorer
- BNG shallow structure reserves at 31 December 2023:
  - P1 13.6 million barrels (mmbls); (2022 14.3 mmbls)
  - P2 24.8 mmbls (2022: 25.5 mmbls)

2024 Highlights to date

- Independent shareholder approval of the acquisition of the West Shalva Contract Area
- Shallow Well 155 spudded in February 2024 and drilled to 2,400 meters now testing a 16 meter interval
- Deep Well 803 drilled to a depth of 3,420 meters preparing for testing a 15 meter interval
- Conditional agreement to sell the MJF and South Yelemes structures for $83 million
- Reserves in the immediate vicinity of the drainage areas around Deep Wells A5, A6 & A7 independently assessed at approximately
  - C1 49.0 million barrels
  - C2 28.9 million barrels

Expected future events

Q3 2024

- Licence renewal at Block 8
- Caspian Explorer charter
- Confirmation of C1 style reserves for the Yelemes Deep structure at BNG
- If progressed, shareholder meeting to consider the sale of the MJF & South Yelemes structures
- Production commences from Block 8 from existing wells
- Testing new well at Block 8
- First well drilled at West Shalva
- Acquisition of a G70 rig

Q4 2024

- Award of separate 25 year production licences for BNGs Airshagyl & Yelemes Deep structures
- First mining acquisition
- Completion of the West Shalva acquisition
- Completion of the Block 8 acquisition

CHAIRMAN'S STATEMENT

Introduction

Over the past few years, Caspian Sunrise has evolved from essentially one commercial asset with just a single producing structure, to now being a diversified and profitable natural resources group, with significant income flowing from a range of activities and with additional near term opportunities for further successful growth and diversification. The Group also has strong asset backing.

This transformation has been achieved in the face of some significant hurdles, including the oil price falling to $6 per barrel during the Covid-19 pandemic, assessed historic costs of $32 million to be repaid over a 10 year period, and the financial and operational impact of Russian sanctions, which for much of the past two years has ruled out international sales and significantly added to operational complexity. Notably, this transition was achieved against the backdrop of the financial constraints of a demanding work programme at our flagship BNG asset. It has also been implemented without undue dilution to shareholders.

Funding for the transition came principally from the sale of oil produced at BNG's MJF structure, from loans from our largest shareholding group and by running creditors and short term debt at higher levels than usual.

The Group now:

- owns (or is in the process of acquiring) three active oilfields with production expected from all three before the end of the year;
- is building a significant reserve base with further additions expected in the next 3 months;
- owns sufficient equipment and rigs to drill four wells at the same time and is also able to drill for third parties to farm into new oilfields;
- owns the only drilling vessel of its type capable of exploring the shallow reaches of the highly prospective northern Caspian Sea, which has a replacement cost believed to be $300 million with a 3 year lead time before becoming operational; and
- holds a coveted oil trading licence under the new rules introduced in 2023.

The financial rewards of these achievements are expected to become more apparent during the second half of the current financial year following:

- increasing production from BNG, Block 8 & West Shalva;
- if completed on the terms set out in the exclusivity agreement the proposed sale of the MJF and South Yelemes structures at the BNG Contract Area would result in $83 million gross proceeds;
- reduced operational expenditure following the completion of the current work programme commitments at BNG;
- the start of production revenues from Block 8 and West Shalva;
- continued oil trading profit; and
- receipt of income from the first commercial drilling charter for the Caspian Explorer under the Group's ownership.

Operational overview

BNG

At BNG our prime focus was to complete the work programme obligations required to renew the licence for the Airshagyl & Yelemes Deep structures from August 2024, being principally Well 155 on the MJF structure and Deep Well 803 on the Yelemes Deep structure.

We currently have a combined licence for the Airshagyl and Yelemes Deep structures but intend to seek separate 25 year licences for both structures. The application for the Airshagyl structure is underway and the application for the Yelemes Deep structure will be submitted after completing work at Deep Well 803. We already have separate production licences at both the MJF and South Yelemes structures running until 2043 and 2046 respectively.

The licence upgrade process requires independent assessments of the reserves under the former Soviet classification system operated by the Geological Committee of the Republic of Kazakhstan as required under the Kazakh reserve reporting rules at both the Airshagyl and Yelemes Deep structures based on the information gathered from the wells drilled on each.

In June 2024 we announced that SciRes, an independent Kazakh consultancy, had assessed the C1 reserves in the immediate vicinity of the Deep Wells A5, A6 & A7 as 6.809 million tonnes or approximately 49.0 million barrels and C2 reserves on the same basis as 4.009 million tonnes or approximately 28.9 million barrels.

A similar exercise is underway on the Yelemes Deep structure, the second deep structure on the BNG Contract Area, where to date three wells have been drilled. The reserve estimate requires the completion of the current work at Deep Well 803 and is therefore expected to be available in Q3 2024.

To maximise the revenues from the MJF structure to fund the development of the Group we pushed the original wells hard over prolonged periods with the result that they are no longer as productive as they could have been if our priority had been to maximise their useful lives.

The MJF structure is clearly a maturing structure with higher levels of water content than ideal and it is inevitable that we will find it harder to maintain production levels from the earlier wells drilled on the structure. Drilling to date to return the previously best performing Wells 141 and 142 to meaningful production has yet to work.

On the positive side, we are becoming more comfortable with the use of horizontal drilling techniques which can significantly increase production volumes. However, it is clear that horizontal drilling is far more effective in new wells, such as Well 155, rather than older wells such as 141 & 142. At South Yelemes we completed horizontal side-tracks at Wells 805 and 806 from depths between approximately 2,200 and 2,300 meters.

Production levels from the BNG shallow structures fluctuated during the period under review and subsequently to a greater degree than in previous years as wells came in and out of production. Total production for 2023 was 665,114 bbls which equates to 1,822 bopd (2022: 792,284 bbls & 2,171bopd).

Well 155 on the MJF structure was spudded in Q1 2024 and drilled to a depth of 2,400 meters. Testing of a 16 meter interval commenced in mid-June.

Deep Well 803 was spudded in Q4 2023 with a planned total depth of 4,200 meters with a primary target at a depth of 3,950 meters and a secondary target at a depth of 4,200 meters. Oil has been detected over a 60 meter interval between 3,360 meters and 3,420 meters, above the expected targets and also above the main salt layer. A 15 meter interval is now to be tested.

Total production at the date of this report, before any contribution is included from Wells 155 & 803 is approximately 1,600 bopd.

Block 8

In 2023 in anticipation of the completion of the acquisition of the Block 8 Contract Area, details of which are set out under the Corporate Events section below, we drilled two new deep wells to depths of 3,922 and 3,408 meters. These wells cannot be tested until the licence at Block 8 is renewed.

Our intention is now to use the G20 workover rig to test these two new wells.

3A Best

There was no operational activity at 3A Best during the period under review or subsequently.

Further information on the BNG, Block 8, and 3A Best Contract Areas together with the West Shalva Contract Area is set out below under the section entitled Our Assets.

Caspian Technical Services (CTS)

All the Group's onshore drilling is conducted via our 100% owned drilling subsidiary CTS, which also drills for third parties and currently has the capacity to drill four wells simultaneously using their own rigs and approximately 150 specialist contractors.

CTS owns 4 rigs, being one G50, two G40's, and a G20 workover rig, with the number indicating the maximum drill string weight the rig can support. Negotiations to acquire a G70 rig, which will allow future faster drilling of deep wells, are at an advanced stage.

Caspian Explorer

During the period under review and subsequently, a significant amount of effort has been expended on preparing the Caspian Explorer for its first commercial drilling contract under the Group's ownership.

In February 2023 we announced a two well charter for a consortium in which Eni S.p.A the Italian multinational energy company (ENI) is the leading member. Contracts for the first of the two wells are in place with drilling set to commence in July 2024. As the contract specifies day rates rather than a fixed amount for the use of the Caspian Explorer it will not be until drilling is completed that the total revenue will be known. However, we expect to receive at least a further $10 million in the next few months in addition to the upfront payments already received.

We are also in discussions to charter the Caspian Explorer in 2025 to a different consortium, with 2026 identified should the ENI led consortium exercise their option for a second well.

Oil Trading

Being principally a financial function our introduction into oil trading is covered under the Financial Review below.

Corporate activities

BNG

In March 2024 we reported early stage discussions with a number of parties, which could result in a partial or complete sale of our interest in the BNG Contract Area. Our belief is that this heightened level of corporate interest in the BNG Contract Area reflects a combination of the relative scarcity of such assets and also the changes to the Kazakh oil trading regulations, which now require production to qualify for a trading licence.

In May 2024 we granted Absolute Resources LLP, a Kazakh registered entity, a 90 day exclusivity period to complete their due diligence on a proposed $83 million acquisition of the MJF and South Yelemes shallow structures on the BNG Contract Area.

We remain proud owners of the BNG Contract Area and have not initiated these discussions. However, accepting that there is a price for any of our assets at which shareholders would be better served by selling, we have a duty to listen and if appropriate act. We believe that realising $83 million to use on other Group assets would enhance shareholder value over the medium / longer term.

If progressed the sale of the MJF and South Yelemes structures would require the approval of Caspian Sunrise shareholders and the customary regulatory approvals in Kazakhstan and the UAE.

To date, in aggregate, approaching $200 million has been spent on the BNG Contract Area of which the Group has spent approximately $120 million, most of which was spent on the deep structures. Any corporate activity in respect of the deep structures at the BNG Contract Area would need to reflect both the gross investment made to date and the Contract Area's future prospects as evidenced by expected future production levels and reserves.

Block 8

In September 2023 we exercised the option to acquire the Block 8 Contract Area, which was first announced in September 2022.

The Block 8 licence renewal, which was a condition of the acquisition, is expected imminently.

On renewal of the licence completion of the acquisition will be dependent on the customary approvals from the Kazakh authorities and the re-registration of ownership in the UAE.

Under the terms of the Block 8 Acquisition Agreement there is no significant up-front cash payment or issue of shares. Virtually all the purchase consideration is to be satisfied in cash via a royalty of $5 per barrel from oil produced from Block 8 once owned by the Group. The maximum purchase price is capped at $60 million.

The resumption of production at Block 8 will trigger the commencement of the repayment of the $3.3 million loan advanced to allow the 2023 drilling work at Block 8 to be completed.

We believe Block 8 represents, in addition to the deep structures at BNG, a second potentially transformative asset in that either or both could enjoy the same geological characteristics of the nearby Tengiz and Kashagan world class assets.

West Shalva

In April 2024 independent shareholders approved the acquisition of the West Shalva Contract Area for an initial consideration of $5 million to be satisfied by the issue of 99,206,349 shares to be issued at 4p per share. On first oil an additional $5 million becomes payable by the issue of a further 99,206,349 shares, again to be issued at 4p per share. Additionally, the first $5 million of revenue derived from the sale of West Shalva oil once under the Group's ownership is payable in cash to the vendor in which case the maximum total consideration would be $15 million.

West Shalva is expected to be a far easier oilfield from which to produce oil than either BNG or Block 8. It does not have the salt layer present at both BNG and Block 8, beneath which the exceptional temperatures and pressures have made drilling difficult. Conversely, it does not have the same potential to become a world class asset.

It is better located for access and to deliver oil being much closer to refineries than either BNG or Block 8. It is also approximately 600 km further south than BNG and Block 8 thereby enjoying a better climate, which should result in fewer weather related delays than we encounter at BNG and are likely to encounter at Block 8.

More strategically, owning West Shalva makes it easier to consider selling all or part of BNG without the need to have rigs idle.

3A Best

The 3A Best licence expired some years ago and there are overdue social obligations to pay to be in a position to apply to renew the licence. However, we believe the complexity of the situation set out below is the reason why the Kazakh authorities have not sought to put the licence back into a tender process and that in time it will be renewed.

The 3A Best Contract Area surrounds and goes beneath the established shallow Dunga Contract Area, which is believed to have produced at rates up to 15,000 bopd. When we acquired our interest in 3A Best Dunga was owned by Maersk, the Danish conglomerate, who then sold it to Total Energies, the French energy company. KazMunaiGas, the Kazakh state oil company is now the owner.

Our interest in the 3A Best Contract Area was for accounting purposes fully written down several years ago. In 2021 we entered into an agreement to sell the majority of our interest in 3A Best conditional on the licence renewal but the delays involved resulted in that agreement falling away. Now the ownership of Dunga has been resolved we can decide how best to proceed at 3A Best.

Caspian Explorer

Given its unique nature and the resurrection of exploration activity in the shallow northern Caspian Sea, it was not a surprise to receive interest from potential buyers at sums vastly greater than the $1.7 million that the Caspian Explorer is carried at in these financial statements.

In June 2023 we announced the proposed sale of a 50% interest in the UAE registered company that holds a 100% interest in the Kazakh entity that in turn owns the Caspian Explorer at a sum that valued our 100% interest at $45 million. That proposed transaction did not complete as the prospective purchasers did not make the agreed payments citing a failure to obtain the required Kazakh exchange control approvals.

As with BNG, the Group is not looking to sell the Caspian Explorer as we recognise its true potential. However, as noted above, we are duty bound to consider meaningful offers. Our preference would be to use our ownership of the Caspian Explorer as an entry point to join consortia to develop the hugely prospective offshore blocks in the shallow northern Caspian Sea now being prepared for exploration.

CTS

Our investment in CTS with its ability to drill several deep wells at the same time has led to early stage discussions for the Group to farm into an existing asset in return for CTS drilling wells to help that third party meet existing work programme obligations that may otherwise be missed.

Mining

For some time, it has been our stated intention to add mining investments to the Group's portfolio in recognition that a key strength of the Group is the identification, assessment and negotiation of asset acquisitions in Kazakhstan, which in addition to being a leading world producer of oil is also home to vast mineral resources.

An asset has been identified and we are in the evaluation stage with the intention, if what we believe is confirmed under an internal and external due diligence process, to seek to conclude its acquisition later this financial year.

Unlike early stage oil exploration similar mining ventures typically require far less investment and in the case of the project we are reviewing could produce income from day one. An investment in a mining project could also provide an opportunity for an expansion of our commodity trading activities, which to date have been limited to oil.

Kazakhstan

While in recent times Kazakhstan has been out of favour with some international investors, others - notably Chinese investors - have increased their interest in the country and its assets.

Kazakhstan is home to vast oil, gas and mineral reserves which will continue to attract international investment. The Kazakh economy is the strongest in Central Asia and is thriving principally based on high levels of demand for its natural resources.

Dilution and related party transactions

This Chairman's Statement provides an opportunity to set out some facts, which I believe to be relevant but seem not to be universally understood or appreciated.

Dilution

The Group has only issued shares specifically to raise cash on two occasions. The first being at the IPO in 2007 when we raised approximately $78 million and again in 2020 when we raised approximately $1.3 million in response to the impact of the domestic oil price falling to a Covid induced $6 per barrel.

At times over the past 18 years the Group has run short of cash and turned to the only realistic lender, being the Oraziman family. From time to time these amounts have been converted to shares but always with the prior approval of the independent directors as advised by the Group's Nominated Adviser and under the rules of the UK Takeover Panel and most importantly also approved in advance by independent shareholders. These share issues once approved have also always been at a premium to the prevailing share price.

Without this funding we would not have been able to develop the Group's activities and in all likelihood would not have survived. Other shares have been issued to buy assets (principally rigs) and companies (BNG / Caspian Explorer / 3A Best) or to satisfy specific debts where cash was not available.

Independent shareholders have also recently approved the issue of new shares at a premium to the then prevailing market price on completion of the West Shalva acquisition.

Related party transactions

Here again there seems to be a misinformed view that we have favoured the sellers when the opposite is very clearly the case.

In particular:

- Shareholders with longer memories will recall that in 2015 we sold Galaz, which was acquired as part of the Eragon acquisition in 2008 including BNG, for $100 million.
- In 2020 the Caspian Explorer drilling vessel was acquired for $3.2 million where it's resale value today is many times greater and the replacement cost is believed to be some $300 million.
- At Block 8 we will only pay for an asset with the potential to be world class from future production at the rate of $5 per barrel and with the price capped at $60 million.
- With West Shalva it is only the first $5 million that would be payable should there be no oil

It is therefore only at 3A Best that we have yet to come out on the right side of the deal and as set out above that remains a work in progress.

The advantage of related party transactions is that we fully understand and can check what we are buying. Given their existing shareholding in the Group there is no commercial purpose for the sellers seeking poor terms, even if under the regulatory framework it were possible.

For us related party transactions have worked very well and we should not be afraid to do others where the situation merits it.

Dividends

In November 2022 we initiated monthly dividend payments at the rate of approximately $1.25 million per month but after only four instalments we were forced to suspend payments for lack of available cash.

The immediate cause for the suspension in dividend payments was the operational impact of Russian sanctions, which meant instead of buying the bulk of our international drilling supplies and consumables from Russia on decent credit terms and two week delivery times, we had to order mainly from China with six month lead times and the need to pre-fund all payments.

This not only took all our available free cash but also delayed planned workovers, which in turn meant production related income was much lower than we expected at the time we set the dividend policy.

income was much lower than we expected at the time we set the dividend policy.

The decision to suspend dividend payments was not taken lightly and inevitably had a dramatic impact on the share price. When we suspended the dividend payments we undertook to review the position later in the year and again with these financial statements.

Opinion among shareholders who have expressed a view is divided. While some want the dividends to resume others would rather see available cash invested in new projects.

Separately, and as a consequence of both the 2022 UK High Court approved capital reduction and the UK Takeover Panel Rule 9 waiver granted in connection with the recent West Shalva acquisition, we now have both distributable reserves and, with the re-constituted concert party now holding more than 50% of the Group's shares, share buy-backs are possible without the need each time for a formal and expensive UK Takeover Panel approved whitewash.

In the circumstances therefore, the Board has decided not to resume regular dividend payments but to consider special dividends or share buy backs when funding permits.

Board composition

We are aware the current board composition is not ideal both in terms of the total number of directors and also where relevant the number of independent directors, which gives problems in:

- fully populating the various board committees;
- when it comes to the consideration of related party transactions; and
- more generally as the extent of the Group's operations expands.

The main reason we have yet to appoint new non-executive directors is the ongoing up to 75% pay cut taken by all board members, which has been in place since early 2020 and was instigated to help the Group fund its survival and development. These restrictions are expected to be partially eased in the second half of the current financial year as the Group's cash position improves. At that time, we expect to be in a position to strengthen the board and have already identified individuals we believe would add value.

Further information relating to the board is set out in the Directors Report and the Remuneration Committee Report in these financial statements.

Outlook

We have always been optimistic about the prospects for the Group's assets. The issue though for the past decade at least has been funding and the need to both safeguard existing assets via compliance with the demanding work programme commitments including the need to pay down the assessed historic costs, while at the same time seeking to take advantage of as many of the opportunities available to us as could then be funded.

The current BNG work programme commitments are now largely satisfied. Block 8 is expected to start contributing in the near future and significant income is expected from the Caspian Explorer in the coming months. Accordingly, we expect soon to enter a prolonged period where cash receipts far exceed mandated cash payments. In the event we complete the proposed sale of the BNG shallow structures for the proposed $83 million we would have large cash balances to invest or to return to shareholders via special dividends or share buy backs.

This, together with an expectation of the true commercial value of our assets emerging for all to see through increased production, further corporate transactions and / or reserve upgrades, plus the other opportunities we have in front of us, leads the Board to be now more confident of the Group's future success than at any time in the past decade.

OPERATIONAL REVIEW

Oil production

Volumes

In 2023 a total of 665,114 barrels of oil were produced from the two shallow structures at the BNG Contract Area (2022: 792,284 barrels).

Of this production 576,368 barrels, representing approximately 87% of the total, were produced from the MJF structure (2022: approximately 767,284 barrels representing approximately 97% of the total) with 88,746 barrels representing approximately 13% of the total being produced from the South Yelemes structure (2022: approximately 25,000 barrels representing approximately 3% of the total).

Production in 2023 was adversely affected as for most of the year wells 141, 142 and 145 were shut in for workovers necessitated by increasing water content.

Current production from the shallow structures at the BNG Contract Area, before any contribution from Wells 155 & 803 is approximately 1,600 bopd.

Pricing

Oil produced in Kazakhstan and transported via the Russian pipeline network is not subject to sanctions. Nevertheless, in reality such oil continued to suffer significant discounts to the international price, which throughout 2023 meant it was uneconomic to sell any of the oil produced on the international markets.

In 2023 therefore 53% of oil produced was sold to the Kazakh domestic market (2022: 72%) with 47% sold to the Kazakh domestic mini refinery market (2022: 29%).

The average price achieved for oil sold in 2023 was approximately $32 per barrel (2022: $49.5 per barrel - which included several months of international sales before the full impact of Russian sanctions).

On a positive note, the discount for oil produced in Kazakhstan and transported via the Russian pipeline network narrowed towards the end of 2023, to the point where international sales in 2024 seem far more likely.

Oil exploration

BNG Shallow structures

During the year workovers were undertaken at Wells 142 and 145 on the MJF structure.

At Well 142, which was the best performing of the original wells on the MJF structure before the water content rose to a level requiring a workover, a 2,300 meter side-track was drilled from a depth of approximately 1,860 meters with three intervals identified for testing. The first two intervals did not prove commercial. We are waiting on the outcome of the discussions to sell the MJF structure before testing the third interval.

The workover at Well 145 was not successful. The intention at Well 141 is to resume work to remove approximately 27 meters of stuck pipes, before drilling a horizontal side-track.

In February 2024 we spudded new Well 155 with a planned total depth of 2,400 meters. As noted above a 16 meter interval is currently under test. Excluding any contribution from Well 155, production from the MJF structure is currently approximately 1,350 bopd.

At the shallow South Yelemes structure we commenced the long planned use of horizontal drilling techniques at four Soviet era shallow wells. Work there has been completed on Wells 805 and 806. Production from the South Yelemes wells is currently approximately 250 bopd.

We intend to drill a new well on the South Yelemes structure being Well 815 with a planned depth of 1,900 meters targeting oil in the dolomites.

BNG Deep Structures

During 2023 we concluded that Deep Well A8 was not commercial and abandoned the well and since the period end we have made the same assessment at Deep Well 801.

At Deep Well A5, which flowed at in excess of 3,000 bopd when first drilled, work was undertaken in 2023 and continued 2024 to attempt to remove a stuck pipe as a cheaper alternative to drilling a further side track. While a portion of the stuck pipe was removed the majority remains and a decision has been taken that, in due course, we will drill a new side track. In the meantime, the rig previously in use at Deep Well A5 is moving to drill Well 815 as noted above.

At Deep Well A6 no work was undertaken in the period under review or subsequently. We plan to use a chemical treatment to seek to get the well to flow at commercial rates and have identified the rig currently in use at Deep Well 803 to be used in the attempt.

At Deep Well A7 we plan to use the G70 rig we expect soon to acquire to resume drilling from a depth of approximately 2,150 meters where drilling was paused to allow other wells to be drilled. The Planned Total Depth of the well is 5,300 meters with an interval of interest identified at approximately 4,000 meters.

At Deep Well 802, which was spudded in 2022 and drilled to a depth of 3,800 meters, our work in 2023 to bring the well into commercial production was not successful and we are now looking for a partner with technical expertise to develop the well together.

In Q4 2023 we spudded Deep Well 803. As noted above the well had a planned total depth of 4,200 meters with a primary target at a depth of 3,950 meters and a secondary target at a depth of 4,200 meters. Oil has been detected over a 60 meter interval between 3,360 meters and 3,420 meters, above the expected targets and also above the main salt layer. A 15 meter interval is now to be tested.

Block 8

In 2023 two deep wells were drilled at Block 8. The first was drilled to a depth of 3,922 meters and the second was drilled to a depth of 3,408 meters. Both wells are now ready for testing once the Block 8 licence is renewed.

On renewal of the licence the two previously producing wells at Block 8, which before they were shut in produced at the rate of 110 bopd, would resume production.

West Shalva

In anticipation of the completion of the acquisition of the West Shalva Contract Area we plan to drill a 3,200 meter well, which is expected to spud in Q3 2024.

REVENUE

Summary

Total revenue in 2023 fell by approximately 10 per cent to $36.7 million (Restated 2022: $40.9 million).

Oil prices

The impact of Russian sanctions made any international sales during 2023 uneconomic. By comparison, in the first four months of 2022 we sold 237,144 barrels on the international markets at an average price of $85 per barrel.

In 2023 the average price per barrel was approximately $32.5 compared to $49.5 in 2022.

Production volumes

Production in 2023 at 665,114 barrels was some 16% lower than in 2022 (792,284 barrels) principally as a consequence of wells 141 and 142 being out of production for much of the period and to date in 2024.

Income from oil sales

The net impact of lower prices and lower volumes was to reduce revenues from oil sales by approximately 45% to $21.6 million (Restated 2022: $39.2 million)

CTS

CTS LLP is the Group's wholly owned drilling company, which in 2023 undertook further work at the Block 8 Contract Area, which is in the process of being acquired with completion now expected later this year. Such work before the formal completion of the acquisition is recognised as third party revenue, as would income for drilling on other assets not then owned by the Group.

In 2023 the revenue from work at Block 8 was $4.1 million (Restated 2022: $1.6 million).

Prior Year adjustments

In preparing the financial statements for 2022, including the comparative numbers for 2021, the Directors were unable to obtain reliable information for CTS LLP in respect of the timing of the costs incurred and their allocation between different contracts with EPC Munai LLP as well as contracts with another subsidiary of the group, BNG LLP.

This information was necessary to determine revenues, cost of sales, advances received / receivable, provisions for losses on contracts, property plant & equipment, oil & gas assets, related tax balances and related party disclosures. As a result, the 2022 audit report included an audit qualification in this regard for the years ended 31 December 2021 and 2022, with revenue recognition not recorded in accordance with IFRS 15 under the input method.

Extensive work undertaken over the past 12 months has allowed the amounts spend by CTS to be properly allocated for 2023, although the audit qualification in respect of the position at 2022 is likely to remain. As a result, the 2022 financial statements are subject to a prior year adjustment with the comparative numbers for the year ended 31 December 2022 being restated.

We expect the audited report for the year ended 31 December 2023, once finalised, to include a qualification relating to these matters as was the case in the 2022 financial statements.

The contracts with EPC Munai were all either completed or terminated during 2023 and therefore management do not believe there will be further ongoing issues in allocating the costs of CTS LLP.

Oil trading

Revenue from oil trading in 2023 was $10.3 million (2022: nil).

Under this heading we purchase crude oil and fund its refining, selling the resultant oil products to third parties.

Changes in Kazakh regulations, which came into effect at the start of 2023 and which require an element of oil production to qualify for an oil trading licence, allowed our entry into the market. Oil trading is only allowed on oil sold to the domestic market (53% in 2023) rather than for domestic mini-refinery sales (47% in 2023) or international sales (0% in 2023). To date we have adopted a relatively low risk approach to oil trading having formed a 70:30 partnership with an established trader with ourselves being the larger party and with our 30% partner providing the required funding.

Our entry into oil trading has proved extremely successful and we plan to continue to trade oil whether or not we sell the shallow MJF and South Yelemes structures. As our oil output from the BNG increases and with Block 8 and West Shalva expected to come on stream we look forward to growing our oil trading income in the coming years.

Caspian Explorer

There was no revenue from the Caspian Explorer in 2023.

OUR OIL & GAS ASSETS

BNG Contract Area

The Group holds a 99% interest in the BNG Contract Area, having first taken a stake in 2008, as part of the acquisition of 58.41% of a 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, more than $100 million has been spent at BNG.

The BNG Contract Area is located in the west of Kazakhstan 40 km southeast of Tengiz on the edge of the Mangistau Oblast, covering an area of 1,561 square km of which 1,376 square km 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

The shallow structures at the BNG Contract Area (MJF & South Yelemes) produced 665,114 barrels of oil in 2023 (2022: 792,284).

MJF structure

The first wells were drilled on the MJF structure in 2016, since when it has produced in aggregate in excess of 4 million barrels. We have embarked on a programme of redrilling the older wells using horizontal drilling techniques to increase production.

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 13 km2. 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 and runs to 2043, 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, of which approximately $17 million remained payable at 31 December 2023.

In 2023 we produced 576,368 barrels of oil from the MJF structure at an average of 1,579 bopd (2022: 767,284 barrels at an average of 2,102 bopd).

At the date of this report production from the MJF structure is approximately 1,350 bopd, excluding any production from Well 155.

South Yelemes structure

The first wells were drilled on the South Yelemes structure during the Soviet era, with test production commencing in 1994. In 2023 the four Soviet era well (54, 805, 806 & 807) produced approximately 88,746 barrels, (2022: approximately 25,000 barrels) at an average of 243 bopd. The structure has a full production licence to 2046 under which international sales are permitted.

Work has commenced to drill horizontally from each of the existing Soviet era wells at depths between approximately 2,200 and 2,300 meters targeting potential horizons in the Dolomites, with drilling on the first two wells completed. At the date of this report production from the South Yelemes structure is approximately 250 bopd.

Well 815 is a new well which is planned to be drilled to a depth of 1,900 meters on the South Yelemes structure targeting oil in the Dolomites, using the rig previously used at Deep Well A5.

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.

Airshagyl structure

Four deep wells have been drilled on the Airshagyl structure.

- Deep Well A5 was spudded in July 2013 and drilled to a total depth of 4,442 meters. Attempts to remove a stuck pipe have to date not proved successful and a new side track is planned
- Deep Well A6 was spudded in 2015 and drilled to a depth of 4,528 meters. A chemical treatment is planned.
- Deep Well A7 was spudded in December 2021, with a planned Total Depth of 5,300 meters but primarily targeting an interval at a depth of 4,000 meters. In March 2022 drilling at A7 was paused at a depth of 2,150 meters to allow the rig to be used to drill a horizontal well on the shallow South Yelemes structure.
- Deep Well A8 was spudded in 2018 with a planned Total Depth of 5,300 meters, initially targeting the same pre-salt carbonates that were successfully identified in 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. The well has now been abandoned.

Yelemes Deep structure

- Deep Well 801 was drilled in 2014 / 2015 to a depth of 5,050 meters. The well has been assessed as non-commercial and has been marked for abandonment been marked for abandonment.

- Deep Well 802 was spudded in June 2022, with a planned Total Depth of 5,300 meters. To date the well has not flowed at commercial rates and we are seeking to conclude a joint venture agreement with an identified technical partner to continue work on this well.
- Deep Well 803 was spudded in December 2023 with a planned total depth of 4,500 meters. Oil was encountered over a 60 meter interval between depths between 3,360 and 3,420 meters and a 15 meter interval is being prepared for testing.

Deep well drilling issues

Sub-surface conditions at the two discovered deep structures at BNG present significant technical challenges in drilling and completing the wells. These are the extreme high temperature and 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 whereas 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.

Block 8

The Block 8 Contract Area is 2,823 sq km with three identified structures and is approximately 160 km from the BNG Contract Area.

The Block 8 licence was previously held by LG International the Korean conglomerate, who in 2006 started to acquire 3D seismic data over approximately 456 sq km. In recent years two deep wells have been drilled to depths of 4,203 meters and 3,449 meters respectively, from which oil has flowed at rates of up to 800 bopd but at the time they were shut in, as required as part of the licence renewal process, produced at the rate of 110 bopd.

Two other wells were drilled in 2022 and 2023 to depths of 3,922 and 3,408 meters respectively and on receipt of the new Block 8 licence will be tested.

West Shalva

The West Shalva contract area is rectangular in shape and extends over approximately 25 km². It is located in the oil producing Zhetybay Steppe Area in the Mangyshlak region of Western Kazakhstan approximately 90 km east of Actau and approximately 20 km north from the Zhetybay field, where an oil processing plant is located and oil enters the Actau / Atyrau main pipeline.

The West Shalva prospect is partially located in Block XXXVII-12 but straddles the boundary with adjacent blocks. The source rock for the West Shalva prospect is considered to be Triassic marine shale as is understood to be the case in the nearby Shalva and Zhalganoy fields.

The West Shalva prospect has potential reservoirs of Jurassic and Triassic age. The Jurassic - IX and Jurassic - XI and Triassic reservoirs are oil bearing in the nearby Shalva field and oil has been reported (but not tested) from core in the Triassic reservoir in the WSH-4 well. Based on interpretation of the available information the main reservoir targets are Jurassic IX and Jurassic - XI reservoirs, with secondary targets in the Triassic.

West Shalva was first identified as a potential oil producing location in the mid 1970's. In 1977 and based on 2D seismic data, Well no. 4 (Wsh-4) was drilled to the north and outside the structural closure of the West Shalva prospect to a depth of 3,500 meters with a prime potential oil bearing interval detected at a depth of 1,033 meters in the lower Triassic. After open hole testing lasting only a few minutes the well was deemed not to have found any commercial volumes of oil or gas despite oil being detected at three other intervals. The well was then abandoned without running a production string.

In 2008 a 3D seismic survey was undertaken on the contract area, which identified the West Shalva structure. In June 2022 oil was detected spilling to the surface.

West Shalva is an early stage oilfield but with strong indicators from both the adjacent Shalva field and from the available seismic information that it is likely to produce oil in decent quantities. Additionally, it is expected to be easier to drill than either BNG and Block 8 as the high pressure and high temperature encountered in those fields are not present at West Shalva. There is also no salt layer to penetrate and the field is closer to local refineries with a history of higher prices than the refineries nearer BNG and Block 8. In summary, West Shalva is expected to be a much easier field to work than either BNG or Block 8 and a good addition to the portfolio. As at Block 8 the acquisition has been structured to avoid any up-front cash payments.

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.

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, which we believe to be producing at the rate of approximately 15,000 bopd.

No development work has been undertaken since 2019.

LICENCES & WORK PROGRAMMES AND RESERVES

LICENCES

BNG

BNG LLP Ltd holds three contracts for subsoil use. The first is the appraisal contract, covering the full extent of the BNG Contract Area (except the MJF and South Yelemes structures), originally issued in 2007 and successively extended until August 2024.

The second is the export contract covering just the MJF structure, which runs to 2043 and the third is the export contract covering the South Yelemes structure, which runs to 2046. Under the MJF and South Yelemes licences the majority of oil produced may be sold by reference to international rather than domestic prices.

The process to upgrade the existing appraisal licence covering the BNG deep structures Airshagyl and South Yelemes to separate 25 year production licence is underway under a new streamlined process which is expected to be completed during Q4 2024.

Block 8

The Block 8 licence renewal is expected imminently.

West Shalva

The licence at the West Shalva Contract Area is a six-year appraisal licence running until 2029.

3A Best

The licence renewal at 3A Best was delayed as the result of outstanding social payments due from the assets previous owners. As noted more fully in the Chairman's statement we continue to work with the Kazakh authorities to renew the 3A Best licence at the appropriate time.

WORK PROGRAMMES

BNG

The current work programme commitments end with Well 155, Deep Well 803 and new Well 815, for which we estimate the outstanding costs to be approximately $3 million.

Block 8

The extent of the work programme commitments have yet to be determined.

West Shalva

There is an obligation to drill one well to a depth of approximately 2,600 meters.

RESERVES

BNG

Shallow structures

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

The work of GCA resulted in confirming total unrisked 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 risked 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 2023, approximately 4.0 mmbls of oil were produced, which under financial reporting rules are deducted from the assessment of reserves as at 31 December 2023.

BNG	As at 31 December 2023 mmbls	As at 31 December 2022 mmbls
Shallow P1	13.6	14.3
Shallow P2	24.8	25.5

Despite the last external review of the Group's reserves being in 2016, the Board considers their assessment as set out in the above table to be valid.

Deep structures

In conjunction with the licence upgrade applied for in respect of the deep Airshagyl and Yelemes Deep structures and referred to above under licences, we are also making submissions for formal recognition under the former Soviet classification system used in Kazakhstan of reserves at both deep structures based on information gained from the four deep wells drilled to date at the Airshagyl structure and the three deep wells drilled to date on the Yelemes Deep structure.

In June 2024 reserves under the former Soviet classification system were independently assessed by SciRes, a Kazakh consultancy based solely on the vicinity of the immediate drainage area around Deep Wells A5, A6 & A7 as being C1 49.0 million barrels & C2 as 28.9 million barrels.

At Yelemes Deep we first need to complete the testing at Deep Well 803 before a similar assessment can be finalised.

In due course, following the completion of the resereves estimate underway at the Yelemes Deep structures under the former Soviet claasification system, we plan to seek a reserves update under the international Society of Petroleum Engineers (SPE) classification system, for all of the BNG Contract Area, which would also include the shallow MJF and South Yelemes shallow structures, provided they are then still part of the Group.

Block 8

An estimate of the reserves at Block 8 is planned following completion.

West Shalva

To date there are no certified reserves in respect of the West Shalva Contract Area. Again, we intend to commission an independent assessment of the West Shalva reserves after completing the planned 3,200 meter well

3A Best

There are no certified reserves in respect of the 3A Best Contract Area.

CASPIAN EXPLORER

Introduction

The Caspian Explorer is a drilling vessel designed specifically for use in the shallow northern Caspian Sea where traditional deep water rigs cannot be used.

The principal ways of exploring in such shallow waters are either from a land base or using a specialist shallow drilling vessel such as the Caspian Explorer, which we believe to be the only one of its type 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 typically expensive compared to the use of a specialist drilling platform such as the Caspian Explorer.

The Caspian Explorer was conceived of by a consortium of leading Korean companies including KNOC, Samsung and Daewoo Shipbuilding. The vessel was assembled in the Ersay shipyard in Kazakhstan between 2010 and 2011 for a construction cost believed to be approximately $170 million. The Caspian Explorer became operational in 2012 at a time of relatively low oil prices and reduced exploration activity in the northern Caspian Sea.

The total costs after fit-out are believed to have been approximately $200 million. We understand a replacement would today cost in excess of $300 million and take several years from a decision to commission it for such a new vessel to become operational.

Operational characteristics

Operational characteristics

The Caspian Explorer:

- operates principally between May and November as the Northern Caspian Sea is subject to winter ice
- operates in depths between 2.5 meters and 7.5 meters
- can drill to depths of 6,000 meters
- typically has a crew to operate the drilling vessel of 20
- has accommodation for approximately 100
- costs approximately $60,000 per month while moored in port
- is generally able to pass on other costs incurred while operational to the clients hiring the vessel

Safety contract

In June 2021 we announced the first charter for the Caspian Explorer since it has been a part of the Group. The charter was with the North Caspian Operating Company ("NCOC"), which is the principal operator in the region, comprising the Republic of Kazakhstan working through KazMunaiGas (KMG), and international oil companies including Shell, ExxonMobil, ENI, Total Energies and CNPC, the consortium operating the Kashagan field.

Daily rates for safety related work are much lower than for conventional commercial drilling contracts but the income from the charter covered the Caspian Explorer's costs for that year.

Drilling contract

In March 2023 we announced that the first commercial drilling contract for the Caspian Explorer under the Group's ownership had been signed.

An offshore well is scheduled to be drilled in the summer of 2024 to a planned depth of 2,500 meters. It will be drilled for the Isatay Operating Company LLP ("IOC"), a Kazakh registered explorer, in which Italy's ENI is a leading participant. The work is expected to take approximately two months.

Daily rates have been agreed for both drilling days and days when no drilling occurs. On the basis of these rates and the Group's assessment of the likely total number of days required to complete the assignment the Group expects further revenue in 2024 of approximately $10 million.

The contract also provides for a second well in the event the first is deemed successful. In the event the option for the second well was exercised it would most likely be drilled in 2026 on terms similar to the first assignment and is again expected to produce revenue of in excess of $10 million.

We are finalising the preparatory work for the ENI led consortium charter, which we expect to start on time in July 2024.

Other charters

We believe the drilling contract due to commence in Q3 2024 will be the first of a number as exploration of the shallow northern Caspian Sea increases. Discussions continue with a number of parties interested in chartering the Caspian Explorer, either on normal commercial terms or where the involvement of the Caspian Explorer allows Caspian Sunrise to take an interest in the project.

Accounting valuation

The Caspian Explorer has been written down in previous financial statements so that its carrying value at 31 December 2023 is only $1.7 million despite an expected replacement cost of approximately $300 million.

Lapsed conditional sale

In June 2023 we announced the conditional sale of 50% of Prosperity Petroleum, the UAE registered holding company for the Caspian Explorer for $22.5 million. The sale did not complete as a result of the prospective buyer failing to make the agreed payments.

Other corporate interest

Given its unique nature other expressions of interest in acquiring the Caspian Explorer have been received at indicated sums vastly greater than its accounting valuation. While it is not the Group's intention to sell the drilling vessel we are, as set out more fully in the Chairman's statement, obliged to consider all meaningful offers.

END

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