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Zhaikmunai LLP

Proposed Acquisition of Oil & Gas assets in North West Kazakhstan

Uralsk, 24 June 2019

Zhaikmunai LLP, a subsidiary of Nostrum Oil & Gas PLC (“Nostrum” or “the Company” and together with its subsidiaries “the Group”) an independent oil and gas company engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin, today announces Nostrum has agreed, subject to certain conditions, to acquire 50% of Positive Invest LLP (“Positive Invest”), which holds the subsoil use rights to the Stepnoy Leopard licences in North Western Kazakhstan, for US\$500,000. Nostrum has the right to buy the remaining 50%, subject to the satisfaction of certain additional conditions, at a price of US\$0.27 cent per boe of proven and probable reserves. The acquisition of 100% of Positive Invest is referred to in this announcement as the “Proposed Acquisition”.

Management estimates that the Stepnoy Leopard licences could hold up to 452 mmboe of in place volumes of which up to 200 mmboe could be reported as Contingent Resources and over 20% estimated to be liquids. There are eight fields within the licences with over 100 wells drilled in the Soviet era which have confirmed hydrocarbons to be present. The resources are considered by management to be contingent as the licences expire in 2020. One of the conditions precedent required by Nostrum for its acquisition of the remaining 50% in Positive Invest is the extension of the licences by 25 years. In addition, Nostrum requires, as a condition precedent, the approval of a development programme which allows the raw gas from the fields to be treated in Nostrum’s gas processing facilities.

The Proposed Acquisition ensures Nostrum ties in further resources in the region surrounding its gas processing facility that can be processed at the Company’s gas treatment facilities. The Proposed Acquisition is structured in a two-step process. In the event that the conditions for the second step are not met then Nostrum has the right to transfer back to the sellers the 50% interest in Positive Invest and the initial consideration of US\$500,000 will be repaid to Nostrum.

Key Highlights of the Proposed Acquisition

- Stepnoy Leopard licences are located approximately 60-120km west of Nostrum's Chinarevskoye field, 20km from its Rostoshinskoye field and within 10km of its oil and condensate loading terminal at Beles;
- Stepnoy Leopard consists of two licences with eight fields shown to contain hydrocarbons. Of the eight fields, four fields are gas condensate fields and four are gas condensate fields with oil rims;
- in excess of 100 wells across the 8 fields were drilled during the Soviet era, confirming the existence of hydrocarbons at Stepnoy Leopard at a depth of around 3,000 metres. The project was not developed due to a lack of infrastructure to support the economic development of the fields;
- Nostrum will work with Positive Invest to determine the field development plans for each of the eight fields at Stepnoy Leopard and submit them to the Republic of Kazakhstan's Ministry of Energy ("Ministry of Energy") for approval. Such approvals are a condition precedent for completion of the second step of the Proposed Acquisition;
- a Competent Person's Report ("CPR") is being prepared by Ryder Scott Company, LP ("Ryder Scott") to provide an estimate of reserves and resources for Positive Invest which will be included in the circular to shareholders referred to below. In connection with step 2 of the Proposed Acquisition, Ryder Scott will deliver a second updated report once both licences have been extended to determine the number of proven and probable reserves in the fields. Nostrum will pay the sellers a total price for the Proposed Acquisition equivalent to US\$0.27 per boe of proven and probable reserves as certified by Ryder Scott;
- the licences are currently due to expire in March 2020, but an application will be made for a 25 year extension. Approval of this extension is another condition precedent to step 2 of the Proposed Acquisition being completed.

Kai-Uwe Kessel, Chief Executive Officer of Nostrum commented:

"I am delighted that we have been able to take this first step towards acquiring the rights to develop the Stepnoy Leopard blocks. The licences contain the largest remaining undeveloped gas-condensate fields in North West Kazakhstan and have been extensively explored and appraised but never developed due to a lack of infrastructure. Nostrum will not only be able to leverage synergies with our treatment facilities but also the proximity to our Rostoshinskoye licence will allow us to consider the joint development of these licences which can further enhance the economics of the transaction."

Overview of the Proposed Acquisition

A Sale and Purchase Agreement ("SPA") has been entered into between Mr. Nurzhan Bekshenov and Mr. Vyacheslav Kim (the "Sellers"), Nostrum Oil & Gas Coöperatief U.A., a wholly owned subsidiary of Nostrum, and Positive Invest for the acquisition by Nostrum of a 100% interest in Positive Invest (which holds 100% of the subsoil use rights to the Stepnoy Leopard fields).

The Proposed Acquisition is to be completed in two steps. Step 1 is for the acquisition of 50% of Positive Invest for consideration of US\$500,000. Step 1 will be conditional upon, *inter alia*,:

- consent being granted by the Ministry of Energy for the transfer of ownership of up to 100% of Positive Invest;
- approval being given by the Republic of Kazakhstan under applicable antimonopoly regulations in Kazakhstan; and
- the publication of a circular and the approval of shareholders for the Proposed Acquisition at a general meeting of the Company.

Following completion of Step 1 of the Proposed Acquisition, a loan of up to US\$1 million may be made to Positive Invest, to fund its working capital during the course of satisfying the conditions precedent for the Proposed Acquisition.

Step 2 of the Proposed Acquisition will see the acquisition by Nostrum of the remaining 50% of Positive Invest. The consideration for Step 2 will be based on a price of US\$0.27 per boe of proven and probable reserves to be acquired (as per an updated report to be prepared by Ryder Scott). The aggregate consideration for the Proposed Acquisition is to be capped at US\$52,995,000. Step 2 will be conditional upon, *inter alia*,:

- consent being granted by the Ministry of Energy to extend the licence by 25 years;
- approval being granted by the Ministry of Energy of the field development plans for the Stepnoy Leopard licence; and
- issuance of the updated Ryder Scott report;

US\$2.5 million will be retained from the consideration paid for a period of 14 months from completion of Step 2 of the Proposed Acquisition as security against potential warranty and indemnity claims.

The Sellers have no role within Nostrum and following completion of the Proposed Acquisition no former shareholders or employees of Positive Invest will hold any role within Nostrum.

The SPA has a long stop date of 3 March 2020, by which time all conditions precedent in relation to the Proposed Acquisition must be achieved. If any of the conditions precedent are not met or the Proposed Acquisition is terminated, the Sellers will be required to repurchase the 50% interest in Positive Invest initially acquired by Nostrum for US\$500,000 and to repay any outstanding amount under any loan made to Positive Invest.

As noted above, the Proposed Acquisition is conditional on, *inter alia*, the approval of shareholders at a general meeting of the Company. A shareholder circular convening the general meeting and setting out further details on the acquired assets and the rationale for the Proposed Acquisition will be published and posted to shareholders in due course. The Company will make a further announcement about the timing of the shareholder meeting when it publishes the circular.

Financial effects of the Proposed Acquisition on Nostrum

Step 1 of the Proposed Acquisition is expected to have a very limited financial impact on Nostrum, with up front consideration of US\$500,000 and a loan to Positive Invest of up to US\$ 1 million.

The total aggregate consideration can be funded out of Nostrum's existing cash reserves. Nostrum is however considering alternative solutions in the context of the broader strategic review that is being carried out as announced by Nostrum today.

The future development of Stepnoy Leopard will be determined in the development programme to be approved by the authorities in Kazakhstan. The development concept foresees the construction of a raw-gas pipeline to the Chinarevskoye gas processing facilities. In the event of a full field development management expects the all in finding and development costs to be under US\$3 per 2P boe.

Positive Invest has no material assets outside of owning the Stepnoy Leopard licences. As of 31st December 2018, prior to acquiring the licences, Positive Invest had unaudited accounts showing gross assets of approximately US\$108,785 all in the form of cash, no revenues and a loss before tax of approximately US\$33,366 (all of which were administrative expenses).

The Proposed Acquisition constitutes a Class 1 Transaction under the Listing Rules and is therefore subject to, *inter alia*, the publication of a circular and the approval of shareholders at a general meeting of the Company.

Disclosure of inside information in accordance with Article 17 of Regulation (EU) 596/2014 (16 April 2014) relating to Zhaikmunai LLP.

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Further information

For further information please visit www.nog.co.uk

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Notifying person

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Company Secretary of Nostrum

About Nostrum Oil & Gas

Nostrum Oil & Gas PLC is an independent oil and gas company currently engaging in the production, development and exploration of oil and gas in the pre-Caspian Basin. Its shares are listed on the London Stock Exchange (ticker symbol: NOG). The principal producing asset of Nostrum Oil & Gas PLC is the Chinarevskoye field, in which it holds a 100% interest and is the operator through its wholly-owned subsidiary Zhaikmunai LLP. In addition, Nostrum Oil & Gas holds a 100% interest in and is the operator of the Rostoshinskoye, Darinskoye and Yuzhno-Gremyachenskoye oil and gas fields through the same subsidiary. Located in the pre-Caspian basin to the north-west of Uralsk, these exploration and development fields are situated between approximately 60 and 120 kilometres from the Chinarevskoye field.

Forward-Looking Statements

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

No part of this announcement constitutes, or shall be taken to constitute, an invitation or inducement to invest in Zhaikmunai LLP or the Company or any other entity, and shareholders of the Company are cautioned not to place undue reliance on the forward-looking statements. Save as required by the Listing Rules and applicable law, neither Zhaikmunai LLP nor the Company undertakes to update or change any



forward-looking statements to reflect events occurring after the date of this announcement.

Peel Hunt LLP, which is authorised and regulated in the United Kingdom by the FCA, is acting for Nostrum in connection with the Proposed Acquisition and no-one else and will not be responsible to anyone other than Nostrum for providing the protections afforded to clients of Peel Hunt LLP nor for providing advice in relation to the Proposed Acquisition or any other matter referred to in this announcement.

Numis Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting for the Company and no one else in connection with the Proposed Acquisition and will not regard any other person as its client in relation to the Proposed Acquisition and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Numis Securities Limited, nor for providing advice in relation to any matter referred to in this announcement.

The gross assets and loss before tax of Positive Invest as of 31st December 2018 included above in US\$ have been calculated using an average exchange rate for USD/KZT for the year ended 31st December 2018 taken from Bloomberg of 1:344.84.