JKX Oil & Gas plc Annual Report 2015

A fresh perspective

"In the past month, the team and I have visited all the main assets of the Group. We have identified significant scope for improvement in capital investments, and we found areas to realise both cost savings and production gains through the application of best in class technology and more hands-on execution throughout the portfolio. As we execute on these opportunities, we expect to deliver significant improvements to the value of JKX."

Tom Reed Chief Executive Officer

A fresh perspective

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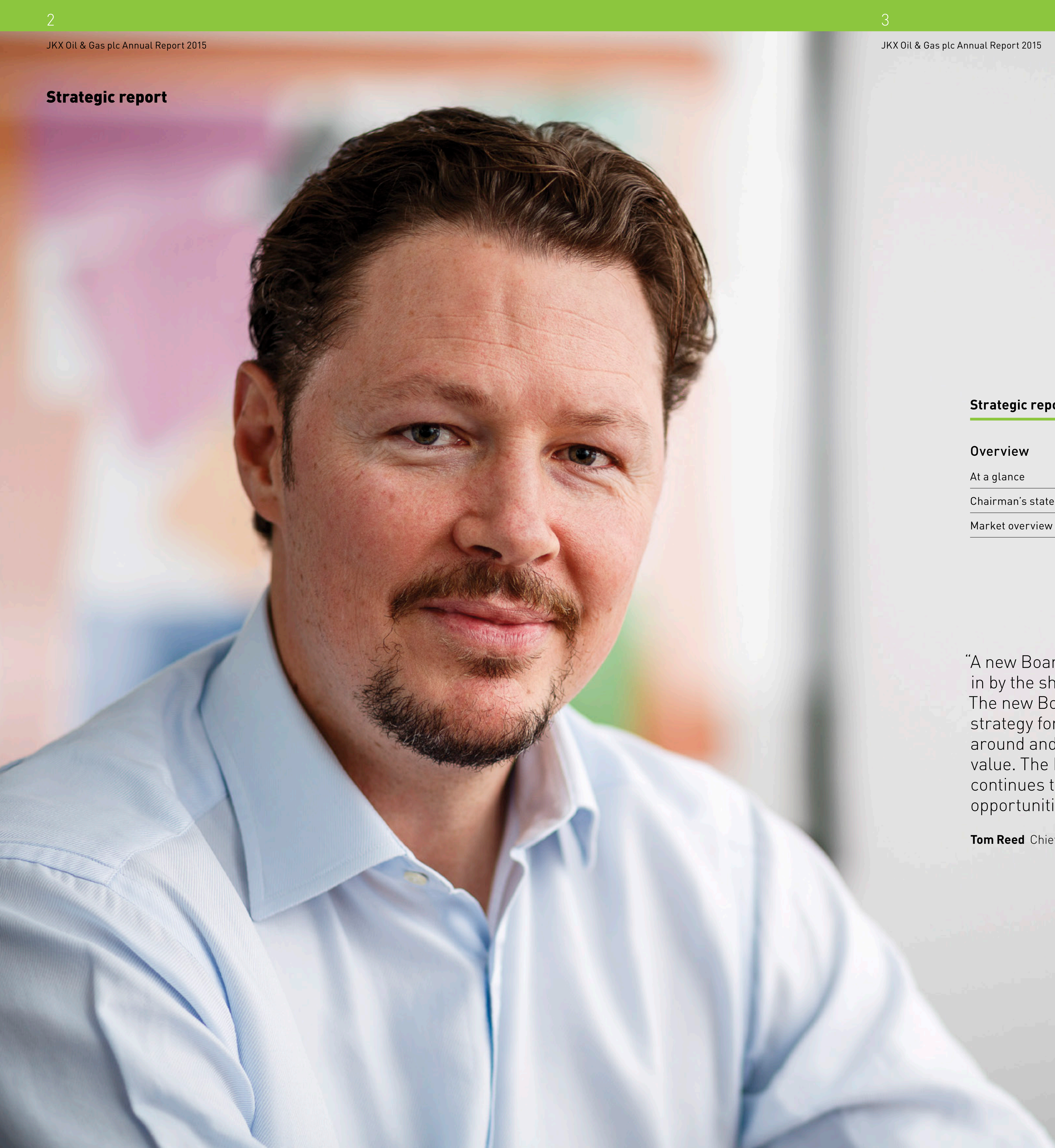
Strategic report



Strategic report

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"A new Board of Directors of JKX was voted in by the shareholders on 28 January 2016. The new Board is reformulating JKX's strategy for 2016 to turn the Company around and to restore shareholder value. The Board believes that the region continues to offer significant development opportunities in the medium to long term."

Tom Reed Chief Executive Officer

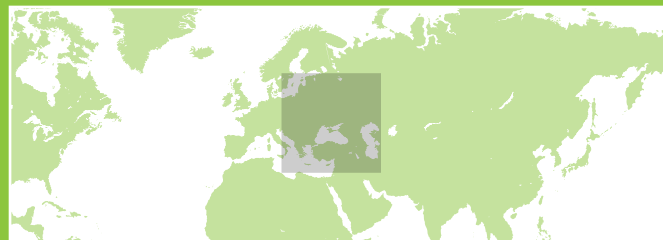
At a glance – our business

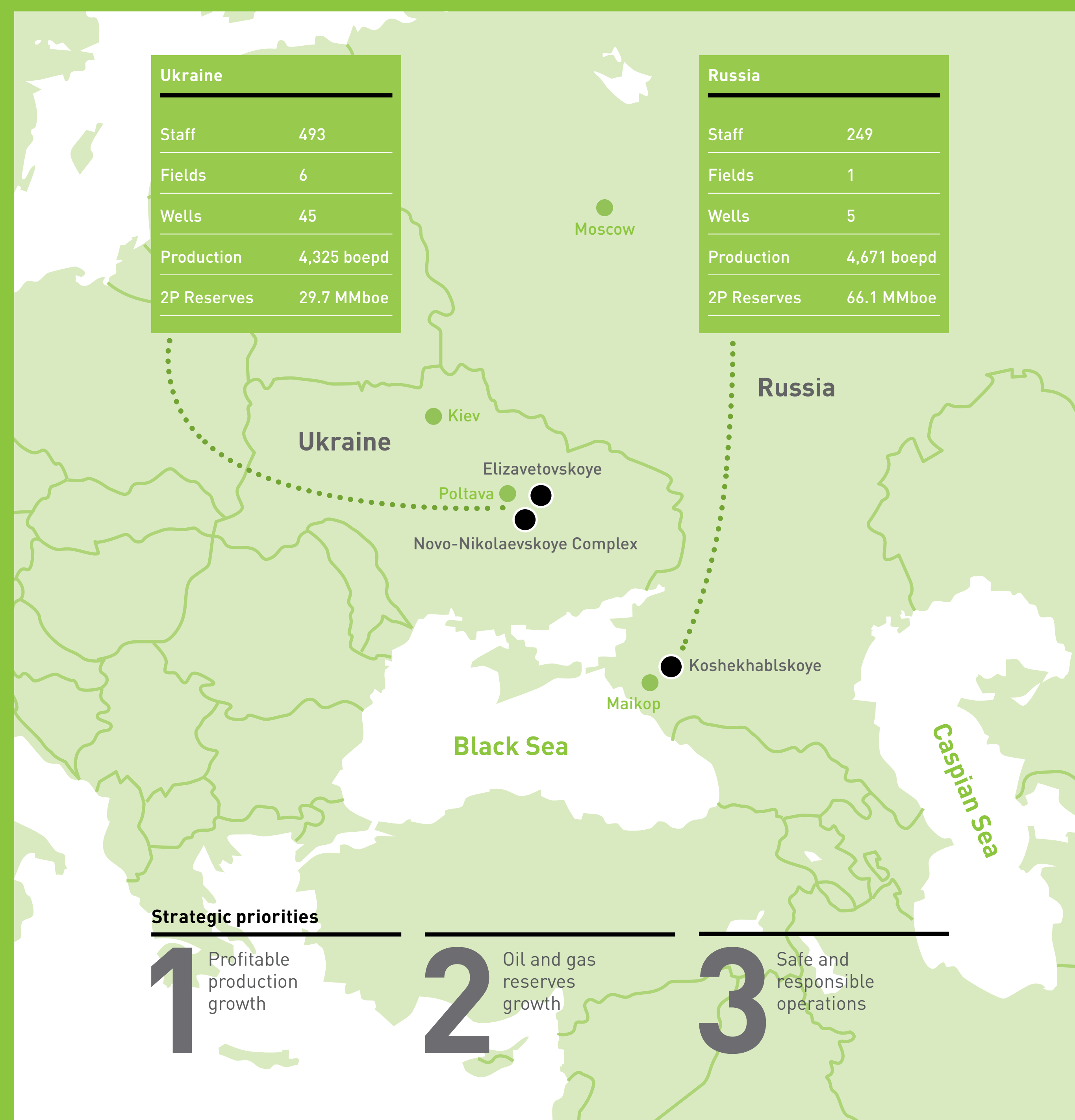
What we do

JKX is an upstream oil and gas exploration and production company with significant oil and gas assets in Ukraine and southern Russia.

Where we operate

The head office is in London, which employs 22 staff. Our operational areas are shown below:





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At a glance – our performance

From the Chief Executive, Tom Reed:

"Since the appointment of the new Board on 28 January 2016, we have visited all the main assets of the Group and identified significant scope for operational improvements and cost savings across JKX.

Areas of legacy risk exist primarily related to production tax litigation in Ukraine which we are confident that we can continue to manage.

During 2015 and in 2016, significant non-recurring administrative costs have been, or will be paid, by the Company as a result of past events and the Board is exploring all options to mitigate these.

We are encouraged by the physical characteristics of our reservoirs in Russia and Ukraine, the quality of the staff across JKX, the opportunity for operational and capital spending improvements, and remain committed to improving value per share to all shareholders.

There are many challenges facing the Company, and the new Board is committed to a new and transparent approach and to actively engage all shareholders and other stakeholders of the Company in order to turn it around."

Key financials

	2015	2014
Revenue	**$88.5 m**	$146.2m
Loss from operations before exceptional charges	**$10.7m**	$11.6m profit
Exceptional charges	**$64.9m**	$72.5m
Loss for the year	**$81.5m**	$79.5m
Loss per share	**47.32 cents**	46.21 cents
Net cash generated from operating activities	**$9.1m**	$47.5m
Capital expenditure	**$8.7m**	$42.3m

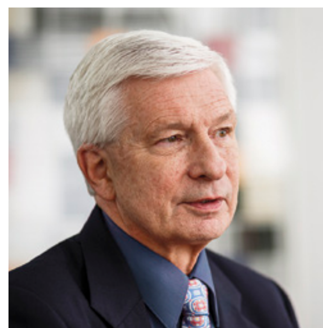
Operating highlights

- Board of Directors replaced by shareholders at a General Meeting on 28 January 2016
- Average production 8,996 boepd (2014: 9,919 boepd)
- No development drilling in 2015 due to cash constraints
- Well-27 restored at the Koshekhablskoye field in Russia
- Six 35-year production licences awarded in Hungary (JKX 100%)

Outlook

New Board reviewing all development projects and enhancement opportunities as part of a wider review of future strategy

Chairman's statement



Paul Ostling Chairman

A fresh perspective

I am pleased to present this report on behalf of the new Board of Directors that was appointed by shareholders on 28 January 2016, charged with bringing a new vision and approach to restore shareholder value at JKX. This change in the Board resulted from proposals made by one of the Company's largest shareholders, who saw that the Company needed a new direction and requisitioned a General Meeting to allow all shareholders to vote on this idea. It is a rare example of genuinely successful shareholder activism in the long history of the London Stock Exchange.

At the time of writing I am nearing completion of my second month as Chairman of your Company and so this report details activities that occurred before any of the new Board took office. None of the Directors who were in office in 2015 are now with JKX. When combined with the fact that 2015 was a year of continuing low international oil and gas prices combined with volatility and uncertainty in the regions in which JKX operates, the factors behind your Company's results were beyond our control. However I can make two promises: from this point forward your new Board will be completely transparent in how we communicate to shareholders regarding the challenges we face in such an environment and the steps we are taking to restore the Company's fortunes; and we will be resolutely committed to increasing efficiency and reducing needless costs.

Performance in 2015

The low oil and gas prices and the lack of capital investment led to the Company's production, profits and operating cash flow falling significantly in 2015. Despite this, the Company has remained cash generative from its operations.

The disappointing financial performance and decline in production was exacerbated by the suspension of all but essential capital investment across the Group, the delays in bringing well-27 in Russia back on line, and the intense focus of the Company on various legal proceedings.

Ukraine

In Ukraine, the introduction of the 55% rate of production tax, foreign exchange controls and government-imposed restrictions on the sale of gas during the three months to 28 February 2015 led to cash constraints and no capital investment programme during 2015.

The investment climate has improved following the reduction of gas production tax rates to 29% for 2016 and the lifting of restrictions on the sale of gas in February 2015. However the Ukrainian economy remains fragile and foreign exchange controls remain in place, making the repatriation of cash extremely difficult.

You will no doubt recall that in 2014, the Company commenced arbitration proceedings against Ukraine on the basis of overpayment of production taxes ('Rental Fees'), as explained more fully in Note 27 to the financial statements. During 2015 an international arbitration tribunal issued an Interim Award requiring the Government of Ukraine to limit the collection of Rental Fees on gas produced by PPC to a rate of 28%. This Interim Award remains in effect until final judgement is rendered on the main case, which relates to the overpayment

of approximately $180 million in Rental Fees, plus damages to the business. The arbitration hearing is expected to take place in July 2016, which will include witness statements from certain members of the old Board and will result in additional legal costs for JKX.

In Ukraine, the Company's subsidiary, Poltava Petroleum Company ('PPC'), continues to experience a combination of aggressive production tax demands for periods up to the end of 2015 and also challenges to its compliance with the terms of its production licences (see Notes 2 and 27 to the financial statements). We have met with representatives of the Ukrainian Government in recent weeks to attempt to find a solution to all our production tax and licencing issues in-country and we are confident that an acceptable solution can be found. I will update shareholders when we have clarity on these issues.

Russia

The fall in international oil prices and continued sanctions are having a negative impact on Russia's domestic economy.

A combination of continuing low gas prices, which are set by the Russian Government, and the devaluation of the Russian Rouble in 2015 from RR56:$1 to RR72:$1 adversely affected the Group's profit and cash generated from its Russian project in US Dollar terms.

The combination of the recent Russian Rouble devaluation and only a minimal gas tariff increase in the near term has had a negative effect on our plans to expand our current licence portfolio there.

Hungary and Slovakia

Despite the recent fall in international oil prices, our exploration and appraisal prospects in Hungary and Slovakia remain attractive. Both economies are relatively stable and the Board is currently reviewing the investment options for these licences in 2016.

Cash

The Group's cash balance at the year end of $25.9 million has been significantly reduced in the first two months of 2016 by the $12.3 million redemption payment due under the terms of the convertible bond and the $2.2 million of severance costs and additional remuneration which the previous board approved and paid prior to the General Meeting on 28 January 2016.

Cash balances will be further reduced in the coming months due to $3 million of legal costs incurred by Eclairs and Glengary, following the finding against the Company by the Supreme Court of the United Kingdom in respect of the imposed shareholder restrictions. In addition, the Company will also have to pay its own legal costs for the continuation of any international arbitration proceedings (as already noted above).

Debt

In accordance with the terms of the Company's $40 million Convertible Bond, $7.2 million of bond payments were made during 2015 and in February 2016 the Company made scheduled early redemption repayments to bondholders of $12.3 million.

If all bondholders exercise their option to early redemption in February 2017, as they are entitled to under the terms of the bonds, the Company will owe bondholders a further $30.1 million at that time.

Board

Following the replacement of the entire Board on 28 January 2016, the composition of the Board has not complied with the UK Corporate Governance Code in respect of the number of independent Non Executive Directors.

The Company has engaged an independent consultant to conduct due diligence on a short-list of candidates and is now in the final phase of appointing two new independent Non Executive Directors. As soon as this has been completed we will be re-establishing board committees to oversee audit, remuneration and nominations, to ensure that JKX has the first class corporate governance that it needs. As a temporary measure, and to ensure appropriate review and process in the release of this report, an Interim Audit Committee consisting of myself and Russell Hoare, your new Chief Financial Officer, was appointed.

Outlook

There remain risks noted above in respect of the $30.1 million bond payment which may become due in February 2017, the contingent liabilities in respect of Ukrainian production taxes, the Ukrainian production licence compliance issues and the continued low oil and gas prices, which, if realised, may impact the going concern status of the Company. These risks are fully addressed in Note 2 to the financial statements. However the Directors believe that there is a reasonable basis to mitigate the effects of such eventualities through negotiation with the Ukrainian Government, further operational and cash management measures and other restructuring or refinancing options, which are currently being assessed.

During our short period in office we have conducted an initial review of the Group's assets, and the Board believes that JKX assets and staff provide a good platform to consolidate and improve on its existing oil and gas opportunities in central and eastern Europe.

It is true that the Board inherited many difficult challenges, but this is why we believed that change was so desperately needed. We remain committed to a transparent approach that actively engages all shareholders and other stakeholders of the Company and you will have already seen the first of what will be regular operational updates. We are confident that we will be able to turn JKX around.

Finally, I wish to thank all our shareholders and staff for their support of the Company and the new Board in this period of change. I look forward to working with all stakeholders to restore the value of the Company over the coming months.

Paul Ostling
Chairman

Market overview – Ukraine

Why are we here?

A huge demand for energy 1

There is a huge demand for energy in Ukraine and a lack of local supply. Historically there has been a lack of investment in the development of oil and gas reserves in Ukraine and as a result there are good opportunities to develop additional reserves in Ukraine by applying the latest exploration and production technology.

Ukraine is the fourth largest consumer in Europe with annual gas consumption of 42 Bcm/year. Domestic production is steady at 20 Bcm/year. As such, a significant gas demand gap will remain in Ukraine for the foreseeable future.

Gas pricing and realisations 2

Ukraine imports its gas from Russia and Europe. The pricing of Russian gas has always been based on an oil-based formula. The pricing of gas from Europe is based on gas-to-gas price competition at European hubs. The dynamic of these two pricing philosophies differ significantly and there are times when the hub based prices are significantly cheaper than the formulaic prices.

This is the arbitrage opportunity for Ukraine and 15 Bcm/year of gas can be accessed this way if the commercial incentives prevail.

The fundamental base gas price of the Ukraine market however will always be at least the oil indexed price or the hub price of Slovakia plus the additional cost of reverse flow. As a local producer we should always be able to get better netback prices than any supplier who has to cover all of these shipping costs (circa $20/Mcm).

A default price of European Hub plus $20/Mcm is a good floor price for JKX.

Netback analysis 3

On 2 August 2014, the Ukrainian government increased gas production taxes to 55% (from 28%) and oil production taxes to 45% (from 39%) initially for 3 months but subsequently extended this through to 31 December 2015. From 1 January 2016 the gas production tax has reduced to 29%.

The netback on our gas sold in Ukraine in 2015 was approximately $4.77/Mcf (based on a gas sales price of $8/Mcf) or 59% stated as a gross margin. Our netback on oil in 2015 was $17.56/bbl (based on an oil sales price of $40/bbl), a gross margin of 44%.

Our competitive advantage

First to move

JKX invested in Ukraine over 20 years ago to help meet the demand gap and was rewarded with licences covering some of the best oil and gas fields in Ukraine. JKX has significant experience of doing business in this region.

Sustainable low cost production, cash generative operations

The Company commenced commercial production of oil and gas in Ukraine in 1995. It has over 450 experienced local staff working there and six producing oil and gas fields.

Our six producing fields and two Gas Processing Facilities ('GPFs') are located in the Poltava region of Ukraine.

JKX's business assets in Ukraine

Novo-Nikolaevskoye Complex 4

Our Novo-Nikolaevskoye Complex reserves comprise five distinct fields producing in to one GPF. In addition we have a Liquefied Petroleum Gas ('LPG') facility which converts some of our gas into LPG for sale into the expanding Ukrainian market.

Elizavetovskoye field 5

Our Elizavetovskoye field and GPF, which are 45km from our Novo-Nikolaevskoye Complex, began commercial production in 2014. The field currently produces from three wells.

Our investment

We have invested over $550m in Ukrainian oil and gas development projects over the past 22 years. We have produced and sold gas, oil and condensate locally for the past 21 years.

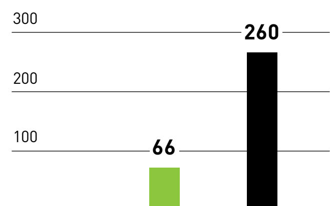
Ukrainian reserves 6

At the end of 2015, our 2P reserves in Ukraine comprised 158.4 Bcf of gas and 3.3 MMbbl of oil (total 29.7 MMboe).

1 Gas demand

Annual oil production-consumption gap in Ukraine ('000bpd)

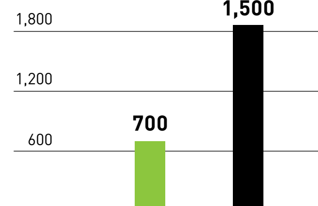
194,000 bpd
Shortfall



Oil production ('000 bpd)[1]
Oil consumption ('000 bpd)[1]

Annual gas production-consumption gap in Ukraine (Bcf)

800 Bcf
Shortfall



Gas production (Bcf)[1]
Gas consumption (Bcf)[1]

[1] Source: USA Energy Information Administration

Principal risks associated with our business in Ukraine (detail on page 42)

Geopolitical – Ukraine	A
Geopolitical – Group	B
Tax legislation	C
Commodity prices	D
Foreign exchange exposure	E
Reservoir performance	H
Environmental, asset integrity and safety incidents	I
Bribery and corruption	J

2 Gas pricing and realisations

Gas realisations in Ukraine in 2015

$7.65 per Mcf

Gas market changes in 2015

The balance of gas (20 Bcm/year) is imported and until 2015, virtually all of these imports have either been from Russia or from other ex-Soviet countries (particularly Turkmenistan) through Europe.

In 2015, the market has changed significantly due to the initiation of so called "reverse flow" capability from Europe. This entails the movement of gas from west to east across the existing border crossings between Ukraine and Hungary, Poland and most importantly Slovakia.

The last of these (Velke-Kapucharny) has been the major transit point for westward-moving Russian gas to Europe for over 40 years.

Redundant capacity in the complex of pipelines and compressors at this transit hub have been refurbished and upgraded to allow for the movement of gas in the opposite direction to the predominant flow.

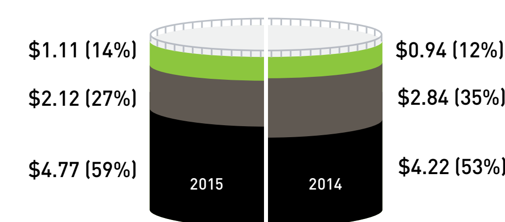
This new-found technical capacity allows Ukraine to purchase gas from Europe and, rather than being completely dependent on Russia for imports, Ukraine can now assess competing bids for gas imports from Gazprom on the one side and European Energy Utilities on the other.

The macro gas world of Ukraine has changed forever.

This change broadens the supply pool in terms of the number of companies competing in the market which should in time result in more competition.

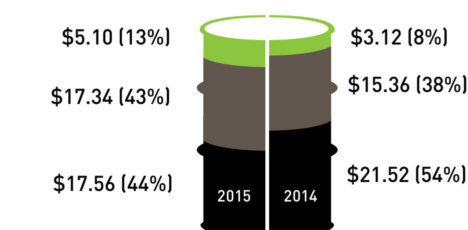
3 Netback analysis

Netback analysis of gas sales (at $8/Mcf)



Production costs
Production taxes
Net

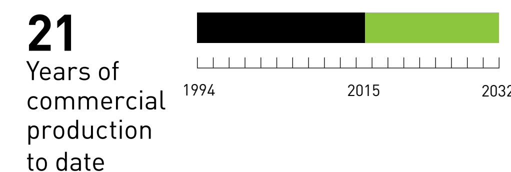
Netback analysis of oil sales (at $40/bbl)

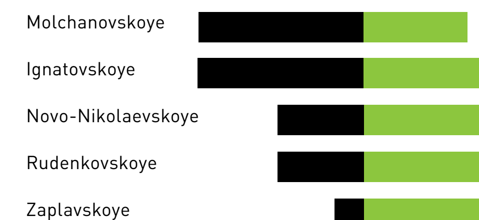


Production costs
Production taxes
Net

4 Novo-Nikolaevskoye Complex project life cycle

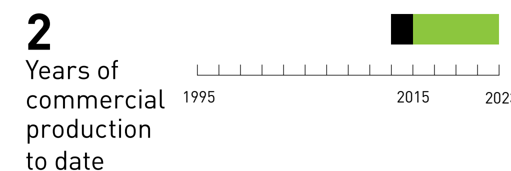
Total project lifecycle





5 Elizavetovskoye field project life cycle

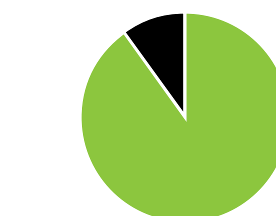
Total project lifecycle



6 Ukrainian reserves

Reserves split

89%
Gas



Gas
Oil

Market overview – southern Russia

Why are we here?

A huge demand for gas 1

Industrial output in Russia declined through 2015 and there has been a proportionate reduction in domestic gas demand. However, the south of Russia is defying the general trend and in the Krasnodar region, where our Koshekhablskoye gas field is located, there has been a sustained increase in industrial gas demand in recent years.

Annual industrial consumption of gas in the Krasnodar and Adygea regions is more than four times gas production.

Part of the reason for this is the population growth (and hence energy demands) of Sochi – initially as an Olympic venue, but more latterly as an expanding city and a favoured tourist destination. Gas is used locally in cement production, steel construction, glass manufacturing, heating and air conditioning – all of which is now abundant in Sochi.

Lack of local supply 1

In southern Russia, gas demands are partially met by transporting gas long distances (at high cost) from production centres in the north of Russia.

In Russia, historical Gazprom gas fields are now all in decline. To replace lost production, most investment into gas fields is in the development of the Yamal peninsula gas fields which are more than 4,000km north of our gas reserves at Koshekhablskoye, Adygea in southern Russia.

Forecast gas demand 2

Due to a rapid industrialisation in southern Russia in the past five years, by 2020 gas demands there are expected to double.

Our competitive advantage 3

First to move

In 2007, we purchased the licence to rehabilitate and develop the Koshekhablskoye gas field in order to participate in the rapidly growing independent gas market. The Koshekhablskoye gas field is located in the Republic of Adygea, southern Russia, where gas resource is scarce, and there are high transportation costs from Russia's main gas production area in the far north, some 4,000km away.

Gas realisations 4

The average increase in Russian gas prices since 2007 has been 18%. There was an official 7% increase in the regulated maximum industrial gas price in 2015.

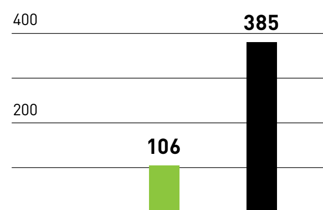
Netback analysis 5

The gas production tax rate in southern Russia is 9%, which is approximately one third of the rate in Ukraine (29%). The netback on our gas sold in Russia in 2015 was approximately $0.70/Mcf (based on a gas sales price of $1.68/Mcf) – a gross margin of 41%.

1 Gas supply and demand

Krasnodar-Adygea region annual production-consumption gap (Bcf)

279 Bcf
Shortfall

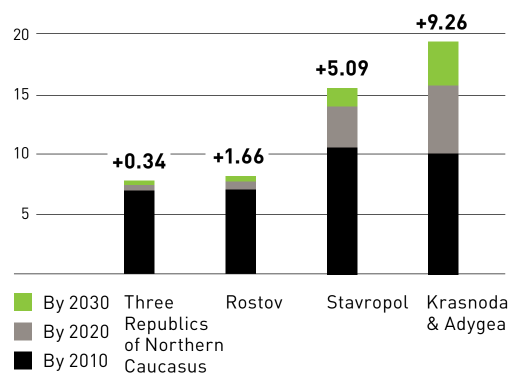


Gas production (Bcf)[1]
Gas consumption (Bcf)[2]

Sources for supply and demand figures:
[1] Rosnedra
[2] Central Dispatching Unit of the Energy Sector (TsDU TEK)

2 Forecast gas demand

Southern Russia regional gas consumption forecast (Bcm)[3]



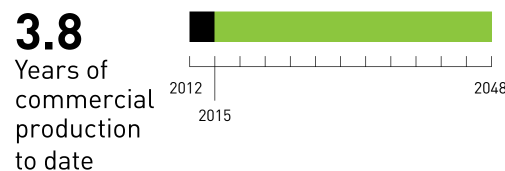
By 2030
By 2020
By 2010

[3] Source: ERTA consult 2010

3 Koshekhablskoye project life cycle

Total project lifecycle

3.8
Years of commercial production to date



4 Gas and pricing realisations

Gas realisations in southern Russia in 2015

$1.68 per Mcf

JKX's business assets in southern Russia

Our investment 6

We have worked over five existing wells, installed a state-of-the-art Gas Processing Facility and expanded processing capacity to 60 MMcfd (approximately 10,000 boepd).

Russian reserves 7

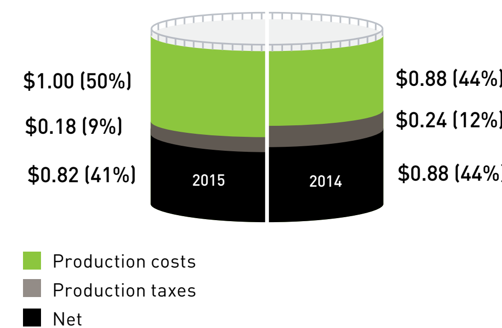
At the end of 2015, the estimation of remaining 2P reserves was 392.5 Bcf of gas and 0.65 MMbbl of oil (total 66.1 MMboe).

Principal risks associated with our business in southern Russia (detail on page 42)

Risk	
Geopolitical – Group	B
Commodity prices	D
Foreign exchange exposure	E
Reservoir performance	H
Environmental, asset integrity and safety incidents	I
Bribery and corruption	J

5 Netback analysis

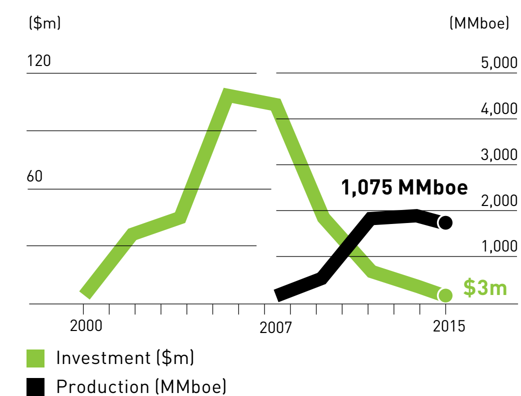
Southern Russia netback analysis gas (at $2/Mcf)



Production costs
Production taxes
Net

6 Our investment

Investment and production in southern Russia

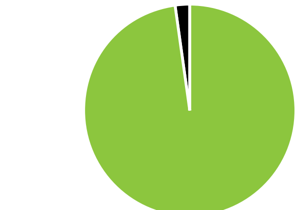


Investment ($m)
Production (MMboe)

7 Russian reserves

Reserves split

99%
Gas



Gas
Oil

Chief Executive's statement

Tom Reed Chief Executive Officer

A fresh perspective

Late in 2015, JKX became the target of shareholder activism on the London Stock Exchange. We saw what appeared to be a company stuck in a rut rather than having a clear strategy to resolve the myriad external challenges it faced in today's political and market environment. The Board that shareholders appointed on 28 January 2016 will actively address these challenges and return your company's focus to oil and gas development.

The new Board and I plan to make JKX an example of successful shareholder activism on the London Stock Exchange. We are true believers in shareholder rights and believe shareholder voices must be heard.

Over the last 10 years, your company has invested in excess of $925 million in oil and gas field developments and generated cumulative operating cash flows of approximately $1.1 billion, with $12.8 million generated in 2015.

This has been achieved without drilling a new well in Russia and without utilising latest generation drilling and completion techniques at our Ukrainian fields. This implies exciting geological potential for both. Hungary has also become more strategic to the Group in 2015 with the addition of six new production licenses.

Performance

We were not participants in the Company's performance in 2015, but we are responsible for reporting the financial results to you. As such, we will stick to some simple facts.

Average oil and gas production for the year decreased by 9% to 8,996 boepd (2014: 9,919 boepd), primarily due to the suspension of all non-essential capital investment in Ukraine, and no production from well-27 in Russia until December, due to repairs.

Group revenue for the year was 39% lower at $88.5m (2014: $146.2m) as a result of lower oil, gas and condensate prices in Ukraine and Russia, which followed international pricing trends, exacerbated by the decline in production.

Operating loss before exceptional charges was $10.7m (2014: profit $11.6m) and loss for the year was $81.5m (2014: $79.5m).

Ukraine

In Ukraine, we exited 2015 with production at 4,210 boepd and averaged 4,325 boepd for the year, down 10% from 2014. No wells were drilled as capital expenditure was suspended, however the natural decline in production was slowed by workover and well-intervention operations.

Russia

At our Koshekahblskoye field in southern Russia, we exited 2015 at 7,271 boepd, and averaged 4,671 boped for the year, down 9% from 2014 due to well-27 not contributing for most of the year.

The two-year project to restore production to well-27 was completed in December 2015, improving the 2015 exit production as a result. To date, insurance recoveries related to these restoration costs have been approximately $6.1m.

Russian operations are today stable and we will assess the economics of further development opportunities in Russia in comparison to the rest of the company's portfolio of capital investment opportunities.

Rest of World

Hungary and Slovakia saw expansion of acreage under licence in 2015. JKX now has a 100% interest in six production licences in Hungary covering an area of 200 sq km, and a 25% interest in four exploration licences in Slovakia covering 1,376 sq km. We will assess the economics of further development opportunities in Hungary and Slovakia in comparison to the rest of the company's portfolio of capital investment opportunities.

Reporting and exceptional charges

Within the rules of International Financial Reporting Standards ('IFRS'), we will try to give the most open explanation of risks and potential liabilities as we can, and report performance, failures and major risks as they arise. We will also tell you what we can about our plans to overcome the Company's many challenges.

Through our regular frank and open communications we hope to rebuild investor confidence and trust in JKX with both current and future shareholders.

In 2015, we have recognised an impairment charge of $51.1m on the carrying value of our oil and gas assets; $49.6m of which relates to our Novo-Nikolaevskoye Complex of fields in Ukraine. The charge arises mainly due to the impact of lower international oil and gas prices on our asset valuations and also due to the increase in the discount rate used for our Ukrainian projects, reflecting heightened economic uncertainty there.

We have identified several potential liabilities relating to production taxes in Ukraine for certain periods since 2007, which we believe could have been more clearly communicated to shareholders. Including amounts arising in the second half of 2015, these potential liabilities total $41m and are being actively contested by the company, as described in more detail in Note 27 to the financial statements.

Due to a recent judgement against our Ukrainian subsidiary, Poltava Petroleum Company ('PPC'), in the High Administrative Court of Ukraine in respect of one of these cases, a $10.9m provision has been recognised to reflect our estimate of the potential liability. The Board believes that these claims are without merit under Ukrainian law and we will continue to contest them vigorously.

An exceptional charge of $3.0m has also been recognised for the legal costs of our two major shareholders, Eclairs and Glengary, which the Company will have to pay as a result of the finding against the Company by the Supreme Court of the United Kingdom that the restrictions placed on these shareholders in 2013 were invalid.

Outlook

As long as the current board and I are managing your company, we will stick to a few basic management and communication principles:

A. Transparent reporting of financial performance, as well as challenges and major risks to our business. We will treat the market as our partner, 'Mr. Market'. We will tell our partner what we are thinking as well as our IFRS reporting, and let the share price take care of itself over time.

B. Rational capital allocation based on predicted economic return. No investments which are dependent on multiple expansion, market perception, or an unknown future buyer for positive return.

C. We will manage our operations and field development based on 'what's possible' in the world of petroleum engineering, physics, and execution. Not based on what happened last year or what the drilling equipment that we acquired years ago can do. By targeting maximum engineering performance, and dealing with the local and technical shortcomings as they arise, we create a world-class performance organisation.

Ukraine

In Ukraine, our immediate focus is to re-evaluate the Field Development Plan with global best practices in mind and particularly those practices that have successfully driven the unconventional oil and gas revolution in North America, where production gains were made in geology more challenging than our own.

Once we have identified what's possible, we will work quickly to find the combination of talent, technology, and engineering that's right for our fields. The team at PPC is talented and motivated; the staff are fully committed to establishing themselves as the clear technical, operational and development leader in Ukraine.

Russia

In Russia, we will maximise the cash generation from the asset, while reviewing strategic options, including additional development and monetisation options. We are conducting this exercise while challenging ourselves and the local service industry to target international norms for deep, HTHP gas well construction and completion in southern Russia. Our historic well workover costs are many times higher than similar wells in North America and we will understand why that is the case and what we can do about it before spending significant additional capital in the field.

Rest of World

In Hungary and Slovakia, we will rebuild the Field Development Plan using best global practices and then adapt that goal for local execution. Attracting world-class services and reasonably priced capital requires scale, which is what we will have in mind while reviewing strategic opportunities in eastern Europe as well.

Finally, I wish to thank our staff for their dedication and support of the new Board and I look forward to updating all shareholders in more detail in the coming weeks on our strategy to restore shareholder value at JKX.

Tom Reed
Chief Executive Officer

Strategic priorities in 2015

Our business model in 2015

Strategic objective

Our objective in 2015 was to enhance shareholder value by increasing both our oil and gas production and reserves through safe and responsible operations.

We seek to achieve our strategic objective by focussing on our three **strategic priorities** (see right) and:

- our ongoing drilling and workover programme in our existing oil and gas fields to sustain and increase oil, gas and condensate production;
- exploration and appraisal using seismic and other techniques to enhance reserves and resources;
- ongoing development of our physical infrastructure to increase capacity and minimise operational costs; and
- new investments and acquisitions.

Investment, sales and return cycle

We invest in **exploration** for, and the **appraisal** and **development** of oil and gas fields (for more information on those assets see page 35). We generate revenue from **production** and sales of oil, gas, condensate and LPG.

Cash flow generated from production and sales is reinvested to achieve our three **strategic priorities** (see right), and to the beneficiaries (below).

Key beneficiaries

Local community
$0.2 million plus employee time donated to charitable causes in Ukraine and Russia.

Employees
$14.9 million paid in wages and salaries. We provide jobs in developed, emerging and developing economies, creating local purchasing power and improving standards of living.

Suppliers
$38.9 million paid to suppliers for equipment, materials and services. Where possible, we purchase local goods and services and develop infrastructure that benefits entire communities.

Government
$50.8 million paid to national governments and local authorities. This includes production taxes, payroll taxes, corporate tax, net VAT, licences fees, land and utility taxes. Through payment of taxes we support local and national economies.

Shareholders
No dividends were paid during 2015.

Strategic priorities in 2015

Our strengths supporting that:	1 Profitable production growth	2 Oil and gas reserves growth	3 Safe and responsible operations
Visionary marketplace analysis and subsurface expertise	✓	✓	
Significant regional experience and local expertise	✓	✓	
Stakeholder management	✓	✓	✓

Our competitive advantages

- First to move
- Sustainable low cost production
- Cash generative operations

Strengths explained

Visionary marketplace analysis and subsurface expertise
Allows us to explore for new oil and gas reserves and develop oil and gas production.

Our on the ground intelligence is supported by our subsurface expertise in Ukraine, Russia and London applying the latest western technologies in oil and gas exploration and appraisal.

Significant regional experience and local expertise
We have over 20 years experience of operating in the oil and gas industry in central and eastern Europe. Our significant local knowledge, presence and on the ground intelligence is supported by our strong, established relationships in the oil and gas industry.

Stakeholder management
We build long-term, trusting relationships with local staff, authorities, customers and other stakeholders, which provide our business with a stable platform in volatile emerging markets.

Competitive advantages explained

First to move
Ukraine and southern Russia are significant net consumers of oil and gas. A significant gas supply-demand gap will remain for the foreseeable future.

Sustainable low cost production
Our Ukrainian and Russian companies are led by a native General Director who is empowered to build a stable business platform through investment in a locally employed workforce.

Strong western governance standards are applied to our local operations through close working relationships between the Board and our management teams in Ukraine and Russia.

Cash generative operations
We sell our gas under long-term contracts to reputable customers improving the reliability of our revenue streams.

Strategic priorities in 2015

Performance dashboard in 2015

Our performance dashboard for our three strategic priorities provides a snapshot of our progress in 2015, our focus through 2016 and the associated risks. On the following pages (18 through 27) we provide more detail on the dashboard information.

On 28 January 2016 a new Board was appointed at JKX. The new Board has completed preliminary on-site reviews of the operations and assets of JKX and is reviewing its strategic priorities and future strategy.

Strategic priority

1 Profitable production growth

Progress in 2015

- Ukrainian production down 10% to 4,325 boepd
- Elizavetovskoye field development on-stream contributing an additional 1,715 boepd
- Russian production down 9% at 4,671 boepd
- Gas realisations maintained at $4.20/Mcf ($7.65/Mcf in Ukraine, $1.68/Mcf in Russia)
- Production costs reduced to $7.45/boe

Performance measures

Production volumes

8,996 boepd
↓ 9%

Gas realisations

$4.20 per Mcf
↓ 27%

Return on average capital employed

(35.8)%

Production costs

$7.45 per boe
↓ 14%

Future focus

- Restarting the 2015 capital investment programme in Ukraine
- Strategic review of assets by new Board of JKX (see page 12)

Associated principal risks

- Further Ukrainian government-imposed decrees making future investment uneconomic
- Decline in oil and gas prices
- Gas prices in Russia are controlled by the government
- Russian gas field reservoirs are 5,000m deep with high temperature, pressure and sulphur content

Strategic priority

2 Oil and gas reserves growth

- Reserves replacement ratio of 42%

After 2015 production:

- Russian reserves decreased by 1.0 MMboe to 66.1 MMboe
- Novo-Nikolaevskoye Complex reserves increased by 2.4 MMboe to 26.4 MMboe
- Elizavetovskoye reserves up to 3.2 MMboe

Performance measures

Reserves

95.7 MMboe

Reserves replacement ratio

42%

Future focus

- Investment in Ukraine to expand reserves is currently restrained pending more favourable oil and gas prices
- Reserves at our Elizavetovskoye field in Ukraine could be expanded if drilling restarts
- Strategic review of assets by new Board of JKX (see page 12)

Associated principal risks

- The Ukrainian government control the economic parameters for investment
- If future oil and gas prices are predicted to remain low, reserves could be reduced

Strategic priority

3 Safe and responsible operations

- An All Injury Frequency Rate of 0.15 per 200,000 hours worked
- Zero Lost Time Injuries per 200,000 hours worked
- An Environmental Incident Frequency Rate of 0.30 per 200,000 hours worked

Performance measures

All Injury Frequency Rate ('AIFR')

0.15
per 200,000 hours worked

Lost Time Injuries ('LTI')

Zero
per 200,000 hours worked

Environmental Incident Frequency Rate ('EIFR')

0.3
per 200,000 hours worked

Future focus

- To exceed internal and industry targets for AIFR, LTI and EIFR
- An AIFR of 0.35 or below
- LTI of 0.35 or below
- EIFR of 0.60 or below
- Maintain OHSAS 18001, ISO 14001 and ISO 9001 accreditations

Associated principal risks

- Containment of frequently used hydrocarbons and other hazardous materials
- Ensuring that all staff and contractors comply with approved rules, standards and regulations at all times

Strategic priorities in 2015

1 Profitable production growth

Supporting strengths:

- Visionary marketplace analysis and subsurface expertise
- Significant regional experience and local expertise
- Stakeholder management

Associated principal risks (detail on page 42)

Risk	
Geopolitical – Ukraine	A
Geopolitical – Group	B
Tax legislation	C
Commodity prices	D
Foreign exchange exposure	E
Liquidity	F
Overexposure to a single market	G
Reservoir performance	H
Bribery and corruption	J

Why is profitable production growth important?

Profitable production growth from our fields will increase our revenue, profits and shareholder value. Our future production profile underpins the value of the Group.

99% and 81% of our total production in Russia and Ukraine, respectively, is gas.

Our oil and gas production is limited by the performance of our oil and gas reservoirs. Our gas production is also limited by the processing capacity of the three Gas Processing Facilities ('GPFs') at our Koshekhablskoye field in Russia, and the Novo-Nikolaevskoye Complex and Elizavetovskoye fields in Ukraine.

How we go about it

We produce our oil, gas and condensate from fields in Ukraine and southern Russia, where demand for oil and gas significantly exceeds the local supply.

We sell all the oil, gas, and condensate that we produce, locally. In Ukraine, some of our gas and condensate production is converted into LPG and sold into the expanding Ukrainian LPG market. This increases overall revenues from the gas produced.

First to move

JKX invested in the oil and gas industry in the region in 1994. We own and control 100% of all our producing fields, therefore we have the flexibility to regularly reprioritise field developments to grow Group production in the most effective way.

Significant regional experience and subsurface expertise

Our highly skilled local Russian and Ukrainian technical teams are experts in local laws and regulations, who ensure that we can quickly obtain the permits required to continue with planned field developments. Having this expertise in-house ensures efficient day-to-day drilling, development and construction operations at minimum cost.

In 2014 at the Elizavetovskoye field in Ukraine, we drilled three new wells, doubled the gas processing capacity at the new GPF and converted our exploration licence into a 20 year production licence.

Stakeholder management

The gas markets in which we can sell our gas in Ukraine and Russia are broadly regulated by Government. The price at which we can sell our gas in Russia is controlled by the Government.

We attempt to maximise stability and predictability within these markets by selling our gas under long term contracts to reputable customers. For example, in Russia, all of our gas production is sold to a local trading company through a gas sales contract which remains in place. Due to the disruption in the Ukrainian gas market in 2015 our long term gas sales agreement with Shell was terminated however we continue to look to secure stable long-term industrial customers for our gas production there.

Sustainable low cost production

Our low cost operating model using local employment and expertise has been learnt from 22 years of operating in Ukraine. This experience and knowledge is transferable across central and eastern Europe.

Progress in 2015

Group production decreased by 9% to 8,996 boepd (4,671 boepd in Russia; 4,325 boepd in Ukraine).

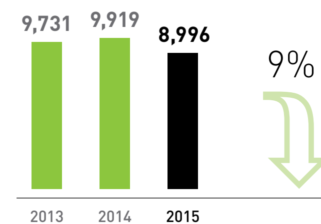
Production costs reduced by 14% at $7.45/boe mainly as a result of Hryvnia and Rouble devaluations; gas realisations also reduced to $4.20/Mcf.

Revenues declined significantly primarily due to a sharp fall in oil and gas realisations and lower production volumes.

Performance measures

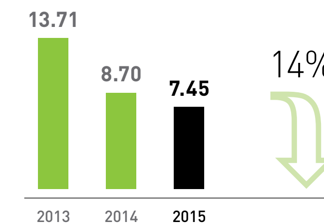
Production volumes

8,996 boepd



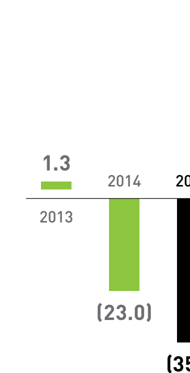
Production costs

$7.45 per boe



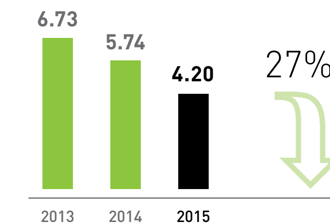
Return on capital employed

(35.8)%



Gas realisations

$4.20 per Mcf



Strategic priorities in 2015

Ukraine

Development drilling in Ukraine was suspended in 2015 because of the government's intervention in the gas sales market including the introduction of punitive rates of production tax, foreign exchange controls and government-imposed restrictions on the sale of gas. Consequently, further development of the Elizavetovskoye field was on hold in 2015, although workover operations have continued in our mature Ukrainian fields.

In Ukraine, production decreased by 10% to 4,325 boepd, gas realisations reduced to $7.65/Mcf, as did production costs at $7.45/boepd.

The three wells at our Elizavetovskoye field, contributed production of 1,715 boepd (10.1 MMcfd of gas and 29 bopd).

Production at our mature fields in the Novo-Nikolaevskoye Complex reduced 20% to 2,611 boepd.

Russia

In Russia, tubing failures in two of the five production wells at the Koshekhablskoye field continued to constrain production in 2015 to approximately 30 MMcfd from the remaining three wells (see page 37). One of these wells, well-27 was restored to production in December 2015 following repairs and recompletion.

Production in 2015 reduced 9% to 4,671 boepd and our local gas price improved 7% on 1 July 2015.

The Russian authorities issued their approval of the upgrade project for expansion of our Russian GPF capacity to 60 MMcfd in 2015, which permitted the project to be completed. The nominal processing capacity of the GPF is close to 60 MMcfd (approximately 10,000 boepd).

Outlook for 2016 and beyond

Production in 2016 is expected to increase following the restoration of well-27 in Russia, in December 2015, the cost of which was mostly covered by insurance proceeds.

A new Board was appointed at JKX on 28 January 2016 (see page 6). After visting the Group's main assets within 30 days of its appointment, the new Board is encouraged by the physical characteristics of the reservoirs in both Russia and Ukraine.

The Board is reviewing all development projects and enhancement opportunities.

Gas realisations are anticipated to remain at current levels in Ukraine through 2016, with Rouble-denominated gas realisations in Russia expected to remain flat and to decrease in US$-terms, if the Rouble devalues.

Risks

Ukraine

Investment plans in Ukraine to increase production may be impacted if there is any further government intervention in the gas market or increases to gas production tax. Production growth requires the economic parameters for investment in Ukraine being maintained.

Russia

In Russia, tubing replacements at our wells are complex and the chances of success are reduced due to the depth of the wells and the high temperatures and high pressures at which they operate.

Future development work may only be commercial with higher local gas prices and a strengthening of the Rouble against the US$.

The Russian gas prices are controlled by the government and therefore may not increase in line with current expectations. In addition, the Rouble could weaken against the US$ and both of these factors could reduce the value of future projects in Russia and their net returns.

Strategic priorities in 2015

2 Oil and gas reserves growth

Supporting strengths:

- Visionary marketplace analysis and subsurface expertise
- Significant regional experience and local expertise
- Stakeholder management

Associated principal risks (detail on page 42)

Risk	
Geopolitical – Ukraine	A
Geopolitical – Group	B
Liquidity	F
Over exposure to a single market	G
Reservoir performance	H

Strategic priorities in 2015

Why is oil and gas reserves growth important?

Production from our oil and gas reserves in Ukraine and southern Russia will continue to generate cash to fund future development and exploration in the region.

The reserves replacement ratio measures the amount of new oil and gas reserves that we have discovered during the year compared with what we have produced from existing reserves.

Our ability to replenish and grow our reserves base is a good indicator of the success of our exploration and appraisal programme and ensures sustainable production.

How we go about it

To ensure we can continue to grow our oil and gas reserves we maintain a balance of investment in:

- exploration
- appraisal and
- development projects.

Visionary marketplace analysis and subsurface expertise
Exploration includes acquiring new oil and gas exploration and production licences when they arise in the region and continuing with our exploration programme across our existing portfolio of licences. We continue to screen a lot of potential opportunities in central and eastern Europe that fit with the Company's strategy.

We continue to focus on geographies and geologies that we understand in central and eastern Europe.

Significant regional experience and local expertise
Our three technical teams in London, Poltava (Ukraine) and Maikop (southern Russia) all have important roles to achieve the highest quality results from subsurface.

Our UK-based technical team focus on refining the Group's short, medium and long term plans to maximise value from existing reserves and to increase the reserves in our licence areas.

This requires applying the latest Western technologies to interpret the subsurface data and production results. We use this to regularly reschedule our drilling targets and field development plans to maximise our cash flows and chances of success.

In addition the UK team oversees the day-to-day technical challenges that arise at our fields and support the Group's business development activities with technical due diligence when new opportunities arise.

We regularly use independent engineering firms to estimate our reserves and resources which provide a certain level of assurance over our own assessments.

We share technical knowledge and resources between our projects in Ukraine and Russia.

Progress in 2015

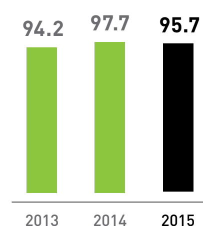
Our 2P reserves have been assessed at 95.7 MMboe (Russia 66.1 MMboe; Ukraine 29.7 MMboe). Our reserves replacement ratio was 42%.

In Ukraine, our potential to increase reserves has been extremely limited in 2015 due to the suspension of development drilling at the beginning of the year as a result of the government's introduction of punitive rates of production tax, foreign exchange controls and restrictions on the sale of gas (see page 32). The rate of gas production tax has now reduced to 29% from 1 January 2016, and there has been no further direct government intervention in the gas sales market since it expired in February 2015.

Performance indicators

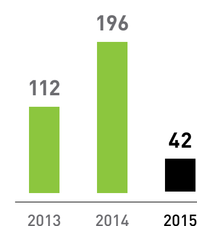
Reserves

95.7 MMboe



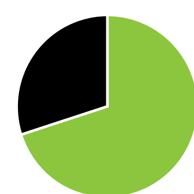
Reserves replacement ratio

42%



Reserves by region

95.7 MMboe



Russia	69%
Ukraine	31%

Outlook for 2016 and beyond

Future reserves replacement in Ukraine requires capital investment and the Board that was appointed on 28 January 2016 is reviewing the investment programme in Ukraine and Russia for 2016.

Risks

The calculations to measure oil and gas reserves require an estimate of expected future oil and gas prices. If a prolonged period of low oil and gas prices is forecast, the commercial returns from development projects reduce, which in turn can reduce the reserves assessments.

The oil price is mainly influenced by international markets. In Russia the governments control the gas sales price and in both Ukraine and Russia governments control other key economic parameters for investment there. It is therefore difficult to predict whether any of these parameters affect JKX in the foreseeable future which may impact the commercial rates of return for investments into oil and gas projects.

Russia
Wells at the Russian gas field are deep, complex and expensive, and will require significant technical analysis in advance to de-risk the project.

Reserves reassessment

Russian reserves reassessment

66.1 MMboe

	1 Jan 2015	Production	Revisions	31 Dec 2015
Oil MMbbl	0.7	(0.0)	0.0	0.7
Gas Bcf	408.8	(10.1)	(6.2)	392.5
Oil + Gas MMboe	**68.8**	**(1.7)**	**(1.0)**	**66.1**

During the year our estimation of remaining 2P reserves decreased by 6.2 Bcf of gas (total 1.0 MMboe). Our reserves were independently reviewed by DeGolyer & MacNaughton at 31 December 2014 and updated internally to 31 December 2015.

Ukrainian reserves reassessment

29.7 MMboe

	1 Jan 2015	Production	Revisions	31 Dec 2015
Oil MMbbl	2.8	(0.3)	0.8	3.3
Gas Bcf	156.5	(7.7)	9.6	158.4
Oil + Gas MMboe	**28.9**	**(1.6)**	**2.4**	**29.7**

During the year our estimation of remaining 2P reserves increased by 9.6 Bcf of gas and 0.8 MMbbl of oil (total 2.4 MMboe). Our reserves were independently reviewed by DeGolyer & MacNaughton at 31 December 2014 and updated internally to 31 December 2015.

Strategic priorities in 2015

Supporting strengths:

3 Safe and responsible operations

Stakeholder management

Associated principal risks (detail on page 42)

Environmental, asset integrity and safety incidents

Why is operating safely and responsibly important?

At the year end, our Russian and Ukrainian operations employed 249 and 493 personnel, respectively. Our London office has 22 staff. This puts people as a top priority for the Board.

We work in environments that are challenging and hazardous by nature. As well as operating efficiently, it is vital that we also operate safely and responsibly. Our behaviour impacts our employees, our shareholders, the wider community and the environment.

Our performance in the society in which we operate, and the environment, are a critical part of measuring our overall performance.

How we go about it

Stakeholder management – staff
We aim to attract and retain the best people, supporting them with appropriate HSECQ systems and supporting the local communities in which we operate. We attract the best people by offering attractive remuneration packages and working environments, by providing daily challenges, and opportunities for personal development.

We have over 700 staff in Ukraine and Russia of which more than 98% are local people. This provides us with a deeper understanding of local cultures which we respect and work with to get the best from our staff.

Ensuring the welfare and human rights of our employees is an important consideration in our day-to-day activity, both in the UK and internationally. We use the United Nations rights frameworks as guiding principles throughout our Code of Conduct, our employment practices and our relationships with suppliers, wherever we do business.

Stakeholder management – community
We aim to invest in, and improve, the communities in which we operate. We do this by providing local taxes, local employment and stability, which are highly valued by employees, local communities and governments.

Stakeholder management – environment
We operate an Environmental Management System ('EMS') accredited to ISO 14001 to reduce our impact on the environment. Our EMS requires ongoing training to staff and promoting a thorough understanding of our environmental policy to our business partners and suppliers.

Progress in 2015

During 2015 our performance against our health and safety targets resulted in:

- an All Injury Frequency Rate ('AIFR')[1] of 0.15, the target set was 0.40;
- Zero Lost Time Injuries ('LTI')[2], the target set was 0.25.

We measure our environmental performance using Environment Incident Frequency Rate ('EIFR')[3].

In 2015 our EIFR was 0.3 which exceeded our target set of 0.7.

Outlook for 2016 and beyond

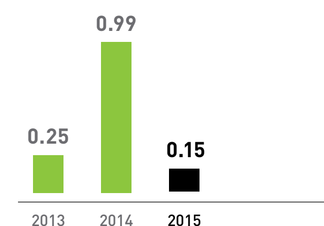
We expect to maintain our strong Health and Safety culture throughout the Group and exceed our industry AIFR and LTI performance targets. Our internal AIFR and LTI performance targets for 2016 are both set at 0.35, well below the industry benchmarks.

Our internal EIFR performance target has been set at 0.6 for 2016.

Performance indicators

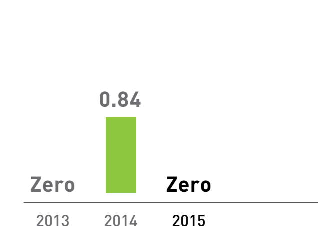
All Injury Frequency Rate[1] ('AIFR')

0.15



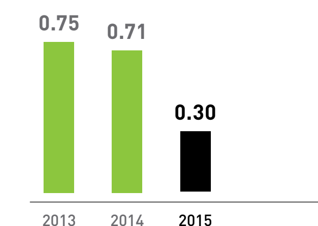
Lost Time Injuries[2] ('LTI')

Zero



Environmental Incident Frequency rate[3] ('EIFR')

0.30



[1] The AIFR, representing the health and safety incidents per 200,000 hours worked, is a direct measure of safety performance.

[2] The LTI represents the number of lost time or recordable incidents per 200,000 hours worked and is a direct measure of safety performance.

[3] The EIFR is the number of environmental incidents per 200,000 hours worked.

Strategic priorities in 2015

We will continue to invest in local training and skills development and appropriate community development projects and will maintain a regular dialogue with local stakeholders and authorities regarding our future plans.

We will maintain our OHSAS 18001 Health & Safety accreditation, our ISO 14001 Environmental accreditation and our ISO 9001 Quality Management accreditation.

Risks

Development and monetisation of our oil and gas reserves, exposes us to a wide range of significant health, safety, security and environmental risks.

On a daily basis, there is a risk of the loss of containment of hydrocarbons and other hazardous material, as well as the risk of fires, explosions or other incidents.

Continuous improvement of our procedures and our identification and recording systems is needed to mitigate our health, safety and environmental risks, and these need to be subject to regular external audit.

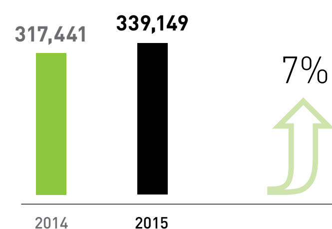
Russia

Our wells at the Koshekhablskoye field are deep, high temperature and high pressure, so are inherently difficult and require significant planning to de-risk the safety and success of any project.

Greenhouse Gas emissions

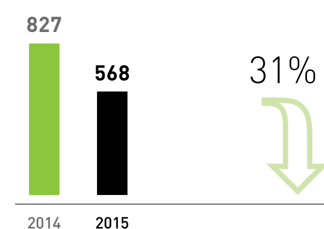
Scope 1 – Direct emissions

339,149 T CO_2e



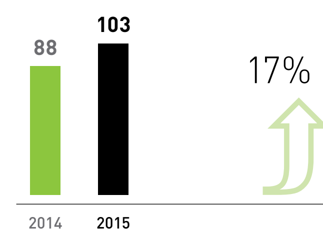
Scope 2 – Indirect emissions

568 T CO_2e



Intensity ratio

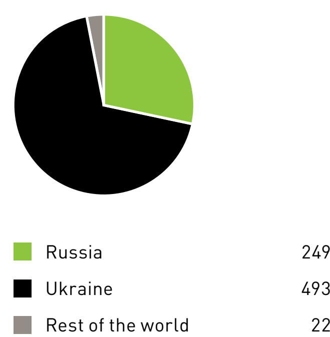
103 T CO_2e/MMboe of production



People – data

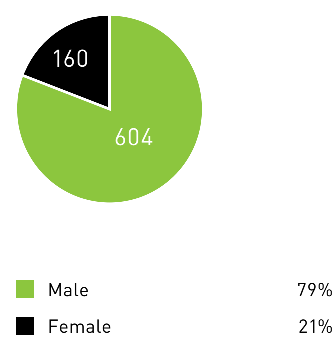
Staff by region

764



Russia	249
Ukraine	493
Rest of the world	22

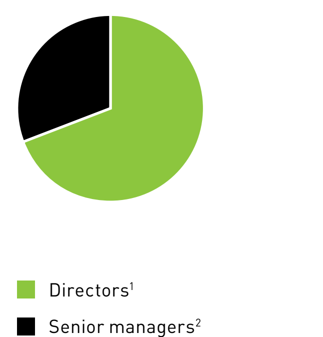
Staff: Male /Female



Male	79%
Female	21%

Directors and Senior Managers

13



Directors[1]	9
Senior managers[2]	4

Directors and Senior Managers, Male/Female

Male	12
Female	1

[1] Company Directors consist of the Company's Board as detailed on pages 100 and 101.
[2] Senior Managers are directors of subsidiary companies or who otherwise have responsibility for planning, directing or controlling the activities of the company or a strategically significant part of it.

Payments to Government 2015

JKX Oil & Gas plc presents below its consolidated report on payments to governments for the year ended 31 December 2015, for activities related to exploration, development and extraction of oil and gas resources.

We disclose below payments made to governments of the Group's subsidiaries involved in extractive activities. The term 'government' includes a department, agency or entity that is controlled by the government authority.

Reporting currency

Where payments have been made in currencies other than the reporting currency (US$), the exchange rate existing at the time the payment is made has been used.

Payment types disclosed at project level

Payments are disclosed on the project basis where practicable.

They are presented on a cash basis, net of any interest and penalties on late tax payments or on underpaid tax.

There were no payments in kind made to a Government during the year.

The following payment types are disclosed for legal entities involved in extractive activities for the year ended 31 December 2015:

Corporate income taxes

Payments to governments based on taxable profits under legislated income tax rules.

Production taxes

Payments to governments in relation to revenue or production generated under licence agreements. In the Consolidated Income Statement (page 112), production taxes are presented as production based taxes, not income tax.

Fees

Payments to governments in the form of fees include: tax on gas consumed for its own use, licence fees, area fees.

Excluded amounts

Taxes levied on consumtion such as value added taxes, personal income taxes, sales taxes, property and environmental taxes have not been included in this report.

Payments to Government 2015 (unaudited)

	Production taxes $'000	Fees $'000	Corporate income taxes $'000	Total $'000
Ukraine				
Novo-Nikolaevskoye Complex[1]	20,117	114	–	20,231
Elizavetovskoye field[1]	9,932	–	–	9,932
Corporate	–	–	696	696
Total	**30,049**	**114**	**696**	**30,859**
Russia				
Koshekhablskoye field[1]	1,445	–	–	1,445
Total	**1,445**	**–**	**–**	**1,445**
Hungary				
Total	**1**	**52**	**(82)**	**(29)**
Slovakia				
Total	**–**	**173**	**–**	**173**
Group total	**31,495**	**339**	**614**	**32,448**

[1] See pages 35 to 38 for an explanation of each project

Performance in 2015

PRODUCTION SUMMARY	Total 2015	Second half 2015	First half 2015	Total 2014
Production				
Oil (Mbbl)	**318**	164	154	368
Gas (Bcf)	**17.8**	9.4	8.4	19.5
Oil equivalent (Mboe)	**3,283**	1,724	1,559	3,620
Daily production				
Oil (bopd)	**871**	890	851	1,008
Gas (MMcfd)	**49**	51	47	54
Oil equivalent (boepd)	**8,996**	9,374	8,611	9,919

OPERATING RESULTS	Total 2015 $m	Second half 2015 $m	First half 2015 $m	Total 2014 $m
Revenue				
Oil	**14.6**	7.3	7.3	34.0
Gas	**68.7**	34.5	34.2	102.3
Liquefied petroleum gas	**4.6**	2.4	2.2	9.5
Other	**0.6**	–	0.6	0.4
	88.5	44.2	44.4	146.2
Cost of sales				
Exceptional item – production based taxes	**(10.9)**	(10.9)	–	–
Exceptional item – provision for impairment of oil and gas assets	**(51.1)**	(51.1)	–	(69.1)
Exceptional item – well control operations	**–**	–	–	(3.5)
Other production based taxes	**(26.2)**	(5.4)	(20.8)	(45.5)
Depreciation, depletion and amortisation – oil and gas assets	**(26.1)**	(13.5)	(12.6)	(32.4)
Other operating costs	**(24.4)**	(12.3)	(12.1)	(31.5)
	(138.7)	(93.2)	(45.5)	(182.0)
Total cost of sales	**(138.7)**	(93.2)	(45.5)	(182.0)
Gross profit/(loss) before exceptional item	**11.8**	13.0	(1.1)	36.8
Gross loss after exceptional item	**(50.1)**	(49.0)	(1.1)	(35.7)
Operating expenses				
Exceptional item – legal costs	**(3.0)**	(3.0)	–	–
Administrative expenses	**(17.5)**	(10.9)	(6.6)	(19.5)
(Loss)/gain on foreign exchange	**(4.9)**	(5.4)	0.5	(5.7)
Loss from operations before exceptional items	**(10.7)**	(3.4)	(7.3)	11.6
Loss from operations after exceptional items	**(75.6)**	(68.3)	(7.3)	(60.9)

EARNINGS	Total 2015	Second half 2015	First half 2015	Total 2014
Net loss ($m)	**(81.5)**	(67.7)	(13.8)	(79.5)
Net loss before exceptional item ($m)	**(25.8)**	(12.0)	(13.8)	(22.0)
Basic weighted average number of shares in issue (m)	**172**	172	172	172
Loss per share before exceptional item (basic, cents)	**(14.97)**	(6.96)	(8.01)	(12.76)
Loss per share after exceptional item (basic, cents)	**(47.32)**	(39.31)	(8.01)	(46.21)
Pre-exceptional earnings before interest, tax, depreciation and amortisation ($m)[1]	**16.9**	10.8	6.1	46.0

REALISATIONS	Total 2015	Second half 2015	First half 2015	Total 2014
Oil (per bbl)	**$49.75**	$47.49	$49.87	$90.79
Gas (per Mcf)	**$4.20**	$3.97	$4.46	$5.74
LPG (per tonne)	**$442.59**	$437.32	$448	$807

COST OF PRODUCTION ($/boe)	Total 2015	Second half 2015	First half 2015	Total 2014
Production costs (excluding exceptional item)	**$7.45**	$7.17	$7.75	$8.70
Depreciation, depletion and amortisation	**$7.94**	$7.78	$8.11	$8.93
Production based taxes	**$8.00**	$3.15	$13.36	$12.57

CASH FLOW	Total 2015	Second half 2015	First half 2015	Total 2014
Cash generated from operations ($m)	**12.8**	9.3	3.5	58.4
Operating cash flow per share (cents)	**7.4**	5.4	2.0	33.9

STATEMENT OF FINANCIAL POSITION	Total 2015	Second half 2015	First half 2015	Total 2014
Total cash[2] ($m)	**26.3**	26.3	22.4	25.9
Borrowings (excluding derivatives) ($m)	**34.4**	34.4	32.8	36.4
Net debt[3] ($m)	**(8.1)**	(8.1)	(10.4)	(10.5)
Net (debt)/cash to equity (%)	**(4.6)**	(4.6)	(3.8)	(3.8)
Return on average capital employed[4] (%)	**(35.8)**	(25.8)	(10.0)	(23.0)
Increase in property, plant and equipment/intangible assets ($m)				
Ukraine	**2.8**	1.1	1.7	35.4
Russia	**5.2**	2.9	2.3	5.3
Other	**0.7**	0.5	0.2	1.6
Total	**8.7**	4.5	4.2	42.3

1 Earnings before interest, tax, depreciation and amortisation ('EBITDA') is a non-IFRS measure and calculated using Loss from operations of $75.6m (2014: $60.9m) and adding back depletion, depreciation, amortisation and exceptional items of $92.5m (2014: $106.9m). EBITDA is an indicator of the Group's ability to generate operating cash flow that can fund its working capital needs, service debt obligations and fund capital expenditures.
2 Total cash is Cash and cash equivalents plus Restricted cash.
3 Net debt is Total cash less Borrowings (excluding derivatives).
4 Return on average capital employed is the annualised profit/(loss) for the period divided by average capital employed.

Financial review

Russell Hoare Chief Financial Officer

Echoing the sentiments of your new Chairman and Chief Executive Officer, I would like to add that it is an honour to have been appointed by shareholders at the General Meeting on 28 January 2016 and I look forward to working with the new Board and the rest of the Company's employees to enhance performance and restore value to JKX.

Results for the year

The Company's financial performance for 2015 has been severely impacted by the deteriorating economic conditions and geopolitical situation in Ukraine compounded by the decline in oil and gas prices and the deterioration of local currencies where the Group operates.

The Group recorded a loss for the year of $81.5m (2014: loss $79.5m) after exceptional charges of $64.9m which comprised:

- a non-cash impairment charge of $51.1m (2014: $69.1m) for the Group's oil and gas assets;
- a provision of $10.9m recognised as a result of a recent judgement against our Ukrainian subsidiary in respect of one of the rental fees cases (see Note 27 to the consolidated financial statements) and
- a provision for legal costs of $3.0m (including interest) (2014: nil) to be reimbursed as a result of the judgement of the Supreme Court which allowed an appeal by Eclairs Group Limited ('Eclairs') and Glengary Overseas Limited ('Glengary') and their nominees against the Court of Appeal's judgment that the voting restrictions placed on them on 31 May 2013 by the Company were valid.

In 2014, an exceptional charge of $3.5m as a result of one-off costs incurred in Russia to kill well-27 was recognised in addition to non-cash impairment of $69.1m.

Loss for the year before exceptional charges was $25.8m (2014: loss $22.0m).

Revenue 1

Group revenues in 2015 from Ukraine and Russia were down 39% and 41% respectively (see table) versus the previous year, a fall of $57.7m in total.

Gas sales

Gas sales volumes in Ukraine were 8.9% lower at 3,171 boepd (2014: 3,481 boepd) as a result of reduced gas production to 3,503 boepd (2014: 3,854 boepd), an inability to sell normal levels of gas in January and February 2015 (due to restrictions imposed by the Ukrainian Government), and the suspension of all drilling activity in Ukraine until the investment climate improves (a company policy which is currently under review).

Whilst the gas price increased by 62% from an average of 4,271 UAH per Mcm in 2014 to 6,924 UAH per Mcm in 2015, US Dollar gas realisations in Ukraine declined 23.0% from $9.93/Mcf to $7.65/Mcf due the devaluation of the Hryvnia from an average of UAH12.0/$ during 2014 to an average of UAH22.3/$ during 2015. Before introduction of a new law on the Ukrainian gas market on 1 October 2015, the state regulator made periodic adjustments for Hryvnia/$ exchange rate fluctuations which impacted gas realisations. From 1 October 2015, these periodic adjustments ceased and gas prices have followed market trends.

1 **Group revenues**

(39.5%)

	2015 ($m)	2014 ($m)	Change ($m)	% Change
Ukraine	72.2	118.8	(46.6)	(39.2)
Russia	16.3	27.4	(11.1)	(40.5)
Total	**88.5**	**146.2**	**(57.7)**	**(39.5)**

Realisations

	2015	2014
Ukraine		
Gas ($/Mcf)	**7.65**	9.93
Oil ($/bbl)	**49.75**	90.79
LPG ($/tonne)	**442.6**	807
Russia		
Gas ($/Mcf)	**1.68**	2.60
Group		
Gas ($/Mcf)	**4.20**	5.74
Oil ($/bbl)	**49.75**	90.79
LPG ($/tonne)	**442.6**	807

Gas sales volumes in Russia were 8.6% lower at 4,301 boepd (2014: 4,706 boepd). Average gas realisations dropped by 35.4% from $2.60/Mcf to $1.68/Mcf mainly due to the devaluation of the Russian Rouble from an average of RR38.6/$ in 2014 to an average of RR62.0/$ in 2015. The effects of the Rouble devaluation partially offset the 7.5% increase in Rouble-denominated gas realisations in Russia from 1 July 2015.

The combination of lower realisations in Russia and Ukraine resulted in an overall average reduction in gas realisations of 26.8% to $4.20/Mcf (2014: $5.74/Mcf).

Oil sales

Oil sales volumes were 22.3% lower at 777 boepd (2014: 1,000 boepd) as a result of the lack of capital investment in 2015 and the expected decline in production volumes from the mature Novo-Nikolaevskoye group of fields in Ukraine. More recently commenced production from the Elizavetovskoye field development in Ukraine is predominantly gas.

Average Group oil realisations were 45.2% lower at $49.75/bbl (2014: $90.79/bbl), in line with the significant drop in international oil prices.

Liquefied Petroleum Gas ('LPG') sales

The $4.9m decline in LPG revenues was due to lower production volumes combined with a reduction in the domestic market price of 45.1% to $442.6/tonne (2014: $807/tonne), resulting from increased competition through both imports and other domestically produced supplies.

Loss from operations

The loss from operations was $75.6m which included exceptional charges of $64.9m.

Loss from operations before these exceptional charges was $10.7m (2014: profit $11.6m) which was the result of the $57.7m decrease in revenues being only partially offset by a decrease in cost of sales of $32.6m, a decrease in administrative expenses of $2.0m and a decrease in loss on foreign exchange of $0.8m.

The $32.6m decrease in cost of sales (before exceptional charges), to $76.8m (2014: $109.4m), is mainly due to decreases in:

- Russian operating costs of $3.4m (a decrease of 22.4% from 2014)
- Ukrainian operating costs of $2.3m (a decrease of 18.7% from 2014)
- Ukrainian oil and gas inventory movements and product purchases of $1.5m
- a reduction in the depreciation, depletion and amortisation ('DD&A') charge of$6.3m
- production based taxes of $19.3m, predominantly related to Ukraine
- offset by an increase in Rest of World costs of $0.2m.

The decrease in Russian operating costs of $3.4m is largely due to lower field support activities and related costs, and lower property tax payments due to the reduced value of the Russian assets used for property tax purposes. Additionally, the Rouble devaluation from an average of RR38.6/$ to an average of RR62.0/$ reduced the US Dollar reported cost base for Russia throughout the year.

Ukrainian operating costs decreased by $2.3m, mainly due to suspended drilling activity, reduction in staff and the effects of Hryvnia devaluation from an average of UAH12.0/$ to an average of UAH22.3/$.

Ukrainian sales from inventory and product purchases decreased by $1.5m to a gain of $0.4m (2013: charge $1.1m), as a result of production meeting sales demand throughout the year, thus reducing the need to purchase additional gas to meet sales commitments.

The DD&A charge reduced by $6.3m, largely as a result of lower production. The Group's depletion rate reduced to $7.94/boe (2014: $8.93/boe) following lower asset carrying values resulting from impairments recognised in Ukraine and Russia in 2014.

Ukrainian revenues

(39.2%)

	2015 ($m)	2014 ($m)	Change ($m)	% Change
Gas	53.1	75.7	(22.6)	(29.9)
Oil	14.1	33.2	(19.1)	(57.5)
Liquified Petroleum Gas ('LPG')	4.6	9.5	(4.9)	(51.6)
Other	0.4	0.4	–	–
Total	**72.2**	**118.8**	**(46.6)**	**(39.2)**

Financial review

Production taxes

Excluding the $10.9m exceptional charge for Ukrainian production based taxes from 2010 (see below), other production based taxes for the Group decreased by $19.3m (or 42.4%) to $26.2m (2014: $45.5m), mainly as a result of lower gas production tax rates applied due to the Interim Award of the Arbitration Case (see 'Other Taxation – Ukraine'), lower production in Ukraine and the devaluation of the Hryvnia (see "Other Taxation – Ukraine" section for details).

Average gas production tax in Ukraine decreased from $124.4/Mcm to $83.4/Mcm and average oil production tax decreased from $34.9/bbl to $21.6/bbl.

In Russia, average gas production tax decreased from $11.4/Mcm to $5.3/Mcm in 2015 due to implementation of a new Mineral Extraction Tax regime from 1 July 2014 (see 'Other Taxation – Russia').

The various factors listed above contributed to the Group's effective gas production tax decrease from $12.57/boe to $8.00/boe.

Other taxation – Ukraine

On 1 April 2014, the Ukrainian government increased production tax rates for gas from 25% to 28%. This rate was then applied to the actual average import price for gas as communicated by the Ministry of Economic Development and Trade of Ukraine. The oil tax rate at this time remained constant at 39%.

On 1 August 2014, the Ukrainian government passed emergency budget legislation to increase the gas production tax rate from 28% to 55% of the maximum gas price published monthly by the Ministry of Economy. Oil tax rates also increased from 39% to 45% from 1 August 2014.

In December 2015 the Ukrainian Government passed legislation to reduce the gas production tax in Ukraine from 55% to 29% with effect from 1 January 2016.

As part of the JKX's international arbitration against Ukraine in respect of overpaid production taxes (see Note 27 to the consolidated financial statements), the Group applied for interim measures under the bilateral investment treaties that exist between Ukraine and the United Kingdom and the Netherlands, respectively, to reduce the rate of production tax applicable to our Ukrainian subsidiary, Poltava Petroleum Company ('PPC'). On 23 July 2015, an international arbitration tribunal issued an Interim Award requiring the Government of Ukraine to limit the collection of rental fees on gas produced by PPC, to a rate of 28%. The Interim Award, which is binding on Ukraine as a matter of international law, will remain in effect until the final ruling which will be issued following the arbitration hearing which is expected to take place in July 2016.

Other taxation – Russia

A new mineral extraction tax ('MET') formula was implemented from 1 July 2014. The gas and condensate MET rate applicable in 2015 was 305 Roubles/Mcm (2014: 409 Roubles/Mcm). The formula is based on gas prices, gas production as a share of total hydrocarbon output and complexity of gas reservoirs (depletion rates, depth of the producing horizons and geographical location of producing fields). Our Russian subsidiary, Yuzhgazenergie LLC ('YGE'), is entitled to a 50% discount based on the depth of gas reservoirs.

In addition to production taxes, YGE is subject to a 2.2% property tax which is based on the net book value of its Russian assets as calculated for property tax purposes. This amounted to $1.5m in 2015 (2014: $2.5m). This amount is included in other cost of sales in the consolidated income statement.

Administrative expenses and foreign exchange

The Group's administrative costs decreased by $2.0m to $17.5m (2014: $19.5m) during the year largely due to:

- a decrease in group staff costs of $2.2m and other costs of $2.1m mainly as a result of significant devaluation of local currencies (Hryvnia and Rouble) against the US Dollar;
- offset by a $2.3m increase in legal and professional fees incurred as a result of the international arbitration (see Note 27 to the consolidated financial statements).

Foreign exchange losses were recognised at $4.9m (2014: $5.7m loss) due to the Rouble and Hryvnia devaluations previously noted. Included in foreign exchange loss is the cost of $1.5m associated with the conversion and repatriation of dividends of $10.0m from Ukraine to the UK. During 2014 the National Bank of Ukraine ('NBU') issued a decree which imposed currency convertibility and repatriation restrictions, initially until 1 December 2014, later extended to 2 March 2015, 3 June 2015, 3 September 2015, 4 March 2016 and subsequently to 8 June 2016. The currency controls severely restrict the group's ability to make cash transfers out of Ukraine. JKX received an award from the Tribunal ordering Ukraine to convert and repatriate dividends to the UK however the NBU declined to process the application.

Net finance charges

Finance costs have increased by $3.3m to $6.5m (2014:$3.2m) comprising convertible bond interest of $6.5m. In 2014 interest of $3.0m was capitalised in respect of borrowings used to construct property, plant and equipment which was completed in 2014.

The $1.9m charge (2014: $9.1m credit) for the fair value movement on the derivative liability represents the change in fair value of the conversion option associated with the convertible bond. The bonds have a conversion option which becomes more valuable to the bond holder as the Company's share price nears or exceeds the fixed conversion strike price (76.29 pence). As the Company's share price has increased from 12.00 pence at 31 December 2014 to 27.25 pence at 31 December 2015 and the probability of the conversion option has increased, a charge has been recognised that represents the increase in fair value of the potential liability of the Company to settle any conversion options that may be exercised in future periods.

Finance income comprising income from bank deposits increased by $0.2m to $1.3m (2014: $1.1m).

Earnings per share

Basic loss per share before exceptional items were 14.97 cents (2014: loss 12.76 cents) in line with the pre-exceptional loss. Basic loss per share after exceptional items was 47.32 cents (2014: loss 46.21 cents) reflecting the Group loss after exceptional items net of their related tax effects of $55.7m (2014: $57.6m).

Taxation

The total tax credit for the year was $1.2m (2014: $25.8m charge) comprising a current tax charge of $4.8m (2014: $9.5m) in respect of Ukraine, a deferred tax charge before exceptional items of $3.1m (2014: $31.2m) and a deferred tax credit of $9.2m in respect of exceptional items (2014: $15.0m).

The fall in current tax charge to $4.8m reflects lower profitability in Ukraine. In Ukraine, the corporate tax rate for 2015 was 18% and remains at this level for 2016.

The total deferred tax credit of $6.1m (2014: $16.3m charge) comprises:

- a $2.1m credit reflecting the recognition of deferred tax assets in respect of Russian tax losses carried forward to future periods; and
- a net $4.0m credit (2014: $15.0m) relating to an impairment and the provision for historic production based taxes in Ukraine and other tax timing differences on our oil and gas assets in Russia and Ukraine.

Loss for the year after tax

The result for the year, after exceptional charges of $55.7m (net of deferred tax effects), was a loss of $81.5m (2014: loss of $79.5m). On a pre-exceptional basis, loss for the year was $25.8m (2014: $22.0m).

On a pre-exceptional basis, the $3.8m change is the combined result of:

- a $57.7m decrease in revenues (as noted above);
- a decrease in pre-exceptional cost of sales of $32.6m to $76.8m (2014: $109.4m) as a result of reduced operating costs, production taxes and a decrease in DD&A charges;
- a decrease in administrative expenses by $2.0m;
- a decrease in foreign exchange losses of $0.8m;
- an increase in net finance charges of $3.1m;
- a decrease in the result from business combinations of $0.2m to nil (2014: $0.2m);
- a $11.0m decrease in the fair value of the derivative attached to the convertible bond; and
- a $32.8m decrease in the taxation charge (before exceptional items).

Exceptional charges

Exceptional charges of $64.9m in the year consist of:

- a $51.1m impairment charge against our oil and gas assets;
- a provision of $10.9m to cover potential liabilities of production based taxes following the recent court hearing in Ukraine, and
- $3.0m charge relating to reimbursement of legal costs to Eclairs and Glengary as a result of the Supreme Court decision.

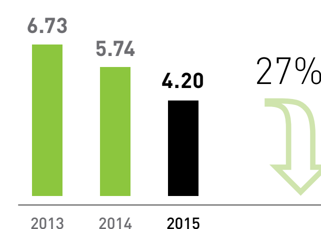
The impairment charge for the year of $51.1m comprises:

- $49.6m in respect of Novo-Nikolaevskoye Complex in Ukraine (see Note 5 (d) to the consolidated financial statements) mainly as a result of the sharp decline in international oil and gas prices and an increase in the discount rate applicable to JKX's Ukrainian projects;
- $1.5m in respect of our Hungarian oil and gas assets due to the sharp decline in international oil and gas prices and the reduction in assessed contingent resources (see Note 5 (f) to the consolidated financial statements).

Performance measures

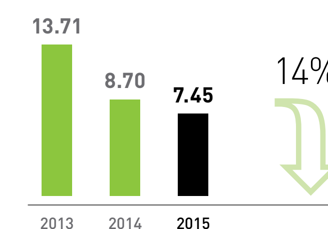
Gas realisations

$4.20 per Mcf



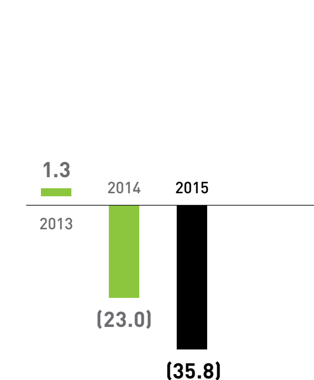
Production costs

$7.45 per boe



Return on capital employed

(35.8)%



Financial review

Cash flows

Cash generated from operations was lower at $12.8m (2014: $58.4m). This is a result of a $14.7m increase in the loss from operations, despite decreases of $6.8m and $18.0m in non-cash DD&A and impairment charges, respectively, an increase in other non-cash charges of $0.5m combined with $6.6m increase in cash outflow from changes in working capital (although this is largely a timing difference and compares with a working capital inflow of $15.6m in 2014).

Interest paid during the year comprised $3.0m (2013: $3.3m), mainly relating to financing charges on the convertible bond. Income tax paid in the year decreased to $0.7m (2014: $7.6m), due to lower profits earned by the Ukrainian subsidiary and the utilisation of prepaid tax in Ukraine at the end of last year.

Net cash generated from operating activities was lower at $9.1m (2014: $47.5m) as a result of the $45.6m reduction in cash from operations offset by a reduction of $6.9m in Ukrainian corporation tax payments and a $0.3m decrease in interest payments.

Net cash used in investing activities has significantly decreased to $1.9m (2014: $41.9m) mainly due to the reduced capital investment programme in both Russia and Ukraine. Investment in property plant and equipment, the largest component in investing activity cash flow, was $34.4m lower than the prior year at $5.6m (2014: $40.0m).

Cash inflow from held-to-maturity investments of $2.7m (2014: outflow $2.7m) comprises proceeds from Ukrainian government US$ treasury bills which matured in January and February 2015.

Net cash outflow from financing activities in the year mainly relates to redemption of bonds with a principal amount of $4.0m in addition to an early redemption premium of $0.2m on 19 February 2015 and a $1.5m repayment of the Credit Agricole working capital facility at PPC, which expired during the year.

No dividends were paid to shareholders in the year (2014: nil).

Cash

Cash at the end of the year (excluding restricted cash) was $25.9m (2014: $25.4m). The increase is as a result of an overall increase in cash and cash equivalents generated in the year of $1.6m (2014: $7.0m increase) driven by the reduced capital expenditure program, offset by the negative effects of foreign exchange on cash balances of $1.1m (2014: decrease $7.3m).

Liquidity

The Group employs a number of financial instruments to manage the liquidity associated with the Group's operations. These include cash and cash equivalents, together with receivables and payables that arise directly from our operations.

Separate from these, the main financial instrument of the Group is the $40 million guaranteed unsubordinated convertible bond which was placed in Q1 2013 with institutional investors which matures in 2018. The bonds have an annual coupon of 8 per cent per annum payable semi-annually in arrears. The bonds terms and conditions contain an annual put option each February until maturity. Bonds with a principal amount of $10m were redeemed on 19 February 2016 in addition to an early redemption premium of $0.9m, in accordance with the terms and conditions of the bond. This followed redemption of $4m in February 2015, together with an early redemption premium of $0.2 million. Further information on the terms and conditions of the bonds is included in Notes 13 and 14 to the consolidated financial statements.

Dividends

No dividends have been paid or proposed during the year, and the Board will not be recommending the payment of a dividend at the forthcoming AGM.

Outlook

As detailed in Note 2 to the financial statements, there remains a number of material uncertainties that may cast significant doubt about the Group's and Company's ability to continue as a going concern.

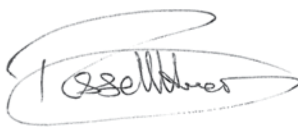
The financial position of the Company continues to suffer from the adverse economic conditions in Russia and Ukraine and the generally low oil and gas prices affecting similar companies around the world. The 2015 results have also been adversely affected by weakening local currencies.

The new Board, which was appointed on 28 January 2016 is assessing all possible avenues to optimise operations and financial returns and reduce costs wherever this can be done without risking the long-term viability of our assets or our health and safety obligations. We will identify non-core costs that can be reduced, operating efficiencies that can be implemented and focus our capital on revenue-generating assets.

In Ukraine, the restrictions on exchanging and repatriating dividends, the difficulties in attracting foreign investment and credit, the threats to a stable and transparent gas market and specific pressures on independent oil and gas producers will all continue to make decisions for investment difficult for JKX and other companies in the sector. However, the Company is firmly committed to Ukraine having been present there for more than 20 years with a highly experienced and committed workforce and we will endeavour to increase the cash generation capabilities of our resources in the country.

The returns on our Russian assets have been severely reduced due to the adverse economic conditions and the low gas tariffs. During 2015 the investment plans for Russia were halted and the new Board is considering whether to continue with this strategy. The operations, however, will be cash-flow positive in 2016 and we will utilise these cash resources for allocation throughout the Group.

This focus on reducing costs and implementing a robust capital allocation policy will ensure maximised cash flows from our assets and improvements to the Company's profitability and liquidity. I look forward to working with all the Group's employees to deliver on these promises.



Russell Hoare
Chief Financial Officer

Operational review

Group production

In 2015, group production was adversely affected by Ukrainian government imposed restrictions on gas sales to industrial customers through to 28 February, which also disrupted the Ukrainian gas sales market in the months thereafter, and production constrained in the Koshekhablskoye field in Russia with wells 27 and 5 off-line for tubing replacement. Production increased from Q3 through to Q4 with sales restrictions lifted in Ukraine, a successful rigless intervention campaign and well-27 commencing production, as planned, late in 2015.

Group average production for 2015 was 8,996 boepd, comprising 48.7 MMcfd of gas and 872 bpd of oil and condensate, a 9% decrease on the average from 2014. Oil and gas production from our facility in Hungary remains suspended whilst development plans are reviewed and a farm-in partner is sought to participate in the further development of the Hajdunanas field.

Asset lifecycle

Country	Stage and licence area (Exploration – Appraisal – Development – Production)	2P reserves MMboe
Ukraine	Ignatovskoye	29.7 MMboe
	Molchanovskoye North	
	Molchanovskoye Main	
	Novo-Nikolaevskoye	
	Rudenkovskoye	
	Molchanovskoye Wedge Zone	
	Elizavetovskoye	
	Zaplavskoye	
Russia	Koshekhablskoye Oxfordian	66.1 MMboe
	Koshekhablskoye Callovian	
Hungary	Hajdunanas	
	Turkeve*	
	Tiszavasvari-IV	
	Emod V	
	Pely I	
	Jaszkiser II	
Slovakia	Svidnik**	
	Medzilaborce**	
	Snina**	

JKX has 100% interest in its licences except for the following:
* JKX has a 50% interest in this licence area ** JKX has a 25% interest in this licence area

Operational review

Ukraine

Novo-Nikolaevskoye licences

Production

Average production from the Novo-Nikolaevskoye group of fields for 2015 was 2,611 boepd comprising 10.9 MMcfd of gas and 794 bpd of oil and condensate, a 20% decrease on the average for 2014.

Development drilling and other well activity

2015 saw no improvement in the investment climate in Ukraine and a decision was taken to cease all capital investment in the country, other than production optimization operations.

The Skytop N-75 rig is stacked in Ukraine on the Elizavetovskoye field pending new work. The TW-100 workover rig continued operations through 2015 with four abandonments and three workovers.

- Well recompletions in the period comprised re-running the completion in well IG-140 to facilitate entry of coil tubing to the horizontal section; resetting the completion in well IG-106 to permit additional perforations to be made; abandoning the horizontal section of M-169 and adding perforations at the top of the Devonian.
- Z-04 in the Zaplavskoye license, IG-79 and IG-140 in the Ignatovskoye license and M-31 in the Molchanvoskoye license were plugged and abandoned. Plans were in place to abandon R-12Z in the Rudenkovskoye field, however, the well was put on test prior to abandonment and had significant production. Consequently, the well has not been abandoned and will become a batch producer.
- Wireline operations have focussed on the clearance of wax and salt build up in the production tubing of a number of wells. A sustained programme in the period, particularly during the winter months, has ensured that oil production in particular has exceeded expectations. Additional wireline intervention included perforations in M-153 in Molchanovskoye and IG-138, IG-106, IG-137bis, IG-105 and IG-123 in Ignatovskoye.
- IG-140, IG-138 and IG-124Z on the Ignatovskoye field were acidized to increase production.
- A seismic rock physics, inversion and reservoir characterization study has started on the Novo Nikolavskoye group fields. The work is aiming to characterize the fluid types within the sands identified on seismic. The results aim to de-risk additional drilling locations.

Production facilities

Operations at the main production facility and the LPG plant continued smoothly throughout the year with routine work continuing on plant optimisation, re-routing flowlines to reduce back pressure, and wax clearance of flowlines to enhance production from the available well stock. The annual plant shut down was completed during May 2015.

Elizavetovskoye Production Licence

Production Licence extension

A westward licence extension to the Elizavetovskoye production licence to include the West Mashivske prospect was awarded in the second quarter of 2015. The licence is valid until 2034 and the additional area of 33.9 square kilometres brings the total area of the licence up to 104.7 square kilometres.

Production

Average production from the Elizavetovskoye field in 2015 was 1,715 boepd comprising 10.1 MMcfd of gas and 29 bpd of condensate, a 13.5% increase on the average in 2014. The relatively dry Elizavetovskoye wells E-301 and E-302 were used as swing producers throughout Q1 2015 to adjust gas export volumes to the market demand.

Drilling and development activity

There was no drilling activity on the Elizavetovskoye field during the year. However there are plans in place for additional development drilling on both the Elizavetovskoye and West Mashivske fields should the investment climate improve. The Skytop rig is stacked at the proposed E-305 drilling location.

Production facilities

The Elizavetovskoye production facility was upgraded at the end of 2014 to expand capacity and meet the recently revised hydrocarbon dew point specifications in the export pipeline. The K-3000 compressor was commissioned in early 2015 and is being used to ensure maximum possible input to the export line.

Zaplavskoye exploration licence activity

Work is continuing on the evaluation of the Visean V25/26 sandstone traps and the Devonian sandstone and Visean carbonate structural closures with the aim of working these up for future drilling should the economic climate change.

Russia and the rest of world

Koshekhablskoye licence

Production

Average production from the Koshekhablskoye field in 2015 was 4,670 boepd comprising 27.7 MMcfd of gas and 48 bpd of condensate, a 8.6% decrease on the average for 2014. The production figures remain lower than plant capacity due to the suspension of production from well-27 and well-05. Well-27 came back on line in December 2015.

Workover and well stimulation activity

Production from crestal well-20 in the period ranges from 14-18 MMcfd subject to three routine acid treatments using coiled tubing during the year. The north flank well-25 has been producing 8-12 MMcfd, with two routine acid treatments. The deep east-flank well-15 cycles between 0.9 MMcfd and 1.5 MMcfd, with fluid build-up being cleared periodically.

The well-27 tubing replacement was completed, as planned, in Q4 2015. Production has been restored and acid treatments are planned for 2016.

Production facilities

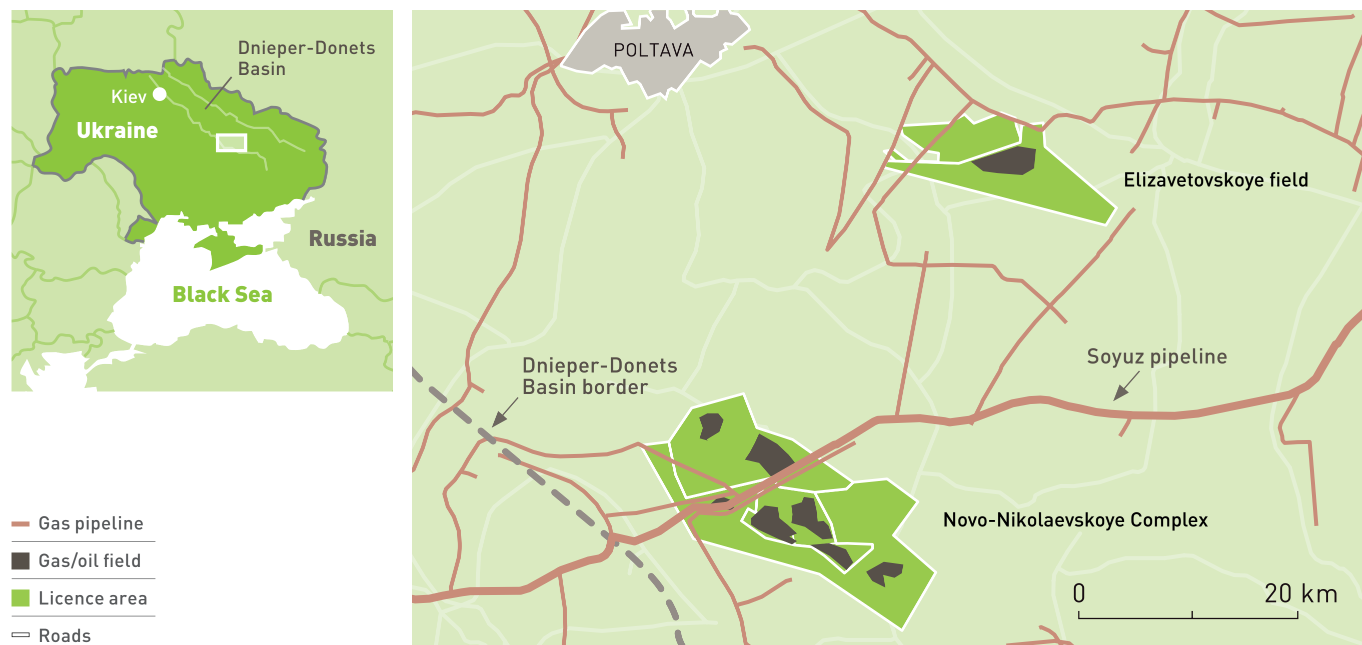
Average production over the period of 27.7 MMcfd allowed the Gas Processing Facility ('GPF') to operate comfortably within its current design capacity of 40 MMcfd.

The plant was shut down for ten days in September 2015 to complete the modifications required to increase the plant capacity to 60 MMcfd. This involved changes to a number of the vessels, replacement of some valves and pipework and improvements to the operating procedures.

Licence obligations

The obligation to re-enter and sidetrack well-09 to re-drill the full Callovian reservoir sequence and, if successful, test the Callovian V unit, has been deferred until 2019.

Ukraine licence areas and major pipelines



Koshekhablskoye licence area and major pipeline

Operational review

Hungary

Licences
JKX now operates six production licences (Mining Plots) covering a total of 200 sq km in North Eastern Hungary. This follows the exploration licence exchange which HHE completed in 2014. JKX operates these areas with 100% equity.

Hajdunanas field
Production from the Hajdunanas and Gorbehaza fields was suspended in 2013 by the operator at that time. JKX has since taken 100% interest in the fields and is currently reviewing plans to sidetrack the watered out Hn-2 well and continues to seek a farm-in partner to participate in the further development of the field.

Exploration and appraisal – Hernad licences
The Hernad I & II Exploration Licences expired in April 2015 and JKX (100%) submitted six mining plot applications to cover known hydrocarbon accumulations in the licences. By year end JKX had received approval for five of the Mining Plots; Tiszavasvari IV, Hajdunanas IV (extension), Hajdunanas V, Emod V and Jaszkiser II. The sixth Mining plot, Pely I was approved on 4 January 2016.

These mining plots will enable JKX to carry out appraisal and development activity over a 35 year period.

JKX is currently seeking a farm-in partner, or partners, to participate in this activity.

Turkeve IV Mining Plot
JKX holds a 50% beneficial interest in part of the Turkeve IV Mining Plot that includes the productive area around the Ny-7 well. However, the high CO_2 content has prevented direct access to the pipeline network and the operator is developing a mechanism to lower the CO_2 content to an acceptable level.

Slovakia

Exploration
JKX holds a 25% equity interest in the Svidnik, Medzilaborce, Snina and Pakostov exploration licences in the Carpathian fold belt in north east Slovakia. The Pakostov Licence was acquired in 2016, as protection acreage following encouraging prospect mapping, and covers 128 sq km. The total area of the four licences is 1,376 sq km.

Several prospects were matured by the Operator, DiscoveryGeo, and the Joint Venture approved a three well exploration programme in November. Location construction work started in December at all three wellsites (Smilno, Poruba and Kriva Ol'ka). The first well, Smilno-1, is expected to spud in the first quarter of 2016 and the other two wells will be drilled as part of the same drilling programme.

JKX reserves and resources

Total remaining reserves at 31 December 2015

	31 Dec 2014	Production	Revisions	31 Dec 2015
Total				
Oil MMbbl	3.4	(0.3)	0.8	3.9
Gas Bcf	565.3	(17.8)	3.5	551.0
Oil + Gas MMboe	**97.7**	**(3.3)**	**1.4**	**95.7**
Ukraine				
Oil MMbbl	2.8	(0.3)	0.8	3.3
Gas Bcf	156.5	(7.7)	9.6	158.4
Oil + Gas MMboe	**28.9**	**(1.6)**	**2.4**	**29.7**
Russia				
Oil MMbbl	0.7	(0.0)	0.0	0.7
Gas Bcf	408.8	(10.1)	(6.2)	392.5
Oil + Gas MMboe	**68.8**	**(1.7)**	**(1.0)**	**66.1**

At 31 December 2014 the estimation of the Group's proved and probable reserves was reviewed by an independent engineer, DeGolyer & MacNaughton. An updated estimation of reserves as at 31 December 2015 was completed internally.

Consultants DeGolyer & MacNaughton ('D&M') completed their evaluation of the 2014 JKX reserves and resources position. This was used as the basis of the 2015 reserves evaluation carried out by JKX. The reserves and resources disclosed below in respect of 31 December 2015 have not been independently audited.

P+P (2P) reserves

Proved and Probable (2P) group reserves reduced from 97.7 MMboe at year-end 2014 to 95.7 MMboe at year-end 2015. The changes are shown on a field by field basis in the table below:

MMboe	31 Dec 2014	Production	Revisions	31 Dec 2015
Ignatovskoye	4.5	(0.6)	(0.8)	3.0
Molchanovskoye	0.6	(0.1)	1.1	1.6
Novo-Nikolaevskoye	0.5	(0.2)	0.4	0.8
Rudenkovskoye	20.5	(0.1)	0.2	20.6
Zaplavskoye	0.5	–	–	0.5
Sub-total Novo-Nik production licences	26.5	(1.0)	0.9	26.4
Elizavetovskoye	2.4	(0.6)	1.5	3.2
Total Ukraine	28.9	(1.6)	2.4	29.7
Koshekhablskoye	68.8	(1.7)	(1.0)	66.1
Hernad	–	–	–	–
Turkeve	–	–	–	–
Total	**97.7**	**(3.3)**	**1.4**	**95.7**

JKX P+P+P (3P) reserves

D&M also carried out a full assessment of the upside potential in each field, the "Possible" reserves. The possible reserves have been updated by subtracting production from last year's 3P number and re-calculating the Possible reserves. The one exception is Novo-Nikolaevskoye field where the 2P reserves this year now exceed the 3P reserves evaluated by D&M. These possible reserves are shown below together with the total 2P reserves for each field:

MMboe	P+P	Possible	P+P+P
Ignatovskoye	3.0	2.7	5.7
Molchanovskoye	1.6	0.3	1.9
Novo-Nikolaevskoye	0.8	–	0.8
Rudenkovskoye	20.6	12.9	33.5
Zaplavskoye	0.4	0.04	0.5
sub-total Novo-Nik production licences	26.4	16.0	42.4
Elizavetovskoye	3.2	13.9	17.1
Total Ukraine	29.7	29.9	59.5
Koshekhablskoye	66.1	16.0	82.1
Hernad	–	–	–
Turkeve	–	–	–
Total	**95.7**	**45.9**	**141.6**

JKX contingent resources

Except for minor revisions to Hernad, changes have been made to the contingent resources since 2014 year end. These contingent resources are those volumes of hydrocarbons which are potentially recoverable from known accumulations but which are not currently considered to be commercially recoverable. The categories of 1C, 2C or 3C are used to reflect the range of uncertainty. These contingent resources are tabulated below.

MMboe	1C (low)	2C (best)	3C (High)
Ignatovskoye	11.78	17.28	49.54
Molchanovskoye	0.03	1.19	1.60
Novo-Nikolaevskoye	0.00	0.09	0.14
Rudenkovskoye	17.99	110.09	382.66
Zaplavskoye	0.00	0.00	0.99
Sub-total Novo-Nik production licences	29.81	128.65	434.9
Elizavetovskoye	0.00	0.00	0.00
Total Ukraine	29.8	128.7	434.9
Koshekhablskoye	25.1	78.6	111.4
Hernad	0.3	0.3	0.7
Turkeve	0.2	0.2	0.3
Total	**55.4**	**207.9**	**548.9**

JKX prospective resources

D&M evaluated JKX's exploration potential at the end of 2014 and categorised the potential resources of the undrilled prospects in the Company's portfolio. There are no changes to the D&M work in Ukraine, however, an additional prospect, SW V25 Amplitude, can be added as D&M's work was completed prior to the Zaplavskoye license extension thus excluding this prospect. JKX has also identified a further opportunity to the north east of the Molchanovskoye license, NE Mol V25 Stratigraphic Sand. The three wells planned in Slovakia are also now included in the Prospective Resources category. Undrilled prospects inevitably carry an element of technical risk and it is usual to summarise them under unrisked potential and risked potential resources. It should be noted that less well defined leads and prospects with little expectation of being drilled are excluded from such a list.

	Mean BCF	Mean MMboe	Ps[1]	Risked Mean MMboe
Prospect A	4.35	0.73	0.25	0.18
V25 Sands pinchout	3.86	0.64	0.23	0.15
Prospect D	30.04	5.00	0.29	1.48
Prospect E North	62.69	10.45	0.29	3.10
Prospect E South	78.61	13.10	0.32	4.17
SW V25 Amplitude	95.23	15.87	0.13	2.06
NE Mol V25 Stratigraphic Sand	16.46	2.74	0.14	0.38
sub-total Ukraine	291.25	48.54		11.52
Tisza-6b	32.70	5.45	0.31	1.67
Tisza-15 (Chevelle)	6.64	1.11	0.36	0.40
sub-total Hungary	39.34	6.56		2.08
Cierne-1 (Slovakia)	25.98	4.33	0.15	0.66
Kriva Ol'ka -1		0.50	0.39	0.2
Poruba -1		0.45	0.36	0.2
sub-total Slovakia	25.98	5.28		1.06
Total	**356.57**	**60.38**		**14.66**

[1] Probability of economic success

Principal risks and how we manage them

Our framework of internal controls is supported by a culture that promotes good risk management processes led by the Board.

Responsibilities

The Board is responsible for the Group's system of internal control and risk management systems and for reviewing their effectiveness.

Risk management process

A risk management process, which involves the Risk Committee, has been in place throughout 2015 and up to the date of approval of this Annual Report.

The process is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, not absolute, assurance against material misstatement or loss.

Risk Committee 1

The Risk Committee assists the Executive Directors in the operation and implementation of the risk management process, and provides a source of assurance to the Audit Committee that the process is operating effectively. This approach aims to actively manage risk in a transparent and accountable way.

The Risk Committee meets at least three times a year and reports into each Audit Committee meeting.

Risk assessment

The Board monitors the risk profile of the Group using four risk categories:

1. External
2. Financial
3. Strategic
4. Operational

The Board acknowledges that it will be subject to residual risk in pursuit of achieving its strategic priorities even after mitigating actions.

Risk management framework

The key elements of the risk management process are as follows:

Risk identification – risks faced by the Group are identified by senior management and risk owners, who periodically review the risks to ensure that the risk management processes and controls in their area are appropriate and effective, and that new risks are identified.

Risk assessment – the consequence and likelihood of each risk materialising is assessed. Risk registers are used to document the risks identified, the level of severity of its impact, and probability of occurrence, ownership and mitigation measures for each risk.

1 Risk Committee

Risk Committee work in 2015

At the Group level, work continued with the Audit Committee to review the overall process of business risk management and to validate the risk register, with particular focus on improving reporting and involvement in the Group's from Risk Committees at both our operating subsidiaries in Ukraine and Russia.

At our operations in Russia and Ukraine:

- local training was provided to the Risk Committees to develop the upward communication of specific risks and mitigation plans, and the visibility between the risks associated with delivering the Board's strategic priorities and our activities on the ground;
- Risk Velocity was introduced to the Risk Committees as a factor in grading the identified risks; and
- representatives from our Ukrainian and Russian Risk Committees attended each of the Group Risk Committee meetings to expand on the risks identified locally and their related mitigation plans.

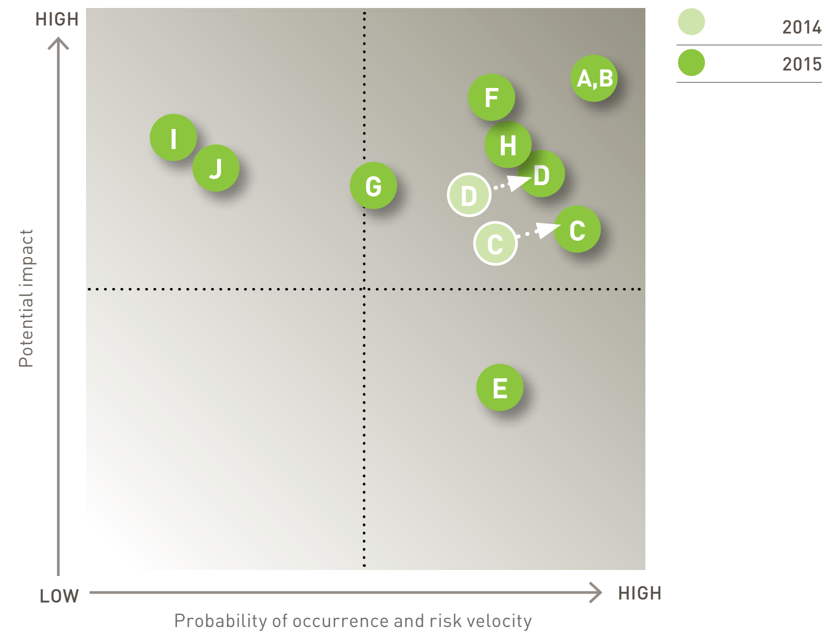
Risk Committee work in 2016

The group level risks assessment process continued throughout the first quarter of 2016 but with the appointment of new executive directors on January 28th, 2016, the process of assessing such risks involved a far deeper analysis than normal due to the need for the new executive directors to fully understand the risk profile of the business. This report on the Principal risks facing the business has been drafted following input from this most recent assessment process.

Principal risks and how we manage them

Risk profiles of our principal risks

The graph represents our current assessment of the potential impact and probability of occurrence of each of the principal risks noted below.



What is the risk	Risk profile	KPIs affected	Change from 2014	Strategic objective impacted	Responsibility	Page
External risks						
Geopolitical – Ukraine	A	Return on average capital employed	–	1,2	The Board	44
Geopolitical – Group	B	Return on average capital employed	↑	1,2	The Board	44
Tax legislation	C	Production costs Return on average capital employed	↑	1	Chief Executive Officer	46
Commodity prices	D	Gas realisations	↑	1	Chief Financial Officer	46
Foreign exchange exposure	E	Return on average capital employed	–	1	Chief Financial Officer	48
Financial risks						
Liquidity	F	Return on average capital employed	–	1,2	Chief Financial Officer	48
Strategic risks						
Over exposure to a single market	G	Return on average capital employed	↓	1,2	Chief Executive Officer	50
Operational risks						
Reservoir performance	H	Production volumes Reserves	–	1,2	Chief Executive Officer	50
Environmental, asset integrity and safety incidents	I	All Injury Frequency Rate Lost Time Injuries Environmental Incident Frequency Rate	–	3	Chief Executive Officer	50
Bribery and corruption	J	Return on average capital employed	–	1	The Board	52

A Risk Velocity measure is built in to the assessment of the impact of each risk. Risk Velocity is the time to impact and is an estimate of the time frame within which a risk may occur.

Risks are then logged with reference to consequence rating, multiplied by the likelihood plus velocity rating, as shown in the diagram below.

The Board has completed a robust assessment of the most significant risks and uncertainties, which could impact the business model, long-term performance, solvency or liquidity, and the results are summarised below. Also presented is an assessment of the probability of each risk occurring, its potential impact should it occur, the Key Performance Indicators ('KPIs') and strategic priorities most affected as each risk increases, how each risk is being managed or mitigated and whether the overall business risk has increased or decreased since the last annual report.

The principal risks set out on pages 44 to 52 are not set out in any order of priority, they are likely to change and do not comprise all the risks and uncertainties that the Group faces.

Risk assessment table

Impact →

Probability	Velocity	Probability + velocity	Insignificant	Minor	Moderate	Major	Catastrophic
Highly likely	Very high	Very high	LOW	MED	HIGH	HIGH	HIGH
Likely	High	High	LOW	MED	MED	HIGH	HIGH
Possible	Medium	Medium	LOW	MED	MED	MED	HIGH
Unlikely	Low	Low	LOW	LOW	MED	MED	MED
Rare	Very low	Very low	LOW	LOW	LOW	LOW	LOW

Low risk · Medium risk · High risk

Principal risks and how we manage them

What is the risk?	Probability + Velocity	Impact	Change from 2014	KPIs affected	Strategic priority impacted	Responsibility	How do we manage it?	Further information
External risks								
Geopolitical – Ukraine								
Description: 81% of the Group's revenues and most of its profits and cash flow from operations are derived from its activities in Ukraine. Recent civil conflict, political instability and ongoing military action in parts of Ukraine have negatively impacted the economy and relations with the Russian Federation resulting in Ukraine's sovereign risk rating downgrade by all credit agencies in 2015. Escalating geopolitical tensions have had an adverse effect on the Ukrainian financial market. The ability of companies and financial institutions with assets in Ukraine to obtain funding from the international capital markets has been hampered as a result of decreased appetite for Ukrainian credit exposure. Any continuing or escalating military action in eastern Ukraine could have a further adverse effect on the economy. In addition, Ukraine will probably need additional external financial support through 2016 (see also Liquidity Risk page 48). **Impact:** If the country does not peacefully resolve the current conflict as well as secure additional financing, there is a risk it may default on its obligations and/or introduce new decrees to increase government funds from independent companies in Ukraine. Changes in law or the regulatory environment and the possibility of immediate implementation could have a sudden material adverse effect on the Group's operations and financial position, which would reduce the Group's profits and cash flows.	HIGH	HIGH	–	Return on average capital employed	1 Profitable production growth 2 Oil and gas reserves growth	The Board	To date, our operations have not been directly impacted by the unrest in Ukraine or the military conflict in the east. Ukrainian Government-imposed restrictions on selling its gas to industrial clients, the doubling of gas production tax and the foreign exchange controls led the Board to suspend the 2015 capital investment programme in Ukraine. The gas sales restrictions and punitive tax rates have now been removed. The Board frequently reviews announcements by national and local governments in Ukraine and Russia regarding their future plans to influence economic factors, in particular those plans that impact future oil and gas prices and related costs and taxes. The Company also takes all reasonable measures to reduce and limit our commercial exposure in Russia and Ukraine through the use of careful selection of contracting parties, advanced payments and careful cash management. The Board is currently assessing the investment program in Ukraine whilst bearing these geopolitical risks in mind.	Chairman's statement P6
Geopolitical – Group								
Description: Most of the Group's operations and more than 97% of our oil and gas assets are located in Ukraine and Russia and the oil, gas and condensate that we produce is sold into their domestic markets. Both countries display emerging market characteristics where the right to production can be challenged by State and non-State parties. The business environment is such that a challenge may arise at any time in relation to the Group's operations, licence history, compliance with licence commitments and/or local regulations. The Group endeavours to comply with all regulations via Group procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies with a view to agreeing a reasonable time frame for achieving compliance or an alternative, mutually agreeable course of action (see Note 2 to the financial statements). In addition, local legislation constantly evolves as the governments attempt to manage the economies and business practices regarding taxation, banking operations and foreign currency transactions. **Impact:** The Group's operations and financial position may be adversely affected by interruption, inspections and challenges from local authorities, which could lead to remediation work, time-consuming negotiations and suspension of production licences. The constantly evolving legislation can create uncertainty for local operations if guidance or interpretation is not clear.	HIGH	HIGH	↑	Return on average capital employed	1 Profitable production growth 2 Oil and gas reserves growth	The Board	The Board and Management recognise the constant need for expert advice to ensure full compliance with local and international regulations and laws. Our strategy is to employ skilled local staff working in the countries of operation and provide them with on-going training. In addition, the Group engages established legal, tax and accounting advisers to assist in compliance with statutory, employment and environmental regulation and laws, and to ensure its tax and duty obligations are properly assessed and paid when due. A key priority for the Group is to maintain transparent working relationships with all key stakeholders in our significant assets in Ukraine and Russia and to improve the methods of regular dialogue and on-going communications locally.	Chairman's statement P6

Principal risks and how we manage them

What is the risk?	Probability + Velocity	Impact	Change from 2014	KPIs affected	Strategic priority impacted	Responsibility	How do we manage it?	Further information
External risks continued								
Tax legislation								
Description: The Group is exposed to changes in local tax laws, particularly in Ukraine. In Ukraine, PPC has at times sought clarification of their status regarding a number of production related taxes. PPC continues to defend itself in court against action initiated by the tax authorities regarding production related taxes for certain periods through to 31 December 2010 (see Note 27 to the financial statements). At the end of July 2014, the Ukrainian Government approved emergency fiscal measures which almost doubled subsoil taxes on the Company's gas production through 2015. The Ukrainian Government has now enacted legislation, effective from 1 January 2016, to reduce the subsoil taxes on gas production to substantially the same levels that were in effect prior to the temporary increase. Governments in emerging markets sometimes bring in new tax laws which are effective immediately but are subject to varying interpretations and changes, which may be applied retrospectively. Other risks include a weak judicial system that is susceptible to outside influence. **Impact:** If Management's interpretation of tax legislation does not coincide with that of the tax authorities, the tax authorities in the countries of operation may challenge transactions which could result in additional taxes, penalties and fines which could have a material adverse effect on the Group's financial position and results of operations.	MED	MED	↑	Production costs Return on average capital employed	1 Profitable production growth 3 Safe and responsible operations	Chief Executive Officer	The Board continues to receive legal advice that the case against PPC regarding calculation and payment of various production related taxes to 31 December 2010 has little legal merit under Ukrainian law for legal and technical reasons and the three year statute of limitation. The Company continues to pursue international arbitration proceedings against Ukraine under the Energy Charter Treaty to recover $180m in Rental Fees that PPC has paid on production of oil and gas in Ukraine since 2011, in addition to damages to the business (see Note 27 to the financial statements). The Group takes regular advice on tax matters from Ukraine tax experts to comply with all known requirements and to actively defend its legal position. The Group maintains a transparent and open relationship with local, regional and national tax authorities in Ukraine and Russia. The Group's financial information does not include any adjustments to reflect the possible future effects on the recoverability, and classification of assets or the amounts or classifications of liabilities that may result from these tax uncertainties.	Financial review P30
Commodity prices								
Description: JKX's policy is not to hedge commodity price exposure on oil, gas, LPG or condensate and therefore is exposed to international oil and gas price movements and political developments in Russia and Ukraine. Change in prices will have a direct effect on the Group's trading results. Oil prices declined significantly in 2015 and are predicted to remain lower for longer by many market commentators. The Company sells the oil it produces at prices determined by the global oil market. During 2015 Ukraine acquired the ability to purchase gas from Europe which has more closely aligned Ukrainian gas prices with those across Europe, which have almost halved since the beginning of 2015. In addition, Ukrainian Government has enacted legislation designed to deregulate the gas market in Ukraine, but the timeframe and guidance for the implementation of such legislation and its impact on the Group is unclear. Over time, these reforms are likely to have an effect on the internal gas market in Ukraine. In Russia all our gas is sold in local industrial markets and the government control the gas prices at which we can sell our gas. In 2014 there was no official increase in the regulated maximum industrial price and on 1 July 2015 the regulated maximum industrial price was increased by 7.5%. **Impact:** A period of low oil and/or gas prices has led to impairment of the Group's oil and gas assets (see Note 5 to the financial statements) and may impact the Group's ability to support its long-term capital investment programme (see Liquidity Risk below) and reduce shareholder returns including dividends and share price. Previous oil and gas price increases have resulted in increased local taxes, cost inflation and more onerous terms for access and to produce resources. As a result, increased oil and gas prices may not improve the Group results.	MED	MED	↑	Gas realisations	1 Profitable production growth	Chief Financial Officer	JKX attempts to maximise stability and predictability of prices under long term contracts with reputable customers. This minimises exposure to abrupt price movements, ensuring sales are as closely matched as possible, in terms of timing and volume, to production. In Russia, all gas produced is sold to a local gas trading company through a gas sales contract which remains in place through 2016. The sales price was negotiated using current and expected future oil and gas prices and production volumes. In 2015, most of the oil and gas production in Ukraine is sold by way of auctions, conducted with a frequency aimed to achieve as close as practicable the aforementioned matching principle. The Group does not usually enter into hedge agreements unless required for borrowing purposes as may occur from time to time. The Board continues to monitor announcements by governments in Ukraine and Russia regarding the gas price charged by Gazprom (Russia) to Ukraine and forecast European hub prices to assess the potential impact on the Ukrainian industrial gas price and its sustainability. In Russia from 1 July 2015 the regulated maximum industrial price was increased by 7.5% as was the price at which we sell gas to our buyer.	Strategic Report P8-11

Principal risks and how we manage them

What is the risk?	Probability + Velocity	Impact	Change from 2014	KPIs affected	Strategic priority impacted	Responsibility	How do we manage it?	Further information
External risks continued								
Foreign exchange exposure								
Description: The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Ukrainian Hryvnia and the Russian Rouble. The US Dollar is the currency which influences the majority of the Group's revenues and capital costs. Although a proportion of costs are incurred in US Dollars, most operating costs are influenced by the local currencies of the countries where the Group operates, principally Ukrainian Hryvnia and Russian Rouble. During 2015, the Hryvnia and Rouble devalued by 34% and 23% respectively, against the US Dollar. As a result, the Group's operating costs in US$ terms including the cost of production, operating and general admin costs decreased however the Group reported a foreign exchange loss of $4.9m in the income statement as a result of the devaluation of the Rouble and Hryvnia. The devaluation in the Rouble reduced the carrying value of the assets held in Russia resulting in the Group's net assets decreasing by $26.3m. **Impact:** Appreciation of the Ukrainian Hryvnia or depreciation of the Russian Rouble against the US Dollar or prolonged periods of exchange rate volatility may adversely affect the Group's business results.	HIGH	LOW	–	Return on average capital employed	1 Profitable production growth	Chief Financial Officer	Foreign exchange risk arises in the Group from commercial transactions, financing arrangements and assets and liabilities denominated in foreign currencies and net investments in foreign operations. We attempt to match, as far as practicable, receipts and payments in the same currency and also follow a range of commercial policies to minimise exposures to foreign exchange gains and losses. These include minimising exposure to the Hryvnia denominated sales, which continue to account for more than 80% of Group revenues, and the Rouble-based operating and capital costs. All our gas sales and most of our costs in Russia are denominated in Roubles which mitigates the Group's exposure to any Rouble/US Dollar fluctuations, however the recent devaluation of the Rouble has reduced the value of Group revenues and costs which are reported in US$. The Group's normal policy is not to hedge foreign exchange risk but to continually monitor internal and external guidance on expected future currency exchange movements and manage the currency of the Group's major cash flows and holdings to minimise our potential exposure.	Financial review P30
Financial risks								
Liquidity								
Description: 81% of the Group's revenues and most of its profits and cash flow from operations are derived from its activities in Ukraine. Changes in commodity prices have a direct effect on the Group's liquidity position (see Commodity Risk above). If the Bondholders exercise their put option in February 2017 pursuant to the $40 million Convertible Bonds (see Notes 13 and 14 to the consolidated financial statements), the Company will have an obligation of $30.1 million which becomes payable at that time, or, if the Bond expires at its full term, an obligation of $31.1 million in February 2018. During 2015 the Ukrainian Government: • implemented gas sales restrictions for the three month period to 28 February 2015 resulting in the Group's Ukrainian gas sales reducing to approximately 50% of production capacity • increased Ukrainian gas production tax from 28% to 55%. • implemented currency control restrictions such that dividends could not be repatriated from our Ukrainian subsidiary (see Note 37 to the Group financial statements). As a result the Board suspended all capital investment in Ukraine during 2015. Suspending investment in appraisal and development activities in Ukraine and shutting-in gas production in 2015 has had a significant adverse impact on the Group's current and future oil and gas production, sales, profits, cash flow, liquidity and working capital balances, and has resulted in the delay and cancellation of capital projects. Future capital investments in exploration, appraisal and development activities then become more difficult to plan and finance as they are driven by the results of the Group's current capital projects. **Impact:** The risks relating to currency restrictions imposed by the Ukrainian Government are material uncertainties that may cast significant doubt on the Group's ability to meet its financial obligations as they fall due and continue as a going concern (see Note 2 to the financial statements). In addition, deviations in the timing and quantum of exploration and development expenditures can expose the Group to funding challenges.	HIGH	HIGH	–	Return on average capital employed	1 Profitable production growth 2 Oil and gas reserves growth	Chief Financial Officer	The Board manages liquidity risk by attempting to maintain an adequate level of liquidity in the form of readily available cash or committed credit facilities at all times. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow to ensure that any remedial action can be taken with as much lead time as possible. In 2015 the Board made immediate strategic changes to streamline the organisation. Staff and cost reductions were made in all key operational and administrative areas. Through these reductions, the Group maintains a competitive cost base which enables it to continue in operation whilst generating operating cash flow during periods of low commodity prices. In 2016, the Directors have continued to implement further operational and cash management measures across the Group to improve future cash flows and are assessing other restructuring and/or refinancing options in order to meet future Bond payments. Liquidity risk has reduced in 2016 following a reduction of gas production tax rates from 55% to 29% from 1 January 2016 however the currency controls remain in place. In 2015 JKX applied for and received an award from the Permanent Court of Arbitraion Tribunal ordering Ukraine to convert and repatriate PPC dividends to JKX which the NBU declined. The Group therefore purchased Hryvnia-based corporate bonds and immediately sold them to an international counterparty for US Dollars which increased the Group's US Dollar balances in order to make payments due under the Convertible Bonds and other corporate overheads. The Group finances current exploration and development activities with existing cash balances and operating cash flow generated from the production and sale of gas, oil, condensate and LPG. The Company's options for additional debt financing are limited by our Ukrainian focus and our current shareholder base. The timing and nature of almost all of the Group's exploration and development activities are discretionary and therefore the Group prioritises these activities according to the available finance. The Board is currently evaluating all the potential development projects in Ukraine and making decisions with full knowledge of the liquidity risks facing the Company.	Financial review P30

Principal risks and how we manage them

What is the risk?	Probability + Velocity	Impact	Change from 2014	KPIs affected	Strategic priority impacted	Responsibility	How do we manage it?	Further information
Strategic risks								
Over exposure to a single market								
Description: Our portfolio extends to 17 licences or licence interests in four different countries and the Group's focus continues to be our projects in Russia and Ukraine. We own 100% of all our oil and gas assets in Ukraine and Russia. Our strategy is focused on the development of these two wholly-owned production bases and exploration portfolios. The Group's success in monetising its Ukrainian and Russian assets underpins the Group's long term value. **Impact:** All of the risks and rewards associated with the commercialisation of our Ukrainian and Russian licences are attributable to the Group alone and therefore the Group is vulnerable to the impact of any changes in the Russian and Ukrainian operating and economic environments.	MED	MED	—	Return on average capital employed	1 Profitable production growth	The Board	The Board produces an annual business plan supported by a rigorous budgeting procedure which is reviewed monthly against current information. Periodically the Board updates the Group's 3-Year Plan to ensure that the plan remains relevant and material risks, including asset concentration, and sensitivities have been considered. Commercial production from our Russian gas plant has diversified our producing assets which spread the geographical risk away from the previously very high concentration which was solely in Ukraine. The Board continues to proactively seek and investigate value-enhancing production and exploration acquisitions and farm-outs/ins through our business development managers across central and eastern Europe. A key priority of the Board is to implement regular, open and transparent communications with all stakeholders to ensure there is a clear understanding of the Group strategy, its risks and the potential rewards.	Chief Executive's statement P12
Operational risks								
Reservoir performance								
Description: The hydrocarbon reservoirs that we operate in Ukraine and Russia generate the cash flow that underpins the Group's growth. These reservoirs may not perform as expected, exposing the Group to lower profits and less cash to fund planned development. Production from our mature fields at the Novo-Nikolaevskoye Complex in Ukraine require a high level of maintenance and intervention to maintain production at recent levels. In Russia, acidization of wells and other well maintenance procedures to increase stabilised production continued through the year however well integrity issues arose requiring two out of the five producing wells to be shut-in. One of the wells, well-05, remains shut-in. **Impact:** Accurate reservoir performance forecasts from fields in Ukraine and Russia is critical in achieving the desired economic returns. These performance forecasts are also used to determine the availability and allocation of funds for investment into the exploration for, or development of, other oil and gas reserves and resources.	MED	MED	—	Production volumes	1 Profitable production growth 2 Oil and gas reserves growth	Chief Executive Officer	There is daily monitoring and reporting of the well performance at all our fields in Ukraine and Russia. Production data is analysed by our in-house technical expertise. This supports the well intervention planning and further field development. Using specialist engineers, the tubing replacement at well-27 in Russia to resolve well integrity problems was completed in Q4 2015 to restore plateau production to levels previously achieved. Our subsurface specialists and industry-recognised personnel are part of the daily monitoring and reservoir management process of our fields in Ukraine and Russia. Our London-based in-house team of drilling, engineering and subsurface experts continue to be closely involved in the remediation work in Russia, well prioritisation on mature fields in Ukraine and our other field development plans. Our team is supported by skilled and experienced local technical teams, in addition to external consultants, when necessary; this interaction is key to mitigating our reservoir performance risk.	Operational review P35
Environmental, asset integrity or safety incidents								
Description: We are exposed to a wide range of significant health, safety, security and environmental risks influenced by the geographic range, operational diversity and technical complexity of our oil and gas exploration and production activities. **Impact:** Technical failure, non-compliance with existing standards and procedures, accidents, natural disasters and other adverse conditions where we operate, which could lead to injury, loss of life, damage to the environment, loss of containment of hydrocarbons and other hazardous material, as well as the risk of fires and explosions. Failure to manage these risks effectively could result in loss of certain facilities, with the associated loss of production, or costs associated with mitigation, recovery, compensation and fines. Poor performance in mitigating these risks could also result in damaging publicity for the Group.	MED	HIGH	—	All Injury Frequency Rate Lost Time Injuries Environmental Incident Frequency Rate	3 Safe and responsible operations	Chief Executive Officer	We treat health, safety and the environment as a priority of the Board and have a London-based HSECQ manager who reports directly to the Chief Executive Officer. Supported by the Board, the Group HSECQ manager is responsible for maintaining a strong culture of health, safety and environmental awareness in all our operational and business activities. The HSECQ Manager reports to the Board on a monthly basis with details of our performance. Our locations in Ukraine, Russia and Hungary all have a dedicated HSECQ Team of local employees led by an HSECQ Manager who reports to the HSECQ Director for that particular region. All locations have HSE Management Systems modelled on the ISO 9000 series, OHSAS 18001 and ISO 14001. These locations are regularly visited and reviewed by the Group HSECQ manager. The Board participate in an annual review of the Group's HSECQ performance and the planning of continuous improvement initiatives and objectives for the coming year. The HSE Plan for 2016 has placed direct responsibility on line supervision to ensure that standards and procedures are adequate and being enforced. Appropriate insurances are maintained to manage the Group's financial exposure to any unexpected adverse events arising out of the normal operations.	Corporate social responsibility P54

Principal risks and how we manage them

What is the risk?	Probability + Velocity	Impact	Change from 2014	KPIs affected	Strategic priority impacted	Responsibility	How do we manage it?	Further information
Operational risks continued								
Bribery and corruption								
Description: The UK Bribery Act places onerous requirements on UK companies to demonstrate the effectiveness of their anti-bribery measures. **Impact:** Failing to implement adequate systems to prevent bribery and corruption could result in prosecution of the Company and its officers.	MED	HIGH	–	Return on average capital employed	1 Profitable production growth	The Board	We prohibit bribery and corruption in any form by all employees and by those working for and/or connected with the business. Our Group Compliance Manager is responsible for anti-bribery and corruption matters and, with the support of the Board, implements an Annual Compliance Plan. The compliance programme includes components which recognise the requirements of the UK Bribery Act 2010 and which focus on training, monitoring, risk management and due diligence. We annually refresh our Global Code of Conduct and Statement of Ethics which is compliant with the UK Bribery Act and its guidance and communicate this throughout the Group. Employees are expected to report actual, attempted or suspected bribery to their line managers or through our independently managed confidential reporting process, which is available to all employees as well as third parties. We will continue to regularly review the operation and impact of the Group's policies and procedures to ensure a consistent application of the Global Code of Conduct in all business activities and throughout the supply chain processes.	Corporate social responsibility P54

Long term viability statement

At the date of this report, a number of material uncertainties have been identied that may cast significant doubt about the Group's and Company's ability to continue as a going concern. The combination of circumstances giving rise to these material uncertainties is discussed in Note 2 to the financial statements.

Notwithstanding these material uncertainties, the Directors have assessed the viability of the Group over a three-year period to 31 December 2018, taking account of the Group's current position and the potential impact of the principal risks documented above.

A three-year period was selected as it is the period used for the Group's strategic review.

Assessment of the Group's prospects

A new Board was appointed on 28 January 2016 and has completed an initial review of the Group's assets. The new Board believes that the Group's assets and staff provide a good platform to consolidate and improve on its existing oil and gas opportunities in central and eastern Europe and will continue to focus in this region, in particular in Ukraine (see pages 12 and 13).

The Group has been operating in Ukraine for over 20 years and most of the Group's profits and cash flows continue to be generated from its assets there. However there remain significant risks associated with operating in Ukraine and the near term economic outlook for the country remains uncertain (see "Geopolitical risk – Ukraine" above), which could adversely impact cash flows, profits and liquidity of the Group.

Assessment of viability

The new Board, who were appointed 7 weeks ago, continue to review its future strategy in light of their ongoing review of the Group's operations.

The Board closely monitors and manages its liquidity risk using cash flow forecasts which are regularly produced and applies sensitivities for different scenarios including, but not limited to, changes in oil and gas prices, changes to production and other tax rates in relation to the Group's producing assets, increased operating and capital expenditure, changes in Rouble and Hryvnia exchange rates, and delays to additional future revenue. These sensitivities are applied both individually and in unison.

Downside sensitivities were modelled to test the impact of using a range of external forward oil and gas price curves including a period of low oil and gas prices through to the end of 2016. The testing incorporated the use of mitigating actions available to the business such as a reduction in capital expenditure and further reducing operating costs safely and responsibly.

Capital and operating costs were based on approved budgets and latest forecasts in the case of 2016 and current development plans in the case of 2017 through to December 2018. In addition, the Directors made enquiries into and considered the Ukrainian and Russian business environments and future expectations regarding country and currency risks that the Group may encounter, as disclosed in the risks above.

Principal risks facing the Group

For the purposes of assessing the Group's viability, the Directors focused on the following principal risks which are critical to the Group's success:

Inadequate liquidity levels

The Company has an obligation of $30.1 million (consisting of $26 million principal, $1 million interest and a redemption premium of $3.1 million) which may become payable pursuant to its $40 million Convertible Bond in February 2017, if Bondholders exercise their put option at that time, or $31.1 million in February 2018 if the Bond expires at its full term (see Notes 13 and 14 to the consolidated financial statements).

The Company's Ukrainian subsidiary, Poltava Petroleum Company ('PPC') has three contingent liabilities arising from separate court proceedings over the amount of production taxes ('Rental Fees') paid in Ukraine for certain periods since 2007, which in total amount to approximately $41 million (including interest and penalties, see Note 27 to the consolidated financial statements). The Board believes that these claims are without merit under Ukrainian law and will continue to contest them vigorously.

In addition, the Company continues to pursue a final award under its arbitration claim against Ukraine, which is to be heard in July 2016, for the overpayment of US$180 million of Rental Fees plus damages to the business (see Note 27 to the consolidated financial statements).

Factors exist which are outside the control of management which can have a significant impact on the business:

Oil and gas prices

The international oil and gas prices declined significantly through 2015 and remain low.

Ukrainian subsoil permits

Following action initiated in late 2015, in January 2016, the State Geology and Mineral Resources Survey of Ukraine suspended four subsoil use permits owned by PPC, initially with effect from 1 February 2016, but then with an extension period until 1 March 2016. The authority gave a list of actions that were required in order to avoid suspension (including a change to the minimum production requirements under the licences) and would normally have given the operator sufficient time to remedy the failings. Instead PPC were given only one month to do so. Through further discussion with the relevant authority, PPC has been given more time to comply and hearings regarding the status of the licenses are planned for March 2016, at which the Board and PPC is confident of a positive outcome.

Confirmation of longer-term viability

The Board has considered these risks and the other principal risks faced by the business detailed on pages 44 to 53 of the Annual Report. The Directors are implementing further operational and cash management measures, and may be required to implement other restructuring and/or refinancing options, to settle amounts that may become payable in February 2017 or will become payable in February 2018 pursuant to the $40m Convertible Bond. Assuming that these payments can be made, based on the Group's cash flow forecasts, the Directors believe that the combination of its current cash balances, expected future production and resulting net cash flows from operations provide a reasonable expectation that the Company will continue to be viable and meet its liabilities over the assessment period.

Corporate and social responsibility ('CSR') review

Our understanding

JKX is committed to understanding, monitoring and managing our social, environmental and economic impact to enable us to contribute to society. JKX's safety culture is led from the top; it is embraced and practised by the Chief Executive Officer and throughout the organisation.

Our vision

JKX is committed to achieve zero harm to employees, environment, contractors, communities and property.

The Company has implemented the requirements of ISO 26000 and have joined the Global Reporting Initiative on Sustainability Reporting, the international guidance on social responsibility.

Our approach

JKX's approach is to act responsibly and with integrity, conducting its global business as a responsible employer, corporate citizen and neighbour. JKX is committed to building a responsible, sustainable business by:

- Reducing the impact of unemployment
- Addressing the skills shortage necessary for local business to compete in the future
- Engaging in Continuous Professional Development
- Addressing inequality in recruitment, pay and promotion
- Creating healthier, happier and more productive employees
- Supporting charities and communities
- Helping local people into work
- Improving the Company's impact on the environment
- Acknowledging the International Labour Organisation Health & Safety principles
- Working better with local suppliers and other stakeholders
- Developing a globally responsible mind-set throughout the Group

Our impact

The increasing concern of environmental and social impacts means that to achieve long term success, JKX measures its 'triple bottom line' – profit, people and planet. CSR positively impacts these three elements and is therefore embedded within JKX's business strategy.

Our CSR process is board led

CSR is led by Tom Reed, the Chief Executive Officer. JKX's Health, Safety, Environment, Community and Quality ('HSECQ') manager reports directly to the CEO and has responsibility for creating a framework and maintaining the HSECQ Management System for the management of the Group's non-financial impacts.

The Board is provided with quarterly updates relating to the major CSR issues.

A management review of all HSECQ systems is carried out every year. A full Board level review of progress was completed in December 2015 and plans for 2016 were agreed. The new Board of Directors will ensure these plans are carried out.

Local responsibility

Each of JKX's operating companies has a nominated individual with executive responsibility for implementing HSECQ management systems. During 2015, local staff received training in risk assessment, and due to enhanced skills being required at operations, HSECQ management staff have been replaced. HSECQ Managers are experienced, fully trained and familiar with the local culture, regulations and working practices.

In Ukraine, Russia, Slovakia and Hungary JKX has fully trained HSECQ teams which deliver a high standard of HSECQ management and reporting. Our teams report to the General Director of the local operating company and the Group HSECQ manager.

Our CSR objectives

- **Strategy:** Integrating long-term economic, environmental and social aspects into JKX business strategies while maintaining technical excellence.
- **Financial:** Meeting shareholders' demands for sound financial returns, long-term economic growth, open communication, and transparent financial accounting.
- **Customer and product:** Fostering loyalty by investing in customer relationship management, and product and service innovation that focuses on using technologies and systems in an economic manner over the long term.
- **Governance and Stakeholder:** Setting the highest standards of corporate governance and stakeholder engagement, including corporate codes of conduct and public reporting. The new Board intends to improve such reporting and governance during 2016 and onwards.
- **Human:** Managing human resources to maintain workforce capabilities and employee satisfaction through best-in-class organisational learning, knowledge management practices and remuneration and benefit programs.

CSR policies, procedures and standards

JKX aims to comply with all local laws and regulations and to exceed them where possible - and expects all its partners to reach the same standards. Environment, Social and Governance and other risks facing the Company are included in the JKX Risk Register and appropriate KPI's are agreed each year.

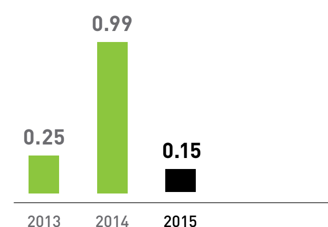
JKX's policies and standards cover:

- Safety reporting and incident management
- Exposure hours
- Occupational health provision and record keeping
- Environmental reporting and incident management including climate change
- Behavioural based safety programmes
- Continuing Professional Development and implementation
- Human resources practices, covering areas such as equal opportunities
- Handling of charitable requests
- Local community relations
- Reference to the International Labour Organisation
- Reporting to local Russian, Ukrainian, Hungarian, Slovakian and UK authorities
- Risk management programmes
- Business sustainability
- Anti-bribery and corruption
- Business ethics
- Equality and Diversity
- Human Rights / Modern Slavery Act
- Employee surveys
- Fair Employment Practices
- Setting annual targets and objectives

CSR achievements in 2015

All Injury Frequency Rate[1] ('AIFR')

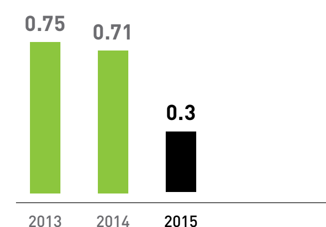
0.15



[1] The AIFR, representing the health and safety incidents per 200,000 hours worked, is a direct measure of safety performance.

Environmental Incident Frequency rate[2] ('EIFR')

0.30



[2] The EIFR is the number of environmental incidents per 200,000 hours worked.

Maintained our ISO 9001 Quality Management accreditation

Maintained our ISO 14001 Environmental accreditation

Maintained our OHSAS 18001 Health and Safety accreditation

Recruited a highly qualified HSECQ manager for PPC

Commenced ISO 9001 accreditation process for YGE

Corporate and social responsibility ('CSR') review

CSR targets and achievements

JKX's strategy for 2015 has been to continue to improve its existing systems for managing its HSECQ aims and objectives.

Targets 2015	Achievements 2015	Targets 2016
Keep our AIFR to 0.40 or below Continue to beat the performance benchmark set by the International Association of Oil and Gas Producers ('IOGP')	JKX achieved an AIFR of 0.15 (2014: 0.99) per 200,000 hours worked. JKX achieved 0.75 injuries per million hours worked in 2015 (2014: 4.95), the 2015 IOGP performance benchmark was 1.6 per million hours for 2015.	Keep our AIFR to 0.35 or below and exceed the IOGP performance benchmark
LTI of 0.25 or lower per 200,000 hours worked	**Achieved** Zero LTI per 200,000 hours worked	LTI of 0.35 or below
EIFR of 0.70 per 200,000 hours worked	**Exceeded target** EIFR of 0.30 achieved	EIFR at 0.60 or below
Maintain ISO 9001 accreditation	**Achieved**	Maintain ISO 9001 accreditation
Maintain ISO 14001 accreditation for JKX Oil & Gas plc	**Achieved**	Maintain ISO 14001 accreditation
Maintain OHSAS 18001 accreditation for JKX Oil & Gas plc	**Achieved**	Maintain OHSAS 18001 accreditation
Complete OHSAS 18001 accreditation for PPC	**Achieved**	Maintain OHSAS 18001 accreditation for PPC
ISO 9001 accreditation for PPC	**Achieved**	Evaluate assessors recommendations and apply to the PPC Management System
Continue to improve our Stakeholder engagement and Community Liaison Plan	Progress made, improving levels of communication with local stakeholders, their interests forming part of the decision-making process for all our significant operations.	Continue to update and improve our Stakeholder engagement and Community Liaison Plan in all locations
Continue to improve local engagement in our Group Risk Management Systems and reporting into our Group Risk Register	**Achieved** Risk management strategy was updated and local Risk Committees continued to operate in Ukraine and Russia supported by staff training in risk identification and mitigation.	Improve our Risk Management and Assessment activities across the Group
Continue to improve incident reporting, using safety moments, workshops, site campaigns, training sessions, toolbox talks and briefings	**Achieved** 56 incidents were reported in 2015 (2014: 47) which included near-miss reports, unsafe acts and hazards.	Continue to improve incident reporting, using safety moments, workshops, site campaigns, training sessions, tool-box talks and briefings

Targets 2015	Achievements 2015	Targets 2016
Further improve Emergency Response ('ER') arrangements and plans with simulated exercises, drills and training in each of our operational areas	**Achieved** During 2015 JKX improved ER in Ukraine and Russia and continued with regular ER drills and observations of the process. Plans have been established which include rescue of personnel and actions to minimise damage and business disruption.	Further improve ER arrangements and plans with simulated exercises, drills and training in each of our operational areas during 2016
Update the Carbon Management Plan and reports	Ensure the next assessment of our Carbon Management Submission by the Carbon Disclosure Project is submitted in Q3 2016.	The performance report is included in this Annual Report with improvements planned for 2016
Comply with the Greenhouse Gas ('GHG') Emissions (Directors' Reports) Regulations 2015	**Achieved** An independent company, Tru-Cost, was engaged to analyse and report our GHG's. All emissions sources owned, operated or controlled by the Group are included in our report.	The baseline measurement is included in this Annual Report with improvements planned for 2016
Carry out a Management Training Needs Analysis	Identify current competencies within the JKX Senior Management Team including Directors and propose a program of Continuing Professional Development including Corporate Governance and Environmental matters. With the change in the JKX Board on 28 January 2016, the management training plan is being revised for 2016.	Revise current arrangements with improvements planned for 2016

Corporate and social responsibility ('CSR') review

Health and safety

Our approach

JKX's Health, Safety, Environment, Community and Quality ('HSECQ') philosophies are embodied in its Policy Statements, which are endorsed by the Board and made known to all employees and business partners. The statements represent the Company's commitment to a safe and healthy, incident free, working environment and its responsibility to prevent damage to the environment, our employees and neighbours.

JKX will never knowingly compromise its health, safety, environmental or quality standards to meet operational objectives.

Health and safety statistics

In 2015, JKX implemented and communicated its improved HSECQ policy at all operations worldwide.

This policy represents a clear statement of core principles and the approach to health and safety management at all Group companies.

The priority is to ensure that all staff and contractors work in a safe environment, where effective systems of work are maintained and appropriate procedures and processes are followed.

Continuous improvement in health and safety 1

Annual HSECQ targets are set for all levels within the organisation. During 2015 JKX achieved an AIFR of 0.15 per 200,000 hours worked with 165days away from work recorded. This equates to an AIFR of 0.75 per million hours worked.

The industry benchmark set by the IOGP was an AIFR of 1.6 per million hours worked. The reporting of incidents during 2015 continued, demonstrating that all statistics are reported whether good or bad.

With more than 750 personnel during 2015 JKX reported 56 incidents.

Our safety statistics for 2015 2

Measurement and analysis of JKX's safety statistics is carried out on a monthly basis with the results communicated to senior management of all group companies and the Board.

There were no recorded lost time injuries (2014: 6). This year JKX sadly suffered a fatality during mud mixing operations. A Root Cause Analysis was carried out for this incident with the lessons learned distributed across the Group to ensure no such incident occurs again.

Employees are included in structured training and behavioural programs which promote open discussion and employee surveys are conducted annually. JKX has a clear Safety Management System, which provides a comprehensive and systematic vision of its objectives.

Each site has its own HSECQ Management System identifying all major hazards and risks to personnel specific to the unique nature of the country of operation.

In occupational health, the drug and alcohol policy continues to be successful throughout the Group with no instances of breaches noted. The policy applies to all JKX staff and contractors and forbids the possession and/or use of defined prohibited substances which includes drugs and alcohol. The policy also clarifies testing and inspection procedures.

Drilling risks

JKX recognises that the safety and efficiency of drilling and workover operations depends primarily on the performance of its employees and contractors. Local staff with decades of local experience are used on our drilling rigs who are supported by expatriate supervisors to provide additional expertise and oversight. This enables us to define and manage risk more clearly using Western methodologies.

JKX drilling and workover employees and contractors have the necessary training and certification in well safety and well control, and all personnel have the authority to stop any job that they deem unsafe.

Supervisors are selected for their expertise as well as for their familiarity with the regions where JKX operates. They understand and are sensitive to local working practices and culture, and work to enhance the education and training of local staff and contractors alike.

JKX makes the best use of its resources by sharing expertise between operating companies using a strong collaborative environment where everybody contributes to analyse the risks and develop mitigating strategies in order to minimise it.

A Lead Drilling and Workover Engineer is based at the London office who reports directly to the Board and is responsible for the planning, reviewing and authorising of Group drilling and workover operations; this significantly strengthens the capability to identify and manage drilling risk. A daily drilling update is provided to the Board for all JKX operations which describes drilling progress, issues and expectations for the following 24 hours.

Health and safety risk management

JKX is proud to have maintained accreditations for compliance with:

- OHSAS 18001 Health & Safety
- ISO 14001 Environmental and
- ISO 9001 Quality Management.

These are internationally-recognised specifications for occupational health and safety environmental and quality management systems monitored by experienced auditors bi-annually to ensure compliance to the standards The list below is a sample of 3rd party inspection activities in 2015. A full report of all inspections is available on request.

3rd Party Inspections during 2015

PPC, Ukraine

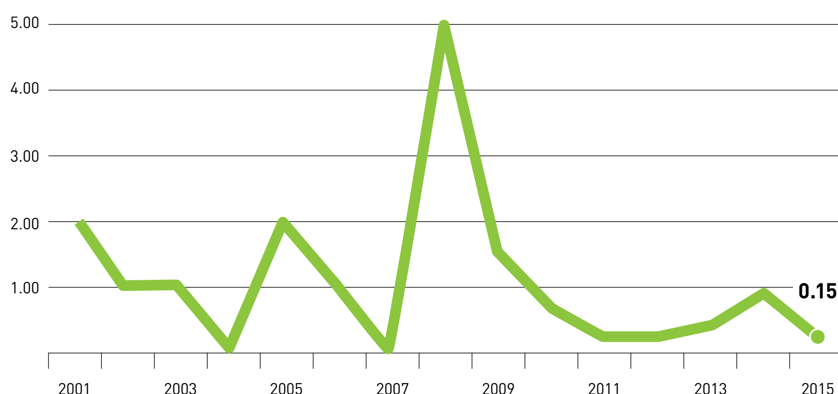
- Main Board of the State Emergency Situation Service of Ukraine in Poltava region
- Expert organization NVF Promservisdiagnostika
- Expert organization PP Energomash
- State Labour Board, Poltava region
- Office of the Federal Service for Ecological, Technological and Atomic Supervision (Rostekhnadzor)
- Association of independent experts of Ukraine Ukrexpert
- Federal Service for the Supervision of Natural Resources

YGE, Russia

- North Caucasus Office of the Federal Service for Ecological, Technological and Atomic Supervision (Rostekhnadzor)
- State Labour Inspectorate in Adygea Republic
- Federal Service for the Supervision of Natural Resources in Krasnodar Region
- Federal Agency on Technical Regulating and Metrology, Southern Interregional Territorial Office
- Head Office of the Ministry of the Russian Federation for Civil Defence, Emergency Situation and Mitigation of Natural Disaster Consequences in Adygea Republic

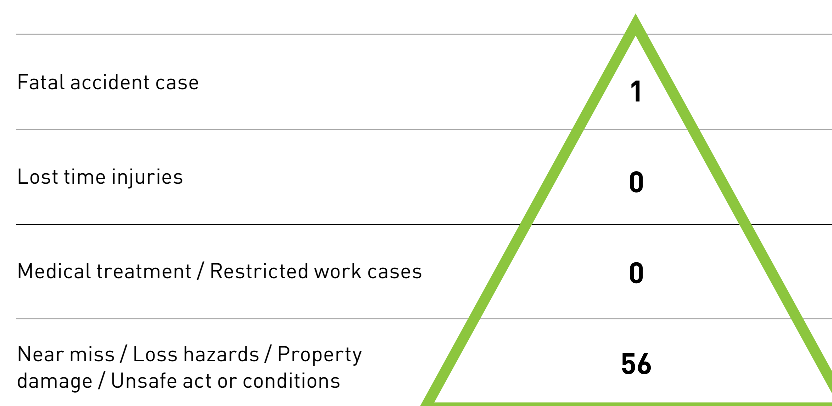
1 Continuous improvement in health and safety

All Injury Frequency Rate ('AIFR') 2015



2 Our safety statistics for 2015

HSECQ statistical analysis for 2015



Corporate and social responsibility ('CSR') review

Health and safety

- Ministry of Internal Affairs in the Republic of Adygea
- Federal Agency for Transport Supervision, State Road Supervision Interregional Directorate in Krasnodar Region and Adygea Republic.

Consistent Hazard Assessment Processes

In both Russia and Ukraine, JKX continued to carry out risk management studies using its proven Hazard and Operability ('HAZOP'), Hazard Identification ('HAZID') and As Low as Reasonably Practical ('ALARP') methodologies.

JKX has developed an integrated assessment process for the safety assurance of development proposals which are potentially hazardous. These assessments combined with the essential features of the JKX safety management programme complete the safety circle.

Health and safety training

Each location has a health and safety training budget which is established after the Training Needs Analysis has been completed, which includes training that is required under local law. Additional training is provided according to operational requirements.

Investment in the community

In 2015, the Group continued its support for local communities. Community support donations in Ukraine and Russia totalled $240,242 in 2015.

Environmental management system

The JKX Environmental Management System is a comprehensive, systematic, planned and documented management process. It includes the organisational structure, planning and resources for developing, implementing and maintaining policy for environmental protection. JKX strives to reduce impact on the environment, conserve energy, recycle resources and eliminate environmental pollution, while placing a high priority on preserving the environment.

Our approach

JKX is proud to have maintained ISO 14001 Environmental Management accreditation in 2015. ISO 14001 is the principal management system standard which specifies the requirements for the formulation and maintenance of an Environmental Management System.

Our impact

JKX complies with all relevant environmental requirements, including environmental laws and regulations and industry guidelines.

JKX enhances environmental awareness among employees by providing environmental training and promoting a thorough understanding of its environmental policy.

In 2015, JKX continued to make good progress and are pleased to continue the ongoing work with The Carbon Disclosure Project. JKX's Environmental Report for 2015, prepared in conjunction with TruCost, has identified emission reduction measures for the 2016 campaign.

Environmental objectives	Achievements	Targets 2016
Reducing emissions. In managing emissions throughout the exploration, and production process, JKX plan to improve monitoring and reduce emissions. In particular, "reduced emissions completions" ('REC') or "green completions" will be assessed at all stages	**Continuously monitored:** • on-site fuel consumption measured more efficiently • Green House Gas ('GHG') emission levels recorded and analysed through latest software and reporting. • purchased electricity records improved • purchased heating/cooling records improved • release/leakage of other chemicals causing greenhouse gas emissions recorded, reported and analysed • fugitive emissions assessed and recorded • fuel used for vehicles reduction by journey management • official travel of staff reduced	**Continuous monitoring** Improved monitoring will be carried out before, during and after operations to detect contaminants in groundwater and potential leakages of into the atmosphere. Revised and updated emission reduction strategies for 2016 are likely to include: • current carbon footprint reduction methods identify opportunities for a reduction in CO_2 emissions • identification of technical requirements for more efficient monitoring and recording • identification of administrative requirements • estimated emission reduction through any proposed interventions • estimated cost for the interventions • estimated savings from the intervention (e.g. through reduced energy use, reduced travel costs, and reduced offset costs) • responsibility for implementation • implementation schedule. • quantitative objectives and targets
The Greenhouse Gas Emissions Regulations 2015	JKX has complied with its obligations to record and report its annual greenhouse gas ('GHG') emissions in this Annual Report	Continue to comply and improve GHG recording and reporting
Zero discharge of chemicals to land or surface waters	**Achieved in 2015** Continuously monitored	Continuous monitoring
Restored habitat and hydrological regime to pre-construction state as soon as reasonably practical	**Achieved in 2015** Continuously monitored	Continuous monitoring
Establish group-wide and site-level Biodiversity Action Plan ('BAP')	**Completed in 2015**	Monitor progress throughout 2016

Corporate and social responsibility ('CSR') review

Environmental management system

Environmental objectives	Achievements	Targets 2016
No loss of containment of product	**Achieved in 2015** Continuously monitored	Continuous monitoring
Reduction in water use	Recycling water from drilling operations has helped us to reduce the use of this valuable resource in 2015	Continue to improve the measurement of water use and its recycling from our drilling operations and aim to reduce water usage by 5% annually
Consulting with Stakeholders (local communities, workforce, NGOs and government agencies) to implement and monitor supply chain initiatives for emissions reduction	**Achieved in 2015** • Established Stakeholder Management Plans • Risk assessed the Stakeholder Priority levels • Openly communicated with stakeholders about their respective concerns • Adopted processes and modes of behaviour that are sensitive to the concerns and capabilities of each stakeholder	JKX's approach in 2016 will: • measure return on community investment to both the company and the community • use outcome and impact indicators to measure the quantity and quality of change • track changes in community perceptions to gain real-time feedback on performance • use participatory methods of monitoring and evaluation to build trust and local ownership of outcomes • proactively communicate the value generated by the Group to internal and external audiences
Reduce waste to landfill	JKX has continued to improve the recording and measurement of the waste sent to landfill during 2015	Improvement opportunities being considered for 2016 include: • improving waste segregation efforts • further engagement with the local communities on recycling initiatives where economic and practical • update of our purchasing policy to encourage use of regular supplies which are recyclable • improve monitoring of waste and recycling and reduce waste to landfill by 5% annually

Environmental performance in 2015

In 2015, JKX was pleased to continue the ongoing work with The Carbon Disclosure Project and improved its reporting under the project with a score of 83% (2014: 71%).

Environmental Incident Frequency Rate ('EIFR') 1

The EIFR Target for 2015 was not to exceed 0.70 Environmental incidents per 200,000 hours worked; 0.30 was achieved.

Greenhouse Gas ('GHG') emissions reporting

All emissions sources owned, operated or controlled by the Group are included in our reporting.

Our approach

JKX's terminals at operational sites in Ukraine, Hungary and Russia are self-sufficient and can maintain operations without the need for grid electricity therefore improving the security of supply.

The Greenhouse Gas Protocol methodology was used for compiling the GHG data.

GHG emissions by scope

The GHG Protocol categorises direct and indirect GHG emissions as follows:

- Scope 1: all direct GHG emissions.
- Scope 2: indirect GHG emissions from consumption of purchased electricity, heat or steam.

Mandatory GHG reporting 2

In accordance with GHG Protocol Scope 2 Guidance that was released in January 2015, disclosures below now state two Scope 2 emission totals – location-based and market-based. Market-based emission factors are not available for either of JKX's Russia and Ukraine locations, only residual emission factors are used for offices in U.K., and location-based emission factors are used for locations in Russia and Ukraine. Calculations will be updated when residual factors at all JKX locations are available for public use.

The table opposite discloses JKX's Scope 1 and 2 GHG emissions and an emissions intensity ratio of tonnes CO_2 per million barrels of oil equivalent that JKX produced in 2015.

JKX used the Greenhouse Gas Protocol methodology for compiling its GHG data, and includes the following material GHGs: CO_2, N_2O and CH_4.

Our other environmental initiatives

Global Reporting Initiative ('GRI')

The GRI Reporting Framework is intended to provide a generally accepted framework for reporting on an organisation's economic, environmental, and social performance. The Framework consists of the Sustainability Reporting Guidelines, the Indicator Protocols, Technical Protocols, and the Sector Supplements.

During the year JKX reported according to the GRI's Sustainability Reporting Guidelines and will continue to report in 2016.

Supply chain management

At the heart of JKX's sustainable supply chain is a policy of localising supply by fabricating, manufacturing and sourcing as much as possible as close to the point of use by using indigenous companies.

Our achievements

During 2015 some advances were made in JKX's Supply Chain Initiative, which will continue in 2016 with a more focused approach to procurement and supply.

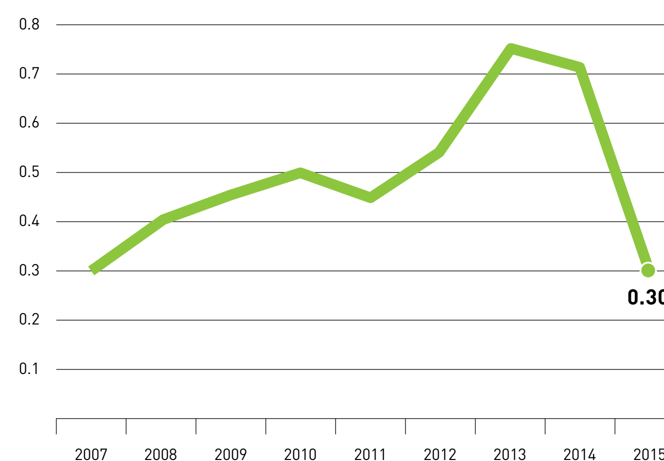
As required for JKX's ISO 9001 certification, operating procedures, prequalification processes and Stakeholder Management Plans ensure that major suppliers, products and services are evaluated for their environmental compliance and commitment.

Outlook

Plans to improve these procedures during 2016 include enhancing the JKX Code of Conduct to include more specific policies, procedures and guidelines for purchasing and contracting activities undertaken by Group companies.

The results of the employee survey show that there are possible improvements and these will be the focus in 2016.

1 Environmental Incident Frequency Rate 2015 ('EIFR')



2 Mandatory GHG reporting

Data point	Units	Quantity 2014	Quantity 2015
Scope 1	tonnes CO_2e	317,441	**339,149**
Scope 2 (Location based)	tonnes CO_2e	827	**568**
Scope 2 (Market based)	tonnes CO_2e	N/A	**566**
Scope 1 & 2 Intensity	tonnes CO_2e /Mboe of production	88	**103**

Corporate and social responsibility ('CSR') review

Employment

Our approach

By creating employment JKX makes a contribution to reducing poverty and promoting economic and social development. The Group provides career development, international opportunities, a non-discriminatory workplace and competitive remuneration within a decentralised culture. The decentralised model is underpinned by a robust governance framework and empowers local management to make key business decisions locally.

Staff training and skills development is an essential component of our employment proposition and assists people to secure decent and productive jobs.

Our achievements

JKX employs more than 750 staff in five different countries which puts people as a top priority.

At year-end, Yuzhgazenergie LLC, the Russian subsidiary, employed 249 staff (2014: 257) at our Koshekhablskoye production facilities and the Maikop administrative office. The Ukrainian subsidiary, Poltava Petroleum Company, employed 493 personnel (2014: 622) at the production site and at the Poltava office.

The London office has 22 employees (2014: 25).

Employment policies

The Company's employment policies aim to attract the best people in the belief that a diverse and inclusive culture is a key factor in being a successful business. The Group remains committed to equality of opportunity in all of its employment practices. It selects employees for appointment, career development and promotion based solely on the skills and attributes which are relevant to the job and which are in accordance with the laws of the country concerned.

Diversity and equality

Access to work opportunities is based on merit, equality, fairness and need, and no one is treated less favourably on the basis of their sex, racial or ethnic origin, colour, religion, disability, marital status, sexuality or age.

This approach ensures that diversity and equality is reflected in all JKX's policies, practices and procedures, where practicable.

JKX will not tolerate any form of discrimination – either direct or indirect. Acts of discrimination, prejudice, harassment and victimisation which occur within the workplace or within local communities is not tolerated.

Employee engagement

JKX aims to communicate openly with all its employees.

Operating across a number of different countries, cultures and environments, JKX operates a decentralised management structure, led by native General Directors and senior management, with employment policies designed for the needs of individual locations.

Each Group company complies with certain key principles, including:

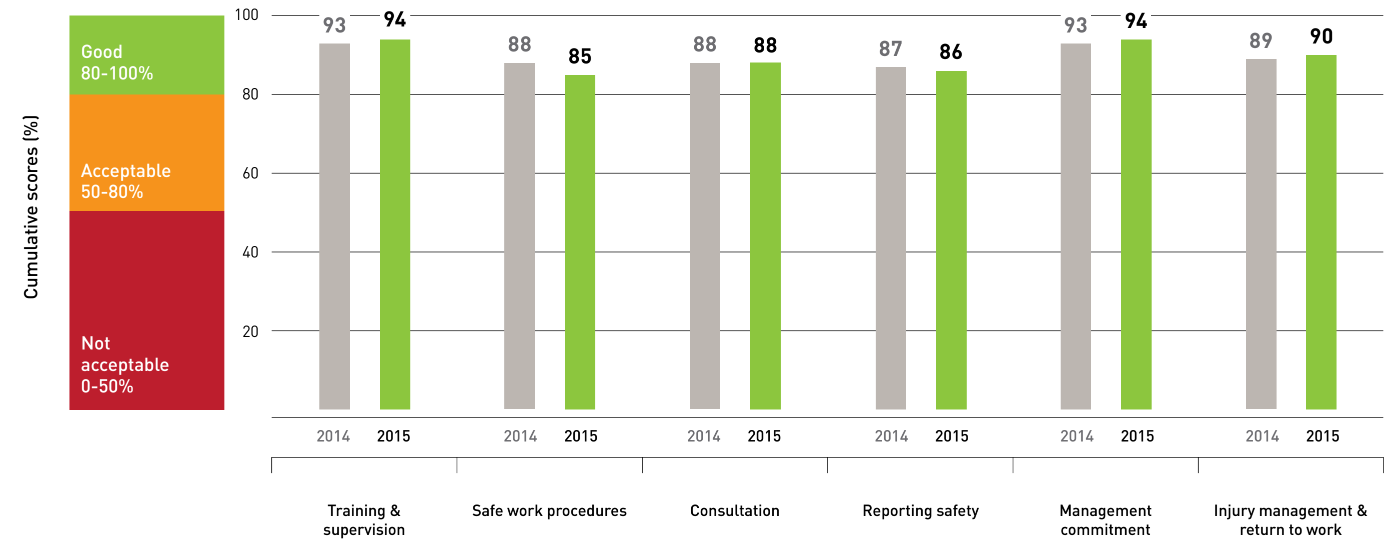
- providing safe and healthy working conditions for all employees
- creating an open, challenging, rewarding and participative environment which, through development and training, aims to maximise the talent, skills and abilities of all employees
- communicating to provide the fullest possible understanding of our goals, directions and performance of the business
- providing compensation and benefits which reflect good current local practices and which reward collective and individual abilities and personal performance
- providing a working environment, development opportunities and incentives to promote team effort and commitment to the performance of the Group
- referencing the International Labour Organisation to verify standards and best practice.

Employee feedback

A health and safety employee satisfaction survey was carried out again in 2015 to obtain feedback from staff on JKX's health and safety culture and success in applying group health and safety policy. The survey was in the form of a questionnaire which was translated and completed on an anonymous basis by a range of employees from different locations across the Group.

The results of the employee survey show that there are perceived improvements in management commitment and consultation, compared with 2014. These areas will continue to be the focus in 2016.

JKX Health and Safety culture survey 2015



Corporate and social responsibility ('CSR') review

Community

Our approach

JKX is committed to engaging with the community to share the benefits of its success at its operating plants.

Our community engagement

The Company conducts various activities to forge good relations with local communities through participation in forums established by local authorities and residents' associations, and by creating such forums.

Cleaning up areas around plants and neighbouring areas is an activity that group companies are taking part in. The number of employees who participate in clean-up activities is increasing year by year.

JKX contributes to improving local education by conducting plant tours, providing employment and work experience, and raises environmental awareness by actively participating in environmental events in regions where it operates.

Assistance in our local communities

In practical terms, JKX's community support frequently involves using the Company's plant and machinery – as well as manpower – to provide much-needed assistance.

Working with the local authorities, JKX deployed available vehicles including fire engines, cranes, trucks, excavators, road clearing equipment, personnel and safety equipment to assist local communities in a number of small isolated tasks which benefit the local community.

For example, in Sokolova Balka village, a village local to JKX's operations in Poltava, Ukraine, PPC provided:

- equipment to level an area for installation of fencing and the sand and crushed rock needed for the installation
- roader services for village tasks
- equipment to pump out sewage in a family house of 16.

In Novi Sanzhary, another local village, PPC provided a crane for assistance with local operations.

Diversity and equality

Access to work opportunities is based on merit, equality, fairness and need, and no one is treated less favourably on the basis of their sex, racial or ethnic origin, colour, religion, disability, marital status, sexuality or age.

JKX's approach is to ensure that diversity and equality is reflected in all its policies, practices and procedures, where practicable.

JKX does not tolerate any form of discrimination – either direct or indirect.

Charitable donations and volunteering

Each operation has a limited budget for good causes and charitable donations locally.

Locally, donations from the Group during 2015 amounted to:

- **Ukraine** UAH2,757,119 ($122,351) (2014: UAH4,376,868 ($245,457))
- **Russia** RR7,590,519 ($117,891) (2014: RR4,379,785 ($105,809))

Subject to management approval, staff may be given additional time off in order to join in certain charity-related activities.

Local charitable projects

The financial aid is allocated to qualifying organisations using a formal applications process. Applications for funding are made to our local companies specifying how funds will be used. A full list of charitable donations is available.

A sample of charity and community projects that are local to JKX operations and that JKX has supported during the year were:

Ukraine

- Purchase of coal-fired boilers and maintenance of the boiler houses for educational facilities in Novi Sanzhary village
- Reconstruction of museum premises and a school stadium in Novi Sanzhary village
- Construction materials and services for the reconstruction of a medical treatment room at the Poltava military hospital
- Purchase of windows for a kindergarten and school renovation works in Lelyukhivka village

Russia

- Construction of a football field in Druzhba
- Roof repair works at a nursery school in Druzhba
- Repair works at a secondary school in Druzhba
- Repair works at a secondary school in Egerukhay village
- Svyato-Ilyinskiy Church Reconstruction in Dondukovskaya

Our stakeholder engagement

JKX works closely with outside interest groups and maintains an open-door policy to better understand local issues so that problems are avoided.

Business proposals are consulted on before making final decisions. These consultations with stakeholders feed into the business planning process to ensure that stakeholders' needs are prioritised in JKX's business plan.

A key priority for the new Board appointed on 28 January 2016 is to maintain transparent working relationships with all key stakeholders in our assets in Ukraine and Russia, and to improve the method of regular local dialogue and on-going communications.

Our performance

In 2015 JKX continued to make progress by reviewing the approach to stakeholder communications in Ukraine, Hungary, Slovakia and Russia.

A mapping of stakeholders was carried out in 2015 using an Influence-Interest-Matrix to identify JKX's key stakeholders. This is an area of key importance to JKX and plans are in place to further develop the skills of staff and employees to continually improve the stakeholder management capabilities.

Outlook

Internal and external stakeholder surveys were conducted in 2015 to understand if JKX is meeting stakeholder and customer expectations. The results of the surveys were discussed with senior management and reviewed as part of the JKX Annual Management Review.

Quality

ISO 9001 accreditation

JKX have the full Integrated Management System comprising ISO 14001, OHSAS 18001 and ISO 9001. PPC Construction and Engineering achieved accreditation to ISO 9001 on 27 January 2015 after meeting the requirements of the standard as assessed by Bureau Veritas. YGE commenced their ISO 9001 accreditation process in 2015.

Achieving ISO 9001 accreditation ensures that the quality management systems that JKX has adopted work to improve the efficiency of business and are not just a set of procedures.

JKX use an external assessor and an internal resource to carry out regular audits of the management system. The support of the Board and senior management has been the driver of this management system, so that all areas of the organisation are aware of the importance and benefits of the ISO accreditation process.

Outlook

A new version of ISO 9001 is due in 2016, which will be a complete revision of the standard. JKX is planning to hold practical workshops to support the organisation to get acquainted with and implement the new standard.

Investor engagement

JKX seeks to enhance shareholder value through responsible and effective communication with shareholders.

The Chief Executive Officer is responsible for maintaining ongoing relations with the investor and shareholder community, acting as the primary point of contact for members of this community.

In 2015 the Board carried out various meetings with potential and existing investors and with the wider investment community through analyst presentations and other events.

JKX communicates the latest relevant company information and future investor events through its website at www.jkx.co.uk.

Governance

"One of the key priorities of the new Board is to improve the standards of corporate governance, transparency and stakeholder engagement across the JKX Group."

Paul Ostling Chairman

Governance

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Directors' report – other disclosures	100

Board composition

Paul Ostling (67)
Non Executive Chairman

Appointed–28 January 2016

Paul worked at Ernst & Young for 30 years working with major entities listed on the New York and London Stock Exchanges and holding senior management positions including Global Executive partner from 1995 to 2003 and Global Chief Operating Officer from 2003 to 2007. In addition, for 15 years, he was one of several partners leading the development and coordination of the firm's operations throughout Russia, Ukraine, the CIS and Eastern Europe. From 2007 to 2012, Paul served as chairman of the audit committee of Mobile TeleSystems OJSC (NYSE). Other board and leadership roles include: Brunswick Rail (2012 to present), Uralkali (2011 to present), PromSvyazBank (2008 to 2010), UralChem (2008 to 2011) and DME Ltd (Domodedovo) (2011 to 2012), Kungur Oilfield Equipment & Services (2007 to 2012, Chief Executive 2007-2009). In 2011, Paul was named 'Independent Director of the Year' by the Association of Independent Directors in Russia. Paul is a proficient Russian speaker.

Dear shareholder

As I stated in my Chairman's statement on page 6, on 28 January 2016, four Board members resigned and at a General Meeting of the Company on the same day, shareholders voted to remove the remaining five Board members.

At the same meeting, shareholders approved the appointment of five new Directors of JKX, whose biographies are provided here.

Due to the highly unusual circumstances of the entire Board being replaced on the same day, which included all the independent Non Executive Directors, since 28 January 2016 the composition of the Board has not complied with UK Corporate Governance Code ('the Code') in respect of the number of independent Non Executive Directors. Without independent Non Executive Directors, the Company has not been able to form the various committees (Audit, Remuneration and Nomination), which are compliant with the Code.

We are currently in the final phase of appointing two new independent Non Executive Directors of JKX and, in the interim period, the Board has put some measures in place for the Board committees and its remuneration until the two new independent Board members are appointed. These measures are described further on pages 79 and 84.

For the purposes of approving the Annual Report for 2015, an interim Audit Committee consisting of myself, as Chairman, and Russell Hoare, as Chief Financial Officer, was formed, but will be replaced with an independent committee, in compliance with the Code, as soon as the new independent Board members are appointed.

One of the new Board's key priorities is to improve the standards of corporate governance, transparency and stakeholder engagement across the Group, in the best interests of all shareholders and stakeholders.

Since the 28 January, the Group has been led by an experienced Board of directors consisting of a Non Executive Chairman, the Chief Executive Officer, the Chief Financial Officer and two Non Executive Directors representing the interests of Proxima, JKX's second largest shareholder with a holding of almost 20%.

I look forward to updating you shortly on the new Board appointments, compliance with the Code and the Board's improvements to governance and related matters.

Paul Ostling
Non Executive Chairman

Tom Reed (45)
Chief Executive Officer

Appointed–28 January 2016

Tom was a founder and Chief Financial Officer of FTSE-listed Ruspetro plc from December 2011 to February 2015, which included a period as acting Chief Executive from July to December 2013. For a number of years Tom worked as a private equity investor and M&A advisor in Moscow and in Russia, Ukraine and other CIS countries on the origination, trading and structuring of equity, derivatives and distressed debt. In addition he served as an advisor to VR Capital from 2001 to 2007 and to Raven Russia from 2005 to 2007. Tom is a member of the Society of Petroleum Engineers and speaks fluent Russian.

Russell Hoare (44)
Chief Financial Officer

Appointed–28 January 2016

Russell has more than 15 years experience working in Russia, Ukraine and Eastern Europe holding a variety of CFO roles. This includes acting as Chief Financial Officer from 2011 to 2016 at Russ Outdoor, the leading out-of-home advertising company in Russia, with assets across Russia and, until recently, Ukraine. In addition, he spent 10 years in News Corporation, based between London and Moscow, with responsibility for many of the company's media assets in Russia and Eastern Europe. Russell has 10 years experience of managing the financial operations of Ukrainian businesses and working with local government and authorities in addition to a number of years as an internal auditor to LASMO plc, an oil and gas exploration and development company based in London. Russell qualified as a UK Chartered Accountant with Arthur Andersen in 1996.

Vladimir Tatarchuk (40)
Non Executive Director

Appointed–28 January 2016

Mr Tatarchuk has been the Chairman and Chief Executive Officer at Proxima Capital Group since 2013. From 2011 to 2013 Mr Tatarchuk served as First Deputy Chairman of the Executive Board and Head of Corporate-Investment Banking at Alfa Bank. From 1998 to 2011 he held many posts at Alfa Bank including Head of Corporate Banking, Co-Head of Corporate-Investment Banking, Deputy Chairman of the Executive Board, Deputy Head of Corporate Finance and Vice President, and also served on the Board of Directors of Alfa Bank in Ukraine. Mr Tatarchuk holds a degree in law from the Lomonosov Moscow State University and a diploma in executive management from the leading international business school INSEAD.

Vladimir Rusinov (49)
Non Executive Director

Appointed–28 January 2016

Mr Rusinov joined Proxima Capital Group in 2015 as Managing Director. Prior to that Mr Rusinov worked at leading Russian and international investment banks for 20 years with a particular focus on oil and gas in Russia and the CIS, including Managing Partner at VNR Capital, an investment banking advisory firm, Managing Director and Head of Oil and Gas at Renaissance Capital, Director at ABN AMRO Oil and Gas Group, Vice President in the European Energy & Power Group at Merrill Lynch and associate in M&A, Corporate Finance and European Energy & Power Departments at Goldman Sachs International. Mr Rusinov holds a MA (Hons) Degree in International Economics from Kiev State University and MBA Degree from Nijenrode Business University, the Netherlands School of Business.

Corporate governance

Governance framework and principles 1

The Company has a premium listing on the London Stock Exchange and is subject to the Listing Rules of the UK Listing Authority. The Board is committed to applying the principles of the UK Corporate Governance Code ('the Code') and relevant institutional shareholder guidelines. This section explains in more detail how we have applied these provisions.

JKX's Group-wide policies and procedures provide a framework for governance and are underpinned by the Group's Code of Conduct. Good governance is taken seriously throughout the JKX Group and the Board set the tone and take the lead to ensure that good practice flows throughout the Group.

JKX Board replaced on 28 January 2016

The entire Board of JKX was replaced on 28 January 2016 following a General Meeting of the Company. The resignation of all independent Non Executive Directors meant that, since that date, the composition of the Board has not complied with UK Corporate Governance Code ('the Code') in respect of the number of independent Non Executive Directors. Without independent Non Executive Directors, the Company has not been able to form the various committees (Audit, Remuneration and Nomination) which are compliant with the Code.

The Company is in the final phase of appointing two new independent Non Executive Directors, using an independent search firm, who will form the new Audit, Remuneration and Nomination Committees, in accordance with the requirements of the UK Corporate Governance Code.

Board effectiveness

Role of the Board 2

The principal matters reserved for the Board are set out on page 73. Day-to-day operational decisions are managed by the Executive Directors.

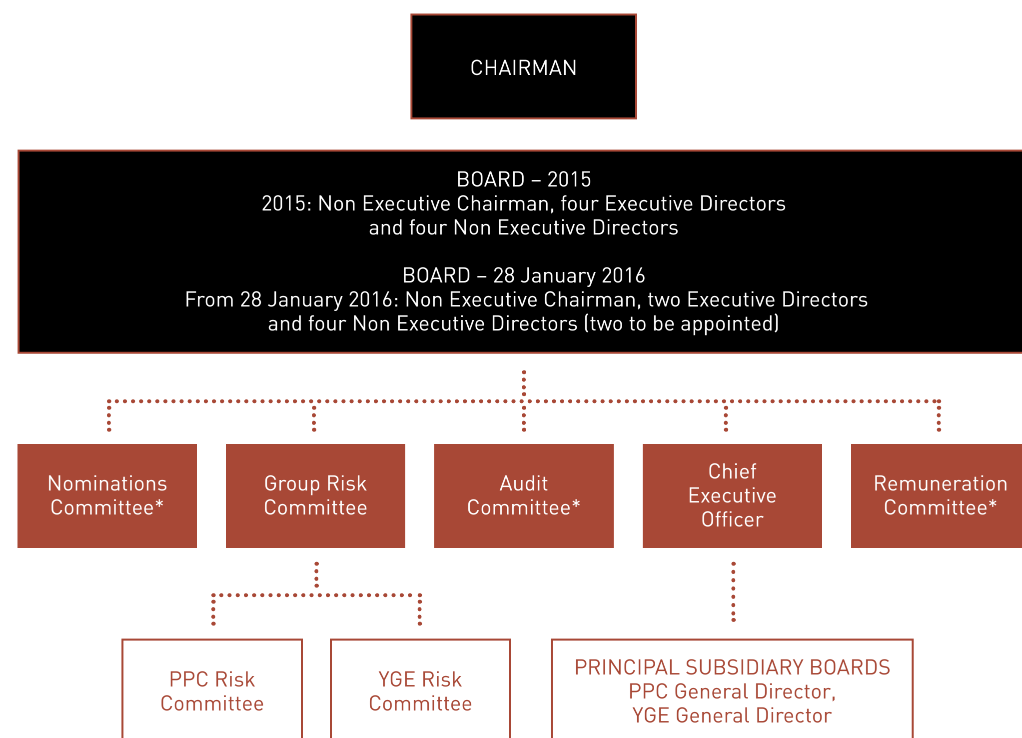
How the Board functions

The Board has historically held six scheduled meetings each year, and arranges additional meetings if the need arises. During 2015, there was one unscheduled Board meeting (2014: two) and the Non Executive Directors met twice in private session, with an open agenda to discuss the current issues affecting the Group. The Board anticipates an increase in the number of scheduled meetings in 2016 as the newly appointed Board members build a new strategic direction for the Company.

In addition, the Board considers strategy in depth as well as reviewing the strategic objectives of the Company at each of its Board meetings.

The Chairman, in consultation with the Executive Directors, sets the agenda for Board meetings. All Directors receive comprehensive documentation prior to each meeting on the matters to be discussed.

1 Governance framework



* From 28 January 2016: to be appointed

Monthly Board reporting

The Group provides the Board with consolidated monthly management reports 10 working days after the month end, except for the financial year-end when the reporting is delayed to accommodate the annual audit process. The reports outline all material operational, financial, commercial and strategic developments.

The monthly financial reports consolidate all financial information from all parts of the Group and include actual performance against budget and forecast for oil and gas production, sales and costs.

These reports provide the Board with the latest information on receivables, cash, cash flow forecast and the implications of key sensitivities including changes in production, commodity prices, production taxes and exchange rates. These monthly reports ensure that members remain properly briefed on the performance and financial position of the Group.

Board meeting documents

Prior to each set of meetings the Executive Directors ensure that all the relevant papers and other information is delivered at least five days in advance of the meeting date so that all Directors have the necessary time to review in detail the latest information.

Support for Directors

The Board has adopted a policy whereby Directors may, in the furtherance of their duties, seek independent professional advice at the Company's expense. During 2015, no Director sought independent legal advice pursuant to the policy.

Prior to the General Meeting on 28 January 2016 at which a new Board was appointed, the Board in place at that time incurred legal fees of $66,530 in respect of issues related to their severance payments and settlement agreements.

Each Director has the benefit of a deed of indemnity from the Company and its subsidiaries in respect of claims made and liabilities incurred, in either case arising out of the bona fide discharge by the director of his or her duties. The Company has also arranged appropriate insurance cover in respect of legal action against Directors of the Company and its subsidiaries.

Committees of the Board in 2015

During 2015 and up until the General Meeting on 28 January 2016, the Board had three committees to assist the Board by focusing on specialist areas, which were ultimately accountable to it. These comprised:

- the Audit Committee;
- the Nominations Committee; and
- the Remuneration Committee.

The Board committees met independently and provided feedback to the main Board through their chairmen.

2 Role of the Board

The Board provides leadership to the Group. Key matters reserved for the consideration and the approval of the Board are:

- setting and monitoring Group strategy;
- review of Group business plans, trading performance and costs;
- review and approval of the annual operating and capital expenditure budgets;
- approval of capital investment projects across the Group;
- examination of acquisition opportunities, divestment possibilities and significant financial and operational issues;
- remuneration policy (through the Remuneration Committee);
- appointments to the Board (through the Nominations Committee) and senior management, Committee membership and remuneration for Directors and senior management;
- review and approval of the Company's financial statements (through the Audit Committee);
- setting any interim dividend and recommendation of the final dividend; and
- ensuring that the significant business risks are actively monitored and managed using robust control and risk management systems.

All other authorities are delegated by the Board, supported by appropriate controls, to the Chief Executive Officer on behalf of senior management.

Corporate governance

Committee memberships in 2015 3

The roles and activities of each of these committees during 2015 are noted on pages 76, 79 and 90.

Since the General Meeting on 28 January 2016, the Company established an interim Audit Committee comprising Paul Ostling and Russell Hoare which will carry out the requirements under the Disclosure and Transparency Rules 7.1.3R, pending the establishment of a permanent Audit Committee.

Board composition, independence and commitment

Throughout 2015 and up until the General Meeting on 28 January 2016, the Board of nine members comprised:

- a Non Executive Chairman,
- four Executive Directors and
- four Non Executive Directors.

There were no changes to the Board during 2015.

Since the removal/resignation of all of the Board on 28 January 2016 (see above), the Board has comprised:

- a Non Executive Chairman,
- two Executive Directors and
- two Non Executive Directors representing the interests of Proxima, JKX's second largest shareholder with a holding of almost 20%.

The Company is in the final phase of appointing two new independent Non Executive Directors.

It is the Board's view that the current Non Executive Directors have sufficient time to fulfil their commitments to the Company and no Executive Director holds a Non Executive Directorship, or Chairmanship, in a FTSE 100 company.

Board skills, experience and responsibilities

The Directors have knowledge and experience of the oil and gas industry, including expertise in geology, engineering and financial matters, significant experience of working in central and eastern Europe, particularly Ukraine and Russia, and expertise in turn-around and restructuring situations within the region. The key biographical details, relevant experience and responsibilities of each Director are provided on pages 70 and 71.

The Non Executive Directors that the Board is looking to appoint will bring the skills and expertise necessary to challenge effectively, independently and constructively the performance of the Executive Board and their strategy.

Board diversity

During 2015, the Board comprised eight men (89%) and one woman (11%). The Board currently comprises 5 men.

Gender is only one aspect of diversity, and there are many other attributes and experiences that can improve the Board's ability to act effectively. Our policy is to search for the highest quality people with the most appropriate experience for the requirements of the business, be they men or women.

The Board supports the longer term aspirations of Lord Davies' report regarding gender diversity on appointment of directors to Boards and will maintain its practice of embracing diversity in all its forms, but has chosen not to set any measurable objectives. Details of our current gender diversity statistics are set out on page 26.

Senior Independent Director

During 2015, Dipesh Shah was the Senior Independent Director ('SID').

Following the replacement of the entire Board on 28 January 2016, which included the SID, the Board has been without a SID since then. A SID will be selected from one of the two new independent Non Executive Directors, when appointed.

The SID will be available for discussions with other Non Executive Directors who may have concerns which they believe have not been properly considered by the Board as a whole. If required, they will also act as an alternative point of contact for the Executive Directors in addition to the normal channels of the Chairman and Chief Executive Officer.

A key responsibility of the SID is to ensure he is available to shareholders if they have concerns that have not been resolved by contact through the normal channels of Chairman, Chief Executive Officer or other Executive Directors, or where such contact is inappropriate.

2015 Board evaluation process

A process of evaluating the performance of the Directors, the Board and its committees through one to one interviews conducted by the Chairman with all other Board members was planned for December 2015 but was cancelled following the requisition of the meeting to remove most of the JKX Board. A similar process will be implemented in December 2016.

External evaluation

As the Company is outside of the FTSE 350 there is no requirement for an externally-facilitated evaluation of the Board at least every three years.

Following a change of the full Board on 28 January 2016 and the imminent appointment of two new independent Non Executive Directors, the Board will consider the relevance of an externally facilitated evaluation during 2017.

Development of the Board

All Directors are provided opportunities for further development and training updates. In addition to the regular updates on governance, legal and regulatory matters, the Board also receives detailed briefings from advisers and at their seminars on a variety of topics that are relevant to the Group and its strategy. The annual Board evaluation includes a review of governance where the Directors have an opportunity to assess their effectiveness and that of the Board as a whole.

Board activities

Attendance at meetings in 2015 4

In addition to six scheduled Board meetings, there was one unscheduled meeting convened at short notice (2014: two).

When a Director is unable to participate in a meeting either in person or remotely because of another engagement, they are provided with the briefing materials and the Chairman will solicit their views on key items of business ahead of time, in order for the views to be presented at the meeting and influence the debate.

The number of meetings of the Board and its committees during 2015 and individual attendance by Director is shown below.

Senior management from across the Group, and advisers, attend some of the meetings for the discussion of specific items in greater depth. This is important to the Board as it further enhances the Board's understanding of operations and the implementation of strategy.

Board's work during 2015

The Board used a rolling agenda of strategy, finance, operations, commercial matters, corporate governance and compliance. All Directors have the authority to add any item to the Board agenda.

3 Committee memberships in 2015

	Audit Committee	Remuneration Committee	Nomination Committee
Nigel Moore		▲	●
Dipesh Shah OBE	▲	●	
Lord Oxford			▲
Alastair Ferguson	▲		
Richard Murray	●	▲	

● Chairman ▲ Member

4 Attendence at meetings in 2015

	Board	Audit Committee	Remuneration
Number of meetings	**7**	**5**	**4**
Nigel Moore	7/7	–	4/4
Dr Paul Davies	7/7	–	–
Cynthia Dubin	7/7	–	–
Martin Miller	7/7	–	–
Peter Dixon	7/7	–	–
Dipesh Shah OBE	7/7	5/5	4/4
Lord Oxford	6/7	–	–
Alastair Ferguson	7/7	4/5	–
Richard Murray	7/7	5/5	4/4

Corporate governance

At each of the six scheduled Board meetings during the year matters considered include:

- the Chief Executive's report on strategic, HSECQ and performance matters;
- the Finance Director's report which includes the latest available management accounts;
- the Technical Director's operations and exploration update;
- the Commercial Director's report on oil, gas and condensate prices, macroeconomic issues and business development activity; and
- where applicable, reports from the Nominations Committee, Audit Committee and Remuneration Committee.

In addition to the standing agenda items and annual Board responsibilities in respect of the Group's reporting, other topics covered by the Board during the year included:

- the political and economic developments in Ukraine and Russia and managing the associated risks to our operations;
- responding to the three Ukrainian government decrees on doubling of gas production taxes, currency controls and gas sales restrictions, and managing the impact on the Group;
- managing the Group's liquidity following the Ukrainian government decrees and significant disruption to the gas sales market in Ukraine; and
- the international arbitration proceedings against Ukraine under the Energy Charter Treaty and other relevant investment treaties seeking compensation for losses suffered due to Ukraine's treaty violations.

Re-electing your Board

The Board contains a broad range of experience and skills from a variety of industries and advisory roles, which fully complement each other.

All of the current Board appointments were approved by shareholders at the General Meeting on 28 January 2016.

As the Company is outside of the FTSE 350 there is no requirement for all Board members to be subject to annual re-election by shareholders. Directors will stand for re-election at the 2016 Annual General Meeting, in accordance with the Articles of Association.

Full biographies of all the Directors can be found on pages 70 and 71 and in the Notice of AGM.

Nomination Committee

The role of the Nomination Committee is to review the structure, size, skills and composition of the Company Board and the Boards of companies owned by JKX Oil & Gas plc. The Committee also considers succession planning and suitable nominations for appointments to the Boards, and makes appropriate recommendations based on qualifications and experience.

The Committee meets as often as it determines is appropriate and generally meets at least once a year and more frequently if required. The Committee did not meet during 2015 and no appointments were made to the Board (2014: none).

Membership and process

The Nomination Committee comprised two Non Executive Directors. During 2015 the Committee comprised Lord Oxford and Nigel Moore (Chairman) who were removed from the Board on 28 January 2016. As noted above, when the two new independent Non Executive Directors are appointed a Nominations Committee can be constituted in accordance with the requirements of the Code.

The Chairman ensures that any new Directors are provided with a full induction on joining the Board. The letters of appointment of each Non Executive Director are available for inspection at the registered office of the Company.

Succession planning

The Board is responsible for succession planning for directorships and key management roles. This requires performance and talent assessment, to ensure that able successors for key roles are identified and then provided with suitable opportunities through career and personal development plans. It is crucial that we remunerate our most talented people fairly and properly, such that they are more likely to stay in our employment.

The new Nomination Committee, when appointed, will consider succession planning.

Remuneration Committee

Details of the work of the Remuneration Committee is given in the Remuneration report on pages 84 to 99.

Compliance

Compliance with the UK Corporate Governance Code

The Board believes that during 2015 the Company was fully compliant with the provisions set out in the UK Corporate Governance Code, with the following minor exceptions:

B.2.3. The terms of appointment of the Non Executive Directors were set out in their service contracts, which for Nigel Moore was dated 13 July 2012, for Lord Oxford was dated 1 January 2002, for Dipesh Shah was dated 1 June 2008, for Alastair Ferguson was dated 1 November 2011 and for Richard Murray was dated 1 January 2013 and included a termination notice of three months by either party. However, the service contracts were for an indefinite term, not a finite term, subject to re-election on an as required basis. These contracts were terminated on 28 January 2016.

B.7.1. Non Executive Directors who have served longer than nine years should be subject to annual re-election. Lord Oxford had served on the Board for more than nine years and was re-elected a Director at the last AGM on 4 June 2014.

In considering that the Company was in 2015, other than as noted above, in full compliance, the Board notes that excluding the Chairman, independent Non Executive Directors comprised 50% of the Board as the Board considered that the four other Non Executive Directors in place during 2015 were wholly independent.

The Executive Directors in office during 2015 undertook a review of the independence of each of the Non Executive Directors and Chairman. The review addressed the matters highlighted at Section B.1.1 of the Code, which could appear to affect a Director's judgment. In undertaking the review, one specific matter addressed was that Lord Oxford has served on the Board for more than nine years. Following the review, the Executive Directors at that time did not consider that this matter in any way influenced the independent judgment of Lord Oxford. Accordingly, the Executive Directors in office during 2015 believed that each of the Non Executive Directors and Chairman to be independent in accordance with Section B 1.1 of the Code both during the year under review.

The contracts of all Directors who served in office during 2015 were terminated on 28 January 2016.

The five new Board members have entered into interim arrangements which will be replaced by longer term arrangements once an independent Remuneration Committee has been nominated and can review and approve such arrangements.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The internal control systems are designed to meet the particular needs of the Group and to manage rather than eliminate the risk of failure to achieve business objectives. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss.

For the year under review and up to the date of approval of the 2015 Annual Report, the Board has reviewed the effectiveness of the Company's systems of internal control and risk management and has concluded that the Company's procedures, policies and systems are appropriate and suitable to enable the Board to safeguard shareholders' investment and the Company's assets, and comply with Turnbull Guidance.

In addition, the Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. Details of the principal risks and how they are managed or mitigated is included on pages 42 to 53.

Further information on internal control and risk management is set out in the Audit Committee Report on page 79.

Budgetary process

Each year the Board reviews and approves the Group's annual budget with key risk areas identified. The preparation of the annual Group budget is a multi-stage comprehensive process led by the Chief Financial Officer who works closely with local finance directors for operating subsidiaries in Russia and Ukraine and other senior management with specific responsibilities for our Hungarian, Slovakian and other operations.

Performance is monitored through the monthly reporting to the Board of variances from the budget. Relevant action is taken by the Board throughout the year based on updated forecasts which are prepared using current information on the key risk areas and sensitivities.

The budgetary process for 2016 has been deferred in order that the new Board is able to fully understand and contribute to the process rather than continuing with a budget that was approved by the previous Board.

Investment appraisal

For each capital intensive project there is a rigorous project analysis and risk and return appraisal completed using technical, financial, commercial, and operational specialists across the Group. The new Board is reviewing the approach to ensure the most effective allocation of capital across the group as part of a wider consideration of the Company's strategy.

Capital investment is regulated by the budgetary process, our automated authorisation for expenditure ('AFE') system and pre-defined authorisation levels.

For expenditure beyond specified levels, detailed written proposals are submitted to the Board.

Using our AFE system Group capital expenditures are reviewed monthly on a project-by-project basis by the Chief Financial Officer and overruns, actual or foreseen, are investigated, and approved by the Board where appropriate.

Whistleblowing

The Board reviews the arrangements by which employees can raise any concerns they may have about workplace fraud or mismanagement with local management on a confidential basis. Whistleblowing incidents are taken very seriously by the Board.

As part of the Board's commitment to support our employees in the work place, we have a confidential process for reporting "Concerns at Work". This is a confidential service for reporting delicate matters that sometimes arise in the work place.

In addition, this service forms part of the Company's commitment to comply with best practice under the UK Bribery Act. As disclosed in our Anti-Bribery and Corruption policy, all individuals who work on behalf of the Group have a responsibility to help detect, prevent and report instances not only of bribery but also of any other suspicious activity or wrongdoing.

Employees are expected to make complaints to their line managers or, if this is not appropriate, through our independently managed confidential reporting process, which is available to all employees as well as third parties.

Complaints made under the confidential reporting service are sent to the Finance Director and are investigated in the first instance prior to a decision being taken about further steps. Feedback is provided to the person making the complaint, if necessary.

The Board is absolutely committed to ensuring that all employees have a safe, reliable, and confidential way of reporting any suspicious activity.

Corporate governance

Communication with shareholders

A key priority of the new Board that was appointed on 28 January 2016 is significant and rapid improvements to the frequency and levels of communication with all shareholders. The new Board has made contact with the Group's major shareholders since its appointment and is committed to a more open relationship involving regular communications in order that shareholders views on the Group can be understood.

A number of formal communication channels are used to account to shareholders for the performance of the Group, which include the Annual Report, AGMs and periodic reports to the London Stock Exchange.

Presentations given at appropriate intervals to representatives of the investor community are available to all shareholders to download from the Group's website (www.jkx.co.uk). Less formal processes include contacts with institutional shareholders for which the Board as a whole takes responsibility.

Extensive information about the Group's activities is provided in the Annual Report and the Half-yearly Report which are provided to shareholders.

During 2015, the Chief Executive and Finance Director had a number of meetings with institutional and other shareholders, as did the Chairman. In addition, in April 2015 the Chairman wrote to shareholders to update them on the Group's progress and other important matters affecting them and the Group.

Enquiries from individuals on matters relating to their shareholding and the business of the Group are welcomed and are dealt with in an informative and timely manner. Shareholders are encouraged to attend the Annual General Meeting to discuss the progress of the Group.

Conflicts of interest

The Company complies with the provisions on conflicts of interest in the Companies Act 2006.

The Company has procedures in place for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflicting matters by the Board. In deciding whether to authorise a conflict or potential conflict the Directors must have regard to their general duties under the Companies Act 2006. The procedure operates to ensure the disclosure of conflicts, and for the consideration and if appropriate, the authorisation of them by non-conflicted Directors.

The authorisation of a conflict matter, and the terms of authorisation, may be reviewed at any time by the Board. The Nomination Committee supports the Board in this process, both by reviewing requests from Directors for authorisations of situations of actual or potential conflict and making recommendations to the Board and by reviewing any situations of actual or potential conflict that have been previously authorised by the Board, and making recommendations regarding whether the authorisation remains appropriate.

Going concern

The Board closely monitors and manages its liquidity risk using cash flow forecasts which are regularly produced and applies sensitivities for different scenarios including, but not limited to, changes in oil and gas prices, changes to production and other tax rates in relation to the Group's producing assets, changes in Rouble and Hryvnia exchange rates, increased operating and capital expenditure and delays to additional future revenue, while also considering the current and future country and currency risks that the business is exposed to.

At the date of this report, there is a combination of circumstances which results in the existence of a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern. The combination of circumstances giving rise to the material uncertainty is discussed in Note 2 to the financial statements. After making enquiries and considering the circumstances discussed in Note 2 to the financial statements, the Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and Group will have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

On behalf of the Board

Paul Ostling Chairman
18 March 2016

Audit Committee Report

During 2015, the Committee comprised three independent Non Executive Directors who resigned on 28 January 2016.

JKX Board replaced on 28 January 2016

The entire Board of JKX was replaced on 28 January 2016 following a General Meeting of the Company. The resignation of all independent Non Executive Directors meant that, since that date, the composition of the Board has not complied with the UK Corporate Governance Code ('the Code') in respect of the number of independent Non Executive Directors. Without independent Non Executive Directors, the Company has not been able to form an Audit Committee which is compliant with the Code.

The Company is in the process of conducting background checks and appointing two new independent Non Executive Directors which will enable a new Audit Committee to be formed.

For the purposes of approving the Annual Report for 2015, an interim Audit Committee consisting of Paul Ostling, as Chairman, and Russell Hoare, as Chief Financial Officer, was formed, but will be replaced with an independent committee, in compliance with the Code, as soon as the new independent Board members are appointed. Both Paul Ostling and Russell Hoare have relevant financial experience, as defined by the Code, and so were deemed most suited to form the Committee as an interim measure.

Composition of the Audit Committee

During 2015, the Audit Committee was chaired by Richard Murray, a Chartered Accountant and a former audit partner with Ernst & Young LLP. The Board in 2015 determined that Richard Murray has considerable recent and relevant financial experience through his previous and current roles. In addition, Richard maintained a regular pattern of attendance at relevant seminars and courses.

The Committee also included two other Independent Non Executive Directors, Dipesh Shah and Alastair Ferguson, providing it with an appropriate balance between those individuals with a financial or accounting background and those with wider experience of the oil and gas sector in which we operate. In practice, the Committee achieves its objectives by a process of regular interaction with management and the external auditors, as well as by reviewing the work of Internal Audit and the Risk Committee, and other advisory firms.

Together with the collective financial and commercial skills and experience of the other Committee members, the Committee had the appropriate experience to fulfil its responsibilities and oversee the activities of the Company's auditors.

Attendance at meetings in 2015

Members to 28 January 2016	Committee member since	Number of meetings in 2015	Resigned
Richard Murray (as Chairman)	January 2013	5/5	January 2016
Dipesh Shah	June 2008	5/5	January 2016
Alastair Ferguson	November 2011	4/5	January 2016

Role of the Audit Committee

The Audit Committee has delegated authority from the Board set out in its written terms of reference, available on the Company's website, which were last reviewed by the Board in July 2015. The principal objectives of the Audit Committee are:

- to monitor the integrity of the financial statements of the Group and regulatory announcements, and to review any significant financial reporting judgements;
- to monitor the adequacy and effectiveness of the Group's internal control, risk management and financial reporting processes;
- to provide the Board with an independent assessment of the Group's accounting affairs and financial position;
- to provide the Board with assurance that the Annual Report and Accounts are presented in a manner that is fair, balanced and understandable, so as to enable shareholders to assess the Group's performance, business model and strategy;
- to recommend the (re-)appointment of the external auditors to the Board and annually assess their independence, objectivity, effectiveness, quality, remuneration and terms of engagement, as well as ensuring that the policy with regard to their appointment for non-audit services is appropriately applied. Thereafter, the Committee provides a recommendation to the Board regarding the auditors appointment to be put to the shareholders in the forthcoming annual general meeting; and
- to monitor the adequacy and effectiveness of the internal audit function and the Risk Committee and to review any significant matters arising.

Audit Committee Report

Attendance at meetings

The Audit Committee met five times during 2015 (2014: three).

The Committee's meetings were always attended by the Chief Executive, the Finance Director, the lead partner of our external auditors, and by certain senior managers who are responsible for specific topics, such as risk management, financial control, and internal compliance procedures. Other Directors are invited to attend the meetings from time to time when appropriate.

The Committee Chairman maintains contact with those other attendees throughout the year. Twice during 2015 (2014: twice), the Committee met with the external auditors to discuss matters which the auditors and Audit Committee may wish to raise without Executive Directors being present.

The Committee's activities during 2015

The Committee had an annual work plan, developed from its terms of reference, with standing items that the Committee considers at each meeting in addition to any specific matters arising and topical items on which the Committee has chosen to focus.

The work of the Audit Committee during the year principally fell under three main areas and is summarised below.

Significant issues considered by the Audit Committee

After discussion with management and the external auditors, the Committee determined that the key risk of misstatement in relation to the Group's 2015 financial statements related to:

- The going concern basis of accounting;
- The carrying value of the Group's Oil and Gas assets; and
- The Group's exposure to production-related taxes in Ukraine.

These issues were discussed with management and the external auditors at the time the Committee reviewed and agreed the auditors' Group Audit Plan, during the review of the half year interim financial statements in July 2014 and at the conclusion of the audit of these financial statements.

Internal controls and risk	External auditors	Accounting, tax and financial reporting
• Considered reports from KPMG in relation to their audits and assessment of the control environment in Russia and Ukraine • Considered reports from the external auditors on their assessment of the control environment • Considered feedback from both the internal and external auditor reports as submitted by local and Group management • Reviewed Risk Committee reports, which required management to identify risks and evaluate them, and ensured appropriate mitigating controls were agreed and implemented • Approved the scope of the internal audit programme for the year • Considered the effectiveness of the internal audit function • Assessed the effectiveness of the Group's internal control environment • Assessed the effectiveness of the Group's Anti-Bribery and Corruption Annual Plan	• Considered and approved the audit approach and scope of the audit work to be undertaken by the external auditors and the fees for the same • Reviewed auditor's reports on their audit findings at the half year review and at the year end • Reviewed and updated the policy governing non-audit services • Considered the independence of the auditors and their effectiveness, taking into account: (a) non-audit work undertaken by the external auditors and compliance with the policy; (b) FRC guidance; (c) feedback from a survey targeted at various stakeholders; and (d) the Committee's own Assessment • Considered the recommendations in the UK Corporate Governance Code regarding the tender of the external audit contract • Considered and approved letters of representation issued to the external auditors	• Reviewed the half year and annual financial statements and the significant financial reporting judgements made therein • Considered the liquidity risk and the basis for preparing the Group half yearly and full year financial statements on a going concern basis and reviewed the related disclosures in the Annual Report • Reviewed the external auditors' report on audit and accounting judgements, including consideration of relevant accounting standards and underlying assumptions • Reviewed disclosures in the Annual Report in relation to internal controls, risk management, principal risks and uncertainties and the work of the Committee • Received a corporate governance update relating to changes to the UK Corporate Governance Code

Matters considered	Response and conclusion
The impact on the going concern of the Company of: • **the sudden fall in worldwide oil and gas prices; and** • **the ability to settle the potential $30.1 million which may become payable in February 2017** The Group has a significant obligation of $30.1 million which may become payable pursuant to its $40 million Convertible Bond in February 2017 (see Notes 13 and 14 to the consolidated financial statements) if all of the Bondholders exercise their put option at that time, or in February 2018 if the Bond expires at its full term. The majority of the Group's revenues, profits and cash flow from operations are currently derived from its oil and gas production in Ukraine. Accordingly, the Group's going concern assessment is sensitive to the realisations that are achieved from oil and gas sales in Ukraine and the Company's ability to repatriate cash to the UK to meet its obligations to creditors and bondholders. JKX's oil and gas markets were severely affected through 2015 by the sustained low international oil prices which have adversely affected its financial results. Under guidelines set out by the UK Financial Reporting Council the Board is required to consider whether the going concern basis is the appropriate basis of preparation for the Financial Statements, and furthermore, is required to include appropriate disclosure of any significant considerations or uncertainties relevant to the going concern assumption.	The Committee has been in discussion throughout the year with management and the external auditors (PwC) in order to assess the impact of foreign exchange controls in Ukraine and the continued low international oil and gas prices. The Committee received reports prepared by management outlining their assessment of the ability of the Group to continue as a going concern, subject to the reprioritisation of capital expenditure, tighter cost control and successfully repatriating cash to the UK through other legitimate means. The Committee challenged the appropriateness of the key assumptions used and was fully briefed on discussions between the Board, local management and advisors regarding the potential for further unforeseen decrees in Ukraine affecting the Group. In addition, PwC provided a detailed report on this issue to the Committee. The audit opinion, provided by them, includes an 'emphasis of matter' paragraph referencing specific risks relating to further legislation from the Ukrainian government affecting the energy industry and material deterioration of our oil and gas realisations, which represent material uncertainties. Whilst it is unclear whether either or both of these risks will be realised, if realised, they may cast significant doubt about the Group's ability to meet its obligations as they fall due and continue as a going concern. The Committee has advised the Board that, on the basis of management's reasonable expectations as to the likely outcome and impact of these risks, including consideration of mitigating measures, the Group has adequate resources to continue in operational existence for the foreseeable future and therefore the going concern basis is the appropriate basis of preparation for the 2015 financial statements. However, this notwithstanding, the Committee has advised the Board that the current political and economic uncertainties that exist, particularly those relating to oil and gas realisations, together represent a material uncertainty, which should be, and is, appropriately disclosed in the financial statements (see Note 2 to the Group financial statements).
The carrying value of the Group's oil and gas assets As more fully explained in Note 5 to the financial statements, JKX's oil and gas assets are grouped into cash generating units ('CGUs') for the purpose of assessing the recoverable amount. Each period these assets are reviewed for indications of impairment. If any assets are considered to have been impaired, the carrying value is adjusted downwards by an appropriate amount, with a corresponding charge made to the Income Statement. An impairment review necessarily involves the use of assumptions such as long-term production forecasts, gas prices, production-related taxes, capital expenditure, discount rates, and other macroeconomic assumptions underlying the valuation process. This is particularly challenging in relation to the Group's interests in Ukraine and southern Russia due to the lower medium term visibility of gas prices which are set by the respective governments and are vulnerable to unexpected short term political manoeuvring.	The Committee received reports from management outlining the basis for each of the key assumptions used, and these assumptions were reviewed and challenged by the Committee to ensure reasonableness and consistency e.g. with the Group's 2016 Budget which is approved by the Board. In addition, this area is a prime source of audit focus and accordingly our auditors provide detailed reporting to the Committee. Management also brought to the attention of the Committee the sensitivity analysis disclosed in Note 5 to the financial statements. The Committee agreed that, on the basis of the evidence available, after the provision for impairments of $49.6m and $1.5m in respect of our oil and gas assets in Ukraine and Hungary, the projected future cash flows from the Group's CGUs adequately supported the carrying value of the associated oil and gas assets, and noted that full disclosure of the key assumptions (including a sensitivity analysis in Note 5) had been appropriately disclosed in the financial statements.

Audit Committee Report

Matters considered	Response and conclusion
The Group's exposure to production-related taxes in Ukraine As detailed in Note 27 to the financial statements, the Company is engaged in a claim against Ukraine under international arbitration proceedings for the recovery of overpayment of production taxes of more than US$180m, in addition to damages to the business. The claim is being heard in July 2016 and therefore the outcome is unknown. In addition, in recent years, the Group has been in receipt of a number of unexpected claims for additional taxes, mainly retrospective in nature, all of which have been successfully managed and resisted by management to date and which have been/are being contested in the Law Courts of Ukraine. The outcome of legal challenges concerning additional production tax liabilities in Ukraine for the period to 31 December 2010 is underpinned by a range of judgements (see Note 27).	The Committee addressed this issue, as in previous periods, by reviewing reports from senior management and examining the degree to which these are supported by professional advice from external legal and other advisory firms. This is also an area of elevated audit risk and accordingly the Committee received detailed verbal and written reporting from PwC on these matters. Having reviewed these reports and submissions, the Committee was satisfied that a provision of $10.9m was required in respect of production taxes being claimed for 2010, and the other two claims were disclosable as contingent liabilities. Furthermore the Committee noted that the disclosures made in Note 27 to the financial statements appropriately reflected the uncertainties that necessarily persist.

Misstatements

Management reported to the Committee that they were not aware of any material or immaterial misstatements made intentionally to achieve a particular presentation. The auditors reported the misstatements that they had found in the course of their work to the Committee and confirmed that no material amount remained unadjusted.

Internal control

The Audit Committee monitors the integrity of the financial statements and related announcements, reviews the Company's internal control processes and risk management systems, and reports its conclusions to the Board. The Committee regularly reviews the effectiveness of the Company's systems of internal control and risk management.

Risk management

The Risk Committee, which comprises the Chief Financial Officer and senior management, assists the Board in discharging their responsibility to review on an ongoing basis the risks potentially facing the Group, their potential impact, the strategies available to mitigate those risks and the costs of such mitigation.

The Risk Committee met three times in 2015.

The Chairman of the Risk Committee reports to the Audit Committee and the Board at relevant meetings on matters it has reviewed and material changes to the Group's risk environment, in addition to making recommendations when appropriate.

Following each Risk Committee meeting, the Committee reviews the minutes, the latest Risk Register and related output, and challenges the Group's high-rated risks and the mitigating actions identified by each risk owner. An updated list of principal risks is included within the Strategic Report on pages 44 to 53.

For each high-rated risk the Committee reviews the Group's current level of exposure and considers the appropriateness of the mitigating actions being taken by management.

The Committee was comfortable with the processes in place for risk management.

Additional information on risk management is included in the Principal risks and how we manage them section on page 41.

Internal audit

During the year, KPMG were retained to build on their prior year's assessment on the adequacy of the Group's procedures and controls in Russia and Ukraine, as well as complete full internal audit procedures on the procure-to-pay process at our significant operations in Ukraine.

The scope of the procure-to-pay internal audit included testing of design and operating effectiveness of controls across the full process.

KPMG's independent assessment of our processes and controls allowed management to prioritise their work so as to address their recommendations and continue to strengthen the financial and operating controls in these two operating subsidiaries.

The Audit Committee is fully supportive of the development of the internal audit programme which is intended to ensure that the necessary processes and controls are firmly embedded within our organisation making the control environment stronger and more efficient.

External audit

The Audit Committee maintains an objective and professional relationship with the Company's auditors, PricewaterhouseCoopers LLP ('PwC'), who have been auditors to the Group since 2006, and meets in private session with them on a periodic basis.

PwC were reappointed as the Company's auditors in 2011 following a competitive tender process. The audit partner rotated in 2013. PwC are required to rotate the audit partner responsible for the Group audit every five years.

The Audit Committee are fully supportive of the Code's requirement that the audit should be put out to tender at least once in every ten years. Any decision to open the external audit to tender within ten years is taken on the recommendation of the Audit Committee based on the results of the annual performance review.

Non-audit services

During the year the Committee reviewed their policy governing the engagement of the external auditor to provide non-audit services. The policy precludes PwC from providing certain services such as valuation work or the provision of accounting services and also sets a presumption that the external auditor should only be engaged for non-audit services where there is no legal or practical alternative supplier.

In such instances, the continued objectivity and independence of the auditors in their capacity of auditor is an objective of the Group.

Under the policy, the Committee has delegated authority to the Finance Director for the approval of non-audit services from PwC of up to $20,000 per project and an aggregate amount of not more than $50,000 in any year. Decisions above these thresholds must be referred to the Audit Committee for pre-approval of the services and be supported by appropriate documentation detailing management's reasons for selecting PwC.

In addition to the statutory audit fee, PwC and member firms charged the Group $110,000 for audit-related assurance services in 2015 in connection with the 2015 half year review process and $2,000 for the use of their online technical information database.

Further details of the fees paid, for both audit and non-audit services, can be found in Note 23 to the consolidated financial statements.

The Committee is satisfied that the quantum of the non-audit services provided by PwC is such that the objectivity and independence of the external auditor has not been compromised.

Reappointment of Independent Auditors

During the year the performance of the auditor was formally assessed by the Committee in conjunction with the senior management team. In making this assessment the Committee focused on the robustness of the audit, the quality of delivery of audit services and the quality of the auditors' staff.

Having reviewed the capability and effectiveness of PwC's performance during the year, and having satisfied itself as to their continuing independence and objectivity within the context of applicable regulatory requirements and professional standards, the Committee has invited the Board to recommend the reappointment of PwC as auditor at the forthcoming AGM and a resolution to that effect will appear in the notice of the AGM.

Directors' Remuneration Report

Independence
During 2015, the Committee comprised three independent Non Executive Directors.

JKX Board replaced on 28 January 2016
The entire Board of JKX was replaced on 28 January 2016 following a General Meeting of the Company. The resignation of all independent Non Executive Directors meant that, since that date, the composition of the Board has not complied with UK Corporate Governance Code ('the Code') in respect of the number of independent Non Executive Directors. Without independent Non Executive Directors, the Company has not been able to form a Remuneration Committee which is compliant with the Code.

The Company has engaged an independent consultant to conduct due diligence on a short-list of candidates and is in the final phase of appointing two new independent Non Executive Directors who will form the new Remuneration Committee, in accordance with the requirements of the UK Corporate Governance Code.

Remuneration of the Board appointed on 28 January 2016
Temporary remuneration levels have been put in place for the Board members appointed on 28 January 2016 pending the establishment of an independent Remuneration Committee which will set remuneration levels that will apply from 28 January 2016. Any difference between the final remuneration levels approved by the new Remuneration Committee and the temporary levels currently in place will be adjusted back to 28 January 2016. For further information on this see pages 94 and 96.

Remuneration in 2015
Details of the remuneration decisions for the reporting year are covered in the Annual Report on Remuneration. The Committee annually examines the evolution of remuneration practices and policy. Changes proposed by The Committee at the AGM in June 2014 were approved and were to remain in place for three years from 1 January 2015 to 31 December 2017.

No salary increases were awarded for 2015 across the organisation. Annual bonuses in 2015 were based on a similar performance framework as in 2014 using a range of strategic, financial and health and safety targets.

Under the Performance Share Plan approved at the 2014 AGM, awards would normally be granted of nil cost options which equate to 150% of the base salary for each of the Executive Directors. For 2015, the Committee restricted the grant to 100% of base pay with performance conditions that reflect the approved Remuneration Policy.

Remuneration disclosure
As with last year, this Report is split into two parts: the Policy Report and the Directors' annual remuneration report:

- **The Directors' Remuneration Policy applicable during 2015 (pages 85 to 88)** was unchanged from that approved by shareholders at the June 2014 AGM, and we have therefore provided a summary in order to provide context. The full Policy Report, as approved by shareholders, can be found in our 2013 Annual Report available on our website.
- **The Directors' annual remuneration report (pages 89 to 99)** sets out details of how our remuneration policy has been applied for the year ended 31 December 2015. This section is subject to an advisory shareholder vote.

These sections work together to give you full and transparent disclosure of the Company's approach to Directors' remuneration during 2015.

At the 2016 AGM, the Directors' annual remuneration report will be put to an advisory shareholder vote.

Directors' Remuneration Policy

Summary of Directors' Remuneration Policy
The Remuneration Policy for Executive Directors and Non Executive Directors was approved by shareholders at the June 2014 AGM and took effect from 1 January 2015. Below we provide a summary including the Remuneration policy table, and terms and conditions for members of the Board. The full policy report, as approved by shareholders, can be found on pages 125-133 of the 2013 Annual Report, a copy of which can be found on the Company's website at **www.jkx.co.uk/investor-centre/investor-download-centre.aspx**

Reward policies
The Company aimed to ensure that total remuneration was set at an appropriate level relative to peer group comparator companies, those being UK-based oil and gas companies which are primarily quoted on the London Stock Exchange or AIM. The main components of remuneration for Executive Directors and senior management are basic annual salary; pension and benefits (including non-contributory health insurance, life assurance and income protection); an annual bonus scheme linked to short-term financial and strategic objectives; and long-term incentives linked to the delivery of long-term shareholder value.

The main objectives of JKX's remuneration policy are to:

- enable the Company to recruit, retain and motivate individuals with the skills, capabilities and experience to achieve its stated objectives;
- strengthen teamwork by enabling all employees to share in the success of the business; and
- ensure alignment of Executive, senior management and shareholder interests.

Reward principles
The principles of JKX's remuneration policy are to:

- pay an appropriate level of total remuneration in relation to company and individual performance and with reference to peer group companies;
- ensure that there is an appropriate link between performance and reward;
- award annual bonuses which reflect the achievement of short term financial and strategic objectives as well as personal performance; and
- ensure that long-term incentives are linked to Total Shareholder Return ('TSR') and to the delivery of Strategic Plan targets including the achievement of strategic objectives.

Each element of remuneration has a specific role in achieving the objectives of the remuneration policy and aligning the interests of Executive Directors with the interests of shareholders. The combined potential remuneration from the annual bonus and long-term incentives ensures that the balance of the Executive remuneration package is weighted towards at risk performance pay with a higher weighting on long-term remuneration.

More than 97% of JKX staff are based outside of the UK, primarily in the Ukraine and Russia. The Committee takes into account remuneration conditions elsewhere in the Company, and particularly for those employees based in the UK, in formulating the Executive Director remuneration policy.

A summary of the Directors' remuneration policy applicable during 2015 is provided in the table overleaf. The policy will be reconsidered by the new Remuneration Committee once it is established.

Executive Director Remuneration Policy Table

Base salary	
Purpose and link to strategy	To attract and retain talent by ensuring base salaries reflect individual performance and market factors.
Operation	Base salaries are reviewed annually on 1 January, with reference to the individual's role, experience and performance; salary levels at relevant UK sector comparators[1]; and the range of salary increases applying across the Group.
Opportunity	Any base salary increases are applied in line with the outcome of the annual review. It is not anticipated that salary increases for Executive Directors will exceed those of the UK-based workforce over the period over which this policy will apply. Where increases are awarded in excess of the UK employee population, the Committee will provide clear rationale in the relevant year's Annual Report on Remuneration.
Performance metrics	Business and individual performance are considerations in setting base salary.

[1] Comparator companies used to assess market pay competitiveness have historically included UK-based oil and gas companies listed on the London Stock Exchange or AIM. The Committee reviews comparator companies periodically to ensure they remain appropriate and retains the discretion to adjust the reference group or companies as appropriate.

Directors' Remuneration Report
Directors' Remuneration Policy

Executive Director Remuneration Policy Table

Pension	
Purpose and link to strategy	To provide competitive retirement benefits.
Operation	The Company makes a contribution to the pension scheme of the individual's choice. At their option, Executive Directors may either have equivalent contributions made to their personal pension schemes or cash in lieu of pension or a combination of both.
Opportunity	Executive Directors are eligible to receive an annual contribution equivalent to 15% of base salary.
Performance metrics	Not performance related.

Benefits	
Purpose and link to strategy	To provide competitive benefits.
Operation	Executive Directors receive benefits which consist primarily of life assurance, income protection and private medical cover, although can include any such benefits that the Committee deems appropriate.
Opportunity	Benefits values vary by role and are reviewed periodically relative to market circumstances. The cost of the benefits provided changes in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the Policy Period. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the company's control have changed materially (e.g. increases in insurance premiums).
Performance metrics	Not performance related.

Annual bonus	
Purpose and link to strategy	To incentivise the achievement of short-term financial and strategic objectives.
Operation	Performance measures, targets and weightings are set at the start of the year according to strategic priorities. At the end of the year, the Remuneration Committee determines the extent to which the targets have been achieved, with any bonus payments delivered in cash. For Executive Directors, the Committee has the discretion to mandate the deferral of a proportion (up to 100%) of the annual bonus in JKX shares, to be held for a minimum of 1 year. Deferred shares will be subject to clawback provisions in the event of gross misconduct, material misstatement, or in any other circumstance that the Committee considers appropriate.
Opportunity	For Executive Directors, the maximum annual bonus opportunity is 100% of base salary, with target bonus set at 40% of maximum. For threshold level performance, the annual bonus will be between 0% to 20% of base salary.
Performance metrics	Performance is assessed annually based on challenging budget and stretch targets for financial and business performance. The measures selected may vary each year depending on business context and strategy, and measures will be weighted appropriately according to business priorities. Under normal circumstances, financial measures will make up at least half of the total bonus opportunity. The Committee has discretion to adjust the formulaic bonus outcomes both upwards and downwards within the plan limits (including down to zero) to ensure alignment of pay with the underlying performance of the business, e.g., in the event of a target being significantly missed or unforeseen circumstances outside of management control. Further details of the measures, weightings and targets applicable are provided on page 92.

Executive Director Remuneration Policy Table

Performance Share Plan ('PSP')	
Purpose and link to strategy	To incentivise strong long-term financial performance and superior longer term returns to shareholders relative to peers.
Operation	The Remuneration Committee has the ability to grant awards of nil-cost options annually to Executive Directors, conditional on Group performance over a period of at least three years. The sale of vested PSP awards is subject to meeting shareholding requirements (see page 98). Award levels and performance conditions will be reviewed from time to time to ensure they remain appropriate and no less stretching than the first cycle. Clawback applies on unvested PSP shares in the event of gross misconduct, material misstatement, or in any other circumstance that the Committee considers appropriate.
Opportunity	The PSP provides for an award up to a normal aggregate limit of 150% of salary for Executive Directors, with an overall limit of 200% of salary in exceptional circumstances. The Committee has the discretion to authorise a payment, in cash or shares, equal to the value of dividends which would have accrued on vested shares during the vesting period.
Performance metrics	Vesting of PSP awards is subject to continued employment and the Company's performance over a 3-year performance period. If no entitlement has been earned at the end of the relevant performance period, awards will lapse. From 2015, PSP awards are based on a number of financial and strategic measures, which may include, but not be limited to: • TSR • Earnings per Share ('EPS') • Other financial measures (e.g. ROCE, Profit before tax, cash resources) • Strategic and operational measures (e.g. production, reserves) In addition, awards are subject to an underpin such that for any awards to vest, the Remuneration Committee must satisfy themselves that health and safety performance has been satisfactory over the performance period. Each measure can be applied a weighting of between 0% and 50%. The Committee has the discretion to adjust the performance measures and weightings in advance of making an award to ensure that they continue to be linked to the delivery of Company strategy. Under each measure, threshold performance will result in up to 25% of maximum vesting for that element. The vesting level will increase on a sliding scale to 100% vesting for stretch levels of performance. Vesting of PSP awards will be deferred in whole or in part for a period of up to two years following the end of a three year vesting period. The Company's policy from 2015 will be for awards to vest 50% after 3 years with 25% required to be held until the end of 4 years, and 25% until the end of 5 years. As under the annual bonus, the Committee has discretion to adjust the formulaic PSP outcomes within the plan limits to ensure alignment of pay with performance, i.e. to ensure the outcome is a true reflection of the performance of the company.

Directors' Remuneration Report

Directors' Remuneration Policy

Executive Director Remuneration Policy Table

Discretionary Share Option Scheme ('DSOS')
The future policy proposed from 2015 does not envisage the grant of any DSOS awards.

Purpose and link to strategy	To incentivise superior long-term financial and share price performance.
Operation	The Remuneration Committee has the ability to grant awards of market-value options annually to Executive Directors and senior managers, conditional on Group performance over a period of at least three years. Following the approval of the new PSP at the 2014 AGM, the Committee will not grant awards under the DSOS beyond 2014. Details of outstanding DSOS awards, and awards for 2014, are included in the Annual Report on Remuneration on page 99.
Opportunity	The DSOS allows for awards up to an aggregate limit of 200% of salary in exceptional circumstances.
Performance metrics	Where granted, DSOS awards will be subject to performance conditions. Details of the targets applying to DSOS awards will be included in the Annual Report on Remuneration, where applicable.

Non Executive Director fees

Function	To attract and retain Non Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company.
Operation	Fee levels are reviewed annually, with any adjustments effective 1 January in the year following review. The fees paid to the Chairman and Non Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chairman of the Audit and Remuneration Committees, and for individual memberships of such Committees. Fee levels are benchmarked against comparable companies in the sector as well as FTSE-listed companies of similar size and complexity. Time commitment and responsibility are taken into account when reviewing fee levels.
Opportunity	Non Executive Director fee increases are applied in line with the outcome of the annual fee review. Fees for the year commencing 1 January 2015 are set out in the Annual Report on Remuneration. Fee levels will be next reviewed during 2016, with any increase effective 1 January 2017. It is expected that increases to Non Executive Director fee levels will be in line with salaried UK-based employees over the life of the policy. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a non-executive role, the Board has discretion to make an appropriate adjustment to the fee level.
Performance metrics	None

Executive Director service contracts 1

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee. The Committee considered appointments of indefinite term and with a notice period of one year to be appropriate. All service contracts and letters of appointment are available for viewing at the Company's registered office and at the AGM.

Executive Director Service Contract severance payments

On 28 January 2016, the Executive Director Service contracts (see below) were terminated with immediate effect. The Board in place at that time approved:

- payments in lieu of notice totalling £1,007,500, equivalent to 12 months' salary for Paul Davies, Cynthia Dubin, Peter Dixon and 6 months' salary for Martin Miller;
- payments of £460,800 related to forfeiture of all unexpired share options and shares deferred under the 2014 bonus arrangements for Executive Directors (see page 91).

On 27 January 2016 the above amounts were approved and paid, prior to the General Meeting on 28 January 2016. These amounts will be included in the Directors remuneration for 2016.

Payments from existing awards

Executive Directors were eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in last year's Remuneration Report, i.e. before 1 January 2015. Details of these awards were disclosed on pages 105 to 114 of the 2014 Annual Report, and included existing awards made under the DSOS.

Clawback

For the avoidance of doubt, the Committee has discretion to operate clawback as a mechanism to reduce unvested or deferred incentives in the event of a material misstatement in the annual financial statements, gross misconduct, or any other circumstances that the Committee deems appropriate.

1 Executive Director service contracts during 2015

	Date of contract	Notice period[1]	Date of termination[2]
Dr Paul Davies	1 January 2007	12 months	28 January 2016
Cynthia Dubin	14 November 2011	12 months	28 January 2016
Peter Dixon	1 July 2007	12 months	28 January 2016
Martin Miller	1 July 2007	12 months	28 January 2016

1 The notice period is 12 months by the Company or the individual
2 On 28 January 2016, Cynthia Dubin resigned and Paul Davies, Peter Dixon and Martin Miller were removed from the Board at a General Meeting of the Company

Directors' Remuneration Report

Annual report

The following section provides details of how JKX's remuneration policy was implemented during the financial year ending 31 December 2015. In accordance with the Committee's terms of reference and the Group's remuneration policy, the Committee determines Executive Directors' actual remuneration for the year.

Membership and process

During 2015, the Remuneration Committee comprised three independent Non Executive Directors and was chaired by Dipesh Shah.

Following the replacement of the entire JKX Board on 28 January 2016 (see page 101), the Company is in the final phase of appointing two new independent Non Executive Directors who will form the new Remuneration Committee, in accordance with the requirements of the UK Corporate Governance Code.

The Committee meets at least twice a year, to assist the Board in determining the remuneration arrangements and contracts of the Directors and senior employees. The Committee met four times during 2015 (2014: three).

The Remuneration Committee had reviewed the Code, specifically Section D that addresses the level, make up and procedural aspects of remuneration. The Remuneration Committee considered that it complied with all the provisions and practices identified.

Attendance at meetings in 2015

When required, the Chief Executive attends Committee meetings; however no Director plays a part in any discussion regarding his own remuneration.

None of the Committee during 2015 had any personal financial interest except as a shareholder (as detailed on page 101), which, given the level of holdings, the Board accepts does not impair independence, and no conflicts of interests arise from cross-directorships or day-to-day involvement in running the Group.

Members	From	To	Number of meetings in 2015
Dipesh Shah OBE (Chairman)	1 Jun 2008	28 Jan 2016	4/4
Nigel Moore	26 Jun 2007	28 Jan 2016	4/4
Richard Murray	17 Jan 2013	28 Jan 2016	4/4

Advisers

The Committee retains Kepler Associates ('Kepler') as its independent executive remuneration advisers. The Committee undertakes due diligence periodically to ensure that Kepler remains independent and that the advice provided is impartial and objective. Their total fees for the provision of remuneration services in 2015 were £15,371 on the basis of time and materials. Kepler provides no other services to the Group. Kepler is a signatory to the Remuneration Consultants Group Code of Conduct, details of which can be found at www.remunerationconsultantsgroup.com.

Members until 28 January 2016	Role of the Committee	Activities during 2015
Dipesh Shah (as Chairman) Nigel Moore Richard Murray	Establishes the overall principles of remuneration for Directors of all Group companies Determines the remuneration of Executive Directors and Senior Management, communicates this to the stakeholders in the annual report Recommends the participation in, and operation of, the Company's long-term incentive plans. The full terms of reference are available from the Company Secretary	In addition to regular topics, the Committee engaged in specific matters including: • Review and approval of payments to be made under the 2014 Annual Bonus Scheme • Approval of executive salary levels for 2015 • Confirmation of lapse of share option awards made in 2012 due to failure to achieve vesting criteria in 2015 • Review and approval of performance targets for the 2015 Annual Bonus Scheme • Review and approval of the allocation of, and performance conditions applicable to, performance shares and share option awards made in 2015; and • Review the application and appropriateness of current remuneration policies.

Single figure of total remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Director for the year ended 31 December 2015 and the prior year.

	Dr Paul Davies		Cynthia Dubin		Martin Miller		Peter Dixon	
Notes	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
1 Salary	**423**	423	**298**	298	**159**	226	**226**	226
2 Benefits	**9**	9	**4**	5	**4**	4	**5**	6
3 Annual bonus*	**372**	140*	**262**	99*	**120**	75*	**199**	75*
4 DSOS	**–**	–	**–**	–	**–**	–	**–**	–
5 PSP	**–**	–	**–**	–	**–**	–	**–**	–
6 Pension contribution	**61**	61	**45**	45	**19**	29	**34**	34
Total remuneration	**865**	633	**609**	447	**302**	334	**464**	341

* In respect of the 2014 bonus, the Committee determined that the Executive Directors shall have no entitlement to receive a cash bonus in respect of the 2014 financial year and that the bonus shall be deferred into JKX shares. The Committee agreed with each Executive Director that the Company will award the applicable number of deferred shares later in 2015. No deferred shares were issued. The Executive Directors contracts were terminated on 28 January 2016 and the Board in place at that time agreed the settlement amounts noted above be paid to each of the directors on 28 January 2016 to replace the right to these deferred shares. The amounts above have been restated from last year's report to equate to the amount paid in cash being the number of shares deferred multiplied by the share price on 27 January 2016.
1) Salary: amount earned for the year.
2) Benefits: the taxable value of benefits received in the year, including life assurance, income protection and private medical cover.
3) Annual Bonus 2014: this is the total bonus based on performance during the year which for 2014 was to be deferred into shares which were to be subject to clawback (see * above). Annual Bonus 2015: this is the total cash bonus earned based on performance during the 2015.
4) DSOS: no awards vested on performance to 31 December 2015 (2014: none) as the performance conditions were not met.
5) PSP: no awards vested on performance to 31 December 2015 (2014: none) as the performance conditions were not met.
6) Pension: annual contribution by the Group to directors' pension plans or cash in lieu.

Single total figure of remuneration for Non Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Director for the year ended 31 December 2015 and the prior year.

	Nigel Moore		Dipesh Shah		Lord Oxford		Alastair Ferguson		Richard Murray	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Fees	**158**	158	**74**	74	**47**	47	**53**	53	**63**	63
Total remuneration	**158**	158	**74**	74	**47**	47	**53**	53	**63**	63

Directors' Remuneration Report
Annual report

Incentive outcomes for the year ended 31 December 2015 (audited)

Annual Bonus Scheme
The Annual Bonus Scheme for 2015 applied to Executive Directors and certain senior management including senior staff in Poltava Petroleum Company ('PPC') and Yuzhgazenergie ('YGE'). Bonuses are based on both Group and individual performances against objectives determined by the Committee at the beginning of the year and are designed to reward short-term performance. The scheme is discretionary and annual awards are not pensionable.

The performance conditions for each financial year are derived from the Company's Annual Budget and Strategic Plan and have been approved by the Board. In order to encourage teamwork across the Group the weighting applied to each performance condition was identical for each Executive Director and for senior management.

In 2015, the Maximum bonus opportunity for Executive Directors was 100% of base salary and target bonus was 40% of base salary. For senior managers target bonuses ranged between 12% and 20%, and maximum bonus opportunity ranged between 30% and 60%.

The Annual Bonus Scheme performance conditions and Achievements for 2015 were as shown below.

To earn the maximum level of bonus requires the maximum to be met or exceeded for each performance measure and all of the strategic objectives to be met.

The Remuneration Committee considered that these performance measures as the key drivers and indicators of both short and long-term performance and value creation.

Given the close link between these targets and JKX's previous longer-term strategy, the Directors deemed that the targets are commercially sensitive and will not be published at this time. The Committee will disclose these bonus targets when they cease to be commercially sensitive which is expected to be in the 2018 Annual Report.

On the basis of the 2015 results above, bonuses achieved were 86% of basic salary for Executive Directors, and of between 26% and 52% of basic salary for senior management. Annual bonuses were paid in January 2016.

Scheme interests awarded in 2014 (audited)

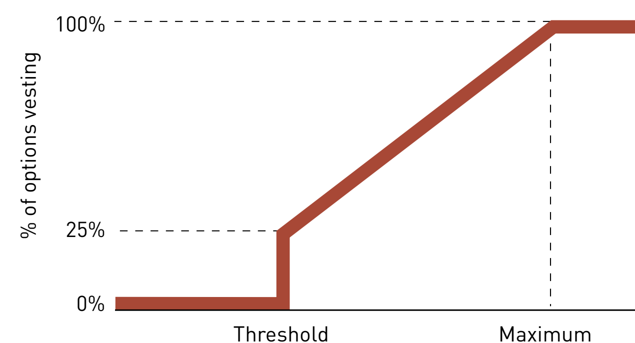
The Company only operated one long-term incentive plan during 2015 that being the 2010 Performance Share Plan ('PSP') which was approved by shareholders at the 2010 and 2014 Annual General Meetings.

There were no grants of awards under the approved Discretionary Share Option Scheme ('DSOS') during 2015. The approved policy does not envisage the grant of any DSOS awards in future.

The PSP provides nil-cost options for Executive Directors and senior management. In the aggregate, the market value of shares that may be granted in any financial year under the DSOS and the PSP together cannot exceed 300% of basic salary for any Executive.

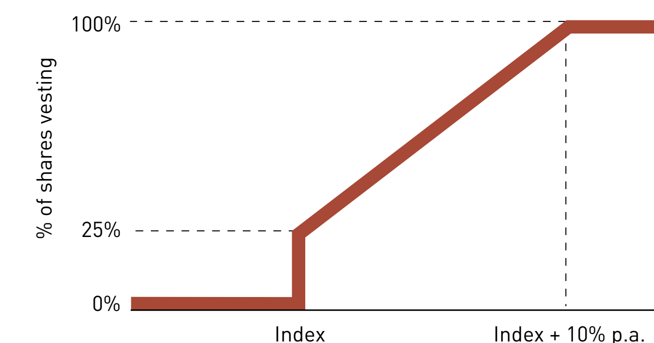
Element	Weighting to overall bonus	2015 Performance measures	2015 Performance targets	2015 Achievement	% of bonus achieved
Strategic Plan targets	40%	Increases in production	Based on quantifiable figures to limit subjectivity as far as possible	Exceeded target but below stretch target	26%
		New reserves and resources from existing and new licences		Exceeded stretch target	
Financial targets	50%	Adjusted Pre-Tax Profit	Targets established against each measure with a sliding scale between threshold and maximum	Exceeded stretch target	50%
		Minimum rolling cash resources		Exceeded stretch target	
Health and safety targets	10%	Lost Time Injury Frequency Rate ('LTIF')	LTIF=0.25	Exceeded target	10%
		All Injury Frequency Rate ('AIFR')	AIFR=0.40	Exceeded target	
		Environmental Incident Frequency Rate ('EIFR')	EIFR=0.70	Exceeded target	
Total	**100%**				**86%**

Vesting schedule for the DSOS



3 year EPS growth p.a.

Vesting schedule for the PSP



JKX's 3 year TSR vs. Index
50% based on relevant FTSE market capitalisation Index and 50% based on FTSE All-Share Oil & Gas Producers Index

In any ten year period, the number of Shares which may be placed under Option, or issued:

- may not exceed five per cent of the Company's ordinary share capital if issued under the discretionary employees' share scheme; and
- may not exceed ten per cent of the Company's ordinary share capital if issued under the other employees' share schemes.

As at 31 December 2015, the maximum available shares under the Company's 5% and 10% limits was 0.7 million (2014: 1.0 million) and 9.3 million (2014: 9.6 million) shares respectively, out of an issued share capital of 172.1 million shares.

2010 Performance Share Plan ('PSP')
From 2015 onwards, grants under the DSOS ceased, in accordance with our policy, and a normal limit of 150% of salary applied under the PSP. In exceptional circumstances the Committee has the discretion to make awards of up to 200% of a participant's basic salary.

To date, awards have never exceeded100% of salary. Maximum award opportunities in 2015 were 100% of salary for Paul Davies and Cynthia Dubin, and 80% of salary for Peter Dixon. No grants were made to Martin Miller in 2015.

PSP awards vest based on 3-year TSR performance relative to a relevant FTSE market capitalisation index (the FTSE SmallCap for 2014 awards, the FTSE Fledgling for 2015 awards) and FTSE All-Share Oil & Gas Producers index with half of the award being assessed against each index. Each part of the award will be based on performance relative to the relevant index, with 25% vesting for performance in line with the index. Vesting would increase on a straight-line basis between 25% and 100% for index out-performance of up to 10% p.a. Historically, this has been broadly equivalent to upper quartile performance. In addition, the Committee must be satisfied that the recorded TSR is a genuine reflection of the underlying performance of the Company over the performance period. There is no retesting of performance targets.

TSR performance is measured using percentage out-performance rather than a ranking approach since it is less sensitive to the TSR of individual comparators, and uses a 12-month averaging period due to the volatility of the Company's share price and the long-term nature of the Company's investments. Whilst noting market practice is typically to use a shorter averaging period, the Committee feel that 12-month averaging would give a fairer result for both management and shareholders.

Change of control
In the event of a change of control, any outstanding PSP or DSOS awards will be pro-rated for time and performance. The Committee may in its absolute discretion waive time pro-rating of the award and retains discretion to determine the treatment of unvested awards. In the event of a change of control, JKX awards may alternatively be exchanged for new equivalent awards in the acquirer, where appropriate.

2015 awards under the PSP

Executive Director	Date of grant	Shares over which awards granted	Market price at date of award[1]	Face value	End of performance period
Dr Paul Davies	23 Mar 2015	1,281,800	£0.335	£429,403	31 Dec 2017
Cynthia Dubin	23 Mar 2015	903,000	£0.335	£302,505	31 Dec 2017
Peter Dixon	23 Mar 2015	684,800	£0.335	£229,408	31 Dec 2017

[1] Closing market price on the date of the award

Directors' Remuneration Report

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2013 PSP and DSOS vesting

Options granted in 2013 under the DSOS, in accordance with the terms noted above, are subject to a 3-year performance target of EPS growth of 10% p.a. for maximum vesting with threshold vesting at 5% (on a straight-line basis between these points). 3-year EPS growth to 31 December 2015 did not reach the threshold vesting target therefore all DSOS awards granted in 2013 will lapse in 2016.

PSP awards granted in 2013 vest based on a 3-year TSR performance as described above, with TSR assessed relative to the FTSE250 index and FTSE All-Share Oil & Gas Producers index. The TSR for the 3-year period to 31 December 2015 was below the performance of both indexes and therefore all PSP awards granted in 2013 will lapse in 2016.

Executive Director remuneration for 2016

Base salary

An Executive Director's basic salary and the other fixed elements of pay are determined by the Committee at the beginning of the year. The individual salaries and benefits of Executive Directors were reviewed taking into account individual performance and market factors, with reference to independent and objective research that provides up-to-date information on a comparator group of UK companies operating in the independent oil and gas sector.

In recognition of the financial circumstances facing the Company, the Committee did not increase basic salaries with effect from 1 January 2016 (shown below).

Similarly, no salary increase was awarded to the UK employees (2014: nil).

Executive Directors temporary base salary from 28 January 2016

On 28 January 2016, following a General Meeting of the Company, all of the above Executive Directors were replaced.

Tom Reed and Russell Hoare were appointed as Executive Directors and their base salaries have been set temporarily at the following amounts shown in the table below.

These temporary salaries will be replaced once an independent Remuneration Committee has been nominated and can review and approve all of the Board's incentive arrangements. Any difference between the final salary levels approved by the new Remuneration Committee and the temporary levels noted below will be adjusted back to 28 January 2016.

Pension and benefits

The Company will make a contribution equivalent to 15% of basic salary to the pension scheme of the individual's choice.

At their option, Executive Directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate, or a combination of pension contributions and cash in lieu at the stated rate, subject to normal statutory deductions.

Benefits provided to Executive Directors includes life assurance, which is also provided for senior managers, for a sum assured of four times base salary; income protection (¾ base salary deferred for 13 weeks); and private medical cover (AXA PPP) is offered to all Company employees and provides medical cover for them and their dependents, on a non-contributory basis.

Annual Bonus Scheme

Subject to the approval of the newly appointed Remuneration Committee, the performance related annual bonus for the 2016 financial year will operate on a similar basis as in 2015, and in line with the stated future remuneration policy. Bonuses will continue to be based on Strategic Plan targets which are in line with the strategy of the new Board which was appointed on 28 January 2016. Details of the Annual Bonus Scheme will be defined in accordance with the approved policy once an independent Remuneration Committee has been nominated and can review and approve all of the Board's incentive arrangements.

The performance targets previously set by the previous were linked with JKX's longer-term strategy, therefore targets remain commercially sensitive and will not be published until such time that the Committee is confident there will be no adverse impact on the Company of such disclosure. At this time the Committee believes that disclosure of the targets in three years' time is appropriate.

Executive Director base salary

	2015 salary	**2016 salary**	% increase
Dr Paul Davies	£423,000	**£423,000**	nil
Cynthia Dubin	£298,000	**£298,000**	nil
Martin Miller	£226,000	**£136,000[1]**	nil[1]
Peter Dixon	£226,000	**£226,000**	nil

[1] Martin Miller's salary was reduced on a pro-rata basis to reflect a reduction in contractual working days from 5 days to 3 days per week from July 2015.

Executive Directors temporary base salary from 28 January 2016

	2016 temporary salary
Tom Reed	**£423,000**
Russell Hoare	**£298,000**

Long-Term Incentive Plans

In 2015 the Committee granted PSP awards to Executive Directors in line with the framework stated in the policy noted on page 87. Under the Performance Share Plan approved at the 2014 AGM, awards would normally be granted of nil cost options which equate to 150% of the base salary for each of the Executive Directors. For 2015, the Committee has decided to restrict the grant to 100% of base pay with performance conditions that reflect the approved Remuneration Policy. Details of the 2016 Long-Term Incentive Plans will be defined in accordance with the approved policy once an independent Remuneration Committee has been nominated and can review and approve all of the Board's incentive arrangements.

Non Executive Director remuneration

Non Executive Directors Service Contracts during 2015

The Non Executive Service Contracts shown below were in place throughout 2015 and up until 28 January 2016.

In 2015, all Non Executive Directors had specific terms of engagement and their remuneration was determined by the Board within the limits set by the Articles of Association. The Non Executive Directors service contracts noted above were for an indefinite term, not a finite term as recommended by Section B.2.3 of the Code, subject to re-election on an as required basis. The Board believed that these terms were appropriate given the Company size, the Non Executive skill set, including experience of natural resources and the geographical regions in which the Company operates, and the continuing evaluation of performance and independence. In the event of early termination, the Non Executive Directors' contracts provided for compensation of three months base fee.

The Non Executive Directors were paid a base fee for carrying out their duties and responsibilities as Directors, and fees for membership and, where applicable, chairmanship of each of the remuneration, nomination and audit committees.

The fees were last increased by 5% at the end of 2013 and based on a per annum rate (in Sterling) which was compared to published material concerning Non Executive Director fees in similar size companies and comparable companies in the sector.

These fees were reviewed at the 2015 year end and no increase has been awarded from their 2014 level. Non Executive Directors' fees for 2015 and 2016 were as shown below.

Non Executive Directors cannot participate in any of the Company's share schemes nor are they eligible to join the Company's pension benefit arrangements.

Non Executive Director Service Contract severance payments

On 28 January 2016, following a General Meeting of the Company, the Non Executive Director Service contracts noted below were terminated with immediate effect. The Board in place at that time approved payments in lieu of notice totalling £99,750, equivalent to 3 months' salary for each of the five Non Executive Directors, with these amounts being approved and paid before the General Meeting on 28 January 2016.

Non Executive Director service contracts during 2015

	Date of contract	Notice period	Date of termination[1]
Nigel Moore	13 Jul 2012	3 months	28 Jan 2016
Lord Oxford	1 Jan 2002	3 months	28 Jan 2016
Dipesh Shah	1 Jun 2008	3 months	28 Jan 2016
Alastair Ferguson	1 Nov 2011	3 months	28 Jan 2016
Richard Murray	1 Jan 2013	3 months	28 Jan 2016

[1] On 28 January 2016, Richard Murray, Alastair Ferguson and Dipesh Shah resigned and Nigel Moore and Lord Oxford were removed from the Board at a General Meeting of the Company.

Non Executive Director fees during 2015

	2015	**2016**	% increase
Chairman of the Company	£157,500[1]	**£157,500[1]**	nil
Board membership fee	£47,250	**£47,250**	nil
Senior Independent Director	£10,500	**£10,500**	nil
Committee chairman			
– Audit	£10,500	**£10,500**	nil
– Remuneration	£10,500	**£10,500**	nil
Committee membership			
– Audit	£5,250	**£5,250**	nil
– Remuneration	£5,250	**£5,250**	nil

[1] The Chairman's fee includes amounts for Chairman of the Nomination Committee and membership of the Remuneration Committee

Directors' Remuneration Report
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Non Executive Directors Service Contracts from 28 January 2016
The Non Executive Directors and their base fees have been set temporarily at the following amounts shown in the table below.

These temporary fees will be replaced once an independent Remuneration Committee has been nominated and can review and approve all of the Board's incentive arrangements. Any difference between the final fee levels approved by the new Remuneration Committee and the temporary levels noted above will be adjusted back to 28 January 2016.

Exit payments made in the year (audited)
No exit payments were made during the year.

Payments to past directors (audited)
No payments were made to past directors in the year.

Percentage change in CEO remuneration
The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for UK employees.

The CEO's remuneration includes base salary, taxable benefit and annual bonus. The analysis excludes part-time employees and is based on a consistent set of all UK employees, i.e. the same individuals appear in the 2014 and 2015 populations. A comparison with UK employees is used as most of the Group's senior management are based in the UK; all other Group staff are employed in Ukraine and Russia which have different economies from the UK driving their remuneration levels and practices.

Relative importance of spend on pay
The table below show shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2014 and 31 December 2015, along with the percentage change in both.

Review of past performance
The graphs opposite show the Company's TSR performance compared to the performance of the FTSE All-Share and FTSE All-Share Oil & Gas Producers Index indices over a 7-year and 10-year period. These indices have been chosen as suitable broad comparators against which the Company's shareholders may judge their relative returns given that the Company is a member of the FTSE All-Share and continue to be part of the FTSE All-Share Oil & Gas Producers Index.

The table opposite details the Chief Executive's 'single figure' remuneration over a 7-year period. An investment of £100 in the Company on 31 December 2008 was worth £15.42 at 31 December 2015 (same investment on 31 December 2008 was worth £6.79 at 31 December 2014). The calculation of the return assumes dividends are reinvested to purchase additional equity.

Non Executive Director fees from 28 January 2016

	2016 temporary annualised fee
Paul Ostling	**£157,500**
Vladimir Tatarchuk	**Nil**
Vladimir Rusinov	**Nil**

Total employee pay expenditure and shareholder distributions for 2015

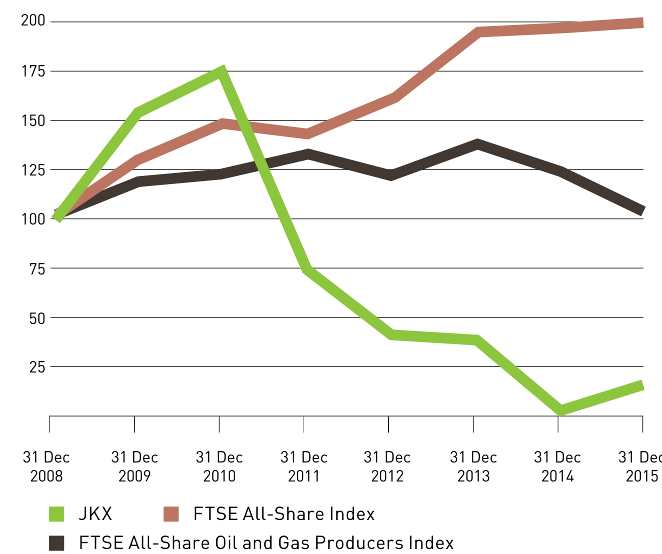
	2015 £'000	2014 £'000	Year-on-year change
All-employee remuneration	**15,361**	19,193	(20.0 %)
Distributions to shareholders	**–**	–	–

Percentage change in CEO remuneration

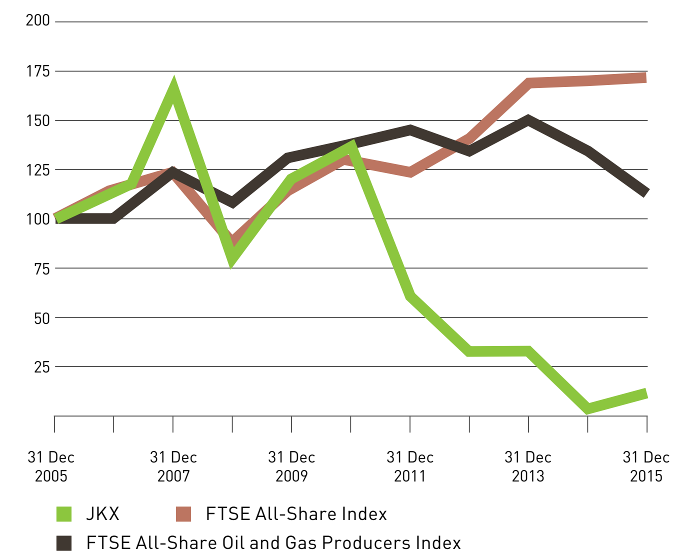
	CEO			All UK employees
	2015 £'000	2014 £'000	% change 2014-15	% change 2014-15
Base salary	**423**	423	0%	0%
Taxable benefits	**9**	9	0%	5%[1]
Annual bonus	**372**[2]	140[2]	166%[2]	97%[2]
Total	**804**[2]	572[2]	41%[2]	36%

[1] Reflects increase in premiums. No additional benefits were provided.
[2] The calculations are based on the cash amount of the 2014 and 2015 bonuses paid during January 2016 in respect of each year.

JKX vs FTSE All-Share Index and FTSE All-Share Oil & Gas Producers Index



JKX vs FTSE All-Share Index and FTSE All-Share Oil & Gas Producers Index



Chief Executive 'single figure' remuneration over a 7-year period

	2009	2010	2011	2012	2013	2014	2015
CEO single figure of remuneration (£'000)	596	529	519	620	729	633[2]	**865**
STI award rates against maximum opportunity	64.2%	40.0%	43.3%[1]	33.4%	61.5%	33.1%[2]	**86%**
LTI award rates against maximum opportunity	0%	0%	0%	0%	0%	0%	**0%**

[1] At the request of the Remuneration Committee, half of the 2011 Annual Bonus earned was deferred into Performance Share Options at nil-cost and were subject to claw back and performance conditions being met. One third of the deferred options granted became exercisable on 31 March 2012 and the balance of the options lapsed.
[2] The amounts are restated from last year's report to equate to the cash value of the 2014 bonus paid in January 2016 (see page 91).

Shareholder voting at the Annual General Meeting
At the Annual General Meeting held on 4 June 2014, the votes on the Directors' Remuneration Policy, which came into effect on 1 January 2015, received the following votes from shareholders:

At last year's Annual General Meeting held on 5 June 2015, the Directors' Remuneration Report received the following votes from shareholders:

Shareholder voting on the Directors' Remuneration Policy at the Annual General Meeting 2014

	Total number of votes	% of votes cast
For	84,771,713	80.88%
Against	20,033,549	19.12%
Total votes cast (for and against, excluding withheld votes)	104,805,262	100 %
Votes witheld[1]	85,133	0.08%
Total votes (for, against and withheld)	104,890,395	

[1] A withheld vote is not a vote in law and is not counted in the calculation of votes cast 'for' and 'against' a resolution.

Shareholder voting on the Directors' Remuneration Report at the Annual General Meeting 2015

	Total number of votes	% of votes cast
For	46,223,003	40.8%
Against	67,021,640	59.2%
Total votes cast (for and against, excluding withheld votes)	113,244,643	100 %
Votes witheld[1]	34,307,264	30.3%
Total votes (for, against and withheld)	147,551,907	

[1] A withheld vote is not a vote in law and is not counted in the calculation of votes cast 'for' and 'against' a resolution.

Directors' Remuneration Report

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Where shareholders voted against the Annual Report on Remuneration, this was in part due to what the shareholders considered to be excessive reward for Executive Directors for unsatisfactory operational, financial and strategic management. In addition shareholders considered that the board was too large for the current circumstances of the Company and therefore total board remuneration was too high.

The entire Board was removed/resigned on 28 January 2016 and a new Remuneration Committee is in the process of being appointed in order to review the arrangements in place.

The Board values, and encourages, direct feedback from shareholders.

Executive Directors' shareholding requirements (audited)

In 2010, the Committee introduced executive share ownership guidelines of 100% of basic salary for Executive Directors which can be built up over a reasonable period of time from appointment. No specific value per share was designated for the calculation.

Unvested share awards, including shares held in connection with compulsory bonus deferrals, are not taken into account in applying this test. The table below shows the position at 31 December 2015, based on that day's closing middle market price of an ordinary share of the Company of 27.25 pence.

Since 31 December 2015, there have been no changes in the Directors' interests in shares owned outright.

On 28 January 2016, following a General Meeting of the Company, the service contracts of above Executive Directors were terminated with immediate effect. Prior to the General Meeting, the Board in place at that time approved and made payments of £460,800 to forfeit of all unexpired share options (noted below and opposite) and shares deferred under the 2014 bonus arrangements for Executive Directors (see page 91).

These amounts will be included in the Directors remuneration for 2016.

Executive Directors' shareholding requirements (audited)

	Shares		Options				
	Owned outright	Vested but subject to holding period/ deferral	Unvested and subject to performance conditions	Vested but not exercised	Shareholding requirement % salary/fee	Shareholding at 31 Dec 2015 % salary/fee	Requirement met?
Executive Directors							
Dr Paul Davies	3,663,105	–	3,857,800	–	100%	235%	Yes
Cynthia Dubin	40,000	–	2,717,400	–	100%	4%	No
Martin Miller	202,303	–	1,100,000	–	100%	24%	No
Peter Dixon	175,482	–	1,784,800	–	100%	21%	No
Non Executive Directors							
Nigel Moore	29,000						
Dipesh Shah	10,490						
Lord Oxford	94,000						
Alastair Ferguson	–						
Richard Murray	–						

Since 31 December 2015, there have been no changes in the Directors' interests in shares owned outright.

Directors' Share Options

		No of options at 1 Jan 2015	Options granted during year	Options exercised during year	Options lapsed during year	No of options at 31 Dec 2015	Exercise price	Market price	Date from which exercisable	Expiry date
Dr Paul Davies										
(a)	17 Mar 2005	90,000	–	–	90,000	–	£1.515	£1.515	17 Mar 2008	17 Mar 2015
(b)	28 Mar 2012	252,200	–	–	252,200	–	£0.000	£1.578	28 Mar 2015	28 Mar 2022
(b)	6 Jun 2012	252,200	–	–	252,200	–	£0.975	£0.975	6 Jun 2015	6 Jun 2022
(c)	9 Apr 2013	580,100	–	–	–	580,100	£0.000	£0.705	9 Apr 2016	9 Apr 2023
(c)	9 Apr 2013	580,100	–	–	–	580,100	£0.705	£0.705	6 Jun 2016	6 Jun 2023
(d)	28 Mar 2014	707,900	–	–	–	707,900	£0.000	£0.598	28 Mar 2017	28 Mar 2024
(d)	28 Mar 2014	707,900	–	–	–	707,900	£0.598	£0.598	28 Mar 2017	28 Mar 2024
(e)	20 Mar 2015	–	1,281,800	–	–	1,281,800	£0.000	£0.330	20 Mar 2022	20 Mar 2025
		3,170,400	1,281,800	–	594,400	3,857,800				
Peter Dixon										
(a)	17 Mar 2005	16,750	–	–	16,750	–	£1.515	£1.515	17 Mar 2008	17 Mar 2015
(b)	28 Mar 2012	107,500	–	–	107,500	–	£0.000	£1.578	28 Mar 2015	28 Mar 2022
(b)	6 Jun 2012	107,500	–	–	107,500	–	£0.975	£0.975	6 Jun 2015	6 Jun 2022
(c)	9 Apr 2013	247,400	–	–	–	247,400	£0.000	£0.705	9 Apr 2016	9 Apr 2023
(c)	9 Apr 2013	247,400	–	–	–	247,400	£0.705	£0.705	6 Jun 2016	6 Jun 2023
(d)	28 Mar 2014	302,600	–	–	–	302,600	£0.000	£0.598	28 Mar 2017	28 Mar 2024
(d)	28 Mar 2014	302,600	–	–	–	302,600	£0.598	£0.598	28 Mar 2017	28 Mar 2024
(e)	20 Mar 2015	–	684,800	–	–	684,800	£0.000	£0.330	20 Mar 2022	20 Mar 2025
		1,331,750	684,800	–	231,750	1,784,800				
Martin Miller										
(a)	17 Mar 2005	33,500	–	–	33,500	–	£1.515	£1.515	17 Mar 2008	17 Mar 2015
(b)	28 Mar 2012	107,500	–	–	107,500	–	£0.000	£1.578	28 Mar 2015	28 Mar 2022
(b)	6 Jun 2012	107,500	–	–	107,500	–	£0.975	£0.975	6 Jun 2015	6 Jun 2022
(c)	9 Apr 2013	247,400	–	–	–	247,400	£0.000	£0.705	9 Apr 2016	9 Apr 2023
(c)	9 Apr 2013	247,400	–	–	–	247,400	£0.705	£0.705	6 Jun 2016	6 Jun 2023
(d)	28 Mar 2014	302,600	–	–	–	302,600	£0.000	£0.598	28 Mar 2017	28 Mar 2024
(d)	28 Mar 2014	302,600	–	–	–	302,600	£0.598	£0.598	28 Mar 2017	28 Mar 2024
		1,348,500	–	–	248,500	1,100,000				
Cynthia Dubin										
(b)	28 Mar 2012	177,400	–	–	177,400	–	£0.000	£1.578	28 Mar 2015	28 Mar 2022
(b)	6 Jun 2012	177,400	–	–	177,400	–	£0.975	£0.975	6 Jun 2015	6 Jun 2022
(c)	9 Apr 2013	408,500	–	–	–	408,500	£0.000	£0.705	9 Apr 2016	9 Apr 2023
(c)	9 Apr 2013	408,500	–	–	–	408,500	£0.705	£0.705	6 Jun 2016	6 Jun 2023
(d)	28 Mar 2014	498,700	–	–	–	498,700	£0.000	£0.598	28 Mar 2017	28 Mar 2024
(d)	28 Mar 2014	498,700	–	–	–	498,700	£0.598	£0.598	28 Mar 2017	28 Mar 2024
(e)	20 Mar 2015	–	903,000	–	–	903,000	£0.000	£0.330	20 Mar 2022	20 Mar 2025
		2,169,200	903,000	–	354,800	2,717,400				

(a) 2001 Share Options Scheme in respect of 2005
(b) 2010 DSOS/PSP in respect of 2012
(c) 2010 DSOS/PSP in respect of 2013
(d) 2010 DSOS/PSP in respect of 2014
(e) 2010 DSOS/PSP in respect of 2015

On 28 January 2016, all unexpired share options (noted above) were forfeited. See page 98.

Directors' report – other disclosures

This information is required to be presented by law. The UKLA's Disclosure & Transparency Rules ('DTRs') and Listing Rules ('LRs') also require the Company to make certain disclosures.

The Corporate Governance Report, the Audit Committee Report and the Strategic report form part of this information. Disclosures elsewhere in the Annual Report and Accounts are cross-referenced where appropriate. Taken together, they fulfil the combined requirements of company law, the DTRs and LRs.

Legal form

JKX Oil & Gas plc is a company incorporated in England & Wales, with company number 3050645. The principal activities of the Group are oil and gas exploration, appraisal, development and production. It conducts very limited business activities on its own account, and trades principally through its subsidiary undertakings in various jurisdictions.

Annual General Meeting

Notice of the 2016 AGM and matters of Ordinary Business and those proposed as Special Business, together with explanatory notes, will be sent to shareholders at least 20 working days before the meeting.

At the AGM, individual shareholders are given the opportunity to put questions to the Chairman and to other members of the Board. The voting results are announced via the London Stock Exchange as soon as practicable after the meeting. The announcement is also made on the Company's corporate website.

Political and charitable contributions

In line with Group policy, the Group did not make any political contributions during the year (2014: nil). The Group made charitable contributions of $240,242 (2014: $353,426) for local educational, health and village infrastructure initiatives in Ukraine and Russia, details of which can be found on page 66.

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by such persons.

Should an existing employee become disabled, it is in the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion.

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law are included in the Corporate Social Responsibility review on pages 62 to 63.

Policy on derivatives and financial instruments

The Group's objectives and policies on financial risk management, and information on the Group's exposures to foreign exchange, commodity price and liquidity risks can be found on pages 46 to 49 and in Note 15 to the financial statements.

Shares in JKX Oil & Gas plc

Details of movements in share capital during the year are set out in Note 17 to the financial statements. The Company has one class of Ordinary Share which carries no right to fixed income. Each share carries the right to one vote at General Meetings of the Company. There are no significant restrictions on the transfer of securities.

Treasury shares

In 2015, the Company did not purchase in the market any of its own ordinary 10p shares, to be held as treasury shares. At 31 December 2015, 402,771 (2014: 402,771) shares continued to be held as treasury shares representing 0.23% (2014: 0.23%) of the shares then in issue.

Restrictions on voting

No member shall, unless the Directors otherwise determine, be entitled in respect of any share held by him/her to vote either personally or by proxy at a shareholders' meeting or to exercise any other right conferred by membership in relation to shareholders' meetings if any call or other sum presently payable by him/her to the Company in respect of that share remains unpaid. In addition, no member shall be entitled to vote if he/she has been served with a notice after failing to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

Amendment of Articles of Association

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act by way of special resolution.

Authority to allot shares

At the AGM on 3 June 2015, authority was given to the Directors to allot new ordinary shares up to a nominal value of:

(a) £5,724,104, representing approximately one third (33.33%) of the Company's existing issued share capital (excluding shares held in treasury); and

(b) £11,448,209, representing approximately two thirds (66.67%) of the Company's existing issued share capital, less the nominal amount of any shares issued under part (a), in connection with a pre-emptive offer by way of a rights issue to shareholders.

This authority expires at the conclusion of the 2016 AGM.

Directors

The names and biographies of the Directors who held office as at the date of this Annual Report are set out on pages 70 and 71.

Directors who held office throughout 2015 and to 28 January 2016, and the changes made to the Board at that date are set out on the opposite page.

Appointment and replacement of Directors

The number of Directors shall not be less than two nor more than ten.

Directors may be appointed to the Board by shareholders by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following AGM and is then eligible for election by shareholders but is not taken into account in determining the Directors or the number of Directors, who are to retire by rotation at that meeting.

Directors and their interests 1

The Directors in office at the year end and their interests at the beginning and end of the year in the shares of the Company, all beneficially held, were as shown below.

Paul Ostling, Tom Reed and Russell Hoare were appointed to the Board on 28 January 2016 and have no interest in the shares of the Company.

Name	Appointed	Position
Paul Ostling	Appointed 28 January 2016	Non Executive Chairman
Tom Reed	Appointed 28 January 2016	Chief Executive Officer
Russell Hoare	Appointed 28 January 2016	Chief Financial Officer
Vladimir Tatarchuk	Appointed 28 January 2016	Non Executive Director
Vladimir Rusinov	Appointed 28 January 2016	Non Executive Director
	Removed/Resigned	
Nigel Moore	Removed 28 January 2016	Non Executive Chairman
Dr Paul Davies	Removed 28 January 2016	Chief Executive Officer
Cynthia Dubin	Resigned 28 January 2016	Finance Director
Peter Dixon	Removed 28 January 2016	Commercial Director
Martin Miller	Removed 28 January 2016	Technical Director
Lord Oxford	Removed 28 January 2016	Non Executive Director
Alastair Ferguson	Resigned 28 January 2016	Non Executive Director
Richard Murray	Resigned 28 January 2016	Non Executive Director
Dipesh Shah	Resigned 28 January 2016	Non Executive Director

1 Directors and their interests

Director sharholdings

	1 January 2015 Ordinary Share Number	31 December 2015 Ordinary Share Number
Nigel Moore	29,000	29,000
Dr Paul Davies[1]	3,663,105	3,663,105
Cynthia Dubin	40,000	40,000
Peter Dixon	175,482	175,482
Martin Miller	202,303	202,303
Dipesh Shah[2]	10,490	10,490
Lord Oxford	94,000	94,000
Alastair Ferguson	–	–
Richard Murray	–	–

1 Dr Paul Davies' interest is partly indirect with 1,975,000 ordinary shares held in trust, the beneficiary of which is the family of Dr Paul Davies. Of the remaining ordinary shares 1,000 are held by Mr D Davies, the son of Dr Paul Davies with the balance held directly by Dr Paul Davies.
2 Dipesh Shah's interest is held by members of his immediate family.

Directors' report – other disclosures

Vladimir Tatarchuk and Vladimir Rusinov were appointed to the Board on 28 January 2016 and are deemed to have a beneficial interest in 34,288,253 ordinary shares and Convertible Bonds with principal amount of $3.4m, which are held by Proxima Capital Group. If fully converted, the convertible bonds held by Proxima would result in the issue of a maximum of 2,819,077, representing 1.64% of the issued share capital, based on the conversion price of 76.29 pence per ordinary share and a US$/GBP exchange rate of 1.5809. Further information on the terms and conditions of the Convertible Bonds is disclosed in Notes13 and 14 to the consolidated financial statements.

There were no changes to the shareholders of the continuing Directors between the end of the financial year and the date of this Annual Report.

Details of Directors' remuneration and share options are shown in the Remuneration Report on pages 84 to 99. No Director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its subsidiary companies at any time during the year.

The share capital structure is listed in Note 17 to the financial statements and the significant holdings are listed below.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Change of control (significant contracts)

The Company is not party to any significant agreements that take effect, alter or terminate upon a change of control following a takeover except for the $40m convertible bond dated 19 February 2013, which could become repayable following a relevant change of control. There are no agreements between the Company and any Director or its employees that would provide compensation for loss of office or employment resulting from a change of control following a takeover bid, except that provisions of the Company's share schemes may cause options and awards granted under such schemes to vest in those circumstances. All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable for a limited period of time upon a change of control following a takeover, reconstruction or winding up of the Company (not being an internal reorganisation), subject at that time to rules concerning the satisfaction of any performance conditions. There are a number of other agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, finance agreements and property lease arrangements. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole.

Events after the reporting date

Events after the reporting date are discussed in Note 37 to the financial statements.

Substantial shareholders 2

At 31 December 2015 and at 4 March 2016, the Company had received notification from the following institutions of interests in excess of 3% of the total number of voting rights of the Company as shown in the table below.

Other disclosures

Certain information that is required to be included in the Directors' Report can be found elsewhere in this document as referred to below, each of which is, to the extent not in this report, incorporated by reference.

Dividends

No dividends has been paid or proposed for the year ended 31 December 2015 and the Board will not be recommending the payment of a dividend at the forthcoming AGM.

Going concern

The going concern statement can be found on page 78.

Future developments within the Group

The Strategic report starting on page 2 contains details of likely future developments within the Group.

2 Substantial shareholders

	31 December 2015 Number of shares	31 December 2015 % of total voting rights	4 March 2016 Number of shares	4 March 2016 % of total voting rights
Eclairs Group Limited	47,287,027	27.47%	47,287,027	27.47%
Proxima Capital Group	34,288,253	19.92%	34,288,253	19.92%
Neptune Invest & Finance Corp	21,534,387	12.51%	22,881,056	12.71%
Glengary Overseas Ltd	19,656,344	11.42%	19,656,344	11.42%
Interneft Ltd	11,368,460	6.60%	11,368,460	6.60%

Loss

Details of the Company's loss for the year ended 31 December 2015 can be found on page 112.

Capitalised interest

See Group financial statements Note 22.

Long term incentive schemes

See pages 84 to 99 of the Directors' Remuneration Report.

Directors' responsibilities

Each of the Directors, whose names and functions are listed on pages 70 and 71, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- the annual report and financial statements, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy;
- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Capita Company Secretarial Services Limited
Company Secretary
18 March 2016

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the Company and of the profit or loss of the Group for that period. 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 IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

"It was an honour to have been appointed by shareholders on 28 January 2016. I look forward to working with the new Board and JKX staff to enhance performance and restore value to the Company."

Russell Hoare Chief Financial Officer

Financial statements

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Independent Auditors' Report to the members of JKX Oil & Gas plc

Report on the Group financial statements

Our opinion

In our opinion, JKX Oil & Gas plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. A number of potential conditions exist that may impact this assumption: (i) gas and/or oil net realisations remain at current levels for the foreseeable future or deteriorate materially, (ii) the full $30.1 million obligation pursuant to the $40 million Convertible Bond becomes payable in February 2017, (iii) the Group becomes liable for additional Rental Fees in Ukraine as a result of unfavourable outcomes in one or more of the ongoing court proceedings, and (iv) the Group's Ukrainian subsoil permits are suspended by the State Geology and Mineral Resources Survey of Ukraine. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of material uncertainties which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated income statement and Consolidated statement of comprehensive income for the year ended 31 December 2015;
- the Consolidated statement of financial position as at 31 December 2015;
- the Consolidated statement of changes in equity for the year then ended;
- the Consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview

- Overall group materiality: $1.7m which represents 5% of five year average profit before tax adjusted for exceptional items, as defined in the accounting policies in Note 3.
- The group comprises 38 separate reporting units
- We identified three significant components, which were selected due to their size and risk characteristics. This enabled us to obtain coverage over 99% of Group consolidated revenue. We visited the components in Russia and Ukraine as part of our audit.
- Specific audit procedures were performed on certain balances and transactions at a further two reporting units.
- Russia, Ukraine and Hungary – carrying value of oil and gas assets.
- Going concern.
- Taxation in Ukraine - production taxes.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Russia, Ukraine and Hungary – carrying value of oil and gas asset Refer to page 81 (Audit Committee Report), page 123 (critical accounting estimates and assumptions) and page 127 (Property, plant and equipment). Oil and gas assets in Russia, Ukraine and Hungary total $192.4m after the recognition of a $51.1m impairment charge. These represent 98.9% of the Group's total Property, plant and equipment. As well as the material nature of the balance, we focused on this area due to the further decline in oil and gas prices in 2015. In addition in Ukraine, the continuing poor political and economic situation has increased the yield on sovereign bonds, which is a proxy for risk free rate. These difficulties resulted in an impairment loss of $49.5m being booked by management on its Novo-Nikolaevskoye Cash Generating Unit ("CGU") and a further $1.5m loss on its Turkeve CGU in Hungary. In arriving at these impairment losses, and supporting the carrying value of other oil and gas assets, there are a number of complex and subjective judgements made by management including estimates of future commodity prices, production levels and capex requirements.	We evaluated the directors' discounted cash flow forecasts which support the carrying value of the Russia, Ukraine and Hungary oil and gas assets. After considering internal and external factors, as well as preparing a ceiling test model, management concluded there were no impairment triggers in respect of the Russian CGU. We reviewed the factors in IAS 36 and reviewed the ceiling test model. One key assumption in the Russian cash flow forecast is the predicted change in the regulated gas price, which is set by the Russian Government. We reviewed the Ministry of Economics guidance, and considered wider macro-economic factors in Russia in determining that management's gas pricing assumptions are within an expected range, and in the short term do not differ substantially from forecast inflation rates in Russia. Management's production forecasts, another key assumption, were reconciled to the 31 December 2014 independent reserves report prepared by DeGolyer and MacNaughton ('D&M') adjusted for 2015 production and changes to internal modelling. Forecast production remains broadly in line with the D&M model. We challenged management on the technical feasibility of planned workovers which are predicted to increase production from 2016, and we consider these assumptions to be reasonable. Other capital expenditure assumptions were assessed and found to be in accordance with our expectations. We also considered any potential impact from the current sanctions regime in place. The current regime does not impact the Group's Russian operations. We were therefore able to conclude no impairment triggers exist in respect of the Russian CGU. In Ukraine, the key assumptions in management's cash flow forecast relate to future sales prices and production. Management's forecast oil and gas prices were benchmarked against a consensus forecast from leading analysts, and we also considered actual realised prices in 2015 when compared with the Brent price and European gas prices in determining management's assumptions are within an expected range. Consistent with our approach to Russian assets, we reconciled forecast production to the D&M report, considering changes arising from 2015 production and internal modelling. The forecast was deemed reasonable. We discussed with management the recent suspension of the Group's subsoil use permits, along with other independent producers in Ukraine. Management are still in the process of addressing concerns raised by the State Geology Service. The assumption that the permits will be retained is key to the impairment assessment, and management have acknowledged there remains some uncertainty regarding this in their Going Concern disclosure in Note 2. In Hungary, the key assumptions in the cash flow forecast relate to future sales prices and production forecasts. As with Ukraine, we benchmarked management's forecast oil and gas prices against a consensus forecast from leading analysts. We found management's forecasts to be within a reasonable range. Production forecasts were based on management's internal modelling, so we considered consistency of these estimates with prior years. As no reserves are recognised in respect of Hungarian oil and gas assets, management have applied a risk weighting to the discounted cash flow model. This weighting is judgmental, however we note based on materiality a change in the risk weighting does not materially impact the analysis. For Russia, Ukraine and Hungary we assessed management's discount rates, based on each CGU's weighted average cost of capital, and found these to be within an acceptable range. We also considered the adequacy of management's disclosure of key judgements and sensitivities in relation to their impairment assessment in Note 5. These were deemed to be in line with the requirements of IFRSs.

Independent Auditors' Report to the members of JKX Oil & Gas plc

Area of focus	How our audit addressed the area of focus
Going concern Refer to page 81 (Audit Committee Report) and page 116 (Basis of Preparation). The Group has a potential obligation of $30.1m which may become payable in February 2017 when convertible bondholders have the option to put the remaining bonds outstanding. During 2015, the political and economic situation in Ukraine continued to deteriorate, which impacted the Group's profitability. This included the introduction of an emergency tax on gas production and a continuation of currency restrictions. While there have been some recent positive developments, including a reduction in the production tax rate on gas from 55% to 29% from 1 January 2016, currency restrictions remain in place and the political and economic situation remains unpredictable. As discussed in the Area of Focus below, the Group is also subject to a number of challenges regarding production taxes ('rental fees') which could become payable in the foreseeable future if the Group is unsuccessful in the ongoing legal proceedings. The Group is also contending with a deterioration in international oil and gas markets which has impacted oil and gas realisations in 2015, as well as a recent suspension of its subsoil use permits in Ukraine pending rectification of several technical breaches of licence conditions. In arriving at their conclusion that the Group can continue as a going concern, the directors have made a number of judgmental assumptions about future cash flows.	We obtained management's cash flow forecast which supports their use of the going concern basis of accounting. We tested the integrity of this model, including mathematical accuracy, and reviewed key assumptions such as forecast sales revenue and operating costs for consistency with impairment models (discussed above). Any differences were investigated. The key uncertainty in management's going concern assessment concerns the ability of the Group to meet its expected $30.1m obligation in February 2017 in respect of outstanding convertible bonds which can be put on this date. Management are considering a range of options to mitigate this risk. Another key assumption is in relation to the ongoing disputes with the Ukraine tax authorities regarding non-payment of oil and gas rental fees (discussed below). Management have assumed no cash outflow in respect of these disputes and conversely no cash inflow is assumed from management's claim against the Ukraine Government under the Energy Charter Treaty and bilateral investment treaties. This is a key judgment, and we sensitised the cash flow forecast to determine the impact if one or more of the disputed amounts became payable. We have challenged management on the likelihood of certain other downside sensitivities. These include continuing low oil and gas realisations, further deterioration in oil and gas realisations and reductions in forecast production due to well integrity issues. From our work performed, it is clear there are material uncertainties, which if realised, may affect the Group's ability to continue as a going concern, with the outcome over the next 18 months dependent on a number of external factors outside the Group's control. We have therefore considered the adequacy of management's disclosure of material uncertainties, included in Note 2. We concluded these are sufficient to inform the users of the financial statements about the risks facing the Group. An Emphasis of Matter paragraph is included in our opinion to highlight these uncertainties. Our conclusion on going concern is below.
Taxation in Ukraine – production taxes Refer to page 82 (Audit Committee Report) and page 147 (Taxation). The Group is subject to a number of challenges by the tax authorities in Ukraine concerning rental fees for periods from January to March 2007, April to December 2010 and January to December 2015. The total assessments as well as potential interest and penalties for these periods are disclosed in Note 27 and total $41m. The Group has recognised a $10.9m provision in the Annual Report in respect of the 2010 dispute. No provision has been recorded in respect of the 2007 and 2015 disputes on the basis management believe the risk of a cash outflow is not probable. However, the risk has been assessed as possible and thus a contingent liability has been disclosed. We have focused on this area due to the potential material impact on the financial statements and because the decision on whether to recognise a provision in the financial statements is judgmental.	We updated our understanding of events that have occurred during 2015 in relation to the ongoing disputes with the Ukraine tax authorities, as well as the international arbitration. This included discussions with the Group's solicitors and legal experts in Ukraine. The Group received an Interim Award from the International Arbitration Tribunal in July 2015 directing Ukraine not to collect rental fees above the level of 28%, to remain in effect until the main hearing in July 2016. From our discussions with the Group's solicitors and review of the key documents in the arbitration case, we consider the Group has a reasonable chance of success in the main arbitration hearing in July 2016. If the tribunal rules in favour of the Group, this will require enforcement in the Ukrainian courts, however we understand there is recourse under international law should Ukraine not accept the decisions of the tribunal. We therefore assessed the likelihood of cash outflows in relation to the 2007, 2010 and 2015 disputes both on their own legal merits and also in the context of the international arbitration. We concur with management that the likelihood of a cash outflow in relation to the 2007 and 2015 disputes is possible, but not probable, and therefore disclosure of the contingent liabilities is sufficient. In relation to the 2010 dispute, having lost the most recent case in the High Administrative Court in Ukraine, we consider the recognition of a provision to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

The Group is structured along four operating segments being the Ukraine, Russia, Rest of World and the UK as set out in Note 4. The Group financial statements are a consolidation of 38 reporting units, comprising the Group's operating businesses and centralised functions within these segments.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's 38 reporting units, we identified three which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. Specific audit procedures on certain balances and transactions were performed at a further two reporting units. Because the Group includes a number of relatively small reporting units, this gave us coverage of 99% of consolidated revenue. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Due to the analysis being prepared by management at Group level, the Group audit team performed the required audit procedures over impairment of oil and gas assets and going concern.

We visited both of JKX Oil & Gas plc's main operating locations in 2015, being Ukraine and Russia. This included meeting with local management and component auditors, as well as visiting JKX's operations. This assisted with addressing significant audit risks including impairment of oil and gas assets and also enabled us to exercise oversight over the component auditors. In addition we attended the closing meetings, via teleconference, for both the Ukraine and Russian operations.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as shown in the table below.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $85,000 (2014: $111,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 78, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements and their identification of any material uncertainties. We have nothing material to add or to draw attention to other than the material uncertainty we have described in the emphasis of matter paragraph above.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate, although because of the factors outlined in the Emphasis of matter - Going concern above, a number of material uncertainties exist which may cast significant doubt about the use of the going concern assumption. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Materiality	
Overall group materiality	$1.7m (2014: $2.2m).
How we determined it	5% of five year average profit before tax adjusted for exceptional items as defined in the accounting policies in Note 3.
Rationale for benchmark applied	We did this to take account of the volatility that has impacted JKX Oil & Gas plc's results and the nature of the exceptional items.

Independent Auditors' Report to the members of JKX Oil & Gas plc

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 103, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 79 to 83, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 43 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 52 and 53 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	Refer to our Emphasis of Matter - Going Concern above. We have nothing else material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 103, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of JKX Oil & Gas plc for the year ended 31 December 2015. That report includes an emphasis of matter.

Alison Baker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 March 2016

Group financial statements

Consolidated income statement

for the year ended 31 December 2015

	Note	2015 $000	2014 $000
Revenue	4	**88,535**	146,206
Cost of sales			
Exceptional item – production based taxes	19	**(10,854)**	–
Exceptional item – provision for impairment of oil and gas assets	5	**(51,055)**	(69,062)
Exceptional item – well control operations	5(a)	**–**	(3,471)
Other production based taxes	20	**(26,255)**	(45,519)
Other cost of sales		**(50,517)**	(63,847)
Total cost of sales	20	**(138,681)**	(181,899)
Gross loss		**(50,146)**	(35,693)
Exceptional item – legal costs	23	**(2,988)**	–
Administrative expenses		**(17,525)**	(19,536)
Loss on foreign exchange		**(4,919)**	(5,673)
(Loss)/profit from operations before exceptional items		**(10,681)**	11,631
Loss from operations after exceptional items		**(75,578)**	(60,902)
Finance income	21	**1,289**	1,094
Finance costs	22	**(6,500)**	(3,197)
Fair value movement on derivative liability	14	**(1,921)**	9,072
Net result arising from business combinations	35	**–**	222
Loss before tax	27	**(82,710)**	(53,711)
Taxation – current	27	**(4,827)**	(9,511)
Taxation – deferred			
– before the exceptional items	27	**(3,132)**	(31,270)
– on the exceptional items	27	**9,206**	14,961
Total taxation	27	**1,247**	(25,820)
Loss for the year attributable to equity shareholders of the parent company		**(81,463)**	(79,531)
Basic loss per 10p ordinary share (in cents)			
– before exceptional items	29	**(14.97)**	(12.76)
– after exceptional items	29	**(47.32)**	(46.21)
Diluted loss per 10p ordinary share (in cents)			
– before exceptional items	29	**(14.97)**	(12.76)
– after exceptional items	29	**(47.32)**	(46.21)

Consolidated statement of comprehensive income

for the year ended 31 December 2015

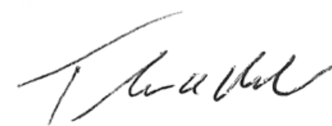
	2015 $000	2014 $000
Loss for the year	**(81,463)**	(79,531)
Comprehensive income to be reclassified to profit or loss in subsequent periods when specific conditions are met		
Currency translation differences	**(26,277)**	(130,327)
Other comprehensive loss for the year, net of tax	**(26,277)**	(130,327)
Total comprehensive loss attributable to:		
Equity shareholders of the parent	**(107,740)**	(209,858)

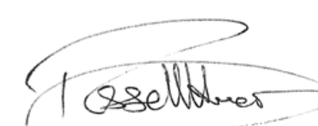
Consolidated statement of financial position

as at 31 December 2015

	Note	2015 $000	2014 $000
ASSETS			
Non-current assets			
Property, plant and equipment	5(a)	**194,649**	292,474
Intangible assets	5(b)	**7,812**	7,932
Other receivable	6	**3,534**	3,966
Deferred tax assets	28	**15,603**	21,048
		221,598	325,420
Current assets			
Inventories	8	**3,689**	4,124
Trade and other receivables	9	**11,695**	10,018
Restricted cash	10	**312**	559
Cash and cash equivalents	10	**25,943**	25,384
Held-to-maturity financial investments	11	**–**	2,700
		41,639	42,785
Total assets		**263,237**	368,205
LIABILITIES			
Current liabilities			
Trade and other payables	12	**(18,977)**	(16,225)
Borrowings	13	**(10,856)**	(5,590)
Provisions	19	**(10,854)**	–
		(40,687)	(21,815)
Non-current liabilities			
Provisions	19	**(4,135)**	(3,988)
Other payables		**(3,534)**	(3,966)
Borrowings	13	**(23,494)**	(30,837)
Derivatives	14	**(2,171)**	(1,037)
Deferred tax liabilities	28	**(14,950)**	(25,214)
		(48,284)	(65,042)
Total liabilities		**(88,971)**	(86,857)
Net assets		**174,266**	281,348
EQUITY			
Share capital	17	**26,666**	26,666
Share premium		**97,476**	97,476
Other reserves	18	**(179,545)**	(153,268)
Retained earnings		**229,669**	310,474
Total equity		**174,266**	281,348

These financial statements on pages 112 to 154 were approved by the Board of Directors on 18 March 2016 and signed on its behalf by:





Tom Reed Director

Russell Hoare Director

Group financial statements

Consolidated statement of changes in equity

as at 31 December 2015

	Attributable to equity shareholders of the parent				
	Share capital $000	Share premium $000	Retained earnings $000	Other reserves (Note 18) $000	Total equity $000
At 1 January 2014	26,666	97,476	389,720	(22,941)	490,921
Loss for the year	–	–	(79,531)	–	(79,531)
Exchange differences arising on translation of overseas operations	–	–	–	(130,327)	(130,327)
Total comprehensive loss attributable to equity shareholders of the parent	–	–	(79,531)	(130,327)	(209,858)
Transactions with equity shareholders of the parent					
Share-based payment charge	–	–	285	–	285
Total transactions with equity shareholders of the parent	–	–	285	–	285
At 31 December 2014	26,666	97,476	310,474	(153,268)	281,348
At 1 January 2015	26,666	97,476	310,474	(153,268)	281,348
Loss for the year	–	–	(81,463)	–	(81,463)
Exchange differences arising on translation of overseas operations	–	–	–	(26,277)	(26,277)
Total comprehensive loss attributable to equity shareholders of the parent	–	–	(81,463)	(26,277)	(107,740)
Transactions with equity shareholders of the parent					
Share-based payment charge	–	–	658	–	658
Total transactions with equity shareholders of the parent	–	–	658	–	658
At 31 December 2015	26,666	97,476	229,669	(179,545)	174,266

Share premium represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares.

Retained earnings represent the cumulative net gains and losses recognised in the statement of comprehensive income less any amounts reflected directly in other reserves.

Consolidated statement of cash flows

for the year ended 31 December 2015

	Note	2015 $000	2014 $000
Cash flows from operating activities			
Cash generated from operations	31	**12,797**	58,411
Interest paid		**(3,040)**	(3,345)
Income tax paid		**(696)**	(7,579)
Net cash generated from operating activities		**9,061**	47,487
Cash flows from investing activities			
Decrease/(increase) in held-to-maturity investments		**2,700**	(2,700)
Interest received		**1,612**	771
Purchase of intangible assets		**(612)**	(338)
Purchase of property, plant and equipment		**(5,630)**	(39,986)
Cash acquired from business combination	35	**–**	362
Net cash used in investing activities		**(1,930)**	(41,891)
Cash flows from financing activities			
Restricted cash		**247**	(93)
Repayment of borrowings		**(5,738)**	–
Funds received from borrowings (net of costs)		**–**	1,522
Net cash (used)/generated from financing activities		**(5,491)**	1,429
Increase in cash and cash equivalents in the year		**1,640**	7,025
Cash and cash equivalents at 1 January		**25,384**	25,682
Effect of exchange rates on cash and cash equivalents		**(1,081)**	(7,323)
Cash and cash equivalents at 31 December	10	**25,943**	25,384

Notes to the consolidated financial statements

1. GENERAL INFORMATION

JKX Oil & Gas plc (the ultimate parent of the Group hereafter, 'the Company') is a public limited company listed on the London Stock Exchange which is domiciled and incorporated in England and Wales under the UK Companies Act. The registered number of the Company is 3050645. The registered office is 6 Cavendish Square, London, W1G 0PD and the principal place of business is disclosed in the introduction to the Annual Report.

The principal activities of the Company and its subsidiaries, (the 'Group'), are the exploration for, appraisal and development of oil and gas reserves.

2. BASIS OF PREPARATION

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, IFRS Interpretations Committee ('IFRS IC') interpretations and the Companies Act 2006 applicable for Companies reporting under IFRS and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulations. The Group's financial statements have been prepared under the historical cost convention, as modified for derivative instruments held at fair value through profit or loss. The principal accounting policies adopted by the Group are set out below.

Going concern

The majority of the Group's revenues, profits and cash flow from operations are currently derived from its oil and gas production in Ukraine, rather than Russia.

Throughout 2015 the decline in international oil and gas prices has significantly lowered oil and gas net realisations from JKX's Ukrainian operations. The prolonged period of low international oil and gas prices has continued in 2016, further adversely affecting the financial results of the Group, and will continue to do so if prices do not recover.

If all of the Bondholders exercise their put option in February 2017, the Company will have an obligation of $30.1 million (consisting of $26 million principal, $1 million interest and a redemption premium of $3.1 million), which will become payable at that time. If some or all of the Bondholders do not exercise this option and the Bonds expire at their full term in February 2018, an obligation of up to $31.1 million will become payable, the amount being dependent on the number of remaining Bonds that were not put in February 2017 (see Notes 13 and 14 to the consolidated financial statements).

The Company's Ukrainian subsidiary, Poltava Petroleum Company ('PPC') has three contingent liabilities arising from separate court proceedings over the amount of production taxes ('Rental Fees') paid in Ukraine for certain periods since 2007, which in total amount to approximately $41 million (including interest and penalties, see Note 27 to the consolidated financial statements). The Board believes that these claims are without merit under Ukrainian law and will continue to contest them vigorously.

Also in relation to Rental Fees, the Company continues to pursue a final award under its arbitration claim against Ukraine for the overpayment of more than $180 million of Rental Fees, in addition to damages to the business (see Note 27 to the consolidated financial statements). This international arbitration is expected to be heard in July 2016.

Following action initiated in late 2015, in January 2016, the State Geology and Mineral Resources Survey of Ukraine suspended four subsoil use permits owned by PPC, initially with effect from 1 February 2016, but then with an extension period until 1 March 2016. The authority gave a list of actions that were required in order to avoid suspension (including a change to the minimum production requirements under the licences) and would normally have given the operator sufficient time to remedy the failings. Instead PPC were given only one month to do so. Through further discussion with the relevant authority, PPC has been given more time to comply and hearings regarding the status of the licenses are planned for March 2016, at which the Board and PPC is confident of a positive outcome.

The Directors have concluded that it is necessary to draw attention to the potential impact of (i) gas and/or oil net realisations remaining at current levels for the foreseeable future or deteriorating materially (ii) the full $30.1 million obligation pursuant to the $40 million Convertible Bond becoming payable in full in February 2017 (iii) the Group becoming liable for additional Rental Fees in Ukraine as a result of unfavourable outcomes in one or more of the ongoing court proceedings and (iv) the Group's Ukrainian subsoil permits being suspended by the State Geology and Mineral Resources Survey of Ukraine. It is unclear whether any or all of these risks will be realised but they are material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

However, based on the Group's cash flow forecasts, the Directors believe that the combination of its current cash balances, expected future production and resulting net cash flows from operations, the implemented cost reductions as well as the availability of additional courses of action with respect to financing, mean that it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Adoption of new and revised standards

The disclosed policies have been applied consistently by the Group for both the current and previous financial year with the exception of the new standards adopted.

The EU IFRS financial information has been drawn up on the basis of accounting policies consistent with those applied in the financial statements for the year to 31 December 2014, except for the following:

- Annual Improvements to IFRSs 2011-2013 Cycle

The application of the amendments has had no impact on the disclosures of the amounts recognized in the Group's consolidated financial statements.

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 2015:

	Effective for annual periods beginning on or after
• IAS 19 'Employee Benefits' (Amendments)	01-Jan-16
• Annual Improvements to IFRSs 2010 – 2012 Cycle	01-Jan-16
• Annual Improvements to IFRSs 2012 – 2014 Cycle	01-Jan-16
• IFRS 14 'Regulatory Deferral Accounts'	01-Jan-16
• IAS 16 'Property, Plant and Equipment' (Amendments)	01-Jan-16
• IAS 38 'Intangible Assets' (Amendments)	01-Jan-16
• IFRS 11 'Joint arrangements' (Amendments)	01-Jan-16
• IAS 27 'Separate financial statements' (Amendments)	01-Jan-16
• IFRS 10 'Consolidated financial statements' (Amendments) (subject to EU endorsement)	01-Jan-16
• IAS 28 'Investments in associates and joint ventures' (Amendments) (subject to EU endorsement)	01-Jan-16
• IAS 1 'Presentation of financial statements' (Amendments) (subject to EU endorsement)	01-Jan-16
• IAS 7 'Statement of cash flows' (Amendments) (subject to EU endorsement)	01-Jan-17
• IAS 12 'Income taxes' (Amendments) (subject to EU endorsement)	01-Jan-17
• IFRS15 'Revenue from contracts with customers'	01-Jan-18
• IFRS 9 'Financial instruments' (subject to EU endorsement)	01-Jan-18
• IFRS 16 'Leases' (subject to EU endorsement)	01-Jan-19

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. All intragroup balances, transactions, income and expenses and profits or losses, including unrealised profits arising from intragroup transactions, have been eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Companies and their subsidiaries after eliminating intragroup transactions as noted above. Uniform accounting policies are applied across the Group.

Interests in joint venture agreements

A joint arrangement is one in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Where the Group's activities are conducted through joint operations, whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement, the Group reports its interests in joint operations using proportionate consolidation – the Group's share of the assets, liabilities, income and expenses of the joint operation are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

A joint venture, which normally involves the establishment of a separate legal entity, is a contractual arrangement whereby the parties that have joint control of the arrangement have the rights to the arrangement's net assets. The results, assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting.

Notes to the consolidated financial statements

Where the Group transacts with its joint operations, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint operation.

Foreign currencies
All amounts in these financial statements are presented in thousands of US dollars, unless otherwise stated. The presentation currency of the Group is the US Dollar based on the fact that the Group's primary transactions originate in, or are dictated by, the US Dollar, these being, amongst others, oil sales and procurement of rigs and drilling services.

Each entity in the Group is measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation of subsidiaries and joint operations with a non US Dollar presentation currency, their statements of financial position are translated into US Dollar at the closing rate and income and expenses at the average monthly rate. All resulting exchange differences arising in the period are recognised in other comprehensive income, and cumulatively in the Group's translation reserve. Such translation differences are reclassified to profit or loss in the period in which any such foreign operation is disposed of.

Subsidiaries within the Group hold monetary intercompany balances for which settlement is neither planned nor likely to occur in the foreseeable future and thus this is considered to be part of the Group's net investment in the relevant subsidiary. An exchange difference arises on translation in the company income statement which on consolidation is recognised in equity, only being recognised in the income statement on the disposal of the net investment.

The major exchange rates used for the revaluation of the closing statement of financial position at 31 December 2015 were $1:£0.67 (2014: $1:£0.6), $1:24 Hryvnia (2014: $1:15.77 Hryvnia), $1:72.88 Roubles (2014: $1:56.26 Roubles), $1:289.43 Hungarian Forint (2014: $1: 259.29 Hungarian Forint).

Goodwill and fair value adjustments arising on acquisition are treated as assets/liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment and other intangible assets
Property plant and equipment comprises the Group's tangible oil and gas assets together with computer equipment, motor vehicles and other equipment and are carried at cost, less any accumulated depreciation and accumulated impairment losses. Cost includes purchase price and construction costs for qualifying assets, together with borrowing costs where applicable, in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Oil and gas assets
Exploration, evaluation and development expenditure is accounted for under the 'successful efforts' method. The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised.

Exploration and evaluation costs are valued at costs less accumulated impairment losses and capitalised within intangible assets. Development expenditure on producing assets is accounted for in accordance with IAS 16, 'Property, plant and equipment'. Costs incurred prior to obtaining legal rights to explore are expensed immediately to the income statement.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible assets or property plant and equipment according to their nature. Intangible assets are not amortised and comprise costs relating to the exploration and evaluation of properties which the Directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to property plant and equipment following an impairment review and are depreciated accordingly. Where properties are appraised to have no commercial value, the associated costs are treated as an impairment loss in the period in which the determination is made.

Costs related to hydrocarbon production activities are depreciated on a field by field unit of production method based on commercial proved plus probable reserves of the production licence, except in the case of assets whose useful life differs from the lifetime of the field, which are depreciated on a straight-line basis over their anticipated useful life of up to 10 years.

The calculation of the 'unit of production' depreciation takes account of estimated future development costs and is based on current period end unescalated price levels. The 'unit of production' rate is set at the beginning of each accounting period. Changes in reserves and cost estimates are recognised prospectively.

Other assets
Depreciation is charged so as to write off the cost, less estimated residual value, over their estimated useful lives, using the straight-line method, for the following classes of assets:

Motor vehicles	– 4 years
Computer equipment	– 3 years
Other equipment	– 5 to 10 years

The estimated useful lives of property plant and equipment and their residual values are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Assets under construction are not subject to depreciation until the date on which the Group makes them available for use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the relevant period.

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the criteria for recognition under IFRS 3 (revised) are recognised at their fair value at the acquisition date. In a business combination achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Acquisition costs are expensed.

Goodwill is recognised as an asset and is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Impairment losses on goodwill are not reversed.

On disposal of a subsidiary or jointly arrangement, the attributable amount of unamortised goodwill, which has not been subject to impairment, is included in the determination of the profit or loss on disposal.

Impairment of property, plant and equipment and intangible assets
Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash-generating unit for impairment assessment purposes at the lowest level at which their identifiable cash flows, that are largely independent of the cash flows of the other Groups assets, can be determined.

If any such indication of impairment exists the Group makes an estimate of its recoverable amount.

The recoverable amount is the higher of fair value less costs of disposal and value in use. Where the carrying amount of an individual asset or a cash-generating unit exceeds its recoverable amount, the asset/cash-generating unit is considered impaired and is written down to its recoverable amount. Fair value less costs of disposal 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. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the asset/cash-generating unit and are discounted to their present value that reflects the current market indicators.

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.

JKX Employee Benefit Trust
The JKX Employee Benefit Trust was established in 2014 to hold ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme.

The trust has been consolidated in the Group financial statements in accordance with IFRS 10. The cost of shares temporarily held by the trusts are reflected as treasury shares and deducted from equity.

Notes to the consolidated financial statements

Financial instruments
Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Derivative financial instruments
The Group may use derivative financial instruments (derivatives) primarily to hedge its risks associated with oil price fluctuations relating to certain firm commitments and forecasted transactions. Any such derivatives are initially recorded at fair value on the date at which the contract is entered into and subsequently re-measured at fair value on subsequent reporting dates.

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

The purpose for which a derivative is used is established at inception. To qualify for hedge accounting, the derivative must be 'highly effective' in achieving its objective and this effectiveness must be documented at inception and throughout the period of the hedge relationship. The hedge must be assessed on an ongoing basis and determined to have been 'highly effective' throughout the financial reporting periods for which the hedge was designated.

For the cash flow hedge, the portion of the gains and losses on the hedging instrument that is determined to be an effective hedge is taken to equity and the ineffective portion, as well as any change in time value, is recognised in the consolidated income statement. The gains and losses taken to equity are subsequently transferred to the consolidated income statement during the period in which the hedged transaction affects the consolidated income statement or if the hedge is subsequently deemed to be ineffective.

Gains or losses on derivatives that do not qualify for hedge accounting treatment (either from inception or during the life of the instrument) are taken directly to the consolidated income statement in the period.

Convertible bonds due 2018
The net proceeds received from the issue of convertible bonds at the date of issue have been split between two elements: the host debt instrument classified as a financial liability in Borrowings, and the embedded derivative.

The fair value of the embedded derivative has been calculated first and the residual value is assigned to the host debt liability. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the embedded derivative, representing the value of the host debt instrument, is included as Borrowings and is not remeasured. The host debt component is then carried at amortised cost and the fair value of the embedded derivative is determined at inception and at each reporting date with the fair value changes being recognised in profit or loss.

Issue costs are apportioned between the host debt element (included in Borrowings) and the derivative component of the convertible bond based on their relative carrying amounts at the date of issue.

The interest expense on the component included in Borrowings is calculated by applying the effective interest method, with interest recognised on an effective yield basis.

Borrowings
Borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade and other receivables
Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost, reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency, default in payment or a significant deterioration in credit worthiness. Any impairment is recognised in the income statement within 'Administrative expenses'.

Loans and receivables
Loans and receivables, comprising trade and other receivables, and cash and cash equivalents, are non-derivative financial instruments which have a fixed or easily determinable value. They are recognised at cost, less any provisions for impairment in their value.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash. Cash equivalents are short-term with an original maturity of less than 3 months.

Restricted cash
Restricted cash is disclosed separately on the face of the statement of financial position and denoted as restricted when it is not under the exclusive control of the Group.

Government treasury bills
Government treasury bills are securities with maturity of up to 4 months issued by the National Bank of Ukraine with a fixed coupon rate. Treasury bills are recognised as "Held-to-maturity financial investments".

Held-to-maturity financial investments
The government US$ treasury bills issued by the National Bank of Ukraine are non-derivative financial assets with fixed payments and fixed maturity that are intended to be held to maturity.

Held-to-maturity financial investments are measured at amortised cost using the effective interest rate method less impairment. Interest income and discounts and premiums on held-to-maturity securities are recognised as "Interest and similar income" in the consolidated income statement.

Trade and other payables
Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method if the time value of money is significant.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Inventories
Inventory is comprised of produced oil and gas or certain materials and equipment that are acquired for future use. The oil and gas is valued at the lower of average production cost and net realisable value; the materials and equipment inventory is valued at purchase cost. Cost comprises direct materials and, where applicable, direct labour costs plus attributable overheads based on a normal level of activity and other costs associated in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution and any provisions for obsolescence.

Taxation
Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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.

Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity or in other comprehensive income, in which case the tax is also dealt with in equity or other comprehensive income respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and laws substantively enacted by the reporting date. Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the consolidated financial statements

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, has been identified as the Executive and Non Executive Directors of the Group that make the strategic decisions.

Share options
The group operates a number of equity-settled, share-based compensation plans, under which the Company receives services from Executive Directors and Senior Management as consideration for equity instruments (options) of the group. The fair value of the services received from Executive Directors and Senior Management in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, the Company's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares or shares held by the JKX Employee Benefit Trust. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the change will be treated as a cash-settled transaction.

The rules regarding the scheme are described in the Remuneration Report on pages 84 to 99 and in Note 26 on share based payments.

Bonus scheme
The Group operates a bonus scheme for its Directors and employees. The scheme has three performance conditions: 1. financial objectives; 2. key strategic objectives and 3. safety performance conditions. The bonus payments are made annually, normally in January of each year and the costs are accrued in the period to which they relate.

Pension costs
The Group contributes to the individual pension scheme of the qualifying employees' choice. Contributions are charged to the income statement as they become payable. The Group has no further payment obligations once the contributions have been paid.

Decommissioning
Provision is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding item of property plant and equipment is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in the present value of the estimated expenditure attributable to changes in the estimates of the cash flow or the current estimate of the discount rate used are reflected as an adjustment to the provision and the property plant and equipment. The unwinding of the discount is recognised as a finance cost.

Revenue recognition
Sales of oil and gas products are recognised when the significant risks and rewards of ownership have passed to the buyer and it can be reliably measured. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery

mechanism. Revenue from other services are recognised when the services have been performed. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax ("VAT") and other sales taxes or duty.

Revenue resulting from the production of oil and natural gas from properties in which the Group has an interest with other producers is recognised on the basis of the Group's working interest (entitlement method). Gains and losses on derivative contracts are reported on a net basis in the consolidated income statement.

Interest income is recognised as the interest accrues, by reference to the net carrying amount at the effective interest rate applicable.

Share capital and treasury shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from share premium, net of any tax effects. When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from share premium.

Repurchased JKX Oil & Gas plc shares are classified as treasury shares in shareholders' equity and are presented in the reserve for own shares. The consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium. No gain or loss is recognised in the financial statements on the purchase, sale, issue or cancellation of treasury shares.

Leasing
Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Under operating leases, the risks and rewards of ownership are retained by the lessor. The Group has no finance leases.

Dividends
Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Exceptional items
Exceptional items comprise items of income and expense, including tax items, that are material in amount and unlikely to recur and which merit separate disclosure in order to provide an understanding of the Group's underlying financial performance. Examples of events giving rise to the disclosure of material items of income and expense as exceptional items include, but are not limited to, impairment events, disposals of operations or individual assets, litigation claims by or against the Group and the restructuring of components of the Group's operations. See Note 5 for further details.

Critical accounting estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Recoverability of oil and gas assets and intangible oil and gas costs (Note 5)
Costs capitalised as oil and gas assets in property, plant and equipment, and intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. As part of this assessment, management has carried out an impairment test (ceiling test) on the oil and gas assets classified as property, plant and equipment. This test compares the carrying value of the assets at the reporting date with the expected discounted cash flows from each project. For the discounted cash flows to be calculated, management has used a production profile based on its best estimate of proven and probable reserves of the assets and a range of assumptions, including an internal oil and gas price profile benchmarked to mean analysts' consensus and a discount rate which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks. This assessment involves judgement as to (i) the likely commerciality of the asset, (ii) proven, probable and possible ('3P') reserves which are estimated using standard recognised evaluation techniques (iii) future revenues and estimated development costs pertaining to the asset, (iv) the discount rate to be applied for the purposes of deriving a recoverable value and (v) the value ascribed to contingent resources associated with the asset.

b) Carrying value of intangible exploration and evaluation expenditure (Note 5 (b))
The amounts for intangible exploration and evaluation assets represent the costs of active exploration projects the commerciality of which is unevaluated until reserves can be appraised. Where a project is sufficiently advanced the recoverability of intangible exploration assets is assessed by comparing the carrying value to estimates of the present value of projects. The present values of intangible exploration assets are inherently judgemental. Exploration and evaluation costs will be written off to the income statement unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of exploration and evaluation assets will ultimately be recovered, is inherently uncertain.

Notes to the consolidated financial statements

c) Depreciation of oil and gas assets (Note 5)
Oil and gas assets held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proved plus probable reserves and incorporating the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions as to the numbers of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs; together with assumptions on oil and gas realisations.

d) Taxation (Notes 27 and 28)
Tax provisions are recognised when it is considered probable that there will be a future outflow of funds to the tax authorities. In this case, provision is made for the amount that is expected to be settled. The provision is updated at each reporting date by management by interpretation and application of known local tax laws with the assistance of established legal, tax and accounting advisors. These interpretations can change over time depending on precedent set and circumstances in addition new laws can come into effect which can conflict with others and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. A change in estimate of the likelihood of a future outflow or in the expected amount to be settled would result in a charge or credit to income in the period in which the change occurs.

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised that can result in a charge or credit in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. To the extent that these change there would be a charge or credit to income both in the period of charge, which would include any impact on cumulative provisions, and in future periods.

e) Derivatives (Note 14)
Under the terms of the placing of the $40m of guaranteed unsubordinated convertible bonds (see Note 13), at the option of the Company, any conversion notice can be settled in cash rather than shares. The Cash Alternative Amount is based on the Volume Weighted Average Price of the Company's shares prior to the conversion notice. In addition there are other terms and conditions attached to the bond which, together with the Cash Alternative Amount, are classified as a derivative financial instrument (see Note 14). This derivative financial instrument was measured at inception at its fair value and changes in its fair value through to the reporting date are recorded each period in the Consolidated income statement. The fair value is computed based on the conversion price of each bond as well as directly observable market information, including the Company's share price and historic volatility. The assumptions used are only an estimate of how the Company's future share price may change and the appropriate discount rate and are, therefore, subjective. Changes in these assumptions could materially impact the internally computed fair value of the derivative resulting in corresponding impact on income or loss in the Consolidated income statement.

4. SEGMENTAL ANALYSIS

The Group has one single class of business, being the exploration for, evaluation, development and production of oil and gas reserves. Accordingly the reportable operating segments are determined by the geographical location of the assets.

There are four (2014: four) reportable operating segments which are based on the internal reports provided to the Chief Operating Decision Maker ('CODM'). Ukraine and Russia segments are involved with production and exploration; the 'Rest of World' are involved in exploration, development and production and the UK is the home of the head office and purchases material, capital assets and services on behalf of other segments. The 'Rest of World' segment comprises operations in Hungary and Slovakia.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results include transfers between segments. Those transfers are eliminated on consolidation.

Segment results and assets include items directly attributable to the segment. Segment assets consist primarily of property, plant and equipment, inventories and receivables. Capital expenditures comprise additions to property, plant and equipment and intangible assets.

4. SEGMENTAL ANALYSIS

2015	UK $000	Ukraine $000	Russia $000	Rest of world $000	Sub total $000	Eliminations $000	Total $000
External revenue							
Revenue by location of asset:							
– Oil	–	14,106	526	–	14,632	–	14,632
– Gas	–	53,112	15,625	–	68,737	–	68,737
– Liquefied petroleum gas	–	4,585	–	–	4,585	–	4,585
– Management services/other	–	411	170	–	581	–	581
	–	72,214	16,321	–	88,535	–	88,535
Inter segment revenue:							
– Management services/other	11,459	–	–	–	11,459	(11,459)	–
	11,459	–	–	–	11,459	(11,459)	–
Total revenue	11,459	72,214	16,321	–	99,994	(11,459)	88,535
Loss before tax							
Loss from operations	(8,704)	(53,796)	(9,292)	(3,705)	(75,497)	(81)	(75,578)
Finance income					1,289	–	1,289
Finance cost					(6,500)	–	(6,500)
Fair value movement on derivative liability					(1,921)	–	(1,921)
					(82,629)	(81)	(82,710)
Assets							
Property, plant and equipment	828	100,634	88,178	5,009	194,649	–	194,649
Intangible assets	–	–	–	7,812	7,812	–	7,812
Other receivable	–	–	3,534	–	3,534	–	3,534
Deferred tax	–	4,713	10,890	–	15,603	–	15,603
Inventories	–	2,022	1,667	–	3,689	–	3,689
Trade and other receivables	904	2,733	7,352	706	11,695	–	11,695
Restricted cash	6	–	–	306	312	–	312
Cash and cash equivalents	19,298	6,054	187	404	25,943	–	25,943
Total assets	21,036	116,156	111,808	14,237	263,237	–	263,237
Total liabilities	(45,322)	(31,138)	(10,220)	(2,291)	(88,971)	–	(88,971)
Non cash expense (other than depreciation and impairment)	300	173	4,821	283	5,577	–	5,577
Exceptional item – provision for impairment of oil and gas assets	–	49,549	–	1,506	51,055	–	51,055
Exceptional item – production based taxes	–	10,854	–	–	10,854	–	10,854
Exceptional item – legal costs	2,988	–	–	–	2,988	–	2,988
Increase in property, plant and equipment and intangible assets	41	2,830	5,150	687	8,708	–	8,708
Depreciation, depletion and amortisation	537	21,603	5,451	–	27,591	–	27,591

Notes to the consolidated financial statements

4. SEGMENTAL ANALYSIS (continued)

2014	UK $000	Ukraine $000	Russia $000	Rest of world $000	Sub total $000	Eliminations $000	Total $000
External revenue							
Revenue by location of asset:							
– Oil	–	33,150	873	14	34,037	–	34,037
– Gas	–	75,741	26,526	–	102,267	–	102,267
– Liquefied petroleum gas	–	9,542	–	–	9,542	–	9,542
– Management services/other	–	360	–	–	360	–	360
	–	118,793	27,399	14	146,206	–	146,206
Inter segment revenue:							
– Management services/other	15,687	–	–	–	15,687	(15,687)	–
	15,687	–	–	–	15,687	(15,687)	–
Total revenue	15,687	118,793	27,399	14	161,893	(15,687)	146,206
Loss before tax:							
(Loss)/profit from operations	(6,631)	17,392	(58,026)	(13,503)	(60,768)	(134)	(60,902)
Finance income					1,094	–	1,094
Finance cost					(3,197)	–	(3,197)
Fair value adjustment on acquisition					222	–	222
Fair value movement on derivative liability					9,072	–	9,072
					(53,577)	(134)	(53,711)
Assets							
Property, plant and equipment	1,452	168,513	115,375	7,134	292,474	–	292,474
Intangible assets	–	–	–	7,932	7,932	–	7,932
Other receivable	–	–	3,966	–	3,966	–	3,966
Deferred tax	–	7,520	13,527	1	21,048	–	21,048
Inventories	–	2,108	2,016	–	4,124	–	4,124
Trade and other receivables	631	6,480	1,254	1,653	10,018	–	10,018
Restricted cash	6	–	–	553	559	–	559
Cash and cash equivalents	12,105	526	5,891	6,862	25,384	–	25,384
Held to maturity financial investments	–	–	–	2,700	2,700	–	2,700
Total assets	14,194	185,147	142,029	26,835	368,205	–	368,205
Total liabilities	(38,164)	(35,428)	(10,232)	(3,033)	(86,857)	–	(86,857)
Non cash expense (other than depreciation and impairment)	340	1,143	3,288	1,186	5,957	–	5,957
Exceptional item – well control operations	–	–	3,471	–	3,471	–	3,471
Exceptional item – provision for impairment of oil and gas assets	–	12,800	46,262	10,000	69,062	–	69,062
Increase in property, plant and equipment and intangible assets	321	35,382	5,263	1,311	42,277	–	42,277
Depreciation, depletion and amortisation	803	23,179	9,227	1,181	34,390	–	34,390

Major customers	2015 $000	2014 $000
1 Ukraine	**20,168**	46,461
2 Russia	**16,151**	–

There are 2 (2014: 1) customers that exceed 10% of the Group's total revenues, one in Ukraine and one in Russia.

5. (A) PROPERTY, PLANT AND EQUIPMENT

	Oil and gas assets				
2015	Oil & gas fields Ukraine $000	Gas field Russia $000	Oil & gas fields Hungary $000	Other assets $000	Total $000
GROUP					
Cost					
At 1 January	557,509	223,518	36,214	20,567	837,808
Additions during the year*	2,677	5,094	75	249	8,095
Foreign exchange equity adjustment	–	(50,984)	–	(331)	(51,315)
Disposal of property, plant and equipment	–	(159)	–	(170)	(329)
At 31 December	560,186	177,469	36,289	20,315	794,259
Accumulated depreciation, depletion and amortisation and provision for impairment					
At 1 January	388,996	108,143	31,181	17,014	545,334
Depreciation on disposals of property, plant and equipment	–	(83)	–	(124)	(207)
Exceptional item – provision for impairment of oil and gas assets	49,549	–	1,506	–	51,055
Foreign exchange equity adjustment	–	(23,914)	–	(249)	(24,163)
Depreciation charge for the year	21,006	5,145	–	1,440	27,591
At 31 December	459,551	89,291	32,687	18,081	599,610
Carrying amount					
At 1 January	168,513	115,375	5,033	3,553	292,474
At 31 December	100,635	88,178	3,602	2,234	194,649

* No finance costs have been capitalised within oil and gas properties during the year (2014: $3.0m), weighted average interest rate for 2014 was 18.0 per cent.

Oil and gas fields in Russia include $3.7m relating to items under construction (2014: nil).

Notes to the consolidated financial statements

5. (A) PROPERTY, PLANT AND EQUIPMENT (continued)

2014	Oil and gas assets				
	Oil & gas fields Ukraine $000	Gas field Russia $000	Oil & gas fields Hungary $000	Other assets $000	Total $000
GROUP					
Cost					
At 1 January	522,127	375,529	32,788	21,711	952,155
Additions during the year*	35,382	5,263	244	1,051	41,940
Additions relating to stepped acquisition (see Note 35)	–	–	3,182	–	3,182
Foreign exchange equity adjustment	–	(157,088)	–	(919)	(158,007)
Disposal of property, plant and equipment	–	(186)	–	(1,276)	(1,462)
At 31 December	557,509	223,518	36,214	20,567	837,808
Accumulated depreciation, depletion and amortisation and provision for impairment					
At 1 January	353,017	89,224	27,448	16,850	486,539
Depreciation on disposals of property, plant and equipment	–	(25)	–	(1,368)	(1,393)
Exceptional item – provision for impairment of oil and gas assets	12,800	46,262	3,733	–	62,795
Foreign exchange equity adjustment	–	(36,545)	–	(452)	(36,997)
Depreciation charge for the year	23,179	9,227	–	1,984	34,390
At 31 December	388,996	108,143	31,181	17,014	545,334
Carrying amount					
At 1 January	169,110	286,305	5,340	4,861	465,616
At 31 December	168,513	115,375	5,033	3,553	292,474

Exceptional item – well control operations
During 2014, due to unexpected pressure building in the annulus of well-27 at our Koshekhablskoye field in Russia, the well was diverted to the flare pit and a coiled tubing unit was mobilised to kill the well. This operation was completed successfully. The cost of these well control operations was $3.5m which has been charged to the income statement in 2014.

Exceptional item – provision for impairment of oil and gas assets
During both 2014 and 2015 impairment triggers were noted in respect of our oil and gas assets in Ukraine, Russia and Hungary. Impairment tests were completed resulting in impairments of $51.1m (2014: $69.1m) comprised of $49.6m (2014: $12.8m) in respect of our Ukrainian oil and gas fields, nil (2014: $46.3m) in respect of our Russian gas field, $1.5m (2014: $3.7m) in respect of our Hungarian oil and gas fields and nil (2014: $6.3m) in respect of our Hungarian exploration and evaluation costs (see Note 5 (b)).

Full impairment disclosures for each of the impairment tests are made in Notes 5 (c), (d), (e) and (f).

5. (B) INTANGIBLE ASSETS: EXPLORATION AND EVALUATION EXPENDITURE

2015	Ukraine $000	Hungary $000	Rest of World $000	Total $000
GROUP				
Cost				
At 1 January	1,308	768	13,519	15,595
Additions during the year	–	46	566	612
Effect of exchange rates on intangible assets	–	–	(732)	(732)
At 31 December	1,308	814	13,353	15,475
Provision against oil and gas assets				
At 1 January and 31 December	1,308	–	6,355	7,663
Carrying amount				
At 1 January	–	768	7,164	7,932
At 31 December	–	814	6,998	7,812

2014	Ukraine $000	Hungary $000	Rest of World $000	Total $000
GROUP				
Cost				
At 1 January	1,308	11,144	14,138	26,590
Additions during the year	–	102	237	339
Write off of unsuccessful exploration and evaluation costs	–	(15)	–	(15)
Additions relating to stepped acquisition (see Note 35)	–	1,316	–	1,316
Exceptional item – provision for impairment of Hungarian assets (Note 5(f))	–	(6,267)	–	(6,267)
Disposal relating to stepped acquisition (see Note 35)	–	(5,512)	–	(5,512)
Effect of exchange rates on intangible assets	–	–	(856)	(856)
At 31 December	1,308	768	13,519	15,595
Provision against oil and gas assets				
At 1 January and 31 December	1,308	–	6,355	7,663
Carrying amount				
At 1 January	–	11,144	7,783	18,927
At 31 December	–	768	7,164	7,932

Notes to the consolidated financial statements

5. (C) IMPAIRMENT TEST FOR PROPERTY, PLANT AND EQUIPMENT

A review was undertaken at the reporting date of the carrying amounts of property, plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review impairment triggers were noted in relation to the Ukrainian assets (see Note 5 (d)) and the Hungarian assets (see Note 5 (f)). In respect of Yuzhgazenergie LLC ('YGE') in Russia, impairment triggers were noted in 2014 and a full impairment review was completed, however no impairment triggers were noted in 2015 (see Note 5 (e)).

As there is no readily available market for the Group's oil and gas properties, fair value is derived as the net present value of the estimated future cash flows arising from the continued use of the assets, incorporating assumptions that a typical market participant would take into account.

The value in use of an oil and gas property is generally lower than its Fair Value Less Costs of Disposal ('FVLCD') as value in use reflects only those cash flows expected to be derived from the asset in its current condition. FVLCD includes appraisal and development expenditure that a market participant would consider likely to enhance the productive capacity of an asset and optimise future cash flows. Consequently, the Group determines recoverable amount based on FVLCD using a Discounted Cash Flow ('DCF') methodology.

The DCF was derived by estimating discounted after tax cash flows for each CGU based on estimates that a typical market participant would use in valuing such assets.

The impairment tests compared the recoverable amount of the respective CGUs noted below to the respective carrying values of their associated assets. The estimates of FVLCD meet the definition of level three fair value measurements as they are determined from unobservable inputs.

5. (D) IMPAIRMENT TEST FOR THE UKRAINIAN OIL AND GAS ASSETS

2014

The Ukrainian government issued decrees in the second half of 2014 which directed major industrial gas buyers to acquire their gas solely from the Ukraine state-owned gas company from 1 December 2014 through to 28 February 2015 and increased the rate of gas production tax to 55% (from 28%), initially for 3 months but extended through to 31 December 2015. These factors, combined with the sharp decline in international oil prices and a 71% reduction in the assessed 3P reserves for the Elizavetovskoye field constituted an impairment trigger at 31 December 2014 and accordingly an impairment test was undertaken.

2015

During 2015, the geopolitical situation in Ukraine, the economic impact of the devaluation of the Ukrainian Hryvnia and the uncertainty about the political, fiscal and economic outlook increased the Company's post tax discount rate used in its DCF calculations for impairment testing on the Ukrainian assets. The post tax discount rate increased from 17.2% to 20.0%. Together with the continued decline in international oil and gas prices during 2015, these constituted an impairment trigger and accordingly an impairment test was undertaken.

Poltava Petroleum Company ('PPC'), a wholly owned subsidiary of JKX, holds 100% interest in five production licences (Ignatovskoye, Molchanovskoye, Rudenkovskoye, Novo-Nikolaevskoye, Elizavetovskoye) and one exploration licence (Zaplavskoye) in the Poltava region of Ukraine.

The Ignatovskoye, Molchanovskoye, Rudenkovskoye, Novo-Nikolaevskoye production licences contain one or more distinct fields which, together with the Zaplavskoye exploration licence, form the Novo-Nikolaevskoye Complex ('NNC').

The Elizavetovskoye production licence is located 45km from the Novo-Nikolaevskoye Complex and has its own gas production facilities.

Ukrainian Cash Generating Units ('CGUs')

In respect of the Group's Ukraine assets the NNC forms a single CGU as these contain oil and gas fields which are serviced by a single processing facility and do not have separately identifiable cash inflows. In addition they have commonality of facilities, personnel and services.

The Elizavetovskoye licence also has its own separate processing facilities and separately identifiable cash flows and therefore is a distinct CGU for the purpose of the impairment test. During 2015 an extension to the Elizavetovskoye production licence was awarded to PPC which included the West Mashivske field. Due to the proximity of the West Mashivske field to the Elizavetovskoye plant, production will be tied back to the Elizavetovskoye processing facilities and therefore forms part of this CGU.

In accordance with IAS 36, the impairment review was undertaken in US$ being the currency in which future cash flows from NNC and Elizavetovskoye will be generated.

Key assumptions – NNC and Elizavetovskoye

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available information provided by independent reserve engineers, DeGolyer & MacNaughton, as at 31 December 2014 adjusted for 2015 production volumes and data and reassessed internally. Such information included 3P reserves for NNC and Elizavetovskoye (including the West Mashivske extension) of 28.4 MMboe and 5.0 MMboe, respectively.
- Economic life of field: it was assumed that the title to the licences is retained and that the NNC licence term will be successfully extended beyond its current 2024 expiration date through to the economic life of the field (expected to be around 2032). The economic life of the Elizavetovskoye field is currently expected to be around 2023.
- Gas prices: during 2015 Ukraine acquired the ability to purchase gas from Europe rather than being completely dependent on Russia for imports. As such, Ukrainian gas prices are expected to be more aligned with European gas prices in future but also influenced by Russian-Ukrainian border price and international oil prices. The gas price used for 2016 is based on current and forecast gas prices realised by PPC. For the following six years a forward gas price curve was used with gas prices increasing at 2.8% thereafter.
- Oil prices: the Company used a forward price curve for the next six years and an increase of 2.8% per annum thereafter.
- Production taxes: the Company has assumed production tax rates of 29% for gas and 45% for oil which were introduced by the government on 1 January 2016.
- Capital and operating costs: these were based on current operating and capital costs in Ukraine for both projects. Estimates were provided by third parties and supported by estimates from our own specialists, where necessary.
- Post tax nominal discount rate of 20%. This was based on a Capital Asset Pricing Model analysis consistent with that used in previous impairment reviews

Based on the key assumptions set out above:

- the NNC's oil and gas assets were impaired by $49.6m after significant erosion of the headroom from the prior year due to the increase in discount rate applied, the international oil and gas price decline and the new expectation that prices will remain lower for longer.
- Elizavetovskoye's recoverable amount (including the West Mashivske extension) exceeds its carrying value by $34.9m and therefore Elizavetovskoye's oil and gas assets were not impaired.

Any impairment is dependent on judgement used in determining the most appropriate basis for the assumptions and estimates made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to likely and potential changes in key assumptions has therefore been provided below.

The impact on the impairment calculation of applying different assumptions to gas prices, production volumes, production tax rates, future capital expenditure and post-tax discount rates, all other inputs remaining equal, would be as follows:

Sensitivity analysis 2015 for the NNC and the Elizavetovskoye		NNC Increase/(decrease) in impairment of $49.6m for NNC CGU $m	Elizavetovskoye Increase/(decrease) in impairment headroom of $34.9m for Elizavetovskoye CGU $m
Impact if gas price:	increased by 20%	(37.6)	13.1
	reduced by 20%	37.6	(13.1)
Impact if gas production volumes:	increased by 10%	(24.0)	6.7
	decreased by 10%	24.0	(6.7)
Impact if future capital expenditure:	increased by 20%	27.5	(3.9)
	decreased by 20%	(27.5)	3.9
Impact if post-tax discount rate:	increased by 2 percentage points to 22.0%	9.5	(1.8)
	decreased by 2 percentage points to 18.0%	(11.0)	2.0

Notes to the consolidated financial statements

5. (E) IMPAIRMENT TEST FOR YUZHGAZENERGIE LLC ('YGE'), RUSSIA – 2014 DISCLOSURES

Following the 2007 acquisition of YGE in Russia, a technical and environmental re-evaluation of YGE's Koshekhablskoye gas field redevelopment was undertaken by the Group. The re-evaluation resulted in a revised development plan and production profile. The development plan and production profile have continued to be refined since that time.

For purposes of testing for impairment triggers of YGE's non-current assets, the Company took account of developments since the last test for impairment in 2013, based on the assessment of FVLCD.

In previous estimates, the Company assumed net-back convergence with European gas prices occurring in 2023, which was in line with the Russian government's stated intention, after applying to increase gas sector tariffs annually by 10% to achieve this.

The domestic gas market in Russia deteriorated significantly during 2014 and the prospects for a significant improvement in the domestic gas market in the near term have receded rapidly.

The economic recession in Russia, the devaluation of the Rouble, the sharp decline in international oil prices and the declining gas demand in Europe and Russia have conspired to create a short term gas oversupply within Russia and a cessation of any political appetite for achieving net-back parity with European gas prices.

This revision to our estimate of the future increases in Russian gas prices constituted an impairment trigger. Accordingly an impairment test was undertaken.

In accordance with IAS 36, the impairment review was undertaken in Russian Roubles.

Key Assumptions – YGE – 2014 disclosures

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available information provided by independent reserve engineers, DeGolyer & MacNaughton, at 31 December 2014. Such information included 3P reserves for YGE of 68.3 MMboe.
- Economic life of field: it was assumed that YGE will be successful in extending the licence term beyond its current 2026 expiration to the economic life of the field (expected to be around 2047). The discounted cash flow methodology used has not taken account of any opportunities that may exist to extract reserves in a shorter timeframe by investing to increase the current plant capacity.
- Gas prices: for 2015 these were based on the gas sales agreement that the Company had negotiated with Kubangazifikatziya for the forecast gas production in 2015. The gas price is expected to remain at the same level through to 1 July 2016.
- Gas prices: from 1 July 2016 and annually thereafter, the gas prices have been increased by Rouble inflation of between 4.3% and 8.0% through to 2021, and 5.1% thereafter.
- Gas prices: historically, gas prices in the Adygea Region are higher than the average gas price across all regions in Russia as a result of the vast transportation distances from Russia's main producing regions. The Company has assumed that Adygean gas prices will remain higher than the average price across Russia.
- Capital and operating costs: these were based on current operating and capital costs in Russia, project estimates provided by third parties and supported by estimates from our own specialists, where necessary.
- Post tax nominal Rouble discount rate of 15.2%. This was based on a Capital Asset Pricing Model analysis consistent with that used in previous impairment reviews.

Based on the key assumptions set out above YGE was impaired by $46.3m. The main driver of the impairment has been the revision to the expected increase in Adygean gas prices.

Any impairment is dependent on judgement used in determining the most appropriate basis for the assumptions and estimates made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to likely and potential changes in key assumptions has therefore been provided below.

The impact on the impairment calculation of applying different assumptions to gas prices, production, future capital expenditure and post-tax discount rates, all other inputs remaining equal, would be as follows:

Sensitivity Analysis for YGE – 2014 disclosures		Increase/(decrease) in impairment of $46.3m for Yuzhgazenergie LLC CGU $m
Impact if Adygean gas price:	increased by 10%	(28.8)
	reduced by 10%	27.8
Impact if gas production volumes:	increased by 10%	(27.8)
	decreased by 10%	26.8
Impact if future capital expenditure:	increased by 20%	15.7
	decreased by 20%	(15.7)
Impact if post-tax discount rate:	increased by 1 percentage point to 16.2%	9.6
	decreased by 1 percentage point to 14.2%	(10.8)

2015 update

For purposes of testing for impairment of YGE's non-current assets in 2015, the Company adopted a similar process to that used in previous periods. Having taken account of developments since the last test for impairment, based on the assessment of fair value less costs to sell, the recoverable amount exceeds the carrying value by approximately US$4.3m (4.9 per cent) (2014: nil) and no impairment trigger has been noted. However it should be noted that the FVLCD estimate of the recoverable amount uses a DCF methodology which is highly sensitive to changes in the key assumptions of future Russian gas prices and related production taxes, both of which are under the direct control of the Russian government. Therefore Russian gas prices may not align with international gas prices.

As in previous estimates, from 1 July 2016 and annually thereafter, the Company has assumed gas prices increase by Rouble inflation of between 4.3% and 8.0% through to 2021, which reflect the Russian government's current stated intentions for gas prices, and a 5.1% thereafter.

5. (F) IMPAIRMENT TEST FOR HUNGARIAN OIL AND GAS ASSETS

Hungarian property plant and equipment – Folyópart Energia Kft ('FEN') (previously HHE North Kft ('HHN'))

The Company now holds a 100% interest in six development licences (Mining Plots) through its wholly owned Hungarian subsidiary, Folyópart Energia Kft. The Hajdunanas IV Mining Plot ('HMP') (previously Hernad I licence) contains two suspended wells which experienced an unexpected decline in production rates in 2013.

Hungarian property, plant and equipment – Turkeve

Through its wholly owned Dutch subsidiary, JKX Hungary BV, the Company holds a 50% beneficial interest in part of the Turkeve IV Mining Plot of 10 sq. km ('Turkeve') surrounding the Ny-7 well which encountered gas.

Hungarian intangible assets: exploration and evaluation expenditure - Tiszavasvári-IV Mining Plot (previously Tiszavasvári-6)

The Tiszavasvári-IV Mining Plot contains the Tiszavasvári-6 discovery well ('TZ-6'), which, due to the early stage of appraisal, is classified as an exploration and appraisal asset and recognised within intangible assets.

During 2014 and 2015, there was a sharp decline in international oil and gas prices. In 2015 this constituted an impairment trigger and accordingly an impairment test was undertaken. In 2014, the absence of a firm work programme at year end to develop the Hungarian reserves, and the reclassification of the estimated reserves at the Group's Hungarian oil and gas fields to contingent resources also constituted an impairment trigger.

Hungarian Cash Generating Units ('CGUs')

HMP forms a single CGU as it holds the two suspended oil and gas wells which are serviced by a single processing facility and which do not have separately identifiable cash inflows. In addition they have commonality of facilities, personnel and services.

The development of the Turkeve Ny-7 field and the TZ-6 discovery require their own distinct processing facilities. Once these discoveries are developed, they will have separately identifiable cash flows and therefore are two separate CGUs for the impairment test of the Hungarian oil and gas assets.

In accordance with IAS 36, the impairment reviews for the Hungarian assets have been undertaken in US$ being the currency in which future cash flows from HMP, Turkeve and TZ-6 will be generated.

Notes to the consolidated financial statements

Key Assumptions 2015 – HMP, Turkeve and TZ-6

The key assumptions used in the impairment testing in 2015 were:

- Production profiles: these were based on the latest available information provided by our reserve engineers which included contingent resources of 0.6 MMboe for HMP, 0.1 MMboe (net to JKX) for Turkeve and 3.7 MMboe for TZ-6.
- Oil and gas prices: these were based on current prices being realised and short term price curves derived from expectations in the Hungarian oil and gas market.
- Capital and operating costs: these were based on project estimates provided by third parties and the partner and operator of our Hungarian assets.

The post tax discount rate of 10% was applied. This was based on a Capital Asset Pricing Model analysis for our Hungarian assets.

Accordingly the impairment review is dependent on judgement used in determining the most appropriate basis for the assumptions and estimates made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to likely and potential changes in key assumptions has therefore been provided below.

Based on the key assumptions set out above:

- HMP recoverable amount exceeds its carrying value by $1.3m and therefore the oil and gas assets related to HMP were not impaired;
- Turkeve was impaired by $1.5m after significant erosion of the headroom from the prior year due to international oil and gas price decline, the new expectation that prices are to remain lower for longer and the reduction in contingent resources from 0.3 MMboe to 0.1 MMboe due to a reassessment of field development options; and
- TZ-6 recoverable amount exceeds its carrying value by $1.0m and therefore oil and gas assets relating to TZ-6 were not impaired.

In respect of the 2015 impairment review, the impact on the impairment calculation of applying different assumptions to production, oil and gas prices and future capital and operating costs, all other inputs remaining equal, would be as follows:

		HMP Increase/(decrease) in impairment headroom of $1.3m for HMP CGU $m	Turkeve Increase/(decrease) in impairment of $1.5m for Turkeve CGU $m	TZ-6 Increase/(decrease) in impairment headroom of $1.0m for TZ-6 CGU $m
Impact if oil and gas prices:	increased by 20%	2.2	(0.5)	1.0
	decreased by 20%	(2.2)	0.3	(0.8)
Impact if oil and gas production volumes:	increased by 10%	1.2	(0.2)	0.5
	decreased by 10%	(1.1)	0.2	(0.5)
Impact if future capital and operating costs:	increased by 20%	(1.9)	0.2	(0.9)
	decreased by 20%	1.9	(0.2)	0.9

6. OTHER RECEIVABLE

Other receivables consist of VAT recoverable as a result of expenditures incurred in Russia. The receivable is expected to be recovered between two and five years (2014: two and five years).

7. INVESTMENTS

The net book value of unlisted investments comprises:

	2015 $000	2014 $000
Cost		
At 1 January and 31 December	**5,617**	5,617
Accumulated impairment		
At 1 January and 31 December	**5,617**	5,617
Carrying amount		
At 31 December	**–**	–

Full provision was made against investments in 2007 which comprise an investment in a Ukrainian oil and gas company. At the end of 2007 there were no clear development plans relating to the investment and this continues to be the position at 31 December 2015. The investment reflects a 10% holding of the Company's ordinary share capital.

8. INVENTORIES

	2015 $000	2014 $000
Warehouse inventory and materials	**2,182**	2,994
Oil and gas inventory	**1,507**	1,130
	3,689	4,124

9. TRADE AND OTHER RECEIVABLES

	2015 $000	2014 $000
Trade receivables	**3,168**	3,116
Other receivables	**5,143**	1,043
VAT receivable	**717**	274
Prepayments	**2,667**	5,585
	11,695	10,018

As of 31 December 2015, there were no trade receivables which were impaired (2014: nil). At this date there were no trade receivables past due (2014: nil).

There is no difference between the carrying value of trade and other receivables and their fair value.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2015 $000	2014 $000
US Dollar	**27**	415
Sterling	**–**	20
Euros	**44**	763
Hungarian Forints	**423**	446
Ukrainian Hryvna	**563**	1,266
Russian Roubles	**7,254**	1,247
	8,311	4,157

Notes to the consolidated financial statements

10. CASH AND CASH EQUIVALENTS

	2015 $000	2014 $000
Cash	**20,244**	19,186
Short term deposits	**5,699**	198
Government treasury bills	**–**	6,000
Cash and cash equivalents	**25,943**	25,384
Restricted cash	**312**	559
Total	**26,255**	25,943

Short term deposits comprise amounts which are held on deposit, but are readily convertible to cash. Ukrainian government US$ treasury bills of $6.0m matured on 7 January 2015.

Restricted cash
Included in Restricted cash is $0.3m (2014: $0.6m) held in Hungary at K & H Bank Zrt, which is deposited in accordance with the Hungarian Mining Act to cover potential compensation for any land damage and the costs of recultivation, including environmental damage of the waste management facilities.

11. HELD-TO-MATURITY FINANCIAL INVESTMENTS

	2015 $000	2014 $000
Government treasury bills	**–**	2,700

In October 2014, the Company purchased selected Ukrainian government US$ treasury bills with a fixed coupon which matured on 11 February 2015 and which were classified as held-to-maturity financial investments. The fair value of the held-to-maturity securities at 31 December 2014 was US$3.3m.

12. TRADE AND OTHER PAYABLES

	2015 $000	2014 $000
Trade payables	**2,701**	1,694
Other payables	**2,692**	1,416
Other taxes and social security costs	**1,051**	4,780
VAT payable	**1,177**	1,797
Accruals	**11,356**	6,538
	18,977	16,225

13. BORROWINGS

	2015 $000	2014 $000
Current		
Convertible bonds due 2018	**10,856**	4,068
Credit facility	**–**	1,522
Term-loans repayable within one year	**10,856**	5,590
Non-current		
Convertible bonds due 2018	**23,494**	30,837

Convertible bonds due 2018
On 19 February 2013 the Company successfully completed the placing of $40m of guaranteed unsubordinated convertible bonds with institutional investors which are due 2018 raising cash of $37.2m net of issue costs.

The Bonds have an annual coupon of 8 per cent per annum payable semi-annually in arrears. The Bonds are convertible into ordinary shares of the Company at any time from 1 April 2013 up until seven days prior to their maturity on 19 February 2018 at a conversion price of 76.29 pence per Ordinary Share, unless the Company settles the conversion notice by paying the Bondholder the Cash Alternative Amount (see below).

Interest, after the deduction of issue costs and the inclusion of the redemption premium, will be charged to the income statement using an effective rate of 18.0%.

Cash Alternative Amount
At the option of the Company, the conversion notice in respect of the Bonds can be settled in cash rather than shares, the Cash Alternative Amount payable is based on the Volume Weighted Average Price of the Company's shares prior to the conversion notice.

Credit facility
On 31 March 2011, Poltava Petroleum Company ('PPC'), our subsidiary in Ukraine, entered into a reducing credit facility agreement with Crédit Agricole CIB (France) secured by indemnity provided by the parent company, JKX Oil & Gas plc. The credit facility was for a maximum of Ukrainian Hryvnia equivalent of $15.0m. The facility was renewed on 27 June 2014 and was available until 30 June 2015 with the maximum facility reducing to $10.0m and $5.0m on 30 April 2015 and 30 May 2015 respectively. All provisions contained in the credit facility documentation were negotiated on normal commercial and customary terms for such finance arrangements. The interest was calculated at prevailing Crédit Agricole CIB (France) bank rate plus a margin.

The credit facility with Crédit Agricole CIB (France) lapsed on 30 June 2015.

14. DERIVATIVES

Non-current derivative financial instruments	2015 $000	2014 $000
At the beginning of the year	**1,037**	10,109
Partial settlement of derivative liability	**(787)**	–
Fair value movement during the year – Net loss/(gain)	**1,921**	(9,072)
At the end of the year	**2,171**	1,037

Convertible bonds due 2018 – embedded derivatives

Coupon Makewhole
Upon conversion of a Bond prior to the 19 February 2015 the Company was required to pay an amount of interest equal to the aggregate interest which would have been payable on the principal amount of the Bond if such Bond had been outstanding until 19 February 2015.

Bondholder Put Option
Bondholders have the right to require the Company to redeem the following number of Bonds on the following dates together with accrued and unpaid interest to (but excluding) such dates:

Redemption Date	Maximum number of Bonds to be redeemed
19 February 2016	25% of the Bonds, having an aggregate principal amount of $10,000,000
19 February 2017	all outstanding Bonds

Current liabilities include $10.9m (2014: $4.1m) in respect of the put option available to bondholders on 19 February 2016 (2014: 19 February 2015). Bonds with a principal amount of $10m were redeemed on 19 February 2016 (19 February 2015: $4m) in addition to an early redemption premium of $0.9m (19 February 2015: $0.2m) in accordance with the terms and conditions of the bond. None of the bondholders exercised their option to put 10% of the outstanding principal of the bonds on 19 February 2014.

Company Call Option
The Company can redeem the Bonds early in full but not in part at their principal amount together with accrued interest at any time on or after 19 February 2017 if the Volume Weighted Average Price of the Company's shares over a specified period equal or exceed 130 per cent of the principal amount of the Bonds; or if the aggregate principal amount of the bonds outstanding is less than 15% of the aggregate principal amount originally issued.

Fixed exchange rate
The Sterling-US Dollar exchange rate is fixed at £1/$1.5809 for the conversion and other features.

Notes to the consolidated financial statements

15. FINANCIAL INSTRUMENTS

Fair values of financial assets and financial liabilities – Group
Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction. Where available, market values have been used (this excludes short term assets and liabilities).

	Book and fair value	Book value	Fair value
	2015 $000	2014 $000	2014 $000
Financial assets			
Cash and cash equivalents and restricted cash (Note 10) – classified as loans and receivables	**26,255**	25,943	25,943
Trade receivables (Note 9) – classified as loans and receivables	**3,168**	3,116	3,116
Other receivables (Note 9) – classified as loans and receivables	**5,143**	1,043	1,043
Held-to-maturity financial investments (Note 11) – classified as loans and receivables	**–**	2,700	3,262
Financial liabilities			
Trade payables (Note 12) – carried at amortised cost	**2,701**	1,694	1,694
Other payables (Note 12) – carried at amortised cost	**2,692**	1,416	1,416
Borrowings – credit facility (Note 13)	**–**	1,522	1,522
Borrowings – convertible bonds due 2018 (Note 13) – carried at amortised cost	**10,856**	4,068	4,068
Borrowings – convertible bonds due 2018 (Note 13) – carried at amortised cost	**23,494**	30,837	30,837
Derivatives – fair value through profit or loss (Note 14)	**2,171**	1,037	1,037

Financial liabilities measured at amortised cost are carried at $39.7m (2014: $40.6m). The Group's borrowings at 31 December 2015 relate entirely to the convertible bonds due 2018.

Fair value hierarchy

Derivatives
At the year end the Group's derivative financial instrument related to various embedded derivatives within the convertible bonds due 2018 (Note 14). The value of the derivative was calculated at inception, using the Monte Carlo simulation methodology, and at the reporting date using the Black-Scholes formula, discounted cash flow methodology, the Company's historic share price and volatility, treasury rates and other estimations. As it was derived from inputs that are not from observable market data it was been grouped into Level 3 within the fair value measurement hierarchy.

The main assumptions used in valuation of the derivative conversion option as at 31 December 2015 were:

- underlying share price of: £0.2725 (31 December 2014: £0.120);
- £/US$ spot rate of 1.4736 (31 December 2014: £1/$1.5577);
- historic volatility of 45.0% (31 December 2014: 70.7%);
- discount rate of 8.2% (31 December 2014: 8.2%)
- risk free rate based on 2.14 years (31 December 2014: 3.14 years) US Treasury rate of 0.932% (31 December 2014: 0.897%).

A 10% increase/decrease in Company's historic share price volatility would have resulted in an increase in the fair value loss for the year of $0.3m (31 December 2014: reduction in the fair value gain of $0.3m) and a decrease in the fair value loss of $0.1m (31 December 2014: increase in the fair value gain of $0.2m) respectively, assuming that all other variables remain constant.

A 3% increase/decrease in the discount rate would have resulted in an increase in the fair value loss for the year of $0.6m and a decrease in the fair value loss of $0.7m respectively, assuming that all other variables remain constant.

Held-to-maturity financial investments
Held-to-maturity securities were grouped into Level 1 as market prices were available at the reporting date for the treasury bills from the National Bank of Ukraine benchmark.

Credit risk – Group
The Group has policies in place to ensure that sales of products are made to customers with appropriate credit worthiness. The Group limits credit risk by assessing creditworthiness of potential counterparties before entering into transactions with

them and continuing to evaluate their creditworthiness after transactions have been initiated. Where appropriate, the use of prepayment for product sales limits the exposure to credit risk. There is no difference between the carrying amount of trade and other receivables and the maximum credit risk exposure.

The maximum financial exposure due to credit risk on the Group's financial assets, representing the sum of cash and cash equivalents, trade receivables, held to maturity financial investments and other current assets, as at 31 December 2015 was $34.6m (2014: $32.8m).

Capital management – Group
The Directors determine the appropriate capital structure of the Group specifically, how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's business strategy.

The Group's policy as to the level of equity capital and reserves is to ensure that it maintains a strong financial position and low gearing ratio which provides financial flexibility to continue as a going concern and to maximise shareholder value. The capital structure of the Group consists of shareholders' equity together with net debt. The Group's funding requirements are met through a combination of debt, equity and operational cash flow.

Net debt
Net debt comprises: borrowings disclosed in Note 13 and total cash in Note 10 and excludes derivatives. Equity attributable to the shareholders of the Company comprises issued capital, other reserves and retained earnings (see Consolidated statement of changes in equity).

The capital structure of the Group is as follows:

	2015 $000	2014 $000
Current liabilities (Note 13)	**(10,856)**	(5,590)
Convertible bonds due 2018 – Non-current liability (Note 13)	**(23,494)**	(30,837)
Total cash (Note 10)	**26,255**	25,943
Government treasury bills (Note 11)	**–**	2,700
Net debt	**(8,095)**	(7,784)
Total shareholders' equity	**174,266**	281,348

Following the issue of $40m of convertible bonds in February 2013, the primary capital risk to the Group is the level of indebtedness. The convertible bond includes a financial covenant which limits the Group's indebtedness (excluding the bonds themselves and the $15.0m Credit Agricole facility) in respect of any new borrowings (in addition to the bond amount) to three times 12-month free cash flow based on the most recently published consolidated financial statements. During the year the Group has complied with this financial covenant.

Liquidity risk – Group
The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of Directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents and committed facilities in order to ensure sufficient funding for business requirements.

Significant restrictions
Cash and short-term deposits held in Ukraine are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from Ukraine (see Note 37).

Cash and short term deposits included within the consolidated financial statements to which these restrictions apply is $6.1m (2014: $0.5m).

Temporary capital controls established by the National Bank of Ukraine ('NBU') on 1 December 2014 remain in place in an attempt by the Ukrainian government to safeguard the economy and protect foreign exchange reserves in the short term.

On 4 March 2015 a number of new NBU Resolutions were implemented with immediate effect (NBU No. 160 dated 3 March 2015; Resolution of the NBU No. 161 dated 3 March 2015; Resolution of the NBU No. 154 dated 2 March 2015).

The Resolutions extended the currency control restrictions implemented in Ukraine on 1 December 2014 and introduced additional measures which have the impact of restricting the remittance of funds to foreign investors under certain conditions and bans the transfer of Hryvnia to purchase Ukrainian Government bonds.

Notes to the consolidated financial statements

15. FINANCIAL INSTRUMENTS (continued)

The restrictions were initially effective until 3 June 2015 but have subsequently been extended until 8 June 2016.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows on an undiscounted basis. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the reporting date.

The maturity analysis for Convertible bonds due 2018 is based on the earliest Put dates for the relevant portions of the Bonds (see Note 13) of 19 February 2016 and 2017. None of the Bonds were put on 19 February 2015.

Group – 31 December 2015	Within 3 months $000	3 months -1year $000	1-2 years $000	2-3 years $000
Maturity of financial liabilities				
Trade payables (Note 12)	2,701	–	–	–
Other payables (Note 12)	2,692	–	–	–
Borrowings – convertible bonds due 2018	12,296	1,040	30,171	–
Group – 31 December 2014				
Maturity of financial liabilities				
Trade payables (Note 12)	1,694	–	–	–
Other payables (Note 12)	1,416	–	–	–
Borrowings – credit facility (Note 12)	–	1,522	–	–
Borrowings – convertible bonds due 2018	5,829	1,428	13,339	30,180

Interest rate risk profile of financial assets and liabilities – Group

At 31 December 2014, the Group was exposed to interest rate risk principally in relation to the balance outstanding on the credit facility with Crédit Agricole CIB (France) where interest is calculated at prevailing Crédit Agricole CIB (France) bank rate plus a margin, however there were no balances outstanding on this facility. The facility lapsed on 30 June 2015.

Fixed rate interest is charged on the Group's convertible bond (see Note 13). The interest rate profile of the other financial assets and liabilities of the Group as at 31 December is as follows (excluding short-term assets and liabilities, non-interest bearing):

Group – Year ended 31 December 2015	**Within 1 year $000**
Floating rate	
Short term deposits (Note 10)	**5,699**
Other receivables (Note 9)	**5,143**
Other payables (Note 12)	**2,692**
Group – Year ended 31 December 2014	
Floating rate	
Short term deposits (Note 10)	198
Other receivables (Note 9)	1,043
Other payables (Note 12)	(1,416)

Floating rate financial assets comprise cash deposits placed on money markets at call, seven day and monthly rates.

	2015 Within 1 year $000	2014 Within 1 year $000
Fixed rate		
Government treasury bills (Note 10)	**–**	6,000
Held-to-maturity financial investments (Note 11)	**–**	2,700

2014 fixed rate financial assets comprised Ukrainian government US$ treasury bills which matured on 7 January 2015 (Note 10) and 11 February 2015 (Note 11).

Interest rate sensitivity – Group

The sensitivity analysis below has been determined based on the exposure to interest rates on our short term deposits at the reporting date.

If interest rates had been 1 per cent higher/lower and all other variables were held constant, the Group's loss after tax and net assets for the year ended 31 December 2015 would increase/decrease by $52,000 (2014: $51,000). 1 per cent is the sensitivity rate used as it best represents management's assessment of the possible change in interest rates that could apply to the Group.

Foreign currency exposures – Group

The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than the functional currency of the operating company involved. These exposures give rise to the net currency gains and losses recognised in the income statement.

As at 31 December the asset/(liability) foreign currency exposures were:

	2015 $000	2014 $000
US Dollar	**487**	–
Sterling	**(1,735)**	333
Euros	**307**	590
Hungarian Forints	**904**	1,091
Ukrainian Hryvna	**3,320**	(3,064)
Bulgarian Leva	**90**	11
Russian Roubles	**5**	33
Canadian Dollar	**1**	29
Total net	**3,379**	(977)

Foreign currency sensitivity – Group

The Group is mainly exposed to the currency fluctuations of Ukraine (Hryvnia), Russia (Rouble) and UK (Sterling). The sensitivity analysis principally arises on money market deposits and working capital items held at the reporting date.

The following table details the Group's sensitivity to a 10 per cent increase and decrease in the US Dollar against Sterling and 30 per cent against Hryvnia and Rouble, all other variables were held constant. Due to the significant foreign currency fluctuation in Ukraine and Russia 30 per cent has been used to calculate sensitivity for Hryvnia and Rouble. 30 per cent and 10 per cent are the sensitivity rates that best represents management's assessment of the possible change in the foreign exchange rates affecting the Group. A positive number below indicates an increase in profit and equity when the US Dollar weakens against the relevant currency. For a strengthening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Hryvna		Rouble		Sterling	
	2015 $000	2014 $000	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Profit/(loss) for the year and equity						
30 per cent/10 per cent strengthening of the US Dollar	**(766)**	707	**(1)**	(8)	**158**	(30)
30 per cent/10 per cent weakening of the US Dollar	**766**	(707)	**1**	8	**(158)**	30

Commodity risk and sensitivity – Group

The Group's earnings are exposed to the effect of fluctuations in oil, gas and condensate prices and the risks relating to their fluctuation in are discussed on page 46, together with the discussion of financial risk factors. The Group's oil, gas and condensate is sold to local trading companies through market related contracts.

The Group is a price taker and does not enter into commodity hedge agreements unless required for borrowing purposes which may occur from time to time. Therefore no sensitivity analysis has been prepared on the exposure to oil, gas or condensate prices for outstanding monetary items at the 31 December 2015 as there is no impact on any outstanding amounts.

Notes to the consolidated financial statements

16. JKX EMPLOYEE BENEFIT TRUST

In 2013, JKX Employee Benefit Trust was established and acquired 5,000,000 of shares in JKX Oil & Gas plc at a cost of $4.0m for the purpose of making awards under the Group's employee share schemes and these shares have been classified in the statement of financial position as treasury shares within equity.

None of these shares were used in 2015 (2014: nil) to settle share options, therefore at the year end JKX Employee Benefit Trust held 5,000,000 shares in JKX Oil & Gas plc (2014: 5,000,000).

17. SHARE CAPITAL

Equity share capital, denominated in Sterling, was as follows:

	2015 Number	2015 £000	2015 $000	2014 Number	2014 £000	2014 $000
Authorised						
Ordinary shares of 10p each	**300,000,000**	**30,000**	**–**	300,000,000	30,000	–
Allotted, called up and fully paid						
Opening balance at 1 January	**172,125,916**	**17,212**	**26,666**	172,125,916	17,212	26,666
Exercise of share options	**–**	**–**	**–**	–	–	–
Closing balance at 31 December	**172,125,916**	**17,212**	**26,666**	172,125,916	17,212	26,666
Of which the following are shares held in treasury:						
Treasury shares held at 1 January and 31 December	**402,771**	**40**	**77**	402,771	40	77

The Company did not purchase any treasury shares during 2015 (2014: none) and no treasury shares were used in 2015 (2014: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2015 the market value of the treasury shares held was $0.2m (2014: $0.1m).

18. OTHER RESERVES

	Merger reserve $000	Capital redemption reserve $000	Foreign currency translation reserve $000	Total $000
At 1 January 2014	30,680	587	(54,208)	(22,941)
Exchange differences arising on translation of overseas operations	–	–	(130,327)	(130,327)
At 31 December 2014	30,680	587	(184,535)	(153,268)
At 1 January 2015	30,680	587	(184,535)	(153,268)
Exchange differences arising on translation of overseas operations	–	–	(26,277)	(26,277)
At 31 December 2015	**30,680**	**587**	**(210,812)**	**(179,545)**

Merger reserve was created on 30 May 1995 when JKX Oil & Gas plc acquired the issued share capital of JP Kenny Exploration & Production Limited for the issue of ordinary shares and represents the difference between the fair value of consideration given for the shares and the nominal value of those instruments.

Capital redemption reserve relates to the buy-back of shares in 2002, there have been no additional share buy-backs since this time.

Foreign currency translation reserve includes movements that relate to the retranslation of the subsidiaries whose functional currencies are not the US Dollar.

During 2015, the Russian Rouble ('RR') devalued by approximately 23% (2014: 72%) from RR56.26/$ to RR72.88/$ (2014: RR32.72/$ to RR56.26). A significant portion of the currency translation differences of US$26.3m (2014: US$130.2m) included in the Consolidated statement of comprehensive income arose on the translation of property, plant and equipment denominated in RR (see Note 5 (a)).

19. PROVISIONS

Current provisions	2015 $000	2014 $000
Ukrainian production based taxes ('Rental Fees')	**10,854**	–

Exceptional production based taxes

The provision, which has been recognised as a charge in the 2015 Consolidated income statement, is in respect of a claim against PPC for additional Rental Fees for the period from August to December 2010. The claim is being contested in the Ukrainian courts (see Note 27). The amount is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the 2015 year end rate of UAH24.0/$. The provision is based on the total value of the claim plus interest and penalties. The Board believes that the claim is without merit under Ukrainian law and the Company will continue to contest it vigorously.

Contingent liabilities

Other contingent liabilities in respect of Ukrainian production taxes are explained in Note 27.

Non-current provisions

Provision for site restoration	Ukraine 2015 $000	Russia 2015 $000	Hungary 2015 $000	Total 2015 $000
At 1 January	1,515	1,854	619	**3,988**
Foreign exchange adjustment	–	(417)	(39)	**(456)**
Wells restored	(182)	–	–	**(182)**
Revision in estimates	–	225	–	**225**
Unwinding of discount (Note 22)	144	416	–	**560**
At 31 December	1,477	2,078	580	**4,135**

The provision in respect of Ukraine represents the present value of the well and site restoration costs that are expected to be incurred up to 2034 (2014: 2034). The Russia provision results from the decommissioning of 12 wells (2014:12) and removal of plant as required by the license obligation. Decommissioning is due to take place from 2016 to 2048 (2014: 2015 to 2048). The provisions are made using the Group's internal estimates that management believe form a reasonable basis for the expected future costs of decommissioning.

20. COST OF SALES

	2015 $000	2014 $000
Operating costs	**24,449**	31,466
Depreciation, depletion and amortisation	**26,068**	32,381
Other production based taxes	**26,255**	45,519
	76,772	109,366
Exceptional item – production based taxes	**10,854**	–
Exceptional item - provision for impairment of oil and gas assets (Note 5)	**51,055**	69,062
Exceptional Item – well control operations (Note 5 (a))	**–**	3,471
	138,681	181,899

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2015 was $76.7m (2014: $109.3m).

Notes to the consolidated financial statements

21. FINANCE INCOME

	2015 $000	2014 $000
Interest income on deposits	**1,248**	634
Interest income from government treasury bills	**41**	323
Other	**–**	137
	1,289	1,094

22. FINANCE COSTS

	2015 $000	2014 $000
Bank interest payable	**25**	145
Borrowing costs	**5,915**	5,938
Unwinding of discount on site restoration (Note 19)	**560**	139
	6,500	6,222
Less: finance costs capitalised at 18.0% (2014: 18.0%*)	**–**	(3,025)
	6,500	3,197

* No interest has been capitalized in 2015. Tax relief on capitalised interest in 2014 is $0.7m.

23. LOSS FROM OPERATIONS – ANALYSIS OF COSTS BY NATURE

Loss from operations derives solely from continuing operations and is stated after charging the following:

	2015 $000	2014 $000
Depreciation – other assets	**1,440**	1,984
Depreciation, depletion and amortisation – oil and gas assets	**26,151**	32,406
Staff costs (net of $0.2m (2013: $0.5m) capitalised, Note 25)	**18,537**	21,995
Foreign exchange loss	**4,919**	5,673
Operating lease payments:		
– property lease rentals	**877**	1,101
– plant and equipment	**1,402**	1,560

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors as detailed below:

Company auditors' remuneration	2015 $000	2014 $000
Audit of the parent company and consolidated financial statements	**278**	284
Fees payable to company's auditors for other services:		
– Audit of the Company's subsidiaries	**173**	176
– Audit related assurance services	**110**	112
– Other non-audit services	**2**	5
	563	577

Exceptional item – legal costs

As disclosed on page 13 of the 2015 Annual Report, the Company has been involved in Court proceedings since July 2013 with two shareholders.

The shareholders appealed to the Supreme Court contesting the Appeal Court ruling made in May 2014 in favour of the Company. In December 2015 the Supreme Court overturned the Appeal Court ruling and therefore the Company is required to settle the appropriate portion of the legal expenses incurred by the two shareholders during the process. The amount recognised in the income statement and accruals is an estimate of their legal costs that the Company will be required to pay when the legal process is complete.

24. OBLIGATIONS UNDER LEASES

At the reporting date, the Group's aggregate future minimum commitments under non-cancellable operating leases are as follows:

	2015 $000	2014 $000
Within one year	**607**	811
In the second to fifth years inclusive	**2,038**	2,116
After five years	**425**	970
	3,070	3,897

Operating lease primarily relate to rentals payable by the Group for certain of its office premises and staff accommodation.

25. STAFF COSTS

	2015 $000	2014 $000
Wages and salaries	**15,361**	19,193
UK social security costs	**1,092**	352
Other pension costs	**1,626**	2,665
Share based payments (equity-settled) (Note 26)	**658**	285
	18,737	22,495

Staff costs are shown gross and $0.2m (2014: $0.5m) was capitalised, representing time spent on exploration and development activities.

During the year, the average monthly number of employees was:

	2015	2014
Management/operational	**709**	847
Administration support	**55**	60
	764	907

Included within management/operational are 4 (2014: 4) Directors on service contracts. Further details of the Directors and their remuneration are included on pages 84 to 99 which form part of these financial statements.

26. SHARE-BASED PAYMENTS

Share options

Share options are granted to Executive Directors and senior management based on performance criteria. The scheme rules are described in the Directors' Remuneration Report and repeated below. All share-based payments are equity settled.

At 31 December 2015, there were outstanding options under various employee share option schemes, exercisable during the years 2016 to 2025 (2014: 2015 to 2024), to acquire 12,740,100 (2014: 10,854,700) shares of the Company at prices ranging from £0.00 to £3.15 per share (2014: £0.00 to £3.15). The vesting period for 12,740,100 (2014: 10,854,700) of the share options is 3 years, with an exercise period of 7 years making a 10 year maximum term.

Notes to the consolidated financial statements

26. SHARE-BASED PAYMENTS (continued)

The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movements in, share options during the year.

	2015 Number	2015 WAEP	2014 Number	2014 WAEP
Outstanding as at 1 January	**10,854,700**	**45.75p**	6,549,300	65.12p
Granted during the year	**3,845,900**	**27.10p**	4,974,700	37.99p
Lapsed during the year	**(1,960,500)**	**68.85p**	(669,300)	177.48p
Outstanding at 31 December	**12,740,100**	**28.39p**	10,854,700	45.75p
Exercisable at 31 December	**–**	**–**	158,000	151.50p

For the share options outstanding as at 31 December 2015, the weighted average remaining contractual life is 8.3 years (2014: 8.5 years).

During the year share options were granted in accordance with the Performance Share Plan ('PSP'), which was introduced in 2010. In addition, in 2014, share options were granted in accordance with the Discretionary Share Option Scheme ('DSOS'). These schemes reflect the best practice aspects recommended by the Association of British Insurers following the publication of their guidelines in March 2001 (the 'ABI Guidelines').

Lapsing of Directors share options in 2016

On 28 January 2016, following a General Meeting of the Company, the service contracts of the four Executive Directors were terminated with immediate effect. Prior to the General Meeting, the Board in place at that time approved and made payments of £460,800 to forfeit 9,460,000 unexpired share options, which are included in the table above, and shares deferred under the 2014 bonus arrangements for Executive Directors (see page 98).

2014 Share Option Schemes

DSOS

The DSOS is made up of two parts. Options to acquire ordinary shares in the Company granted under Part A are 'Approved Options' and options to acquire Shares granted under Part B of the DSOS are 'Unapproved Options'. No consideration shall be payable for the grant of an Option.

No options were granted under the DSOS in 2015 (2014: 3,162,900). The weighted average exercise price of options granted under DSOS is nil (2014: 59.75p). For these options to vest there has to be an increase in the Group's Earnings Per Share ('EPS') growth over the performance period measured over the 3 consecutive calendar years commencing from the date the options were granted. The weighted average fair value of options granted during the year under the DSOS was nil per option (2014: 24.01p).

PSP

PSP are granted to Executive Directors and senior management. Executive Directors and senior management receive awards under the 2010 Performance Share Plan in the form of nil cost options. No consideration is required to be paid for the grant or exercise of an Option.

3,845,900 (2014: 1,811,800) options were granted under PSP in 2015. The PSP options provide a conditional right to acquire shares at nil cost subject to the satisfaction of the performance conditions and continued employment with the Group. For these options to vest a comparison is performed between the Group's TSR against the FTSE Fledgling index (half the options) (2014: FTSE SmallCap index)and the All-Share Oil & Gas Producers index (other half of options). The weighted average fair value of options granted during the year under the PSP was 10.35p per option (2014: 26.00p).

Fair value of share options granted

The fair value of options granted under the DSOS is estimated as at the date of grant using a variance of the Binomial model, taking into account terms and conditions upon which the options are granted, which includes the performance condition related to the Company's earnings per share directly. No dividends are paid on shares under the scheme prior to exercise.

The fair value of options granted under the PSP is estimated as at the date of grant using a variant of the Monte Carlo model, taking into account the terms and conditions upon which the options are granted, which includes the performance condition related to the TSR directly. No dividends are paid on shares under the scheme prior to exercise.

The total share based payment charge for the year was $0.7m (2014: $0.3m).

The following table lists the inputs to the model used for the options granted in the years ended 31 December 2015 and 31 December 2014. The expected future volatility has been determined by reference to the historical volatility.

	2015 PSP	2014 PSP	2014 DSOS
Dividend yield	**0.0%**	0.0%	0.0%
Expected share price volatility	**82%**	44%	43%
Risk free interest rate	**0.6%**	1.2%	1.5%
Exercise price	**0.0p**	0.0p	59.75p
Expected life of option (years)	**3.0**	3.0	3.9
Weighted average share price	**33.5p**	26.0p	24.1p

Bonus scheme

The full details of the bonus performance criteria for Directors and senior employees and the bonus earned is explained in the Remuneration Report on pages 84 to 99.

27. TAXATION

Analysis of tax on loss	2015 $000	2014 $000
Current tax		
UK – current tax	**–**	(1,400)
Overseas – current year	**4,827**	10,911
Current tax total	**4,827**	9,511
Deferred tax		
Overseas – current year	**(6,074)**	16,309
Deferred tax total	**(6,074)**	16,309
Total taxation	**(1,247)**	25,820

Factors that affect the total tax charge

The total tax credit for the year of $1.2m (2014: $25.8m) is higher (2014: higher) than the average rate of UK corporation tax of 20.25% (2014: 21.50%). The differences are explained below:

Total tax reconciliation	2015 $000	2014 $000
Loss before tax	**(82,710)**	(53,711)
Tax calculated at 20.25% (2014: 21.50%)	**(16,749)**	(11,548)
Net change in unrecognised losses carried forward	**5,341**	38,456
Permanent foreign exchange differences	**10,769**	(4,629)
Effect of tax rates in foreign jurisdictions	**(256)**	(811)
Other non-deductible expenses	**1,839**	3,420
Recognition of previously unrecognised tax losses	**(2,191)**	(949)
Total excluding impact of change in tax rates, tax losses of prior year not previously recognised and impairment and write down of fixed assets	**(1,247)**	24,025
Effect of changes in tax rates	**–**	1,747
Impairment of oil and gas assets/write off of exploration costs	**–**	48
Total tax charge	**(1,247)**	25,820

The current tax charged in the year of $4.8m relates to Ukrainian corporation tax and foreign exchange losses on local prepaid tax which has arisen in the Group subsidiary, Poltava Petroleum Company. Taxes charged on production of hydrocarbons in Ukraine and Hungary are included in cost of sales (Note 20). The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 20.25%.

Notes to the consolidated financial statements

27. TAXATION (continued)

Factors that may affect future tax charges

A significant proportion of the Group's income will be generated overseas. Profits made overseas will not be able to be offset by costs elsewhere in the Group. This could lead to a higher than expected tax rate for the Group.

The UK corporation tax rate changes announced in the July 2015 Budget include reductions to the main rate of UK corporation tax to 19% in 2017. The March 2016 Budget included a reduction in the main rate of UK corporation tax to 17% in 2020, which has not been substantively enacted. The impact of the rate reduction is not expected to have a material impact on provided and unprovided UK current or deferred taxation.

The corporation tax rate in Ukraine for 2015 was 18% (2014: 18%).

Taxation in Ukraine – production taxes

Since Poltava Petroleum Company's ('PPC's') inception in 1994 the Company has operated in a regime where conflicting laws have existed, including in relation to effective taxes on oil and gas production.

In order to avoid any confusion over the level of taxes due, in 1994, PPC entered into a licence agreement with the Ukrainian State Committee on Geology and the Utilisation of Mineral Resources ('the Licence Agreement') which set out expressly in the Licence Agreement that PPC would pay royalties on production at a rate of only 5.5% even in the event that existing tax rates were amended or new taxes introduced so as to adversely affect the economic benefit to be derived by PPC or the Company.

Pursuant to the Licence Agreement, PPC was granted an exploration licence and four 20-year production licences, each in respect of a particular field. In 2004, PPC's production licences were renewed and extended until 2024. New licence agreements were also signed to reflect this change and PPC's operations continued as before.

The Company and PPC have continued to invest in Ukraine on the basis that PPC would pay royalties on production at a rate of only 5.5%.

In December 1994, a new fee on the production of gas (known as a 'Rental Payment' or 'Rental Fee') was introduced in Ukrainian law. On 30 December 1995, PPC was issued a letter by the Ministry of Economy, the Ministry of Finance and the State Committee for the Oil and Gas Industry ('the Exemption Letter'), which established a zero rent payment rate for oil and natural gas produced in Ukraine by PPC. Based on the Exemption Letter PPC did not expect to pay any Rental Fees.

Rental Fees paid since 2011

In 2011, new laws were enacted which established new mechanisms for the determination of the Rental Fee. Notwithstanding the Exemption Letter, in January 2011 PPC began to pay the Rental Fee in order to avoid further issues with the Ukrainian authorities but without prejudice to its right to challenge the validity of the demands.

Since 2011, the Rental Fees paid by PPC have amounted to more than $180m. These charges have been recorded in cost of sales in each of the accounting periods to which they relate.

International arbitration proceedings

In 2015, the Company and its wholly-owned Ukrainian and Dutch subsidiaries commenced arbitration proceedings against Ukraine under the Energy Charter Treaty, the bilateral investment treaties between Ukraine and the United Kingdom and the Netherlands, respectively. In these proceedings, the Company is seeking a repayment of more than $180m in Rental Fees that PPC has paid on production of oil and gas in Ukraine since 2011, in addition to damages to the business.

During 2015 Rental Fees in Ukraine were increased to 55% and capital control restrictions were introduced. On 14 January 2015, an Emergency Arbitrator issued an award ordering Ukraine to cease imposing Rental Fees in excess of 28% on gas produced by PPC, pending the outcome of the application to a full tribunal for the Interim Award. On 23 July 2015 an international arbitration tribunal issued an Interim Award requiring the Government of Ukraine to limit the collection of Rental Fees on gas produced by PPC to a rate of 28%.

The Interim Award was to remain in effect until final judgement is rendered on the main arbitration case, which is expected to be heard in July 2016.

Rental Fee demands

The Group currently has three claims for additional Rental Fees being contested through the Ukrainian court process. These arise from disputes over the amount of Rental Fees paid by PPC for certain periods since 2007, which in total amount to approximately $41 million (including interest and penalties and translated at the 2015 year end rate of UAH24.0/$), as noted below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the 2015 year end rate of UAH24.0/$. The Board believes that these claims are without merit under Ukrainian law and the Company will continue to contest them vigorously.

- January – March 2007: approximately $6 million (including $3 million of interest and penalties). The statutory term for the tax authorities to claim payments in respect of the 2007 financial year has lapsed however in February 2013 PPC lost a legal challenge to the legitimacy of these payments. In July 2013, PPC appealed the decision to the Kharkov Court of Appeal. PPC won this case on the basis of a 1,095 day statute of limitation for collection having passed under Ukrainian legislation. The Poltava tax office then filed an appeal in the High Administrative Court of Ukraine. At a hearing on 24 February 2016, the High Administration Court of Ukraine ruled in favour of PPC although the tax authorities may choose to appeal to the Supreme Court of Ukraine. No provision has been made in respect of this claim.
- August – December 2010: approximately $10.9 million (including $4 million of interest and penalties). On 11 March 2014 PPC won the case in the Poltava Court. The tax office appealed and the Kharkov Court of Appeal reversed the earlier decision. PPC then filed an appeal in the High Administrative Court of Ukraine. This hearing commenced on 3 February 2016 but was deferred until 2 March 2016 when the court ruled against PPC. The Board intends to continue to pursue a successful decision in this case.
- January – December 2015: approximately $24 million (including $9 million of interest and penalties). Following the commencement of international arbitration proceedings at the beginning of 2015 (see above), from July 2015 PPC reverted to paying a 28% Rental Fee for gas production (instead of the revised official rate of 55%) as a result of the awards granted under the arbitration. PPC also declared part of its Rental Fee payments at 55% for the first 6 months of 2015 as overpayments and consequently stopped paying the Rental Fee for gas in order to align the total payments made in 2015 with the 28% rate awarded made under the arbitration proceedings. The Ukrainian tax authorities have issued PPC with claims for the difference between 28% and 55% for the first, second and third quarters of 2015 and we anticipate receiving a claim for the fourth quarter shortly.

As part of these proceedings, property, plant and equipment that cost UAH158m (approximately $6.6m at the period end rate of UAH24.0/$1) was required to be pledged as security against the non-settlement of any claims that may arise in the event that the Ukrainian authorities are successful. The net book value of the property, plant and equipment is $22.0m based on the historical exchange rates at the dates of acquisition which were between UAH5/$1 and UAH8/$1.

A provision for $10.9m has been made in respect of the claim for the period from August-December 2010 (see Note 19). No provision has been made for the possible future liabilities that may result from the tax uncertainties in respect of the claims for periods from January-March 2007 and from January-December 2015.

No adjustment has been made to recognise any possible future benefit to the Company that may result from the international arbitration proceedings.

28. DEFERRED TAX

	Assets		Liabilities		Net	
Provided deferred taxation – net	**2015 $000**	2014 $000	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Fixed asset differences	**8,250**	13,090	**(14,347)**	(25,214)	**(6,097)**	(12,124)
Other temporary differences	**5,162**	7,958	**(603)**	–	**4,559**	7,958
Tax losses	**2,191**	–	**–**	–	**2,191**	–
Net deferred tax (liability)/asset recognised	**15,603**	21,048	**(14,950)**	(25,214)	**653**	(4,166)

A deferred tax liability of $14.3m (2014: $21.9m) arises in respect of PPC's activities and $0.6m (2014: $3.3m) in respect of YGE's activities.

No deferred tax asset (2014: $nil) has been recognised in respect of brought forward UK losses. A deferred tax asset has of $2.2m been recognised in respect of Yuzhgaznergie LLC (2014: nil) in respect of Russian tax losses as sufficient future taxable profits are forecast against which these losses can be utilised before they expire. Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit in the year in which the change occurs.

Notes to the consolidated financial statements

28. DEFERRED TAX (continued)

Movement on the deferred tax account in 2015	1 January 2015 $000	Exchange differences $000	(Charge)/credit in the year $000	**31 December 2015 $000**
Deferred tax liabilities				
Fixed assets differences	(12,124)	1,672	4,355	**(6,097)**
Deferred tax assets				
Other temporary differences	7,958	(2,615)	(784)	**4,559**
Net change in recognised losses carried forward	–	(312)	2,503	**2,191**
	7,958	(2,927)	1,719	**6,750**
Net deferred tax movement	(4,166)	(1,255)	6,074	**653**

Movement on the deferred tax account in 2014	1 January 2014 $000	Exchange differences $000	(Charge)/credit in the year $000	31 December 2014 $000
Deferred tax liabilities				
Fixed assets differences	(17,380)	5,253	3	(12,124)
Deferred tax assets				
Other temporary differences	3,347	(1,012)	5,623	7,958
Net change in recognised losses carried forward	31,436	(9,501)	(21,935)	–
	34,783	(10,513)	(16,312)	7,958
Net deferred tax movement	17,403	(5,260)	(16,309)	(4,166)

The deferred tax assets in respect of Russian and Ukrainian corporation tax have been recognised with due consideration of the tax rate effective on the expected unwinding of those temporary differences.

Unprovided deferred taxation	**2015 $000**	2014 $000
Tax losses	**(42,235)**	(43,209)
Fixed asset differences	**(5,225)**	(3,012)
Other temporary differences	**(155)**	(100)
	(47,615)	(46,321)

$122.1m (2014: $124.8m) of the tax losses will expire principally between 2017 and 2025 (2014: 2017 and 2024). The deductible temporary differences do not expire under current tax legislation.

Deferred tax assets have not been recognised in respect of the unprovided deferred taxation items because it is not probable that future taxable profit will be available to utilise these deductible temporary differences.

29. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the parent is based on the weighted average number of shares in issue during the year of 172,125,916 (2014: 172,125,916) and the loss for the relevant year.

Loss before exceptional item in 2015 of $25,772,141 (2014 loss: $21,959,036) is calculated from the 2015 loss of $81,463,000 (2014: $79,531,000) and adding back exceptional items of $64,896,496 (2014: 72,532,964) less the related deferred tax on the exceptional items of $9,205,637 (2014: $14,961,000).

The diluted earnings per share for the year is based on 172,125,916 (2014: 172,125,916) ordinary shares calculated as follows:

Loss	**2015 $000**	2014 $000
Loss for the purpose of basic and diluted earnings per share (profit for the year attributable to the owners of the parent):		
Before exceptional item	**(25,772)**	(21,959)
After exceptional item	**(81,463)**	(79,531)

Number of shares	**2015**	2014
Basic weighted average number of shares	**172,125,916**	172,125,916
Dilutive potential ordinary shares:		
Share options	**–**	–
Weighted average number of shares for diluted earnings per share	**172,125,916**	172,125,916

In accordance with IAS 33 (Earnings per share) the effects of antidilutive potential have not been included when calculating dilutive loss per share for the year end 31 December 2015 (2014: nil). 29,849,048 (2014: 33,165,609) potentially dilutive ordinary shares associated with the convertible bonds (Note 13) have been excluded as they are antidilutive in 2015, however they could be dilutive in future periods.

There were 12,740,100 (2014: 10,854,700) outstanding share options at 31 December 2015, of which 7,141,100 (2014: 3,637,200) had a potentially dilutive effect. All of the Group's equity derivatives were anti-dilutive for the year ended 31 December 2015.

30. DIVIDENDS

No interim dividend was paid for 2015 (2014: nil). In respect of the full year 2015, the directors do not propose a final dividend (2014: no final dividend paid).

31. RECONCILIATION OF PROFIT FROM OPERATIONS TO NET CASH INFLOW FROM OPERATIONS

	2015 $000	2014 $000
Loss from operations	**(75,578)**	(60,902)
Depreciation, depletion and amortisation	**27,591**	34,390
Loss on disposal of fixed assets	**122**	–
Impairment of property, plant and equipment/intangible assets	**51,055**	69,062
Share-based payment costs	**658**	285
Cash generated from operations before changes in working capital	**3,848**	42,835
(Increase)/decrease in operating trade and other receivables	**(4,157)**	20,836
Increase/(decrease) in operating trade and other payables	**1,977**	(8,182)
Exceptional item – increase in provision for production based taxes	**10,854**	**–**
Decrease in inventories	**275**	2,922
Cash generated from operations	**12,797**	58,411

32. CAPITAL COMMITMENTS

Under the work programmes for the Group's exploration and development licenses the Group had committed $1.3m to future capital expenditure on drilling rigs and facilities at 31 December 2015 (2014: $8.0m).

Notes to the consolidated financial statements

33. RELATED PARTY TRANSACTIONS

The transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Amounts owed by and to joint ventures are disclosed in Note 36.

Key management personnel are considered to comprise only the Directors. The remuneration of Directors during the year was as follows:

	2015 $000	2014 $000
Short-term employee benefits	**3,671**	3,116[1]
Post-employment benefits	**231**	271
Share-based payments	**508**	295
	4,410	3,682

[1] Restated from prior year to replace the value of the bonus in respect of 2014, which was paid in cash in January 2016 at $0.552m. In the prior year financial statements $0.819m had been included in the above amount which reflected the value of the 2014 bonus at the time, which was expected to be deferred into shares.

Further information about the remuneration of individual Directors, together with the Directors' interests in the share capital of JKX Oil & Gas plc, is provided in the audited part of the Remuneration Report on pages 84 to 99 and in the Directors Report on pages 101 and 102.

Share-based payments represents the expenses arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant (Note 26).

Subsidiary undertakings and joint operations

The Company's principal subsidiary undertakings including the name, country of incorporation and proportion of ownership interest for each are disclosed in Note B to the Company's separate financial statements which follow these consolidated financial statements. Transactions between subsidiaries and between the Company and its subsidiaries are eliminated on consolidation. Folyópart Energia Kft (previously HHE North Kft), a Hungarian registered company, is the only entity where the Group recognised its share of assets and liabilities up to the point of acquisition on 20 November 2014; refer to Note 36 for further details.

34. AUDIT EXEMPTIONS FOR SUBSIDIARY COMPANIES

The Group has elected to take advantage of the full extent of the exemptions available under Section 479A of the Companies Act 2006. As a result, statutory financial statements will not be audited for the following UK entities: JKX Services Limited, JKX Bulgaria Limited, JKX Georgia Ltd, JKX Turkey Ltd, JKX (Ukraine) Ltd, Baltic Energy Trading Ltd, EuroDril Limited, JP Kenny Exploration & Production Limited, Page Gas Ltd, Trans-European Energy Services Limited, JKX Limited, JKX (Middle East) Limited.

35. BUSINESS COMBINATIONS

On 20 November 2014, the Group acquired the remaining 50% of the share capital of HHE North Kft ('HHN'), a Hungarian registered company in exchange for 25% of share in Sarkad Licence. Following the acquisition the Hungarian company changed its name to Folyópart Energia Kft ('FEN'). The Group owns100% of the equity share capital of FEN.

The following table summarises the consideration paid for HHN, the fair value of assets acquired, liabilities assumed at the acquisition date.

	$000
Purchase consideration at 20 November:	
Fair value of 25% interest in the Sarkad licence	4,626
Purchase consideration to be settled in cash	272
Cash acquired	(721)
Fair value of existing interest at acquisition date	4,178
Total purchase consideration	**8,355**
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	8,999
Restricted cash	556
Trade and other receivables	448
Trade and other payables	(1,181)
Long-term liabilities – decommissioning provision	(467)
Total identifiable net assets acquired	**8,355**
Gain on stepped acquisition:	
Book value of existing 50% working interest	3,956
Fair value of existing 50% working interest[1]	4,178
Gain on stepped acquisition recognised	**222**

[1] The fair value of existing working interest is calculated based upon the consideration for the outstanding ordinary shares excluding amounts attributed to the acquisition of non-controlling interests.

As a result of the acquisition, the 50% previously held equity interest in HHN was required to be re-measured at fair value as at the acquisition date (IFRS 3), resulting in a gain of $0.2m. This gain has been included within the net gain arising from business combinations line in the consolidated income statement for the year ended 31 December 2014.

Acquisition-related costs of $0.4m have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2014.

No revenue contributed by HHN has been included in the consolidated income statement since 20 November 2014. HHN also contributed a loss of $0.9m over the same period. Had HHN been consolidated from 1 January 2014, the consolidated statement of comprehensive income would have included revenue of $0.01m and a loss of $1.9m.

36. JOINT ARRANGEMENTS

HHN was set up for the purpose of holding the Hernad I and Hernad II Licences. On 20 November 2014 the Company increased its holding in HHN from 50% to 100% (see Note 35) taking full control and therefore HHN has been consolidated from that date.

The following amounts represent that share of the revenue and expenses of HHN to the period ending 20 November 2014:

	Period to 20 November 2014 $000
Revenue	14
Expenses	(863)
Loss after tax	(849)

Notes to the consolidated financial statements

37. EVENTS AFTER THE REPORTING DATE

JKX Board replaced

On 28 January 2016, Cynthia Dubin, Dipesh Shah, Richard Murray and Alastair Ferguson resigned as directors of the Company, Nigel Moore, Paul Davies, Peter Dixon, Martin Miller and Lord Oxford were removed as directors at a General Meeting on the same day. At the same meeting Paul Ostling, Tom Reed, Russell Hoare, Vladimir Rusinov and Vladimir Tatarchuk were appointed as directors of the Company.

The resignation of all independent Non Executive Directors meant that, since that date, the composition of the Board has not complied with UK Corporate Governance Code ('the Code') in respect of the number of independent Non Executive Directors. The Company is in the final phase of appointing two new independent Non Executive Directors.

Board severance payments

Prior to the General Meeting on 28 January 2016, the previous board approved and paid themselves $2.2 million of severance costs and additional remuneration. In addition the Company incurred $0.3 million of related social security costs.

National Bank of Ukraine ('NBU') strengthens its currency control restrictions

Temporary capital controls established by the NBU on 1 December 2014 remain in place in an attempt by the Ukrainian government to safeguard the economy and protect foreign exchange reserves in the short term (see Note 15).

On 5 March 2016, these restrictions were extended until 8 June 2016.

Further award of production licences in Hungary

In January 2016, the Company's wholly owned Hungarian subsidiary, Folyópart Energia Kft (previously HHE North Kft), was granted a further three 35-year production licences (mining plots) covering an additional area of approximately 124 sq km within its original Hernad I & II exploration licence areas.

Independent Auditors' Report to the members of JKX Oil & Gas plc

Report on the company financial statements

Our opinion

In our opinion, JKX Oil & Gas plc's company financial statements (the 'financial statements'):

- give a true and fair view of the state of the company's affairs as at 31 December 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note A to the financial statements concerning the Group's ability to continue as a going concern. A number of potential conditions exist that may impact this assumption: (i) gas and/or oil net realisations remain at current levels for the foreseeable future or deteriorate materially (ii) the full $30.1 million obligation pursuant to the $40 million Convertible Bond becomes payable in February 2017 (iii) the Group becomes liable for additional Rental Fees in Ukraine as a result of unfavourable outcomes in one or more of the ongoing court proceedings and (iv) the Group's Ukrainian subsoil permits are suspended by the State Geology and Mineral Resources Survey of Ukraine. These conditions, along with the other matters explained in Note A to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Company statement of financial position as at 31 December 2015;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, 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.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the members of JKX Oil & Gas plc

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 103, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of JKX Oil & Gas plc for the year ended 31 December 2015. That report includes an emphasis of matter.

Alison Baker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 March 2016

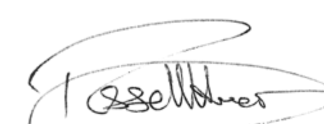
Company financial statements

Company statement of financial position

as at 31 December

	Note	2015 $000	2014 $000
FIXED ASSETS			
Property, plant and equipment		**–**	67
Investments	B	**8,242**	8,269
		8,242	8,336
CURRENT ASSETS			
Trade and other receivables – amounts falling due within one year	C	**53,875**	58,289
Trade and other receivables – amounts falling due after more than one year	C	**263,237**	368,519
Cash and cash equivalents	E	**12,515**	11,649
		329,627	438,457
Creditors – amounts falling due within one year	F	**(129,638)**	(115,881)
		199,989	322,576
Total assets less current liabilities		**208,231**	330,912
Amounts falling due after more than one year			
Derivatives	F	**(2,171)**	(1,037)
Creditors – amounts falling due after more than one year	F	**(31,794)**	(39,140)
Net assets		**174,266**	290,735
CAPITAL AND RESERVES			
Share capital	G	**26,666**	26,666
Share premium		**97,476**	97,476
Other reserves	G	**(503)**	(503)
Retained earnings		**50,627**	167,096
Total shareholders' funds		**174,266**	290,735

These financial statements on pages 157 to 169 were approved by the Board of Directors on 18 March 2016 and signed on its behalf by:



Tom Reed Director

Russell Hoare Director

Company financial statements

Company statement of changes in equity

	Share capital $000	Share premium $000	Retained earnings $000	Other reserves $000	Total equity $000
At 1 January 2014	26,666	97,476	336,646	(503)	460,285
Loss for the year	–	–	(169,835)	–	(169,835)
Total comprehensive loss for the year	–	–	(169,835)	–	(169,835)
Share option charge	–	–	285	–	285
Total transactions with equity shareholders	–	–	285	–	285
At 31 December 2014	26,666	97,476	167,096	(503)	290,735
At 1 January 2015	26,666	97,476	167,096	(503)	290,735
Loss for the financial year	–	–	(117,127)	–	(117,127)
Total comprehensive loss for the year	–	–	(117,127)	–	(117,127)
Share option charge	–	–	658	–	658
Total transactions with equity shareholders	–	–	658	–	658
At 31 December 2015	26,666	97,476	50,627	(503)	174,266

Notes to the Company financial statements

A. PRESENTATION OF THE FINANCIAL STATEMENTS

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified for financial assets and financial liabilities (including derivative instruments) at fair value through income statement, and in accordance with the Companies Act 2006.

Please refer to Director's report on page 100 for information on Company's domicile, legal form, country of incorporation, description of the nature of the entity's operations and business activities.

Going concern

The majority of the Group's revenues, profits and cash flow from operations are currently derived from its oil and gas production in Ukraine, rather than Russia.

Throughout 2015 the decline in international oil and gas prices has significantly lowered oil and gas net realisations from JKX's Ukrainian operations. The prolonged period of low international oil and gas prices has continued in 2016, further adversely affecting the financial results of the Group.

The Company may have an obligation of $30.1 million (consisting of $26 million principal, $1 million interest and a redemption premium of $3.1 million) which may become payable pursuant to its $40 million Convertible Bond in February 2017, if Bondholders exercise their put option at that time, or $31.1 million in February 2018 if the Bond expires at its full term (see Notes 13 and 14 to the consolidated financial statements).

The Company's Ukrainian subsidiary, Poltava Petroleum Company ('PPC') has three contingent liabilities arising from separate court proceedings over the amount of production taxes ('Rental Fees') paid in Ukraine for certain periods since 2007, which in total amount to approximately $41 million (including interest and penalties, see Note 27 to the consolidated financial statements). The Board believes that these claims are without merit under Ukrainian law and will continue to contest them vigorously.

In addition, the Company continues to pursue a final award under its arbitration claim against Ukraine for the overpayment of more than $180 million of Rental Fees, in addition to damages to the business (see Note 27 to the consolidated financial statements). This international arbitration is expected to be heard in July 2016.

Following action initiated in late 2015, in January 2016, the State Geology and Mineral Resources Survey of Ukraine suspended four subsoil use permits owned by PPC, initially with effect from 1 February 2016, but then with an extension period until 1 March 2016. The authority gave a list of actions that were required in order to avoid suspension (including a change to the minimum production requirements under the licences) and would normally have given the operator sufficient time to remedy the failings. Instead PPC were given only one month to do so. Through further discussion with the relevant authority, PPC has been given more time to comply and hearings regarding the status of the licenses are planned for March 2016, at which the Board and PPC is confident of a positive outcome.

The Directors have concluded that it is necessary to draw attention to the material uncertainties relating to the risks that (i) gas and/or oil net realisations remain at current levels for the foreseeable future or deteriorate materially (ii) the full $30.1 million obligation pursuant to the $40 million Convertible Bond becomes payable in February 2017 (iii) the Group becomes liable for additional Rental Fees in Ukraine as a result of unfavourable outcomes in one or more of the ongoing court proceedings and (iv) the Group's Ukrainian subsoil permits are suspended by the State Geology and Mineral Resources Survey of Ukraine. It is unclear whether any or all of these risks will be realised. These specific risks, which represent material uncertainties, may cast significant doubt about the Group's ability to meet its obligations as they fall due and continue as a going concern.

However the Directors believe that there is a reasonable basis to mitigate the effects of such eventualities through further operational and cash management measures and other restructuring and/or refinancing options which are currently being assessed.

Based on the Group's cash flow forecasts, the Directors believe that the combination of its current cash balances, expected future production and resulting net cash flows from operations, the implemented cost reductions as well as the availability of additional courses of action should the need arise, mean that it is appropriate to continue to adopt the going concern basis of accounting in preparing these financial statements. These financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Transition to FRS 101

The Company is preparing its financial statements in accordance with FRS 101 for the first time and has consequently applied the provisions of IFRS 1 – First time adoption of International Financial Reporting Standards, where applicable. There are no differences to previously reported results arising from GAAP change.

Notes to the Company financial statements

A. PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- Presentation of statement of cash flows;
- The requirements of IFRS 7 'Financial instruments': Disclosure of quantitative and qualitative information regarding risks arising from all financial instruments held by the Company. Equivalent disclosures are included in the Group's consolidated financial statements;
- The requirement of IFRS 13 'Fair Value Measurement' to disclose the valuation techniques and inputs used to develop fair value measurements for assets and liabilities held at fair value. Equivalent disclosures are included in the Group consolidated financial statements;
- Disclosure of related party transactions entered into between two or more members of a group. Equivalent disclosures are included in the Group consolidated financial statements;
- Disclosure of information relating to new standards not yet effective and not yet applied;

Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of property, plant and equipment, less their residual values, over their expected useful lives using the straight line basis as follows:

Fixtures and fittings	– five to ten years
Computer equipment and software	– three years

Investments in subsidiaries

Investments are initially measured at historic cost, including transaction costs, and stated at cost less accumulated impairment losses. The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. Where the carrying amount of an investment exceeds its recoverable amount, the investment is considered impaired and is written down to its recoverable amount.

Foreign currencies

Transactions in foreign currencies are initially recorded at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the statement of financial position date, with a corresponding charge or credit to the income statement. Non-monetary items are measured in terms of historical cost in foreign currency and are translated using the exchange rates of the original transaction.

The presentation and functional currency of the Company is the US Dollar. The US$/£ exchange rate used for the revaluation of the closing statement of financial position at 31 December 2015 was $1/£0.67 (2014: $1/£0.6).

Share based payments

The Company operates a number of equity-settled, share-based compensation plans, under which the Company receives services from Executive Directors and Senior Management as consideration for equity instruments (options) of the Company. The fair value of the services received from Executive Directors and Senior Management in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, the Company's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares or shares held by the JKX Employee Benefit Trust. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the change will be treated as a cash-settled transaction.

The rules regarding the scheme are described in the Remuneration Report on pages 84 to 99 and in Note I on share based payments.

Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from share premium, net of any tax effects. When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from share premium.

Repurchased JKX Oil & Gas plc shares are classified as treasury shares in shareholders' equity and are presented in the reserve for own shares. The consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium. No gain or loss is recognised in the financial statements on the purchase, sale, issue or cancellation of treasury shares.

JKX Employee Benefit Trust

The JKX Employee Benefit Trust was established in 2014 to hold ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme.

The trust has been consolidated in the Group financial statements in accordance with IFRS 10. The cost of shares temporarily held by the trusts are reflected as treasury shares and deducted from equity.

Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Under operating leases, the risks and rewards of ownership are retained by the lessor. The Company has no finance leases.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Derivative financial instruments

The Company accounts for derivative financial instruments in line with IFRS 7 – 'Financial Instruments: Disclosures' and IAS 39 – 'Financial Instruments: Recognition and measurement'.

Any such derivative was initially recorded at fair value on the date at which the contract was entered into and subsequently re-measured at fair value on subsequent reporting dates.

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

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows.

Convertible bonds due 2018

The fair value of the embedded derivative associated with the convertible bond has been calculated at inception and changes in the fair value at each reporting date are recognised in the income statement.

Notes to the Company financial statements

A. PRESENTATION OF THE FINANCIAL STATEMENTS (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash. Cash is short-term with an original maturity of less than 3 months, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash
Restricted cash is disclosed separately in the notes and denoted as restricted when it is not under the exclusive control of the Company.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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. Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity or in other comprehensive income, in which case the tax is also dealt with in equity or other comprehensive income respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and laws substantively enacted by the reporting date. Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets

a) Derivatives (Note F)
Under the terms of the placing of the $40m of guaranteed unsubordinated convertible bonds (see Note F), at the option of the Company, any conversion notice can be settled in cash rather than shares. The Cash Alternative Amount is based on the Volume Weighted Average Price of the Company's shares prior to the conversion notice. In addition there are other terms and conditions attached to the bond which, together with the Cash Alternative Amount, are classified as a derivative financial instrument (see Note F). This derivative financial instrument was measured at inception at its fair value and changes in its fair value through to the reporting date are recorded each period in the Consolidated income statement. The fair value is computed based on the conversion price of each bond as well as directly observable market information, including the Company's share price and historic volatility. The assumptions used are only an estimate of how the Company's future share price may change and are, therefore, subjective. Changes in these assumptions could materially impact the internally computed fair value of the derivative resulting in corresponding impact on income or loss for the year.

B. INVESTMENTS

The net book value of unlisted fixed asset investments comprises:

	2015 $000	2014 $000
Cost		
At 1 January	**8,269**	8,269
Disposals	**(27)**	–
At 31 December	**8,242**	8,269
Equity investment in subsidiaries		
At 31 December	**8,242**	8,269

During 2012, JKX Oil & Gas (Jersey) Limited was incorporated in Jersey as a wholly-owned subsidiary. Its sole activity is to hold the bonds that completed in February 2014 and which provided finance for the JKX Group of companies (see Note 13 to the Group Financial Statements).

At 31 December 2015, subsidiary undertakings of JKX Oil & Gas plc were:

Name	Business	% held (ordinary shares)	Country of incorporation and area of operation
Adygea Gas B.V.	Holding	100.00	Netherlands
Baltic Catering Services	Oil & gas services	100.00	Ukraine
Baltic Energy Trading Ltd*	Oil & gas exploration and production	100.00	UK
Catering-Yug LLC	Oil & gas services	100.00	Russia
Eastern Ukrainian Pipeline Ltd	Oil & gas services	100.00	Ukraine
EuroDril Limited	Oil & gas exploration, production and services	100.00	UK
JKX Bulgaria Limited*	Oil & gas exploration and production	100.00	UK
JKX Bulkan BG EAD	Oil & gas exploration and production	100.00	Bulgaria
JKX Carpathian BV	Oil & gas exploration and production	100.00	Netherlands
JKX Georgia Ltd*	Oil & gas exploration, production and services	100.00	UK
JKX Hungary BV	Oil & gas exploration and production	100.00	Netherlands
JKX Ltd*	Dormant	100.00	UK
JKX (Middle East) Limited*	Oil & gas exploration and production	100.00	UK
JKX (Navtobi) Limited	Oil & gas exploration and production	100.00	Cyprus
JKX (Nederland) B.V.	Finance and Holding	100.00	Netherlands
JKX Oil & Gas (Jersey) Limited*	Finance	100.00	Jersey
JKX Ondava BV	Oil & gas exploration and production	100.00	Netherlands
JKX Services Limited*	Services	100.00	UK
JKX Slovakia BV	Oil & gas exploration and production	100.00	Netherlands
JKX Turkey Ltd*	Oil & gas exploration, production and services	100.00	UK
JKX Ukraine BV	Finance and Holding	100.00	Netherlands
JKX (Ukraine) Ltd*	Oil & gas exploration, production and services	100.00	UK
JP Kenny Exploration & Production Limited*	Finance and Holding	100.00	UK
Kharkiv Investment Company	Holding	100.00	Ukraine
Page Gas Ltd*	Oil & gas exploration and production	100.00	UK
Poltava Gas B.V.	Holding	100.00	Netherlands

Notes to the Company financial statements

B. INVESTMENTS (continued)

Subsidiary undertakings of JKX Oil & Gas plc continued:

Name	Business	% held (ordinary shares)	Country of incorporation and area of operation
Poltava Petroleum Company	Oil & gas exploration and production	100.00	Ukraine
Folyópart Energia Kft	Oil & gas exploration, production and services	100.00	Hungary
Shevchenko Farm	Land lease	62.00	Ukraine
Trans-European Energy Services Limited*	Oil & gas exploration, production and services	100.00	UK
Yuzhgazenergie LLC	Oil & gas exploration, production and services	100.00	Russia

* Held directly by JKX Oil & Gas plc. All other companies are held through subsidiary undertakings.

In the opinion of the Directors the carrying value of the investments is supported by their underlying net assets.

C. TRADE AND OTHER RECEIVABLES

	2015 $000	2014 $000
Amounts falling due within one year		
Amounts owed by group undertakings	**53,387**	58,209
Other receivables	**–**	8
Prepayments and accrued income	**70**	72
VAT receivable	**418**	–
	53,875	58,289

45.6m (2014: $51.0m) owed by subsidiary undertakings are unsecured, bears interest based on LIBOR plus a mark-up and repayable on demand.

	2015 $000	2014 $000
Amounts falling due after more than one year		
Amounts owed by group undertakings	**263,237**	368,519

$45.6m (2014: $46.5m) owed by subsidiary undertakings are unsecured, bears interest based on LIBOR plus a mark-up and repayable on demand. Although amounts owed by group undertakings are due on demand, it is management's intention that the amounts will not be demanded in less than one year. $217.6m (2014: $322.0m) owed by subsidiary undertakings bears no interest as these loans were classified as quasi-equity.

During the year the Company increased provision for impairment by $103.7m (recognised in 2014: $129.2m) related to intercompany loan receivables from various subsidiaries, of which, nil (2014: $11.1m) and $103.7m (2014: $118.1m) relate to amounts falling due within one year and after more than one year respectively. Following recent impairments to some of the assets held by subsidiaries (see Note 5 to the consolidated financial statements), the Company expects that the carrying value of the intercompany loan receivable may not be recoverable as these entities may not generate sufficient future profits from the impaired assets to settle the amounts owing and accordingly, these amounts have been provided for.

D. TAXATION

	2015 $000	2014 $000
Current tax charge for the year	**–**	–

Factors that affect the total tax charge

The total tax charge for the year of $nil (2014: nil) is higher (2014: higher) than the average rate of UK corporation tax of 20.25% (2014: 21.5%). The differences are explained below:

Total tax reconciliation	2015 $000	2014 $000
Loss on ordinary activities before taxation	**(117,127)**	(169,835)
Tax calculated at 20.25% (2014: 21.50%)	**(23,718)**	(36,514)
Other fixed asset differences	**(2)**	–
Net change in unrecognised losses carried forward	**2,803**	8,309
Other differences	**–**	148
Non taxable income	**(2,646)**	–
Other non-deductible expenses	**23,563**	28,057
Total tax charge	**–**	–

Unprovided deferred tax	2015 $000	2014 $000
Tax losses	**3,486**	–
Property, plant and equipment differences	**7**	3
Other temporary differences	**112**	60
	3,605	63

Neither the deductible temporary differences nor the tax losses expire under current tax legislation. Deferred tax assets have not been recognised in respect of the unprovided deferred taxation items because it is not probable that future taxable profit will be available to utilise these deductible temporary differences.

The UK corporation tax rate changes announced in the July 2015 Budget include reductions to the main rate of UK corporation tax to 19% in 2017. The March 2016 Budget included a reduction in the main rate of UK corporation tax to 17% in 2020, which has not been substantively enacted. The impact of the rate reduction is not expected to have a material impact on provided and unprovided UK current or deferred taxation.

E. CASH AND CASH EQUIVALENTS

	2015 $000	2014 $000
Cash and cash equivalents	**12,509**	11,643
Restricted cash	**6**	6
Total	**12,515**	11,649

Notes to the Company financial statements

F. CREDITORS

	2015 $000	2014 $000
Amounts falling due within one year		
Amounts owed to group undertakings	**124,249**	114,828
Trade creditors	**1,994**	–
Other creditors	**–**	530
Accruals and deferred income	**3,395**	523
	129,638	115,881
Amounts falling due after more than one year		
Derivatives	**2,171**	1,037
Amounts owed to group undertakings	**31,794**	39,140

31 December 2015	In 1 year or less, or on demand $000	2-5 years $000
Maturity of financial liabilities		
Amounts owed to group undertakings	**124,249**	**31,794**
31 December 2014		
Maturity of financial liabilities		
Amounts owed to group undertakings	114,828	39,140

Non-current derivative financial instruments
Convertible bonds due 2018 – embedded derivatives

On 19 February 2013 the Company successfully completed the placing of $40m of guaranteed unsubordinated convertible bonds with institutional investors which are due 2018 raising cash of $37.2m net of issue costs. The Company's wholly-owned direct subsidiary, JKX Oil & Gas (Jersey) Limited holds the bonds raised to finance the JKX Group. The Company unconditionally guaranteed all the performance conditions including the conversion option.

The Bonds have an annual coupon of 8 per cent per annum payable semi-annually in arrears. The Bonds are convertible into ordinary shares of the Company at any time from 1 April 2013 up until seven days prior to their maturity on 19 February 2018 at a conversion price of 76.29 pence per Ordinary Share, unless the Company settles the conversion notice by paying the Bondholder the Cash Alternative Amount (see below).

Interest, after the deduction of issue costs and the inclusion of the redemption premium, will be charged to the income statement using an effective rate of 18.0%.

Cash Alternative Amount
At the option of the Company, the conversion notice in respect of the Bonds can be settled in cash rather than shares, the Cash Alternative Amount payable is based on the Volume Weighted Average Price of the Company's shares prior to the conversion notice.

Coupon Makewhole
Upon conversion of a Bond prior to the 19 February 2015 the Company is required to pay an amount of interest equal to the aggregate interest which would have been payable on the principal amount of the Bond if such Bond had been outstanding until 19 February 2015.

Bondholder Put Option
Bondholders have the right to require the Company to redeem the following number of Bonds on the following dates together with accrued and unpaid interest to (but excluding) such dates:

Redemption date	Maximum number of Bonds to be redeemed
19 February 2016	25% of the Bonds, having an aggregate principal amount of $10,000,000
19 February 2017	All outstanding Bonds

Company Call Option
The Company can redeem the Bonds early in full but not in part at their principal amount together with accrued interest at any time on or after 19 February 2017 if the Volume Weighted Average Price of the Company's shares over a specified period equal or exceed 130 per cent of the principal amount of the Bonds; or if the aggregate principal amount of the bonds outstanding is less than 15% of the aggregate principal amount originally issued.

Fixed exchange rate
The Sterling-US Dollar exchange rate is fixed at £1/$1.5809 for the conversion and other features.

G. CALLED UP SHARE CAPITAL AND OTHER RESERVES

Share capital, denominated in Sterling, was as follows:

	2015 Number	2015 £000	2015 $000	2014 Number	2014 £000	2014 $000
Authorised						
Ordinary shares of 10p each	**300,000,000**	**30,000**		300,000,000	30,000	
Allotted, called up and fully paid						
Opening balance at 1 January	**172,125,916**	**17,212**	**26,666**	172,125,916	17,212	26,666
Exercise of share options	**–**	**–**	**–**	–	–	–
Closing balance at 31 December	**172,125,916**	**17,212**	**26,666**	172,125,916	17,212	26,666
Of which the following are shares held in treasury:						
Treasury shares held at 1 January and 31 December	**402,771**	**40**	**77**	402,771	40	77

The Company purchased no treasury shares during 2015 (2014: none). There were no treasury shares used in 2015 (2014: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2015 the market value of the treasury shares held was $0.2m (2014: $0.1m).

Other reserves	Capital Redemption Reserve $000	Foreign Currency Translation reserve $000	Total $000
At 1 January 2015 and 31 December 2015	**587**	**(1,090)**	**(503)**

The foreign currency translation reserve comprises differences arising from the retranslation of the Company balance sheet from £ Sterling into US Dollars in 2006.

H. INCOME STATEMENT

The Company has elected to take the exemption under section 408 of the Companies Act 2006, to not present the parent company income statement. The net loss for the parent company was $117.1m (2014: $169.8m loss).

Notes to the Company financial statements

I. SHARE-BASED PAYMENTS

Share options

Share options are granted to Executive Directors and senior management based on performance criteria. The scheme rules are described in the Directors' Remuneration Report and repeated below. All share-based payments are equity settled.

At 31 December 2015, there were outstanding options under various employee share option schemes, exercisable during the years 2016 to 2025 (2014: 2015 to 2024), to acquire 12,740,100 (2014: 10,854,700) shares of the Company at prices ranging from £0.00 to £3.15 per share (2014: £0.00 to £3.15). The vesting period for 12,740,100 (2014: 10,854,700) of the share options is 3 years, with an exercise period of 7 years making a 10 year maximum term.

The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movements in, share options during the year.

	2015 Number	2015 WAEP	2014 Number	2014 WAEP
Outstanding as at 1 January	**10,854,700**	**45.75p**	6,549,300	65.12p
Granted during the year	**3,845,900**	**27.10p**	4,974,700	37.99p
Lapsed during the year	**(1,960,500)**	**68.85p**	(669,300)	177.48p
Outstanding at 31 December	**12,740,100**	**28.39p**	10,854,700	45.75p
Exercisable at 31 December	**–**	**–**	158,000	151.50p

For the share options outstanding as at 31 December 2015, the weighted average remaining contractual life is 8.3 years (2014: 8.5 years).

During the year share options were granted in accordance with the Performance Share Plan ('PSP'), which was introduced in 2010. In addition, in 2014, share option were granted in accordance with the Discretionary Share Option Scheme ('DSOS'). These schemes reflect the best practice aspects recommended by the Association of British Insurers following the publication of their guidelines in March 2001 (the 'ABI Guidelines').

Lapsing of Directors share options in 2016

On 28 January 2016, following a General Meeting of the Company, the service contracts of the four Executive Directors were terminated with immediate effect. Prior to the General Meeting, the Board in place at that time approved and made payments of £460,800 to forfeit 9,460,000 unexpired share options, which are included in the table above, and shares deferred under the 2014 bonus arrangements for Executive Directors (see page 98).

Share Option Schemes

DSOS

The DSOS is made up of two parts. Options to acquire ordinary shares in the Company granted under Part A are 'Approved Options' and options to acquire Shares granted under Part B of the DSOS are 'Unapproved Options'. No consideration shall be payable for the grant of an Option.

No options were granted under the DSOS in 2015 (2014: 3,162,900). The weighted average exercise price of options granted under DSOS is nil (2014: 59.75p). For these options to vest there has to be an increase in the Group's Earnings Per Share ('EPS') growth over the performance period measured over the 3 consecutive calendar years commencing from the date the options were granted. The weighted average fair value of options granted during the year under the DSOS was nil per option (2014: 24.01p).

PSP

PSP are granted to Executive Directors and senior management. Executive Directors and senior management receive awards under the 2010 Performance Share Plan in the form of nil cost options. No consideration is required to be paid for the grant or exercise of an Option.

3,845,900 (2014: 1,811,800) options were granted under PSP in 2015. The PSP options provide a conditional right to acquire shares at nil cost subject to the satisfaction of the performance conditions and continued employment with the Group. For these options to vest a comparison is performed between the Group's TSR against the FTSE Fledgling index (half the options) (2014: FTSE SmallCap index) and the All-Share Oil & Gas Producers index (other half of options). The weighted average fair value of options granted during the year under the PSP was 10.35p per option (2014: 26.00p).

Fair value of share options granted

The fair value of options granted under the DSOS is estimated as at the date of grant using a variance of the Binomial model, taking into account terms and conditions upon which the options are granted, which includes the performance condition related to the Company's earnings per share directly. No dividends are paid on shares under the scheme prior to exercise.

The fair value of options granted under the PSP is estimated as at the date of grant using a variant of the Monte Carlo model, taking into account the terms and conditions upon which the options are granted, which includes the performance condition related to the TSR directly. No dividends are paid on shares under the scheme prior to exercise.

The total share based payment charge for the year was $0.7m (2014: $0.3m).

The following table lists the inputs to the model used for the options granted in the years ended 31 December 2015 and 31 December 2014. The expected future volatility has been determined by reference to the historical volatility.

	2015 PSP	2014 PSP	2014 DSOS
Dividend yield	**0.0%**	0.0%	0.0%
Expected share price volatility	**82%**	44%	43%
Risk free interest rate	**0.6%**	1.2%	1.5%
Exercise price	**0.0p**	0.0p	59.75p
Expected life of option (years)	**3.0**	3.0	3.9
Weighted average share price	**33.5p**	26.0p	24.1p

Bonus scheme

The full details of the bonus performance criteria for Directors and senior employees and the bonus earned is explained in the Remuneration Report on pages 84 to 99.

J. AUDITORS' REMUNERATION

	2015 $000	2014 $000
Audit services		
Fees payable to the Company's auditors for the audit of the parent company	**40**	40

K. DIRECTORS' REMUNERATION

The remuneration of the Directors is disclosed in the audited section of the Remuneration Report on pages 84 to 99, which form part of these financial statements.

L. DIVIDENDS

No interim dividend was paid for 2015 (2014: nil). In respect of the full year 2015, the directors do not propose a final dividend (2014: no final dividend paid).

M. OPERATING LEASE COMMITMENTS

At the reporting date, the Company's aggregate future minimum commitments under non-cancellable operating leases in respect of properties as follows:

	2015 $000	2014 $000
Within one year	**510**	529
In the second to fifth years inclusive	**2,038**	2,116
After five years	**425**	970
	2,973	3,615

N. EVENTS AFTER THE REPORTING DATE

See Note 37 to the consolidated financial statements.

General information

Glossary

2P reserves	Proved plus probable
3P reserves	Proved, probable and possible
P50	Reserves and/or resources estimates that have a 50 per cent probability of being met or exceeded
AFE	Authorisation For Expenditure
AIFR	All Injury Frequency Rate
Bcf	Billion cubic feet
Bcm	Billion cubic metres
bcpd	Barrel of condensate per day
boe	Barrel of oil equivalent
boepd	Barrel of oil equivalent per day
bopd	Barrel of oil per day
bpd	Barrel per day
bwpd	Barrels of water per day
cfpd	Cubic feet per day
EPF	Early Production Facility
FEN	Folyópart Energia Kft
GPF	Gas Processing Facility
HHN	HHE North Kft
Hryvnia	The lawful currency of Ukraine
HSECQ	Health, Safety, Environment, Community and Quality
HTHP	High Temperature High Pressure
KPI	Key Performance Indicator
LIBOR	London InterBank Offered Rate
LPG	Liquefied Petroleum Gas
LTI	Lost Time Injuries
Mbbl	Thousand barrels
Mboe	Thousand barrels of oil equivalent
Mcf	Thousand cubic feet
Mcm	Thousand cubic metres
MMcfd	Million cubic feet per day
MMbbl	Million barrels
MMboe	Million barrels of oil equivalent
PPC	Poltava Petroleum Company
Roubles	The lawful currency of Russia
RR	Russian Roubles
sq. km	Square kilometre
TD	Total depth
$	United States Dollars
UAH	Ukranian Hryvna
US	United States
VAT	Value Added Tax
YGE	Yuzhgazenergie LLC

Conversion factors 6,000 standard cubic feet of gas = 1 boe

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Notes

Notes

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