JKX

JKX Oil & Gas plc

For full governance and financial statements refer to the document above (enclosed with this report) and also available online: www.jkx.co.uk

New FDP targets 600 billion cubic feet

- Updated field development plans focus on the Rudenkivske field in Poltava
- Technically recoverable reserves of 600 billion cubic feet (17 billion cubic metres)
- Plateau production of 18,300 boepd

P9

PRODUCTION

Technological revolution

The past 10 years sees tight oil plays production increase by 15 times.

P5

POLITICS

29% gas tax rate blocks progress

12% would open the gas market to global energy investors and operators.

P5

LEGAL

Tribunal award

An opportunity to resolve historical legal issues.

P2

STRATEGY

All seeing the same picture

Extreme transparency, the way forward.

P14

MINDSET

"What's possible?" unleashes latent talent

Tom updates the philosophy of the new JKX and sets the mindset.

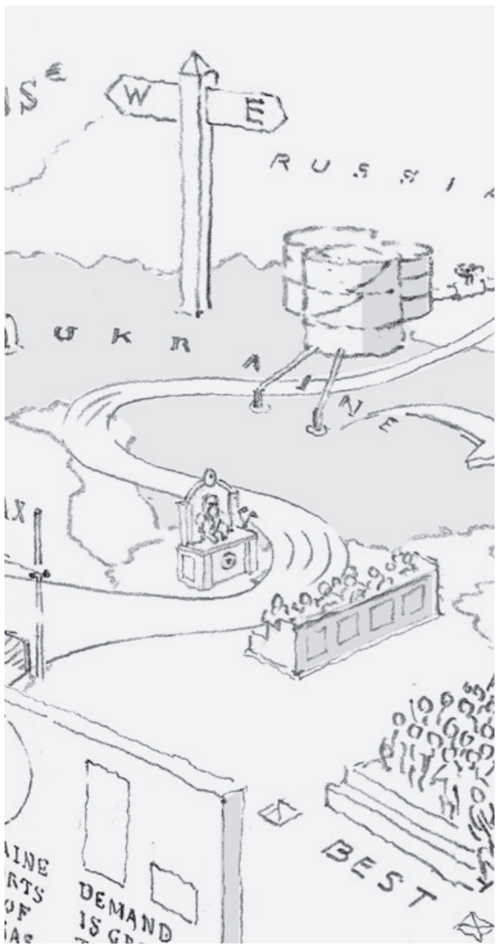
P8

TARGETS

135 wells and total investment of $660 million

JKX will bring the capital and technology to start our own gas revolution, but Ukraine also needs to do its part.

P9



HIGHLIGHTS 2016

Update:

In the face of considerable uncertainty, our team has increased production, re-engineered our field development plans, improved relationships with our stakeholders and focused our company on the technical challenges to come. **P3 (Chairman's statement)**

How we performed this year

Revenue	Loss from operations before exceptional charges	Exceptional charges
$73.8m	**$(3.9)m**	**$30.8m**
2015: $88.5m	2015: $(10.7)m	2015: $64.9m

Loss for the year	Cash generated from operations	Total year-end cash
$(37.1)m	**$17.0m**	**$14.3m**
2015: $(81.5)m	2015: $12.8m	2015: $26.3m

Outlook:

We are actively seeking to mitigate our litigation risks with the Ukrainian Government so that our development drilling in Ukraine can recommence. The investment in our Rudenkivske gas field is significant, and we continue to work with the Ukranian Government to improve the investment environment for such projects. **P10 (CEO)**

STRATEGIC REPORT

Our business

WHAT WE DO

We are an upstream oil and gas exploration and production company.

We have significant oil and gas assets in Ukraine and southern Russia.

Profile

		UKRAINE	RUSSIA
	Staff	404	213
	Wells	51	5
	Fields	6	1
	2016 production	4,001 boepd	6,082 boepd

LICENCES

What our licence areas are doing.

Our focus is developing production and revenue growth in Ukraine, whilst monetising our assets in Russia, Hungary and Slovakia.

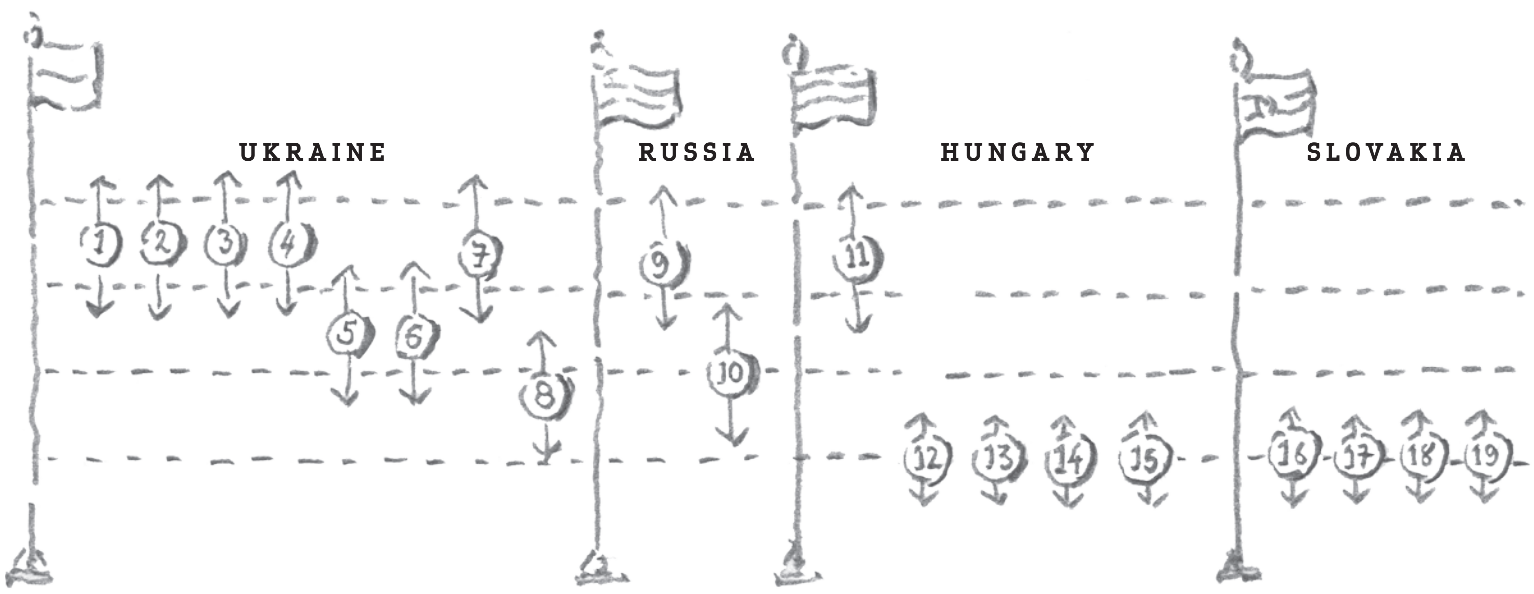
Asset life cycle

Production

Development

Appraisal

Exploration



2P reserves	29.1 MMboe	80.3 MMboe

Licence areas

1. Ignativske[1]
2. Movchanivske North[1]
3. Movchanivske Main[1]
4. Novomykolaivske[1]
5. Rudenkivske[1]
6. Movchanivske Wedge Zone[1]
7. Elyzavetivske[1]
8. Zaplavska[1]
9. Koshekhablskoye Oxfordian
10. Koshekhablskoye Callovian
11. Hajdunanas
12. Tiszavasvari-IV
13. Emod V
14. Pely I
15. Jaszkiser II
16. Svidnik*
17. Medzilaborce*
18. Snina*
19. Pakostov*

* JKX has 100% interest in its licences except those in Slovakia where it holds 25% interest.

1 For the 2016 Annual Report, all of the names for our Ukrainian fields have been changed to the Ukrainian language spelling..

STRATEGIC REPORT

Chairman's statement

"A year of challenging transformation, with an ambitious and demanding plan to turn the Company's performance up."

Paul Ostling
Chairman

Just over 12 months ago, your newly-appointed Board of Directors promised to resolve the various challenges that were facing the business through transparent communication, by addressing key legacy problems, by increasing efficiency and production, and by reducing needless costs.

On its appointment in January 2016, the Board was confronted with many issues including:

- legal conflicts in Ukraine and with significant shareholders;
- significant contingent liabilities in Ukraine relating to production taxes;
- license suspensions in Ukraine;
- bloated costs throughout the Group;
- stagnated field development, and
- a $30.1 million bond repayment in less than 12 months, which the Company could not afford.

To address these, in 2016, we have:

- managed our inherited legal challenges in Ukraine and halted legal action on shareholder disputes;
- successfully resolved all Ukrainian licence suspensions;
- rebuilt the Group's Field Development Plans ('FDPs') and assembled a world-class execution team;
- reduced and restructured the Company's bond liabilities, which was formally approved by bondholders on 3 January 2017;
- reduced operating costs, and
- further strengthened the Board.

LEGAL

International arbitration

In 2015 the Company commenced arbitration proceedings against Ukraine on the basis of overpayment of production taxes ('Rental Fees') plus damages, as explained more fully in Note 27 to the financial statements.

The main arbitration case was heard in early July 2016 and a decision from the tribunal was awarded on 6 February 2017.

Despite the Company's belief to the contrary, the international arbitration tribunal ruled that Ukraine was found not to have violated its treaty obligations in respect of the levying of Rental Fees but awarded the Company damages of $11.8 million plus interest, and costs of $0.3 million in relation to subsidiary claims. This can be seen as only a small success against the full claim which was valued at more than $200 million.

Local claims

The Group has made provision for potential liabilities arising from separate court proceedings over the amount of Rental Fees paid in Ukraine by its Ukrainian operating subsidiary, Poltava Petroleum Company ('PPC'), for certain periods since 2010, which total approximately $33.9 million (including interest and penalties, see Note 27 to the financial statements). PPC continues to contest these claims in the Ukrainian courts.

Claims relating to 2007, which were unresolved in the prior year and amounting to $6 million, are now considered closed following a Supreme Court of Ukraine ruling in favour of PPC.

Taking into account the damages and interest of $12.2 million awarded to the Company by the international tribunal and the Ukrainian court proceedings against the Group in respect of production taxes totalling $33.9 million, there is a net shortfall of $21.7 million owed by the Group to the Government of Ukraine. Should PPC lose the claims in respect of production taxes due for 2010 and 2015, and the Ukrainian Authorities demand immediate settlement, the Group does not currently have sufficient cash resources to settle these claims and this risk, if realised, could impact the going concern status of the Company. These risks are fully addressed in Note 2 to the financial statements.

In addition, PPC has suffered searches by the National Police of Ukraine starting in June 2016, with two further searches in January 2017. The searches increasingly appeared to take on the form of harassment rather than a legitimate investigation into PPC's business operations. We continue to fully cooperate with the enquiry and believe that PPC is in full legal compliance with all relevant Ukrainian law and regulation. These searches have been a significant distraction for the Board and JKX staff, and damaging to Ukraine's investment climate. We have engaged with both the US and UK embassies in Kiev in order to register our complaints in this matter.

We have commenced the settlement process with the Government in Ukraine to settle the arbitration award and the local tax issues so that the Company can return its focus to key operational matters.

UKRAINE

Production licenses secured

In January 2016, the State Geology and Mineral Resources Survey of Ukraine suspended four of PPC's subsoil use permits. The authority gave a list of actions that were required in order to cancel the suspension (including a change to the minimum production requirements under the licenses) and would normally have given the operator sufficient time to remedy the failings. Instead PPC was given only one month to do so.

Following successful legal action, PPC has now renewed all four of these licenses until 2024 and also received a ruling from the Kharkiv Administration Court of Appeal which deemed the original suspensions to have been illegal.

Rebuilding of Field Development Plans ('FDPs')

Our reconstructed Field Development Plans have revealed that applying modern technology and techniques in well construction and field development design, our Rudenkivske gas field has much greater potential than was previously considered economic. Further details of the FDPs are provided in The Chief Executive's statement on pages 8 to 10.

FINANCIAL

Bond repayment and restructuring

Through 2016, we reduced the principal amount of outstanding bonds from $36 million to $16 million. This was achieved through a $10 million scheduled repayment in February and various market purchases of bonds of a total principal amount $10 million at various discounts to face value.

On January 3 2017 the Bondholders approved a restructuring of the remaining $16 million of Bonds, the detail of which is provided in the Financial Review on pages 19 to 21. The repayment of the Bonds is now well within the operating cash flow capabilities of the Company enabling the business to move forward with its development plans.

Reducing operating costs and overheads

Measures were taken immediately following the appointment of the new Board in January 2016 to significantly reduce the cost burden of the Company's London headquarters, reducing headcount and moving all remaining staff onto one floor of the building, where we previously occupied four floors. We have been able to extract ourselves from the long-term lease on one of the unoccupied floors and continue negotiations with the landlord to extract the Company from the long-term lease agreements on the other two floors.

During 2016, headcount reductions have been made in Ukraine and Russia of 18% and 14%, respectively. The benefits of our cost reduction actions during 2016 will be seen in 2017 and we continue to identify further cost-saving opportunities.

GROUP

Your Board

Following the replacement of the entire Board on 28 January 2016, the composition of the Board did not comply with the UK Corporate Governance Code in respect of the number of independent Non Executive Directors. To address this, in April, two new independent Non Executive Directors were appointed.

Alan Bigman and Bernie Sucher both bring extensive knowledge of working at the highest levels in the region combined with directly relevant experience which will be of great benefit to the Company. As independent directors, Alan and Bernie have strengthened the corporate governance credentials of the Company which ensures that the interests of all shareholders are protected.

At the Company's AGM on 28 June 2016, the resolutions to accept the appointment of Alan and Bernie were rejected by a small number of shareholders but with enough votes to prevent the resolutions being passed. Given the very low turnout of voting shareholders, the fact that the vast majority of voting shareholders were in favour of the appointments and the need for value-adding independent directors, the Board re-appointed both Alan and Bernie at a subsequent Board Meeting. The shareholders will be asked to approve these appointments at the next Annual General Meeting. The result of last year's AGM underlines that if shareholders want to ensure a high-quality board and good governance, they must exercise their right to vote at General Meetings.

MINDSET

People

The Board continues to be impressed and often humbled by the level of dedication, talent, and perseverance shown by staff throughout the Group, especially during a year in which we were trying to drive such significant change. We believe that our teams are capable of accomplishing market leadership in our field, and much more.

POTENTIAL

The road ahead

We are working with the Ukrainian Government to amicably settle all claims and secure support in creating an environment in which JKX can execute its Field Development Plans, invest in gas production and assist Ukraine to achieve energy independence.

2016 began with some major changes at the board level, and uncertainty with regards to our future. Yet we endured that uncertainty, increased production, improved relationships with our stakeholders and have more focused teams with a clearer understanding of our organisational and technical challenges. We achieved some significant gains during 2016 but have also suffered some setbacks. With a renewed purpose, strategic focus and the right people in the right places, we enter 2017 with optimism.

Finally, I wish to thank all our shareholders and staff for their support of the Company and the new Board through this year of challenging transformation. We have achieved a significant amount in our first 12 months, but relish the challenges and opportunities that 2017 presents.

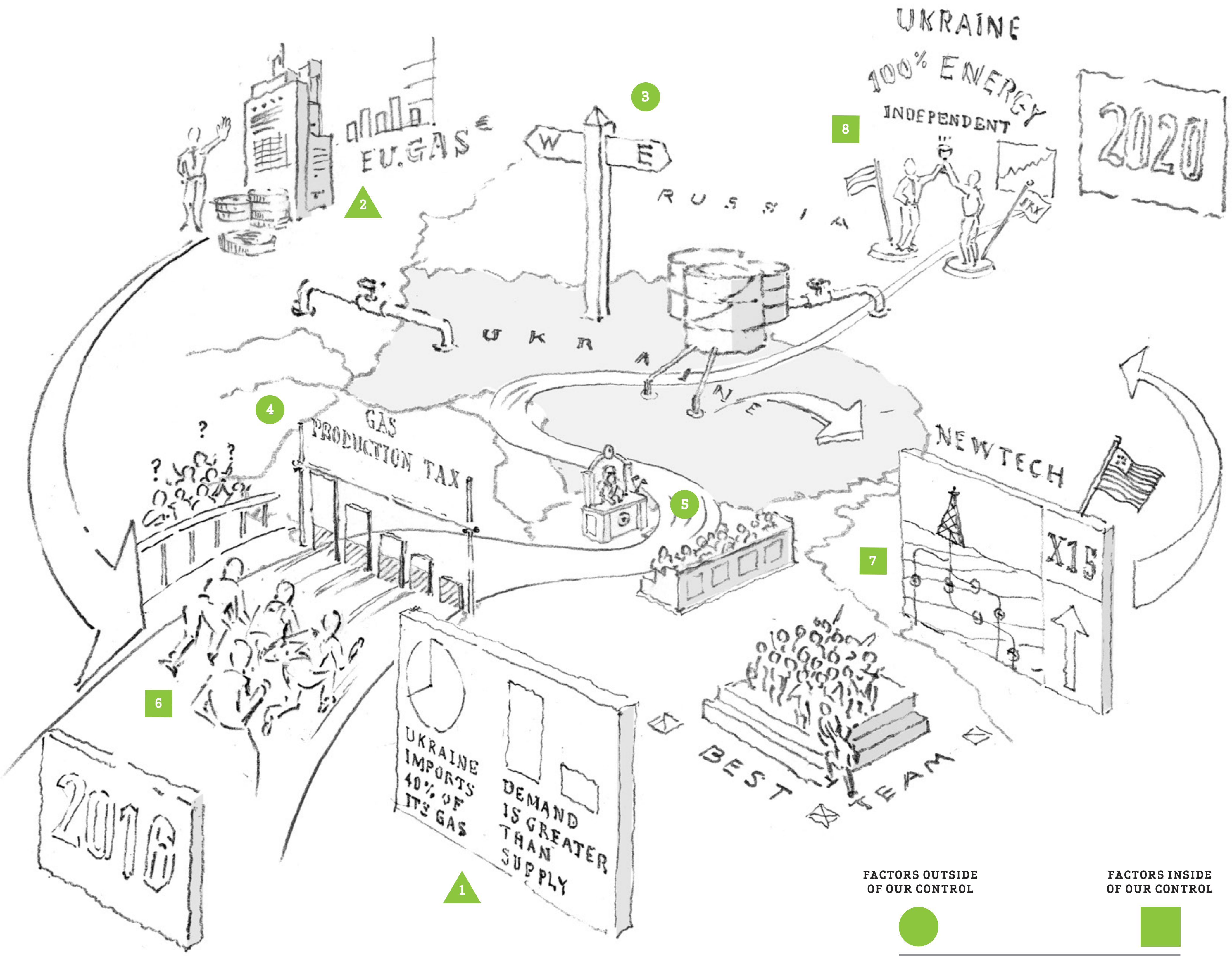
Paul Ostling
Chairman

STRATEGIC REPORT

Strategic context

Ukraine

Our focus for growth is Ukraine. We have been in the region for 22 years and see a dynamic and exciting region with huge geological potential. This is how we see the landscape relating to JKX with its opportunities and challenges



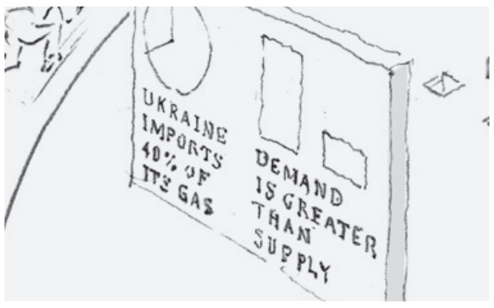
FACTORS OUTSIDE OF OUR CONTROL

FACTORS INSIDE OF OUR CONTROL

DRIVING FACTORS

Driving factors:

1 Dependence on gas imports, world-class geological potential



In 2016, Ukraine imported more than 30% of its gas needs from abroad spending approximately US$2 billion on gas. In recent years imported gas has made up 40% of gas needs. This reliance on imports will continue for the foreseeable future.

To achieve the Ukrainian Government's stated strategic goal of energy independence by 2020, it will need to boost its annual gas production by 40% (from 20-28 billion cubic meters).

Ukraine has the geological potential to achieve the Ukrainian Government's stated goal of energy independence by 2020 and to become a major gas exporter to Europe by 2025. To achieve this, Ukraine desperately needs foreign investment and the latest US oil and gas technology and know-how.

2 High gas prices in Ukraine

Due to the need to import gas from Europe, the industrial gas price in Ukraine remains one of the highest in the world. This has been the case since 2009 and the price remains approximately double the US gas price.

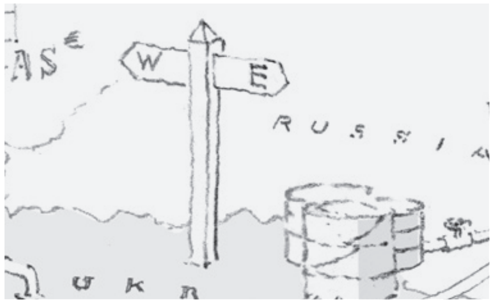
In 2016, our gas realisations in Ukraine were $5.9/Mcf whereas the average gas price in the US was $2.5/Mcf.

In 2015, the Ukrainian gas market changed significantly due to the initiation of so called "reverse flow" capability from Europe.

This new technical capability allows Ukraine to purchase gas from Europe and, rather than being completely dependent on Russia for imports, Ukraine can assess competing bids for gas imports from Gazprom on one side and European Energy Utilities on the other. As a result the gas price in Ukraine is based on the European hubs plus a significant transportation cost ($1/Mcf).

Factors outside of our control:

3 Political uncertainty and outside influence



Until 2015 Russia had historically supplied all of Ukraine's gas imports, but beginning in 2015, Ukraine started receiving natural gas imports from the European gas system.

Recent gas import diversification has helped improve Ukraine's energy security, but physical supplies still completely depend on Russia since it is Russian supply that provides a significant portion of the European gas system volumes. Due to its heavy reliance on Russian gas for its domestic energy needs, Ukraine remains within Russia's sphere of influence.

Recent regional conflict has hampered further external investment in exploration and development of Ukraine's significant gas potential in the short term.

4 Ukrainian gas tax must be reduced to achieve energy independence by 2020

The gas production tax rate in Ukraine for non-state gas producers is an uncompetitive 29%.

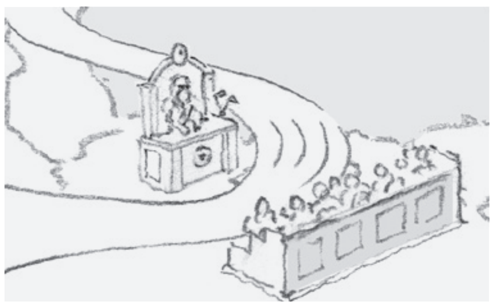
Production taxes in other European countries that are competing with Ukraine for foreign direct investment are significantly more attractive. For example, in Hungary and Slovakia, production tax rates for conventional hydrocarbons are 12% and 5% respectively, while in Poland the rate is less than 1%.

It is difficult for international investors to justify diverting capital to gas projects in Ukraine when the tax regimes in other countries are considerably more favourable in terms of risks and returns.

Reducing gas production taxes is a critical step towards making Ukraine's gas sector attractive for investors, which, in turn, will support the Government's stated goal of energy independence. JKX will continue to work with the Government and other stakeholders in 2017 to set the market conditions that are necessary to increase investment in the sector.

Factors inside of our control:

5 Legal and commercial environment in Ukraine



Ukraine displays emerging market characteristics where the business environment is such that challenges may arise at any time in relation to the Group's production, operations, licence history, compliance with licence commitments and/or local regulations.

In addition, in the past, the Ukrainian Government has enacted new tax laws which are effective immediately but which are subject to varying interpretations and which may be applied retrospectively. Other difficulties that businesses operating in Ukraine have to overcome include a weak judicial system that is susceptible to outside influence and in a state of flux (see Risk Factors, pages 29 to 32).

Reforms are needed in Ukraine's business environment to reduce entry barriers to new investors and to create a transparent level playing field for small private investors. Small and medium sized companies – innovative, flexible and with an appetite for risk – were the reason for the production surge in North America. Smaller independent companies are what Ukraine needs most to develop its plentiful, but often technologically challenging, gas potential.

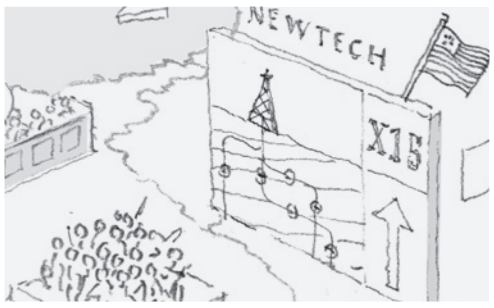
6 A new Board, a fresh perspective, a new strategy

In January 2016, a new US-led Board of Directors was voted in by shareholders at a General Meeting with the new Board promising a new focus and vision for JKX and with a mandate to boost shareholder value through improvements in efficiency, as well as technology and knowledge transfer from the US into Ukraine.

A new team of motivated and highly qualified western professionals have been engaged to work with our existing technical staff in Ukraine. This team now brings together professionals from London, Houston and our own local experts. This "brain" can now draw on extensive experience in new technologies used in similar fields in North America as well as decades of experience in our own markets.

In 1994, JKX's Ukrainian operating subsidiary, Poltava Petroleum Company ('PPC'), was the first oil and gas company with private ownership to be established in Ukraine and remains an established name in the region. We are now well positioned to enhance this reputation and make the Company the technology leader in the Ukrainian gas industry.

7 Importing US technology and know-how into Ukraine… what's possible?



While Ukraine's gas production potential is very large, the next generation of Ukraine's gas fields will be technically challenging and require both large investment and new technology, which is currently not available in Ukraine.

Over the last 35 years, Ukraine's gas production has remained stagnant. In contrast, after decades of stagnation, since 2005 annual gas production in the United States grew by 250 billion cubic meters (a 50% increase) and drilling and completions efficiency increased by 15 times.

JKX's new culture starts with asking "what's possible?" rather than trying to achieve incremental improvements on what has been done before.

North American fields analogous to the structure and depositional environment of JKX's Rudenkivske field were identified. The experience and empirical data from these fields were used in the Company's planning. These North American fields were also previously considered uneconomic, and have recently been successfully developed using advanced well construction and field development design.

The team we have assembled in Kiev, with significant experience of applying new technology to develop large, technically challenging fields, will enable us to apply the same approach to fields in Ukraine.

8 Ukraine's Gas Champion – a foreign investor success story

JKX is well positioned to bring the capital and technology to help lead a gas production renaissance in Ukraine, similar to what was experienced in North America over the past decade.

To attract investment, Ukraine needs action, not words, to create the necessary investment conditions. JKX will bring the capital and technology and reinvest its own cash flow to start the gas revolution, but the Ukrainian Government needs to do its part in creating a favourable investment climate, notwithstanding the other challenges that currently face the country.

JKX wants to be a foreign investor success story for others to follow.

STRATEGIC REPORT

Strategic context cont/

Russia

Russia remains a productive region for JKX and will continue to generate income to finance our growth plans.

After many years of investment, our Russian gas plant, production and operations have stabilised. For the first time, during 2016 the operation was cash flow positive and provided liquidity back to the Group. The Russian operation is a net contributor to the Group's cash flow following a full review of the operations by the new Board and a cost reduction program. We will continue to focus on maximising cash generation from our Russian gas field through additional development, whilst reviewing other strategic and monetisation options.

Competitive advantage

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, in the Republic of Adygea, southern Russia, is located in a region where gas resource is scarce, and there are high transportation costs from Russia's main gas production area in the Yamal peninsula in the far north, some 4,000km away.

Russian reserves

At the end of 2016, the estimation of remaining 2P reserves was 476.9 Bcf of gas and 0.8 MMbbl of oil (total 80.3 MMboe).

Our action to date

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 gas market

Gas realisations

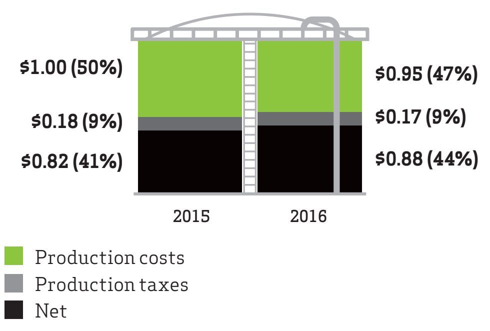
The average annual increase in Russian gas prices since 2007 has been 18%. There was an official 1.95% increase in the regulated maximum gas price in 2016. However, following a renegotiation of our gas sales contract in 2016, we agreed a reduction of 9.5% to the price at which we sell our gas to our sole buyer in Russia in order to ensure consistency of cash flow in the face of debt recoverability issues for many gas providers and buyers in the region.

Netback in Russia

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 2016 was approximately $0.66/Mcf (based on a gas sales price of $1.49/Mcf) – a gross margin of 44%.

Russia Netback analysis

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



Why are we here?

A demand for local gas

In recent years, the south of Russia has seen a sustained increase in industrial gas demand. This is particularly true for the Krasnodar region where our Koshekhablskoye gas field is located.

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

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

Lack of local supply

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

Many historic Gazprom gas fields are now 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.

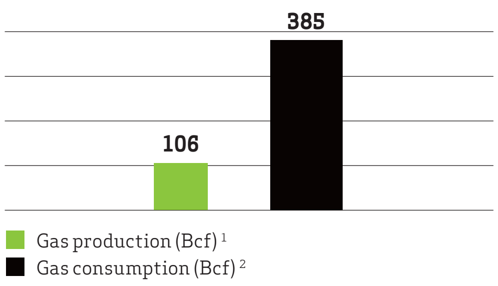
Forecast gas demand in southern Russia

Due to a rapid industrialisation in southern Russia in the past five years, by 2020 local gas demand is expected to double.

Russia gas supply and demand

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

279 Bcf
Shortfall



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

Outlook

Our historic well work-over costs in Russia are many times higher than similar wells in North America and the wells are deep and complex. In addition, Russian gas prices are controlled by the Government and remain at very low levels (compared to, for instance, the prices in Ukraine). These factors combined mean that it is very difficult to make a commercial return on capital investment in the further development of our Russian gas operations.

Well workovers are planned at our Russian gas field in 2017, which we expect will result in a modest increase in monthly production by year-end. The deeper Callovian reservoirs, which are not yet tapped by existing wells, provide a significant growth opportunity, if the investment parameters for gas field development in Russia improve.

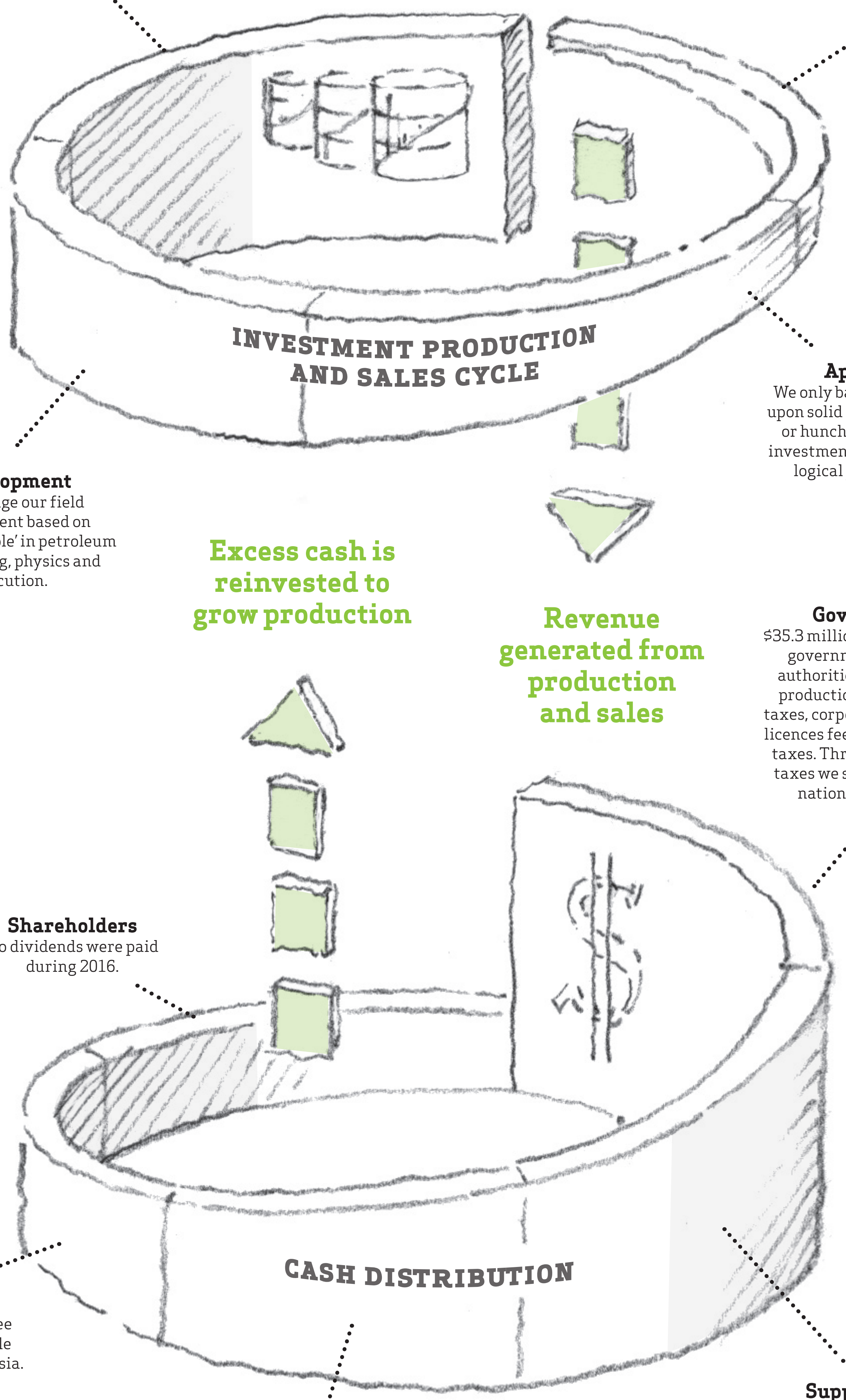
We will continue to revisit our investment analysis of identified projects before spending any significant additional capital in the field and are constantly reviewing monetisation options whether it be through improved cash flows and repatriation of funds to the Group, sale or another liquidity event.

STRATEGIC REPORT

Our business model

We invest in exploration for, and the appraisal and development of oil and gas fields.

We generate revenue from production and sales of oil, gas, condensate and LPG. Cash flow generated from sales is invested into our three strategic priorities (pages 13 to 15) and key beneficiaries below.



Production
JKX has engaged experts in latest drilling, completion and engineering technology from North America.

Exploration
We have highly experienced in-house technical teams. JKX's exploration activity is currently minimal.

Appraisal
We only base our decisions upon solid data not intuition or hunches ensuring our investments are based upon logical justifications.

Development
We manage our field development based on 'what's possible' in petroleum engineering, physics and execution.

Government
$35.3 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 2016.

Local community
$0.3 million plus employee time donated to charitable causes in Ukraine and Russia.

Suppliers
$40.5 million paid to suppliers for equipment, materials and services. Where possible, we purchase local goods and services and develop infrastructure that benefits entire communities.

Employees
$16.0 million paid in wages and salaries. We provide jobs in developed, emerging and developing economies, creating local purchasing power and improving standards of living.

STRATEGIC REPORT

Chief Executive's statement

"We're well aware of the opportunity and step changes we face, we're aiming to grow and that means an entirely different attitude. Not just getting a little better at what we do."

Tom Reed
Chief Executive Officer

TARGETS

Your Board was appointed in January 2016 with a straightforward strategy: remove obstacles to growth, plan development in a modern context using modern technology, finance and execute. We wanted to move the Company away from fighting various legal battles and back to the business of finding and producing hydrocarbons. That strategy translated into four main goals for the year:

1) Resolve the Ukrainian production tax liabilities and the International Arbitration dispute, and restructure the inherited issues of the 2013 Convertible Bond;
2) Reassess the assets and rebuild the Field Development Plans ('FDPs') from primary data utilising latest generation development techniques and technologies;
3) Obtain financing for the FDPs; and
4) Improve operations and engineering, particularly in Ukraine, and build a team capable of world-class, high-performance execution.

We achieved most of our goals and made significant progress with our plan to restore shareholder value to JKX. We did not achieve all of our plans however. Financing particularly remains difficult for the Company for a variety of reasons. Financing our development plans in the most accretive way per share is a primary focus for the team in 2017 and we will keep you posted on results.

We have set the stage for financing and growth by providing both a clear plan and managing inherited liabilities. We have restructured and extended the convertible bond term for an additional three years, reached a decision in the Hague on our inherited arbitration conflict with the Government of Ukraine, rebuilt the Field Development Plans for Russia and Ukraine, removed needless costs and formed a new execution team.

Whilst we now have the international arbitration result, it was much delayed in coming and we are yet to settle that case with the Government of Ukraine. For this and other reasons, financing the development plan remains a work-in-progress. These are the two major challenges outstanding after our first 12 months.

IMPROVEMENTS

Performance

During the year:

- average production increased 12% to 10,083 boepd (2015: 8,996 boepd);
- Field Development Plans were reconstructed and an enhancement program based on technical potential commenced. Results are positive;
- production has restarted in Hungary after three years of inactivity;
- short term Bond liabilities were renegotiated on favourable terms;
- the monetisation process of our Russian assets continues;
- the Group's technical team was rebuilt and located in Ukraine; and
- significant costs savings were implemented throughout the Group.

Despite the exceptional costs incurred by the Group's non-core activity, I am pleased to report that the Group has maintained positive cash flow for the year, generating $17.0m of cash from operations. The exceptional administrative costs are detailed further in Note 19 to the financial information and discussed in the Financial Review.

Production

Beginning in the second quarter, the Company has calculated the technical potential of existing well stock, matched that potential against current production, and worked to close gaps between actual and potential production in a continuous, systemic manner. This approach slowed the expected natural decline in gas production overall and increased oil production, and we expect further positive results in 2017. This approach will be the basis for managing well stock in our Company going forward. Further details of work completed during the year is provided in our Regional operations update on page 16.

Gas production in Russia was 30% higher at 36.1 MMcfd (2015: 27.7 MMcfd) due to well-27 coming on line in late 2015 and successful workovers and maintenance throughout the year. Gas production in Ukraine was down 11% to 18.6 MMcfd (2015: 21.1 MMcfd) due to the suspension of development drilling since 2015 and the natural decline in the fields, offset by enhancements. Oil production increased by 10% due to work-over activities on the existing well stock.

Ukraine

Average production in Ukraine was down 7% for the year at 4,001 boepd (2015: 4,325 boped). The suspension of development drilling in Ukraine since 2015 and minimal work-over activity led to significant declines in production. Arresting that decline and reversing the trend required the implementation of the enhancement program based on technical potential, a step-up of workover activities in the second half and has seen positive results as of this writing with a production increase of 9.9% month-on-month from January 2016 to January 2017.

Further details of work completed during the year is provided in our Regional operations update on page 16.

Russia

Production and cash flow remains stable with work-over and acid treatments required on a regular basis to combat harsh conditions in our 5000m deep, HTHP wells. We will be replacing production strings with chrome tubing in some wells during 2017 which will result in more stable production and an ability to open chokes due to better control of temperature-related string expansion.

Average production from the Koshekhablskoye field was 6,082 boepd (2015: 4,670 boepd). Periodic acid treatments have been performed during the year to maintain production rates in the four producing wells.

Hungary

In December, a sidetrack of the Hn-2 well on our Hajdunanas field targeted the remaining Pannonian reservoir gas and the oil potential of the underlying Miocene volcanoclastic sequence. This was the first drilling operation completed in Hungary since JKX assumed operatorship in November 2014.

The Hn-2ST well tested 1.5 MMcfd from the Pannonian Pegasus sands and 2.8 MMcfd from a lower Pannonian sand interval; the latter being a newly discovered productive horizon in the field.

Gas sales commenced on 2 February 2017 at an initial rate of 1.8 MMcfd, after a production and sales break of more than three years.

STRATEGY

Field Development Plans ('FDPs')

A crucial step to setting the Company on the path of growing shareholder value was the generation of new Field Development Plans. We rebuilt the development plans from primary geological and production data and with a 'Texas' economic and engineering perspective using the latest best practices in drilling and completions. The results were very encouraging and these FDPs have now given us a map from which we are able to identify exactly where future shareholder value will come from and what resources and personnel will be required to execute these plans.

Ukraine

Perhaps most importantly for shareholders, the reconstruction of the Field Development Plans has revealed that using a modern, North American development approach for the Rudenkivske field could realise over $3bn of gas sales at today's prices. While this is obviously easier said than done, the size of this prize more than justifies the challenges facing our team on the surface.

The Rudenkivske field is estimated to contain 2.8 trillion cubic feet of gas in place (2C). Utilising modern development and completion techniques could result in the production of as much as 600 billion cubic feet of gas over the field's lifetime. Analogous fields to Rudenkivske's structure and depositional environment in North America were identified and their experience and empirical data were used in the Company's planning.

STRATEGIC REPORT

Chief Executive's statement cont/

These North American fields were also previously considered uneconomic, and have recently been successfully developed using advanced well construction and field development design.

The full field development model for the Rudenkivske field includes 135 wells over ten years and results in plateau production of approximately 110 million standard cubic feet per day (18,300 barrels of oil equivalent per day). Total capital investment over the same period is currently estimated at US$660 million, much of which could be financed from operating cash flow.

The primary risk to this development, we should state, is the heterogeneity of the gas-bearing sand lenses and the actual net to gross ratio between sand and shale layers. Both are below the resolution of available seismic data. Large volume, low-viscosity fracturing maximizes our chances of overcoming both of these challenges, and initial wells will be studied carefully to improve our knowledge.

In the fourth quarter, the Company began to implement an enhancement program for the Rudenkivske field in Ukraine with the workover of well NN16, which was completed on 6 November. Initial peak hourly production from NN16 was 16.4 MMcfd of gas and 467 boepd of condensate on a 48/64ths" choke (3,200 boepd total) but has since declined. Gas lift is currently being implemented at well NN16 to restore production and increase overall recovery.

In December well NN47, located in the north of the field, tested gas and condensate from the V-25 interval in the Visean sands - the main focus of the FDP. The well tested an initial maximum rate of 16.9 MMcfd and 668 boepd of condensate on a 137/64th" choke prior to declining to 11.5 MMcfd of gas and 255 boepd of condensate within 36 hours. More information will be provided once production rate has stabilised.

These enhancement projects, in addition to providing increased production, are also providing valuable data that will further refine our development plan for the field.

Monetisation of Russian and Hungarian assets

Russia
The FDP for our Russian gas field resulted in increased 2P reserves at the end of the year mainly due to the addition of reserves attributable to a new Callovian well, which is planned for 2018. The recommended vertical well location intersects a predicted porous reservoir within the Lower Callovian (V), Upper Callovian (I-IV), and Oxfordian reservoirs. Good well control and seismic data provided high confidence that at least one gas target will be productive. Net pay maps have revealed volumes previously not accounted for by material balance. The full potential of this well is currently booked in resources, and will migrate to reserves based on the results of drilling the Callovian well.

Hungary
Following the sale of a 50% interest in a small, early stage gas discovery in June, JKX operates six Mining Plots (production licences) in Hungary covering 200 sq km in which it has a 100% equity interest.

A reassessment of all of our Hungarian licenses is underway and a new FDP for the Hajdunanas field will be produced in 1H 2017. In addition, JKX continues to seek a farm-in partner to participate in the further development of the Group's remaining Hungarian licence interests.

Slovakia
In the Svidnik, Medzilaborce, Snina and Pakostov exploration licences in the Carpathian fold belt in north east Slovakia (JKX 25%), the Operator (DiscoveryGeo) had planned to drill two prospects in 2016 but a combination of revised permitting procedures and local activist opposition has delayed well location permitting and construction. The Operator now hopes to spud the first well of a larger three well programme in 2017.

MINDSET

Teams, operations and efficiencies

A new integrated technical team has been assembled in Kiev which includes eight new staff with wide ranging expertise in the latest equipment, technology and practices in engineering, geology and operations, mainly from North America. These appointments have greatly improved our engineering capacity and our operational teams in Ukraine have been challenged with a new organisational structure, guiding principles and technical/economic approach for 2017. Progress is good so far, and evolving our culture to match our high-performance peers in North America will be a major project for our Company in 2017.

POTENTIAL

The road ahead

2017 will be the year in which we resume development operations in Ukraine. We have a few remaining legacy challenges to overcome first, but the technical plans, execution team and facilities are already in place. The prize is enormous.

In Russia we will continue to seek ways to monetize the asset, and macroeconomics and international political conditions have improved considerably for both Russia and Russian gas. We hope to have more success in monetization this year.

In Hungary and Slovakia we will continue to develop our fields on an opportunistic basis, depending on available financing, and conduct a detailed re-assessment of our development plans there based on our side-track results.

On the corporate level, we continue to mitigate short-term liabilities and seek financing for operations. Progress was significant in 2016, and we intend to finalize our corporate issues during the course of this year.

On 6 February 2017, the international arbitration tribunal issued its Award on the Company's claims against Ukraine and ruled that Ukraine was found not to have violated its treaty obligations in respect of excessive levying of production taxes, but awarded the Company damages of approximately $11.8 million plus interest, and costs of $0.3 million in relation to subsidiary claims. While disappointed with the overall result, the end of this arbitration presents us with an opportunity to settle terms with the Government if Ukraine and agree to terms under which the Company can drop its various legal strategies and get back to drilling for oil and gas.

We remain involved in litigation in Ukraine and have made provisions against potential liabilities arising from separate court proceedings over the amount of production taxes paid, which total approximately $33.9 million (including interest and penalties, see Note 27 to the consolidated financial statements). While we continue to contest these claims through the Ukrainian legal system, we also feel it appropriate to fully provide for the liabilities.

Once we have mitigated the Group's short-term litigation risks with the Ukrainian Government, development drilling in Ukraine will recommence and we will seek sources of capital to expand and accelerate the drilling campaign.

The process of monetisation of our Russian asset continues, which includes maximising cash generation and cost-cutting and the repatriation of surplus funds. We will update shareholders as soon as appropriate with specific progress.

The Board continues to believe that the Company has great potential given its current geological, physical and human assets. We have an exceptionally talented team from the board room to the rigs, and I am personally proud to be associated with such a group of individuals and optimistic on our future.

I wish to thank all the JKX staff for their support and professional performance and thank our shareholders for their ongoing confidence in our team and our strategy.

Tom Reed
Chief Executive Officer

STRATEGIC REPORT

Our objective

By 2020, to become the Ukrainian gas industry champion in production, business practice, transparency and technology – the location of choice, for foreign investment in exploration and production.

To monetise our assets in Russia, Hungary and Slovakia.

Strategic priorities

NEW CULTURAL APPROACH

Motivated high performing team.

JKX's strategy requires people who are experienced in using best-in-class development know-how, equipment and technology.

COMMUNICATION

Extreme transparency in all communications

Extreme transparency builds trust between all stakeholders and is key to attracting new investors.

PRODUCTION

Highly effective, profitable production.

We will continue to develop our fields based on what's possible in the world of petroleum engineering, physics and execution.

STRATEGIC REPORT

Strategic priorities

NEW STRATEGY

Strategy relaunch

On 28 January 2016, the entire Board of JKX changed. The new Board brought a new perspective and different ideas on how to restore shareholder value at JKX. Therefore, through most of 2016, JKX's strategy, its strategic priorities and performance measures were changing from those defined by previous management and documented in the 2015 Annual Report.

New strategy – formulation and definition

From February 2016 onwards, the new Board undertook a comprehensive review of all of JKX's fields, assets and staff in order to redefine and refocus JKX's strategy.

To support the new strategy, Field Development Plans ('FDPs') for all our operated licences were rebuilt with the assistance of several technical advisers having a broad range of global and regional expertise.

Summary FDP results by country

Ukraine: a large-scale field development opportunity exists within our existing Rudenkivske licence which includes 135 wells over ten years and results in plateau gas production of approximately 110 million standard cubic feet per day (18,300 barrels of oil equivalent per day). We have also identified numerous enhancement projects on our other fields which we have already started to execute.

Russia: operations, production and cash flow are now stable in Russia. Production can be increased in 2017 with several well workovers to the Oxfordian reservoir. Significant improvements in production can be obtained from a single well to the deeper Callovian reservoir which would intersect predicted porous reservoirs within the Lower Callovian (V), Upper Callovian (I-IV), and Oxfordian horizons.

Hungary and Slovakia: appraisal and exploration potential exists but smaller in size, scale and cost when compared with the opportunities in Ukraine and Russia. Regardless, a sidetrack operation was successfully executed in late 2016 and production flowed from our Hungarian asset in February 2017 for the first time in three years.

Significantly more detail on these opportunities and our plans is provided on pages 8 to 10.

Company values and guiding principles have been defined (see page 13) to underpin our objective and strategy.

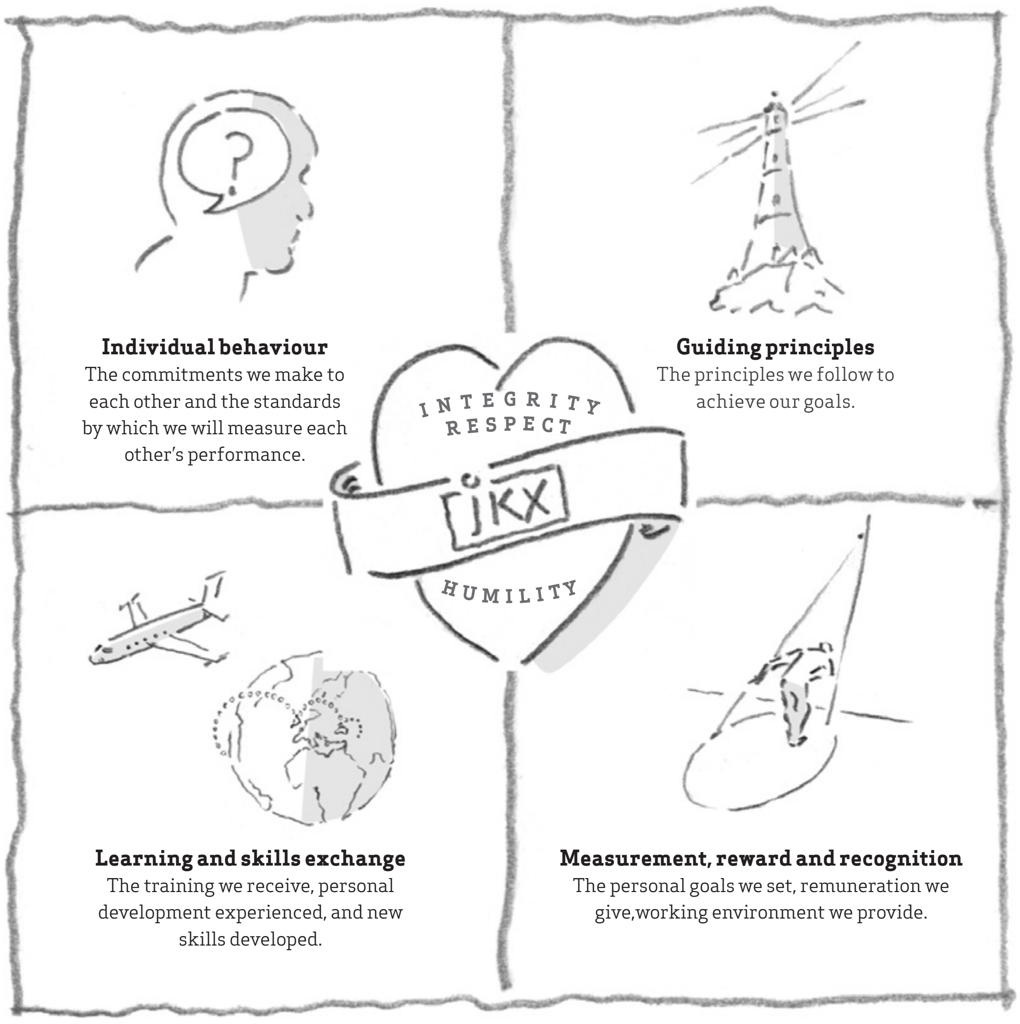
The following pages define JKX's strategic priorities and sets out our progress, performance, outlook and risks associated with each priority.

1

NEW CULTURAL APPROACH

Motivated high performing team

'The key to achieving and successfully executing the FDPs is to ensure that we have a whole new cultural approach based on 'what's possible' in the world of petroleum engineering, physics, and execution, '



KPIs

Staff turnover

9%

All Injury Frequency Rate

Zero

Lost Time Injuries

Zero

Why is having the best team important?

JKX's reconstructed Field Development Plans ('FDPs') demonstrate the potential for a significant increase in production at our Ukrainian fields. To execute the FDPs successfully requires teams who are experienced in using best-in-class development know-how, equipment and technology, but who are able to apply it within our specific geographies.

The key to achieving and successfully executing the FDPs is to ensure that we have a whole new cultural approach based on 'what's possible' in the world of petroleum engineering, physics, and execution, rather than trying to achieve incremental improvements on what has been done previously. We use the best people to create motivated, high-performing teams, and these teams apply new, up-to-date technical and business practices, including the application of world-class health and safety standards in everything we do.

How we go about creating the best team

JKX has set Group-wide values and guiding principles to follow in everything that we do. A continuing priority of the Board is to strengthen corporate culture with a focus on transparency, inclusivity and individual responsibility, with a tolerance for individual error so long as it leads to continuous improvement.

Our best teams will come from the participation in internal and external training and development programs for current JKX staff which will demonstrate what's possible from using latest technology, and from engaging new staff who have experience of applying North American techniques and can apply them to our fields in Ukraine. We have engaged experts in the latest drilling, engineering and sub-surface technology, mainly from North America, to join our local staff and ensure that best practice is applied in all parts of the FDP execution.

We aim to attract and retain the best people by offering attractive remuneration packages and working environments, and by providing daily challenges and opportunities for personal development. We support our staff with appropriate health and safety systems to maintain our strong health and safety culture throughout the Group (see pages 22 to 24)

Progress in 2016

The London head office staff numbers were reduced and a new integrated technical team has been assembled in Kiev. The new team includes eight new staff with wide ranging expertise in the latest equipment, technology and practices in engineering, geology and operations.

We have moved to a larger office in Kiev which has an attached training facility which was completed and used for the first time in February 2017.

Remuneration packages have been reviewed and bonus elements restructured to incorporate increased reward for the exceptional achievements of individuals, teams and the Group as a whole. This effort will continue throughout 2017 assisted by new HR professionals employed in both Kiev and Poltava.

JKX's organizational structure has been redefined as has its values, guiding principles and individual behaviours.

Values – the non-negotiable promises we make to the world.

Guiding principles – the principles we follow to achieve our goals.

Individual behaviours – the commitments we make to each other and the standards by which we will measure each other's performance.

A Cultural Change Program has been planned and implemented by the Board which includes training and education targets for staff at all our operations. This program requires the Executive Board and senior London-based staff to travel to our operations more frequently to deliver elements of the Cultural Change Program across all local teams – technical, finance and legal. These frequent visits to our operations in Ukraine and Russia by the Board and senior staff is a significant change in approach to internal communications and culture and will generate a multiplier-effect, resulting in local staff taking up the continuous improvement and development responsibilities.

A Cultural Change Implementation group has been set up and a HR Manager engaged in Kiev to ensure that all staff are engaged, understand how they can demonstrate these changes and what it means to them individually.

In December, Viktor Gladun was appointed as the General Director of JKX's Ukrainian operating subsidiary, Poltava Petroleum Company. Viktor has more than 13 years' experience of working in the energy industry in Ukraine. To support Viktor, Igor Kravchenko has been appointed as the new Chief Lawyer at PPC. Igor has significant experience of the Ukrainian legal process and previously worked for a US law firm. These appointments together with the strong leaders we already had in place, have significantly strengthened the Poltava management team and material improvements in execution, culture and working practices are evident on a daily basis.

Outlook

We are in the process of implementing a more transparent performance management system for all staff which includes defining personal objectives, increasing the proportion of performance-based payments in remuneration packages and ensuring that compensation and benefits remain high when compared with our peers. We have implemented this for senior staff and expect to have this in place by the end of 2017 for all remaining employees.

The Cultural Change Program will continue through 2017 as will the education and training programs designed to further embed our Values, Guiding Principles and Individual Behaviours in everything that we do. We will report progress in our operational updates throughout 2017.

The new training facility in our Kiev office will be used in training our staff in world-class practices in engineering, geology and operations.

Risks

The FDPs are technically complex and require application of latest drilling, completion and engineering technologies used in North America. Some of the latest technologies needed to successfully execute the FDPs are not available in Ukraine and will need to be imported.

The scale of the FDPs, in particular the Rudenkivske full-field development, by far exceeds what has been achieved before by JKX.

Just doing our job better will not be enough to achieve success with the FDPs. There needs to be a significant improvement in performance throughout the business. The task requires our staff to change the way they think and operate, which can be a difficult and time-consuming process. In order to achieve a 10x increase in deliverables, a 10x increase in execution, team-work and problem solving is required.

Guiding principles
- Targeting technical potential
- Extreme transparency
- Personal responsibility
- Meritocracy
- Data driven decision making
- Tolerance to honest mistakes

Individual behaviour
- Take personal ownership
- Speak up
- Make decisions and own them
- Look for solutions, not problems
- Be courageous about initiatives

Values
- Integrity
- Respect
- Humility

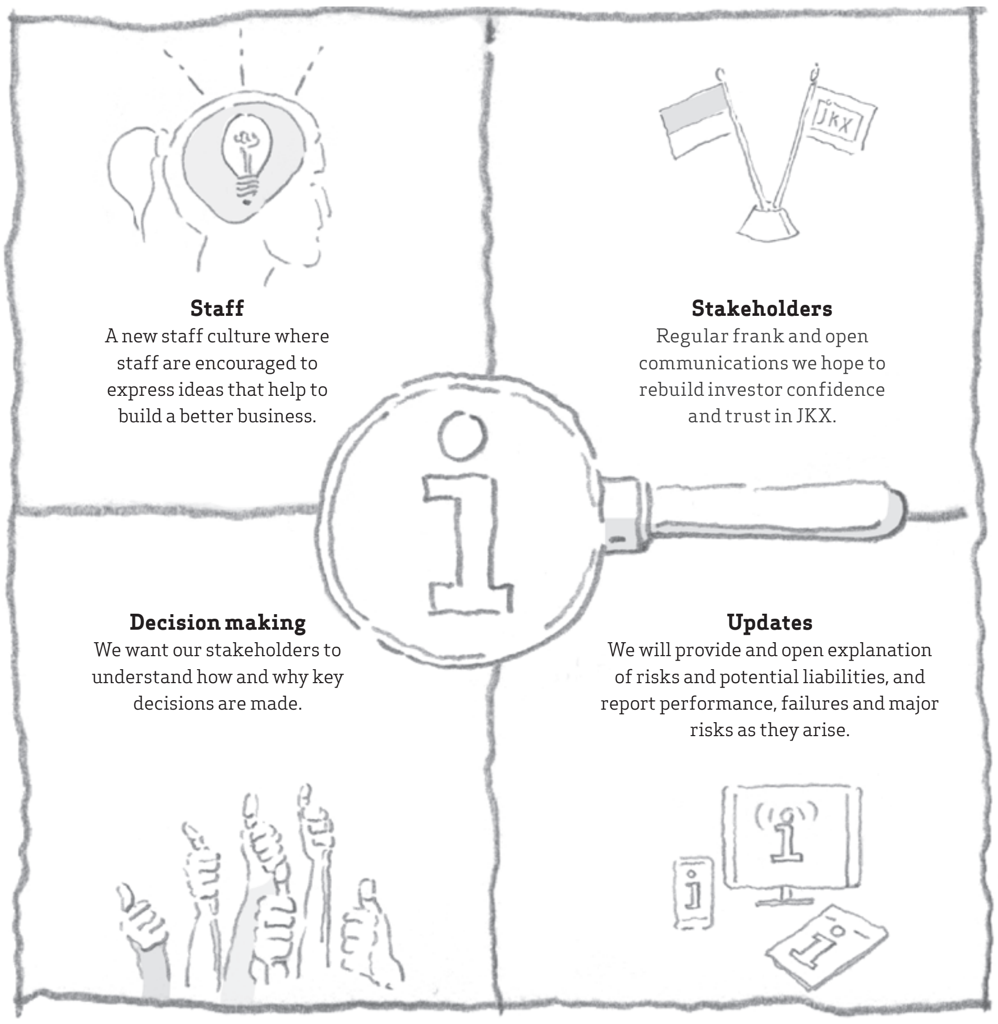
STRATEGIC REPORT

Strategic priorities cont/

2

COMMUNICATION

Extreme transparency in all communications, both internal and external



KPIs

Number of all-staff "Town Hall" meetings held by Executive Board in Ukraine, Russia and UK

3

Total announcements to the London Stock Exchange

37

Presentations by the Board and senior management at external industry events

8

"In these reports and other market announcements, we have been as open and honest as we can on all material matters, in particular with regard to our litigation risks as we continue to defend our operations through the weak Ukrainian court system."

Why is extreme transparency in communications important?

Extreme transparency builds trust between JKX and all of its stakeholders, in particular staff, shareholders and governments. Extreme transparency is key to attracting new investors. Transparency is achieved by most public companies simply by following the disclosure guidelines. Extreme transparency can only be achieved by stepping beyond those guidelines and reporting all relevant information, both positive and negative.

How we go about it

Extreme transparency is one of JKX's guiding principles which we expect all staff to follow. We expect extreme transparency to become embedded within our new staff culture with staff encouraged to openly express ideas that help to build a better business.

We want our stakeholders to understand how and why key decisions are made.

In all our external communications, we aim to provide information that exceeds the compliance requirements of being a London-listed company.

Our target is to provide regular updates about the Company's progress with an open and frank explanation of risks and potential liabilities, reporting performance, failures and major risks as they arise.

We will disclose what we can about our plans to overcome the Company's many challenges.

Progress in 2016

In February 2016, JKX commenced detailed quarterly operational updates to the market followed by monthly production reports starting in November 2016.

In these reports and other market announcements, we have been as open and honest as we can on all material matters, in particular with regard to our litigation risks as we continue to defend our position through the complex Ukrainian court system.

The Board has had "Town Hall" meetings with staff in UK and Ukraine in 2016 and will expand this practice during 2017. The Executive Board has visited our operations in Russia and Ukraine 15 times in total during 2016 to deepen their understanding of the operations and to share their strategic plans with staff.

Outlook

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

The monthly production reports and quarterly operational updates will continue, as will regular "Town Hall" meetings with all our staff in Ukraine, Russia and UK.

The Board's priority for 2017 is to expand and improve JKX's communications with all its stakeholders through new channels, events and media. The communication will be focused on transparent reporting of operational and financial performance and open reporting on our challenges and the major risks to our business.

Risks

Too much communication could result in communication fatigue such that our audience tires from JKX's information overload and as a result important matters may be missed by readers.

In addition, if we do not deliver on commitments that we have been communicating voluntarily through our extreme transparency principle, it may damage the trust that we have with our stakeholders.

3

PRODUCTION

Highly effective, profitable production

"We 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 local drilling rig can do."

Rudenkivske field
Rudenkivske field is estimated to contain 2.8 trillion cubic feet of gas in place.

Recoverable reserves 17 bcm
Rudenkivske field – The FDP approved by DeGolyer & McNaughton includes recoverable reserves of 17 bcm.

Production plateau 1.1 bcma
The FDP model for JKX's Rudenkivske field in Ukraine includes 135 wells drilled over ten years and results in plateau production of approximately 110 million standard cubic feet per day (18,300 barrels of oil equivalent per day).

Safe working practice
It is vital that we also operate safely and responsibly, we see it as part of every day operational effectiveness.

KPIs

Production volumes

10,083 boepd

↑ 12.1%

Production costs

$5.38 per boe

↓ 27.8%

Group profit/(loss) (pre-exceptional items)

$(7.5)m

↓ 71%

Operating cash flow

$17.0m

↑ 33.1%

Why is profitable production 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. It should be noted that 99% and 81% of our total production in Russia and Ukraine, respectively, is gas.

How we go about improving production profitably

We 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 the year before, or what the local drilling rig is currently capable of doing. By targeting maximum engineering performance, and dealing with the local and technical shortcomings as they arise, we create a world-class performance organisation and ensure profitability is maximised in the long term.

JKX's Field Development Plans ('FDPs') were reconstructed in 2016. The FDPs show that JKX has the geological resources to significantly increase production.

In Ukraine, the FDPs focus on significantly increasing production by unlocking the potential of the Rudenkivske gas field, which was previously considered uneconomic, by applying latest drilling, completion and engineering technologies that are used in North America.

Our approach is to execute the FDPs using experts in latest drilling, engineering and sub-surface technology from North America to work with our staff in the application of latest technology and best practice.

The appraisal phase of the FDP is economically attractive and will allow for field evaluation through low cost workover and stimulation of existing wells and to generate cash flow to partially fund the full field development ('FFD').

As well as operating efficiently, it is vital that we also operate safely and responsibly (see pages 22 to 28).

Progress in 2016

A new Board was appointed at JKX on 28 January 2016. After visiting the Group's main assets within 30 days of its appointment, the Executive Board engaged several North American technical advisers with a broad range of global and regional expertise to work with JKX's technical teams to reconstruct the FDPs.

In 2016, JKX's FDPs were rebuilt by reviewing and correlating primary technical data with current production and by applying modern development and completion techniques such as those used in North America.

In Ukraine, this work has focused on unlocking the potential of the Rudenkivske gas field which was previously considered uneconomic.

According to the reconstructed FDP, the Rudenkivske field is estimated to contain 2.8 trillion cubic feet of gas in place (2C). Utilizing modern development and completion techniques could result in the production of as much as 600 billion cubic feet of gas over the field's lifetime and incremental production of up to 24,000 boepd.

In 2016, production increased by 12.1% to 10,083 boepd with minimal capital expenditure of $5.7m.

Our health, safety and environmental performance has improved in 2016. See pages 22 to 28 for more detail.

Outlook

The appraisal phase of the Ukrainian FDP is continuing. This includes well enhancements (perforations) to gain experience of working over old wells, testing FDP hypotheses and gathering data. We will continue to report FDP progress in our quarterly operational updates through 2017.

In 2017 we expect to complete regulatory approvals, commercial agreements and secure a rig and frac fleet to fracture some carefully selected legacy wells.

The FFD model for JKX's Rudenkivske field in Ukraine includes 135 wells over ten years and results in plateau production of approximately 110 million standard cubic feet per day (18,300 barrels of oil equivalent per day). Total capital investment over the same period is currently estimated at US$660 million, although this is subject to both upward and downward revision as we continue the appraisal work.

In Russia, two tubing replacements are planned in 2017. One of these, well-5, is currently shut-in and once completed will bring additional production capability at the plant.

Risks

Production in the FDP is based on assumptions about the future performance of our oil and gas reservoirs. These are estimates based on a risk-based approach using past production and sub-surface data collected using various recognised techniques.

These reservoirs may not perform as expected, exposing the Group to lower profits and less cash to fund planned development.

Development and improving profitable production 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.

We have not drilled a well in Ukraine in several years and never in Russia. FFD will depend on results from the appraisal phase, the ability to reduce well costs, and the willingness of the Ukrainian Government to improve investment climate, in particular, to reduce gas production taxes.

STRATEGIC REPORT

Regional operations update

A winters day at the Poltava production plant

GROUP PRODUCTION

In 2016 Group average production was 10,083 boepd (2015: 8,996 boepd), comprising 54.7 MMcfd of gas (2015: 48.7 MMcfd) and 967 bpd of oil and condensate (2015: 871 bpd), an overall increase in production of 12%.

UKRAINE

Novomykolaivske licences

Production

Average production from the Novomykolaivske group of fields in 2016 was 2,553 boepd (2015: 2,611 boepd) comprising 10.0 MMcfd of gas (2015: 10.9 MMcfd) and 879 bpd of oil and condensate (2015: 794 bpd). Despite the cancellation of all development expenditure since early 2015, oil production increased by 11% in 2016 while gas production decreased by 8%, although the decline in gas production has to be viewed in the context of a declining field and lack of an effective development plan in the first half of the year. We have implemented an enhancement program targeting the technical potential of existing well stock which has resulted in the increase in oil production and enabled a smaller reduction in gas production than would otherwise have been the case. The decline in gas is mainly attributed to a year on year natural decline of 1.5 MMcfd observed in the Ignativske field.

Development and drilling

No drilling took place in 2016 as the new board focused on rebuilding Field Development Plans ('FDPs') using global best practices, including drilling, fracturing and completion techniques from North America. Several technical advisors with a broad range of global and regional expertise were engaged.

The FDP for Ukraine identifies a technical solution to potentially unlock approximately 600 billion cubic feet of recoverable gas reserves previously considered uneconomic at the Rudenkivske gas field in addition to significant enhanced oil recovery opportunities in existing fields.

Work commenced on the initial stages of the FDP, including the acquisition and preparation of existing wellbores for stimulation, and the re-start of water injection into Ignativske. Production optimisation operations continued with the TW-100 and the recently leased Cooper LTO-550 and ZJ-20 workover rigs and rigless interventions.

- As part of the re-start of the Ignativske pilot waterflood project in the first half of last year, re-pressurisation of IG138 occurred in July. This led to the opening of the well in August and production of 5.5 Mstb of oil in the following two months. An electrical submersible pump was sourced for IG110 which will enable injection to be increased to 10,000 bbls/d as part of the FDP.
- A cement plug over the T2 and Devonian Sands was drilled out in IG-132, which resulted in a significant increase in production. Initial rates were over 1,100 bbls/d and total incremental production was 96 Mstb of oil and 129 MMcf of gas.
- In the Movchanivske North Field M171 was worked over to deepen the gas lift, followed by M153 where additional perforations were also added. Both of these projects were as a result of the newly generated enhancement list and both added to oil production quickly and with minimal investment.
- Rigless interventions included velocity string installations in M155, M157, M159, M162, M167, and IG106. In addition, a plunger lift system was installed in M160. All of these installations increased gas and condensate production quickly and with minimal investment.
- Successful re-entry of two old leased wells, NN16 and NN47, was completed in the Rudenkivske field. NN16 recovered a total of 100 MMcf of gas and 1.9 Mstb of condensate from the Devonian horizon in the southern part of the field. At the year end, NN47 had recovered a total of 37 MMcf of gas and 1.7 Mstb of condensate from the Visean horizon in the Northern part of the field. The success of both of these projects was due to the use of modern perforating technologies.
- Work started on 19R to prepare the well for fracturing in 2017 as outlined in the FDP.
- 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 of wax clearance has stabilised oil production.

Production facilities

Operations at the main processing facility, the LPG plant and the oil loading facility continued smoothly throughout the year. A new water treatment vessel was installed at the main processing facility. Minor piping modifications continue to enhance production. A routine annual plant shutdown of 2 days for maintenance was successfully completed in September.

Improvements at the oil loading terminal included an upgrade of the fire protection system and the installation of an additional loading point to enable loading of road tankers in addition to rail cars.

Elyzavetivske production licence

Production

Average production from the Elyzavetivske field in 2016 was 1,448 boepd (2015: 1,715 boepd) comprising 8.6 MMcfd of gas (2015: 10.1 MMcfd) and 23 bpd of condensate (2015: 29 bpd), an overall 16% decrease in production.

Development and drilling

There was no drilling activity on the Elyzavetivske field during the year although new field development plans on the Elyzavetivske field and West Mashivska licence were completed.

Production facilities

The Elyzavetivske production facility continues to operate efficiently and there have been no further changes.

RUSSIA

Koshekhablskoye licence

Production

Average production from the Koshekhablskoye field in 2016 was 6,082 boepd (2105: 4,670 boepd) comprising 36.1 MMcfd of gas (2015: 27.7 MMcfd) and 65 bpd (2015: 48 bpd) of condensate, a 30% increase on the average for 2015. This increase is due mainly to full year of production from well-27 which came back on line in late 2015.

Licence obligations

The Group's Russian operating subsidiary Yuzhgazenergie ('YGE') maintains a regular dialogue with Rosnedra, the licencing authority, to ensure that the authorities are kept abreast with progress on the field development and the associated exploration and reserves determination commitments.

Rosnedra, is fully aware that there are certain licence commitments under YGE's Koshekhablskoye licence which have not been met and have issued YGE with notices to this effect. YGE is addressing these issues and expects to resolve them in 2017.

Development and drilling

After completion of the well-27 workover at the end of 2015, there were no additional workover activities in 2016. Routine acid treatment has been carried out using coiled tubing on the main producing wells.

Production from well-20 has declined from 17.5 MMcfd to 14.1 MMcfd through the year without any additional acid stimulation. During a routine wireline operation in the middle of the year a fish was lost in the hole which has prevented further acid stimulation taking place, but despite this production has remained relatively stable.

The north flank well-25 has been producing gas at rates between 5.5-12.4 MMcfd with three acid treatments in the year. Well-27 has been producing gas at rates between 8.3–12.2 MMcfd on a monthly average basis, having required eight acid treatments through the year. The deep east-flank well-15 continues to produce approximately 0.6 MMcfd on a monthly average basis.

Production facilities

There were no changes to the facilities in 2016. An unscheduled shutdown of the plant in May was prolonged in order to complete the annual maintenance which had originally been planned for later in the year.

Reserves audit

A reserves audit was carried out by Degoyler and MacNaughton in 2016 which increased total 2P reserves for the field to 80.3 MMboe (2015: 66.1 MMboe). Proved reserves have been slightly reduced, due to higher resolution geological modeling showing slightly less drainage area. Probable reserve categories have increased due to the addition of reserves attributable to a new Callovian well, which is planned for 2018, and net pay maps revealing volumes previously not accounted for by material balance.

HUNGARY

JKX now operates the following six new Mining Plots (production licences) in Hungary covering 200 sq km and which are 100% owned by Riverside Energy Kft, the Company's wholly-owned Hungarian subsidiary:

Hajdunanas IV	28 sq km
Hajdunanas V	7 sq km
Tiszavasvari IV	41 sq km
Emod V	100 sq km
Pely I	18 sq km
Jaszkiser II	6 sq km

The licence terms enable JKX to carry out appraisal and development activity over a 30 year period.

Hajdunanas field

Production from the Hajdunanas and Gorbehaza Fields in north east Hungary, which form the Hajdunanas IV Mining Plot, was suspended by the previous operator in 2013.

In December, a sidetrack of the Hn-2 well was started to access the remaining Pannonian reservoir gas and to test the oil potential of the underlying Miocene volcanoclastic sequence, which was previously productive in the Hn-1 well. This was the first drilling operation completed since JKX assumed operatorship in November 2014.

The Hn-2ST well tested 1.5 MMcfd from the Pannonian Pegasus sands and 2.8 MMcfd from a lower Pannonian sand interval. The latter is a newly discovered productive horizon in the field.

Gas sales commenced on 2 February 2017 at an initial rate of 1.8 MMcfd, after a production and sales break of more than three years. Production forecasting and development planning is underway and future work may include a workover of the existing Hn-1 well to add production from the Lower Pannonian reservoir interval.

JKX continues to seek a farm-in partner to participate in the further development of the Hajdunanas field and the Group's other Hungarian licence interests.

Turkeve IV Mining Plot

During the year, JKX sold its 50% beneficial interest in the Ny-7 discovery (within the Turkeve IV Mining Plot) to the operator.

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. A programme of magneto-telluric geophysical surveys combined with seismic re-interpretation has led to the identification of a number of shallow prospects across the licences.

The 128 sq km Pakostov licence was applied for and approved in 2015 as protection acreage around material prospects identified in the Medzilaborce licence. The Operator (DiscoveryGeo) had planned to drill two of these prospects in 2016 but a combination of revised permitting procedures and local activist opposition has delayed well location permitting and construction. The Operator now hopes to spud the first well of a larger three well programme in 2017.

STRATEGIC REPORT

Reserves and resources

Consultants DeGolyer & MacNaughton ('D&M') conducted an evaluation of the Group's reserves and resources position as at 31 December 2016 and a summary is presented in the tables below.

Total remaining 2P reserves at 31 December 2016

PRODUCTION SUMMARY	31 Dec 2015	Production	Revisions	31 Dec 2016
Total				
Oil (Mbbl)	3.9	(0.4)	0.3	3.9
Gas (Bcf)	551.0	(20.0)	101.6	632.6
Oil + Gas (MMboe)	95.8	(3.7)	17.2	109.3
Ukraine				
Oil (Mbbl)	3.3	(0.3)	0.1	3.1
Gas (Bcf)	158.4	(6.8)	4.0	155.6
Oil + Gas (MMboe)	29.7	(1.5)	0.8	29.1
Russia				
Oil (Mbbl)	0.7	(0.0)	0.1	0.8
Gas (Bcf)	392.5	(13.2)	97.7	476.9
Oil + Gas (MMboe)	66.1	(2.2)	16.4	80.3

P+P (2P) reserves

Proved and Probable (2P) Group reserves increased from 95.8 MMboe at year end 2015 to 109.3 MMboe at 31 December 2016. The changes are shown on a field-by-field basis in the table below:

MMboe	Dec 2015	Production	Revisions	Dec 2016
Ukraine				
Ignativske	3.0	(0.5)	1.4	3.9
Movchanivske	1.6	(0.2)	(0.8)	0.6
Novomykolaivske	0.8	(0.1)	0.1	0.7
Rudenkivske	20.6	(0.0)	1.6	22.2
Zaplavska	0.5	–	(0.5)	0.0
sub-total Novo-Nik production licences	26.4	(0.9)	1.9	27.4
Elyzavetivske	3.2	(0.5)	(1.0)	1.7
Total Ukraine	29.7	(1.5)	0.8	29.1
Russia				
Koshekhablskoye	66.1	(2.2)	16.4	80.3
Total	95.8	(3.7)	17.2	109.3

JKX P+P+P (3P) reserves

D&M also carried out a full assessment of the upside potential in each field, the "Possible" reserves. These reserves have been calculated independently by D&M and are outlined below.

MMboe	P+P+P
Ukraine	
Ignativske	5.6
Movchanivske	0.7
Novomykolaivske	0.8
Rudenkivske	38.7
Zaplavska	0.0
sub-total Novo-Nik production licences	45.8
Elyzavetivske	3.5
Total Ukraine	49.3
Russia	
Koshekhablskoye	120.0
Hungary	
Hajdunanas	0.2
Total	169.5

JKX contingent resources

These contingent resources disclosed below 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)
Ukraine			
Ignativske	12.0	17.5	50.1
Movchanivske	0.0	1.3	2.8
Novomykolaivske	0.0	0.0	0.1
Rudenkivske	9.3	101.4	381.8
Zaplavska	0.0	0.4	1.4
sub-total Novo-Nik production licences	21.3	120.6	436.2
Elyzavetivske	0.0	6.2	20.8
Total Ukraine	21.3	126.8	457.0
Russia			
Koshekhablskoye	24.1	74.8	107.5
Hungary			
Hajdunanas	0.0	0.0	0.0
Tiszavasvari 6	0.2	0.3	0.7
Total	45.7	201.8	565.2

STRATEGIC REPORT

Performance in 2016

PRODUCTION SUMMARY	Total 2016	Second half 2016	First half 2016	Total 2015
Production				
Oil (Mbbl)	354	174	180	318
Gas (Bcf)	20.0	9.8	10.2	17.8
Oil equivalent (Mboe)	3,691	1,810	1,881	3,283
Daily production				
Oil (bopd)	967	945	993	871
Gas (MMcfd)	55	53	56	49
Oil equivalent (boepd)	10,083	9,833	10,393	8,996

OPERATING RESULTS	Total 2016 $m	Second half 2016 $m	First half 2016 $m	Total 2015 $m
Revenue				
Oil	15.8	9.6	6.2	14.6
Gas	54.3	26.4	27.9	68.7
Liquefied petroleum gas	3.8	2.5	1.3	4.6
Other	–	–	–	0.6
	73.8	38.4	35.4	88.5
Cost of sales				
Exceptional item – production based taxes	(24.3)	(24.3)	–	(10.9)
Exceptional item – provision for impairment of oil and gas assets	(2.0)	(2.0)	–	(51.1)
Other production based taxes	(17.7)	(9.1)	(8.6)	(26.2)
Depreciation, depletion and amortisation – oil and gas assets	(18.8)	(8.1)	(10.7)	(26.1)
Other operating costs	(19.5)	(9.8)	(9.7)	(24.4)
	(82.4)	(53.3)	(29.0)	(138.7)
Total cost of sales	(82.4)	(53.3)	(29.0)	(138.7)
Gross profit before exceptional item	17.8	11.4	6.4	11.8
Gross (loss)/profit after exceptional item	(8.5)	(14.9)	6.4	(50.1)
Operating expenses				
Exceptional items	(4.5)	(1.4)	(3.1)	(3.0)
Administrative expenses	(22.2)	(12.6)	(9.6)	(17.5)
Gain/(loss) on foreign exchange	0.4	(0.1)	0.5	(4.9)
Loss from operations before exceptional items	(3.9)	(1.1)	(2.8)	(10.7)
Loss from operations after exceptional items	(34.8)	(29.0)	(5.8)	(75.6)

EARNINGS	Total 2016	Second half 2016	First half 2016	Total 2015
Net loss ($m)	(37.1)	(27.0)	(10.1)	(81.5)
Net loss before exceptional items ($m)	(7.5)	(0.5)	(7.0)	(25.8)
Basic weighted average number of shares in issue (m)	172	172	172	172
Loss per share before exceptional item (basic, cents)	(4.34)	(0.25)	(4.09)	(14.97)
Loss per share after exceptional item (basic, cents)	(21.56)	(15.70)	(5.86)	(47.32)
Pre-exceptional earnings before interest, tax, depreciation and amortisation ($m)[1]	15.8	7.4	8.4	16.9

REALISATIONS	Total 2016	Second half 2016	First half 2016	Total 2015
Oil (per bbl)	$45.94	$49.65	$39.92	$49.75
Gas (per Mcf)	$2.95	$2.94	$2.96	$4.20
LPG (per tonne)	$375	$496	$254	$442.59

COSTS OF PRODUCTION ($/boe)	Total 2016	Second half 2016	First half 2016	Total 2015
Production costs (excluding exceptional item)	$5.38	$5.33	$5.43	$7.45
Depreciation, depletion and amortisation	$5.05	$5.90	$5.67	$7.94
Production based taxes	$4.89	$5.21	$4.57	$8.00

CASH FLOW	Total 2016	Second half 2016	First half 2016	Total 2015
Cash generated from operations ($m)	17.0	9.2	7.8	12.8
Operating cash flow per share (cents)	9.9	5.4	4.5	7.4

STATEMENT OF FINANCIAL POSITION	Total 2016	Second half 2016	First half 2016	Total 2015
Total cash[2] ($m)	14.3	14.3	18.6	26.3
Borrowings (excluding derivatives) ($m)	16.8	16.8	23.8	34.4
Net debt[3] ($m)	(2.5)	(2.5)	(5.2)	(8.1)
Net (debt)/cash to equity (%)	(1.6)	(1.6)	(2.9)	(4.6)
Return on average capital employed[4] (%)	(22.4)	(11.0)	(11.4)	(35.8)
Increase in property, plant and equipment/ intangible assets ($m)				
Ukraine	4.0	2.6	1.5	2.8
Russia	0.3	(0.3)	0.6	5.2
Other	1.3	1.2	0.1	0.7
Total	5.6	3.5	2.2	8.7

For full governance sections and financial statements refer to the document above (enclosed with this report) and also available online: **www.jkx.co.uk**

1 Earnings before interest, tax, depreciation and amortisation ('EBITDA') is a non-IFRS measure and calculated using Loss from operations of $34.8m (2015: $75.6m) and adding back depletion, depreciation, amortisation and exceptional items of $50.6m (2015: $92.5m). 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 loss for the period divided by average capital employed.

STRATEGIC REPORT

Financial review

"A year of challenging transformation, with an ambitious and demanding plan to deliver a significant increase in shareholder value."

Russell Hoare
Chief Financial Officer

Group revenues

(16.6%)

	2016 ($m)	2015 ($m)	Change ($m)	% Change
Ukraine	54.8	72.2	(17.4)	(24.1)
Russia	19.0	16.3	2.7	16.6
Total	73.8	88.5	(14.7)	(16.6)

Realisations

	2016	2015	% Change
Ukraine			
Gas ($/Mcf)	5.92	7.65	(22.6)
Oil ($/bbl)	45.94	49.75	(7.7)
LPG ($/tonne)	374.81	442.59	(15.3)
Russia			
Gas ($/Mcf)	1.49	1.68	(11.3)
Group			
Gas ($/Mcf)	2.95	4.20	(29.8)
Oil ($/bbl)	45.94	49.75	(7.7)
LPG ($/tonne)	374.81	442.59	(15.3)

Average exchange rates

	2016	2015	Change	% Change
Russia (Roubles/$)	66.83	61.31	(5.52)	(9.0)
Ukraine (Hryvnia/$)	25.59	22.12	(3.47)	(15.7)

When I joined the Board on January 28th 2016, there were several financial challenges facing the Company, not least the need to finance or restructure the 2013 Convertible Bonds (the 'Bonds') and resolve several legal processes and associated liabilities. This was in the context of low hydrocarbon pricing, recent depreciation of local currencies and a need to formulate a new strategy for the Company. In the narrative below it can be seen how we have addressed these challenges and enter 2017 in a healthier financial position.

Results for the year

The Group recorded a loss for the year of $37.1m (after exceptional charges of $29.7m (net of tax effects), mainly relating to the provision for production based taxes for 2015 and replacement of the Board in January 2016) which is significantly lower than the loss of $81.5m (after exceptional charges of $55.7m (net of tax effects), mainly relating to impairment charge for oil and gas assets and the provision for production based taxes for 2010) in 2015. The loss before exceptional items has decreased from $25.8m to $7.5m with lower realisations in both Ukraine and Russia (due to significant volatility and depreciation in local currencies) and lower gas production in Ukraine, being offset by increased production in Russia due to well-27 coming back on line and some reductions in costs (also affected by local currency depreciation).

Revenue

Despite production gains of 12% across the Group, significantly lower commodity prices and the weakening of local currencies resulted in a 16.6% fall in revenues to $73.8m (2015: $88.5m). If we adjust 2015 revenues for the weakening in local currencies, the fall in revenues was only $4.0m or 5% (see revenue bridge chart).

Ukrainian revenues

Gas sales volumes in Ukraine were 7.3% lower at 3,661 boepd (2015: 3,948 boepd) as a result of reduced gas production to 3,099 boepd (2015: 3,503 boepd) due to the suspension of all drilling activity in Ukraine in early 2015. The natural decline in production was successfully mitigated by workovers and well-intervention treatments.

In Ukraine, average gas realisations in US Dollars declined by 22.6% from $7.65/Mcf to $5.92/Mcf mainly due to the 15.7% devaluation of the Hryvnia. Before the introduction of a new law affecting the Ukrainian gas market on 1 October 2016, the state regulator made periodic adjustments for Hryvnia/$ exchange rate fluctuations which impacted gas realisations and artificially inflated them. From 1 October 2015, these periodic adjustments ceased and gas prices have followed market trends. Further decline in realisations is explained by excessive quantities of imported gas from Europe which depressed prices and reduced demand from industrial customers. The lower gas production and realisations in Ukraine were the key detrimental factors affecting revenue in 2016 with most other revenue components showing a positive trend.

The increase in oil production was particularly pronounced due to a successful workover of well Ignativske-132 early in the year which has high oil content. However, oil realisations reduced from $49.75/bbl in 2015 to $45.94/bbl in 2016 (a fall of 7.7%) which was in line with

STRATEGIC REPORT

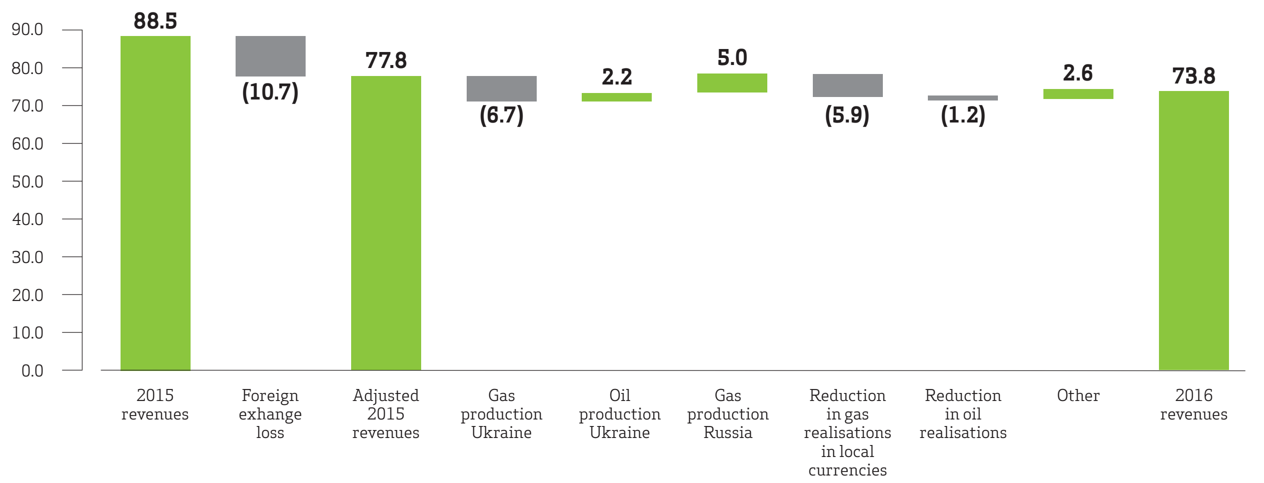
Financial review cont/

Ukranian revenues

(24.1%)

	2016 ($m)	2015 ($m)	Change ($m)	% Change
Gas	35.9	53.1	(17.2)	(32.4)
Oil	15.1	14.1	1.0	7.1
Liquefied Petroleum Gas ('LPG')	3.8	4.6	(0.8)	(17.4)
Other	–	0.4	(0.4)	(100)
Total	54.8	72.2	(17.4)	(24.1)

Revenues bridge ($m)



international price movements. Oil prices in Ukraine were higher than Brent in the second half of 2016 due to the lack of cheap illegal products, but this failed to compensate for the overall price decline.

Lower gas production volumes directly affected LPG production and sales. The $0.8m (17.4%) decline in LPG revenues was due to lower production volumes combined with a reduction in the domestic market price, resulting from increased competition through imported product.

Russia revenues

Russian gas sales made up 60.8% of the Group's volumes sold (2015: 52.1%) but the Russian sales volumes currently attract considerably lower realisations than the Ukrainian volumes and therefore the increased proportion of Russian gas sales led to a 29.8% decrease in the Group average gas price realised to $2.95/Mcf (2015: $4.20/Mcf).

Production in Russia was higher by 30.2% to 6,082 boepd (2015: 4,670 boepd) due to well-27 coming on line in late 2015 following repairs throughout that year. However this was not sufficient to compensate for price reductions. Gas prices in Russia dropped by 11.3% to $1.49/Mcf (2015: $1.68/Mcf) due to a 9.5% reduction to the gas sales price from 1 July 2016 obtained from our sole customer supplemented by the devaluation of the Russian Rouble. We negotiated a 5-year "take or pay" contract to give us more certainty over cash flow from our customer, albeit at a lower price. We have completed a review of the potential customer base in Russia and conclude that, for the time being, the current contract is the best we can achieve in terms of price and cash flow certainty.

Loss from operations

Loss from operations before exceptional charges for the year was $3.9m (2015: loss $10.7m) representing a $6.8m improvement. This was the result of a decrease of $20.8m in cost of sales, a $0.7m decrease in the Group's administrative expenses and foreign exchange effects compensating for the $14.7m decrease in Group revenues discussed above.

Cost of sales

The $20.8m decrease in cost of sales to $56.0m (2015: $76.8m) comprises the following items:

- a decrease in Russian operating costs by $0.5m, a 5.0% reduction;
- a decrease in other Russian operating costs of $2.6m due to additional income from insurance proceeds for well-27 than was estimated at the end of 2015;
- a decrease in Ukrainian operating costs by $0.5m, a 5.4% reduction;
- a reduction in the depreciation, depletion and amortisation ('DD&A') charge of $7.5m;
- production based taxes lower by $8.6m, predominantly related to lower production in Ukraine;
- a decrease in Rest of World costs of $1.5m; and
- an increase in the doubtful debt provision in Ukraine of $0.5m (nil in 2015). The provision was recorded due to strong evidence that one of our customers is experiencing financial difficulties resulting in a significant deterioration in their credit worthiness, although we continue to use multiple avenues to recover this debt.

The decrease in Russian operating costs of $0.5m is largely due to lower Russian property tax charges which have decreased by approximately $0.6m to $0.9m (2015: $1.5m) due to the reduced value of the Russian assets subject to property tax. This was offset by storage costs associated with chrome tubing strings ($0.6m) and increased acid stimulation of wells needed to maintain stable production ($0.4m). We plan to utilise the chrome tubing during planned workovers in 2017 and will therefore see lower storage costs in 2017.

Ukrainian operating costs decreased by $0.5m, mainly due to the effects of Hryvnia devaluation from an average of UAH22.12/$ to an average of UAH25.59/$ (a depreciation of 15.7%) and staff reductions in many technical departments. This was partly offset by an increase in local salaries of up to 50% in January 2016 after two years without pay rises within a high-inflation environment.

Operating costs in Rest of World decreased by $1.5m mainly due to staff reductions in the London office. Further to completion of new Field Development Plans, we have assembled an integrated technical team with world-class on-shore experience which will be critical in delivering our strategy during 2017 and beyond.

The DD&A charge reduced by $7.5m, largely as a result of a lower asset carrying values resulting from impairments recognised in Ukraine.

Production taxes

Production based tax expense (before exceptional items) for the year was $17.7m (2015: $26.2m), representing a 32.4% decrease which has been recognised in cost of sales.

In Ukraine, although the gas production rate applicable in 2015 was 55%, our subsidiary was subject to 28% as a result of an Interim Award issued by an international arbitration tribunal which required the Government of Ukraine to limit the collection of production taxes ('Rental Fees') on gas produced by PPC, to a rate of 28%. The Interim Award remained in effect until the final ruling. In the period from January to October 2015, Rental Fees were recorded at 55% rate but then adjusted in November 2015 to reflect the average rate of 28%.

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. So the effective rate that we have recognised year-on-year is very similar (28% versus 29%) but the lower production has resulted in lower taxes.

In February 2017 the international arbitration tribunal issued its Award on the Company's claims and awarded the Company damages of approximately $11.8m plus interest and costs of $0.3 million in relation to our Ukrainian subsidiary's claims. The tribunal dismissed the main element of the Company's claim for payment of excessive Rental Fees. The tribunal ruled that Ukraine was found not to have violated its treaty obligations in respect of excessive levying of such taxes.

Our subsidiary continues defending its position in the Ukrainian courts regarding the Rental Fees levied for 2010 and 2015 (see Note 27 to the consolidated financial statements) but we have now fully provided for the liabilities for both these years following the result of the international arbitration. Due to the need for a further process to legalise the $11.8 million award in the Ukrainian courts, we have not recognised this as an asset at this stage.

In December 2016, the Ukrainian Government passed legislation reducing the royalty on oil production from a maximum of 45% to 29%, which will positively affect our performance in 2017.

In Russia, the gas and condensate mineral extraction tax ('MET') rate applicable in 2016 was 350 Roubles/Mcm (2015: 292 Roubles/Mcm). The formula for MET 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 our 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 $0.4m in 2016 (2015: $0.7m) and is included in other cost of sales.

Exceptional charges

Exceptional charges of $26.3m in 2016 comprised the following items:

- $24.3m of provision for production-based taxes in respect of 2015 recognised as a result of the tribunal's dismissal of the Company's claim for overpayment of Rental Fees (as noted above);
- $2.0m of non-cash impairment charge for the Group's oil and gas assets in Hungary.

Further exceptional charges of $4.5m in 2016 included mainly the following:

- $2.5m of severance costs and additional remuneration which the previous board approved and paid prior to the General Meeting in January 2016;
- $0.5m of professional services incurred in relation to the General Meeting and the replacement of the Board on 28 January 2016;
- $0.7m severance costs incurred as a result of staff reductions, mainly at the Group's London headquarters; and
- a $0.6m onerous lease provision to cover the Group's liability for long-term lease contracts relating to London office. The Company has been successful in transferring the lease for one of the three unused floors at the London office and continues to try to exit from the remaining two leases.

Exceptional charges of $64.9m in 2015 included the following items:

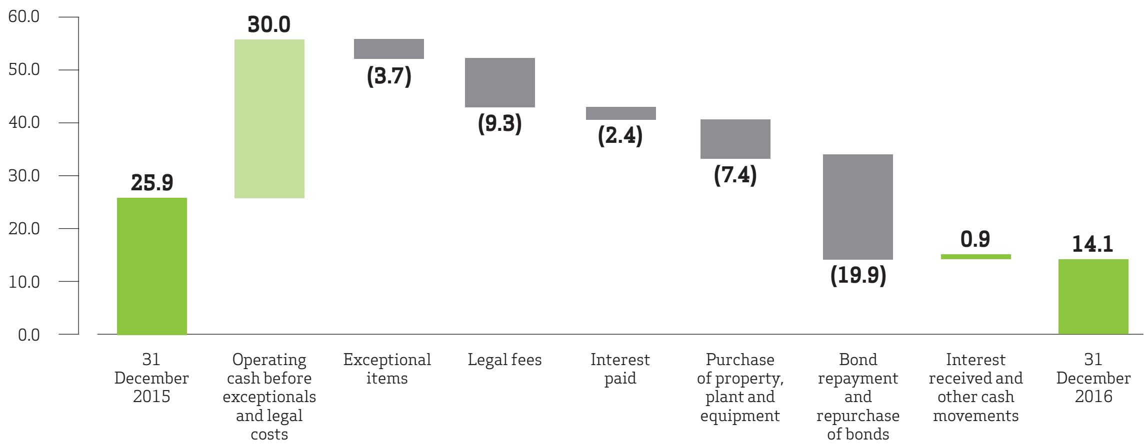
- a non-cash impairment charge of $51.1m for the Group's oil and gas assets;
- a provision of $10.9m recognised as a result of a judgement against our Ukrainian subsidiary in respect of the rental fees case related to 2010; and
- a provision for legal costs of $3.0m (including interest) to be reimbursed 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.

Administrative expenses

Excluding the exceptional costs above, administrative expenses have increased by $4.7m to $22.2m (2015: $17.5m) mainly due to:

- An increase in legal and professional fees of $3.6m;
  - professional services of $1.2m incurred in respect of the updating of the Field Development Plans and implementation of new strategy, compensated by savings of $0.3m in professional fees due to review of the cost base and removal of unnecessary services;
  - legal fees of $0.4m incurred in connection with the restrictions imposed on the exercise of voting and other rights of two shareholders, Eclairs and Glengary, in January 2016;
  - legal and court fees of $1.4m related to the court cases in Ukraine in respect of 2007, 2010 and 2015 Rental Fees; and

Cash flows bridge ($m)



– and an increase in arbitration legal and court fees of $0.8m due to timing of the work with the main case being held in July 2016.

- An increase in other costs of $1.7m mainly due to a reduced allocation of administrative staff costs to operating activities (the reverse side of the $1.5m decrease in operating costs noted above); and
- A decrease of $0.6m in staff costs across the Group as a result of review of support staff requirements.

Since our appointment we have implemented a number of steps to identify cost efficiency possibilities and were able to significantly reduce the costs of the Company's London headquarters. Head office headcount has been reduced by 45% and we now occupy one floor of the building where we previously occupied four floors. Headcount reductions in both Ukraine and Russia were initiated during the latter half of the year, the benefits of which will be felt in the 2017 financial year.

Net finance charges

Finance costs have decreased by $1.9m to $4.6m (2015: $6.5m) comprising convertible bond interest. Overall the liability significantly reduced as a result of the redemption of $12.0m of the Bonds in February 2016 and repurchase and subsequent cancellation of Bonds with face value of $2.2m, $1.4m and $6.4m, made in June, September and October 2016, respectively.

A $0.6m charge (2015: $1.9m) of the fair value movement on the derivative liability represents the change in fair value of the conversion option associated with the convertible bond issued in February 2013.

Finance income of $1.8m (2015: $1.3m) comprises income from bank deposits of $0.7m (2015: $1.3m) and a gain on the repurchase of convertible bonds of $1.1m.

Taxation

The total tax credit for the year was $1.0m (2015: $1.2m credit) comprising a current tax charge of $1.3m (2015: $4.8m) in respect of Ukraine, a deferred tax credit before exceptional items of $1.2m (2015: charge of $3.1m) and a deferred tax credit of $1.2m in respect of exceptional items (2015: $9.2m). The fall in the current tax charge to $1.3m reflects lower profitability in Ukraine where the corporate tax rate for 2016 was 18% and remains at this level for 2017.

The total deferred tax credit of $2.4m (2015: $6.1m credit) comprises:

- a $2.9m credit (2015: $2.1m credit) reflecting the recognition of deferred tax assets in respect of Russian and Hungarian tax losses carried forward to future periods; and
- a net $0.5m charge (2015: $4.0m credit) relating to provision for rental fees in Ukraine and other tax timing differences on our oil and gas assets in Russia, Ukraine and Hungary.

Loss for the year

Loss for the year before exceptional charges (net of tax effects) was $7.5m (2015: $25.8m). Basic loss per share before exceptional items was 4.34 cents (2015: 14.97 cents). Basic loss per share after exceptional items was 21.56 cents (2016: 47.32 cents).

Cash flows

The cash flow bridge chart very clearly summarises the financial journey of the Company over the course of 2016. Once we add exceptional items and one-off legal costs to the $17.0m of cash generated from operations our cash income more than doubled to $30.0m (2015: $12.8m) due to the reduced net loss as discussed above. With the brought forward cash balance of $25.9m, this provided the Company with $55.9m with which to operate the business and resolve historic liabilities.

Exceptional items totalling $3.7m comprise $2.5m of severance costs and additional remuneration paid to the previous Board, $0.5m of professional services incurred in relation to the General Meeting and the replacement of the Board on 28 January 2016 and $0.7m severance costs incurred as a result of staff reductions, mainly at the Group's London headquarters.

Legal fees of $9.3m mainly relate to:

- $3.9m of international arbitration costs;
- $2.8m for the reimbursement of Eclairs' and Glengary's legal fees in respect of prior years' shareholder disputes;
- $1.4m in respect of the Rental Fee claims in Ukraine for 2007, 2010 and 2015;
- $0.4m incurred in connection with the restrictions imposed on the exercise of voting and other rights of Eclairs and Glengary in January 2016; and
- general corporate advice including Bond restructuring.

Group capital spend remained low at $7.4m but included a full review of operations and capital projects and preparation of new Field Development Plans.

Net cash outflow from financing activities of $19.8m comprises the $10.9m redemption of the Bond in February 2016 in addition to $9.0m used to repurchase convertible Bonds in June, September and October 2016, which were subsequently cancelled, offset by a movement in restricted cash of $0.1m. These repurchases and cancellation were instrumental in enabling the Company to renegotiate the Bond terms with Bondholders towards the end of 2016 resulting in an agreed restructuring in early January 2017, which significantly reduced the short-term liabilities facing the Company (see below).

No dividends were paid to shareholders in the period (2015: nil).

Cash and cash equivalents

The resultant decrease in cash and cash equivalents in the year before adjusting for foreign exchange effects was $11.3m (2015: increase $1.6m). Cash movements explained above allowed liquidity to be successfully maintained with a reduction in year-end cash balances to $14.1m (31 December 2015: $25.9m). Given the significant one-off cash costs described above, we look forward to being able to invest far more of our operational cash flow into operational activities during 2017 rather than in resolving historic issues.

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.

Soon after our appointment, we started negotiations to restructure $24.6m Bond liability which was due in February 2017. Redemption of $12 million of the Bonds was settled in February 2016. As noted above, in order to reduce this liability and to improve the Company's ability to restructure the Bonds, repurchases, and subsequent cancellation, amounting to $2.2 million, $1.4 million and $6.4 million were made in June, September and October 2016, respectively, utilising improved operating cash flows within the Group. These purchases were all made at discounts to face value.

By lowering the overall liability and reducing the number of Bondholders with which to negotiate, in January 2017 the Company was able to restructure the remaining $16 million of Bonds resulting in the liability being amortised over three years starting from February 2018 with a small accretion payment of $2.6 million being due in February 2017. The financing of the Bonds are now within the operating cash flow capabilities of the Company and the business can move forward with its development plans subject to resolution of the Group's legal issues in Ukraine. Further information on the terms and conditions of the Bonds is included in Notes 12 and 13 to the consolidated financial statements.

Outlook

When we announced our 2015 annual results, we concluded that our main objective will be to restore the shareholder value in JKX. We focused on reducing costs and implementing a robust capital allocation policy which can ensure maximised cash flows from our assets and improvements to the Company's profitability and liquidity.

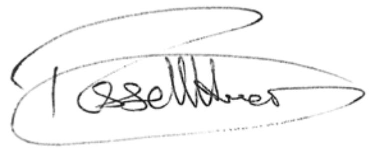
During 2016 we used this increased cash flow to resolve inherited legal battles with our stakeholders and started rebuilding relationships with those main stakeholders, including the Ukrainian Government. This will allow us to focus on our main activity in 2017 - to invest in oil and gas production.

We completed new Field Development Plans for Ukraine and Russia which will unlock full technical potential using expertise and working practices from North America. This will enable us to embark on an investment programme to increase production volumes in Ukraine, where we are planning to restart our drilling programme in 2017. We are currently looking at different options to raise the external financing needed to implement our new exciting strategy.

We can also draw a line under our claim against the Ukrainian Government for overpayment of production taxes as in February 2017 the international arbitration tribunal issued its Award on the Company's claims and awarded the Company damages of approximately $11.8 million plus interest and costs of $0.3 million in relation to subsidiary claims. We have restarted the dialogue with Ukrainian Government to achieve the best possible outcome for all of us.

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.

I would like to reiterate the statements of both our Chairman and CEO in that it has been a challenging and exciting year at the Company and it has been an honour to work with our many colleagues across the Group. I look forward to addressing further challenges with them all during 2017 and taking the Company forward.



Russell Hoare
Chief Financial Officer

STRATEGIC REPORT

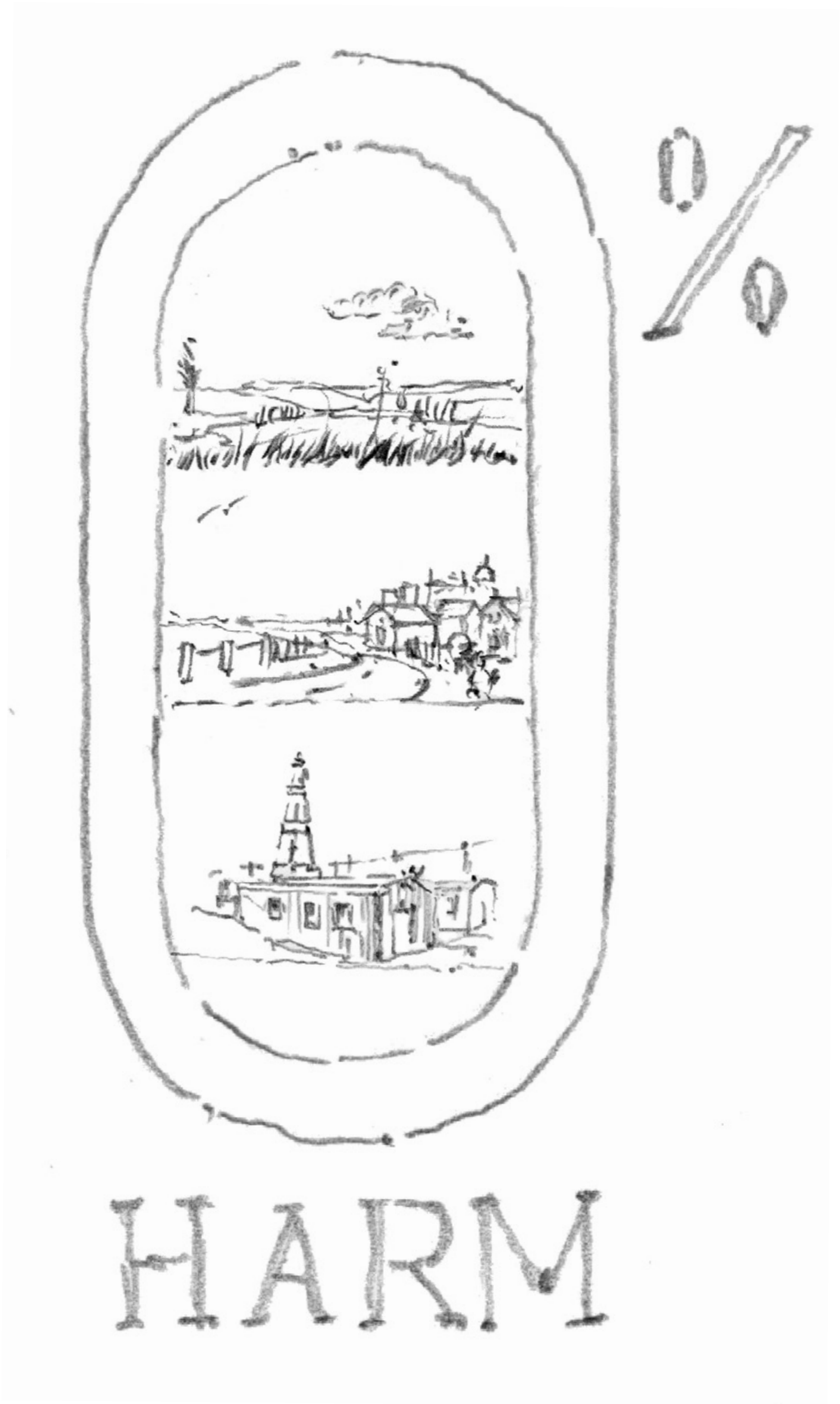
Safe and responsible operations

VISION

Zero Harm

JKX is committed to understanding, monitoring and managing its social, environmental and economic impact to enable us to contribute to society's wider goal of sustainable development.

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



Our approach

JKX has implemented the requirements of ISO 26000, which provides guidance on how businesses and organisations can operate in a socially responsible, ethical and transparent way that contributes to the health and welfare of society.

The Company also joined the Global Reporting Initiative on Sustainability Reporting, the international guidance on social responsibility, and adheres to the International Labour Organisation guidelines and principles.

Our Corporate Social Responsibility ('CSR') process is Board led

CSR is led by Tom Reed, the Chief Executive Officer. The Company'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 on all material 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 2016 and JKX's plans for 2017 were agreed.

Local responsibility

Within each operating company a nominated individual has executive responsibility for implementing HSECQ management systems. These representatives are fully trained and experienced in working with local culture, regulations and practices.

In Ukraine, Russia, Hungary and Slovakia JKX have fully trained HSECQ personnel who are responsible for management and reporting. The local teams report to the General Director of the local operating company and to the Group HSECQ Manager.

Our CSR achievements in 2016

- All Injury Frequency Rate ('AIFR') of Zero
- No Lost Time Injuries
- Environmental Incident Frequency Rate ('EIFR') of 0.35
- Maintained ISO 9001 Quality Management accreditation
- Maintained ISO 14001 Environmental accreditation
- Maintained OHSAS 18001 Health and Safety accreditation
- Improved the recording and monitoring process for our Greenhouse Gas reporting requirements
- Prepared and submitted our annual report to the Carbon Disclosure Project
- Prepared and submitted our annual report to the Global Reporting Initiative
- Implemented the requirements of ISO 26000
- Prepared and submitted our annual Global Reporting Initiative report on Sustainability
- Planned the implementation of the Modern Slavery Act requirements 2016
- Established HSECQ Management Systems in Hungary and Slovakia
- Commenced ISO 9001 accreditation process for Yuzhgazenergie LLC ('YGE'), JKX's operating subsidiary in Russia.

Our CSR objectives

- Strategy: Integrating long-term economic, environmental, and social aspects in 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: Encouraging loyalty by investing in customer relationship management, and product and service innovation that focuses on technologies and systems, which use financial, natural, and social resources in an efficient, effective, and 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.
- Human: Managing human resources to maintain workforce capabilities and employee satisfaction through best-in-class training, knowledge management, remuneration and benefit programs.of existing wells and to generate cash flow to partially fund full field development ('FFD').

As well as operating efficiently, it is vital that we also operate safely and responsibly (see pages 23 to 28).

Corporate Social Responsibility ('CSR') targets and achievements

Targets 2016	Achievements 2016	Targets 2017
AIFR of 0.4 or below per 200,000 hours worked	Achieved – AIFR of Zero per 200,000 hours worked	AIFR to 0.325 or below
Exceed the performance benchmark set by the International Association of Oil and Gas Producers ('IOGP')	Achieved – the IOGP AIFR target was 1.76 per million man-hours worked	Exceed the IOGP performance benchmark
Environmental Incident Frequency Rate ('EIFR') of 0.6 per 200,000 hours worked	Achieved – EIFR of 0.35 per 200,000 hours worked	EIFR at 0.5 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, JKX's Ukrainian operating subsidiary	Achieved	Embed the assessors recommendations into the PPC Management System
Continue to improve incident reporting, using safety moments, workshops, site campaigns, training sessions, toolbox talks and briefings	Achieved – 69 incidents were reported in 2016 (2015: 56) which included near-miss reports, unsafe acts and hazards.	Continue to improve incident reporting
Improve Emergency Response ('ER') arrangements and plans using simulated exercises, drills and training in each operational area	Achieved – in 2016 there were regular ER drills in Ukraine and Russia and observations of the process. Plans were established which include rescue of personnel and minimisation of damage and disruption to the business.	Further improve ER arrangements using simulated exercises, drills and training in each operational area
Update the Carbon Management Plan and reports	The initial assessment of our Carbon Management Submission by the Carbon Disclosure Project is confirmed for Q3 2017.	The performance report is included in this Annual Report with improvements planned for 2017
Comply with the Greenhouse Gas ('GHG') Emissions (Directors' Reports) Regulations	Achieved – an independent company, Tru-Cost, was engaged to analyse and report JKX's GHG's.	The baseline measurement is included in this Annual Report with improvements planned for 2017
Implement controls required by the Modern Slavery Act 2015 ('MSA')	Achieved – risk assessments, training and stakeholder buy-in completed. Statement published in September 2016.	Further improve MSA arrangements through additional training at each operational area

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 standards on 27 January 2016 after meeting the requirements of the standard as assessed by Bureau Veritas.

YGE commenced the ISO 9001 accreditation process in 2016.

Achieving ISO 9001 accreditation and having regular audits 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 uses 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 of the ISO accreditation process.

STRATEGIC REPORT

Safe and responsible operations cont/

OUR APPROACH

Health and safety

By integrating health, safety and environmental considerations into all aspects of its business, JKX protects its employees, communities and the environment, and achieves sustainable growth and accelerated productivity.

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

In 2016, JKX implemented and communicated its improved HSECQ policy at all operations and offices.

Health and saftey statistics

JKX achieved an AIFR of Zero per 200,000 hours worked. The industry benchmark set by the International Association of Oil and Gas Producers was an AIFR of 1.76 per million hours worked, the JKX equivalent for 1 million man-hours worked is Zero.

With a labour force of more than 600 personnel in 2016, 69 near-miss incidents were reported (2015: 56) demonstrating that all statistics are reported both good and not so good.

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

JKX's Safety Management System 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.

The drug and alcohol policy continues to be successful throughout the Group with no instances of breaches noted. The policy applies to all 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.

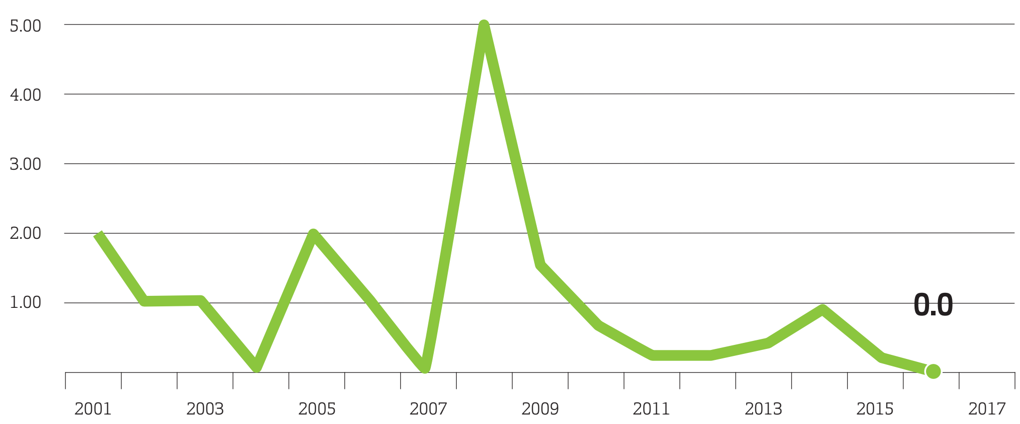
Drilling risks

JKX uses a mix of primarily local staff with decades of local experience and expatriate supervisors on all drilling rigs to provide additional expertise and oversight. This has enabled us to define and manage risk more clearly using Western methodology.

Drilling 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.

Health and safety statistics

All Injury Frequency Rate ('AIFR') 2016



HSECQ statistical analysis for 2016

Fatal accident cases	0
Lost time injuries	0
Medical treatment / Restricted work cases	0
Near miss / Loss / Hazards / Property damage / Unsafe act or conditions	69

Health and safety risk management

JKX is proud to maintain its OHSAS 18001 Health & Safety accreditation which is accompanied by an ISO 14001 Environmental accreditation and an ISO 9001 Quality Management accreditation. These are internationally-recognised specifications for occupational health and safety environmental and quality management systems which are monitored by experienced external auditors bi-annually to ensure compliance. A full report of the all inspections across the Group is available on request.

OUR APPROACH

Environmental management system

The JKX Environmental Management System is a comprehensive, systematic, planned and documented management process which defines the organisational structure, planning and resources for developing, implementing and maintaining Group policy for environmental protection.

Environmental objectives	Achievements 2016	Targets 2017
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 ▪ reduction in fuel used for vehicles 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 into the atmosphere. Revised and updated emission reduction strategies for 2017 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) ▪ responsibilities for implementation ▪ implementation schedule ▪ quantitative objectives and targets
The Greenhouse Gas Emissions Regulations 2016	JKX has complied with its obligations to record and report annual greenhouse gas ('GHG') emissions in this Annual Report	Exceed the IOGP performance benchmark
Zero discharge of chemicals to land or surface waters	Achieved in 2016; continuously monitored	Continuous monitoring
Restored habitat and hydrological regime to pre-construction state as soon as reasonably practical	Achieved in 2016; continuously monitored	Continuous monitoring
Establish group-wide and site-level Biodiversity Action Plan	Completed in 2016	Monitor progress throughout 2017
No loss of containment of product	Achieved in 2016; 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 2016	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 2016 ▪ 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	Our approach in 2017 will be to: ▪ 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	Achieved in 2016 JKX continued to improve the recording and measurement of the waste sent to landfill during 2016	Improvement opportunities being considered for 2017 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

STRATEGIC REPORT

Safe and responsible operations cont/

ISO 14001

JKX is proud to have maintained ISO 14001 Environmental Management accreditation in 2016, which specifies the requirements for the formulation and maintenance of an Environmental Management System.

In 2016, JKX continued to work with The Carbon Disclosure Project. The Environmental Report for 2016 on the annual performance of JKX in conjunction with TruCost has identified reduction targets for 2017.

Greenhouse gas ('GHG') emissions reporting

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

Our approach

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

GHG emissions by scope

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

In accordance with GHG Protocol Scope 2 Guidance, 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 UK, 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.

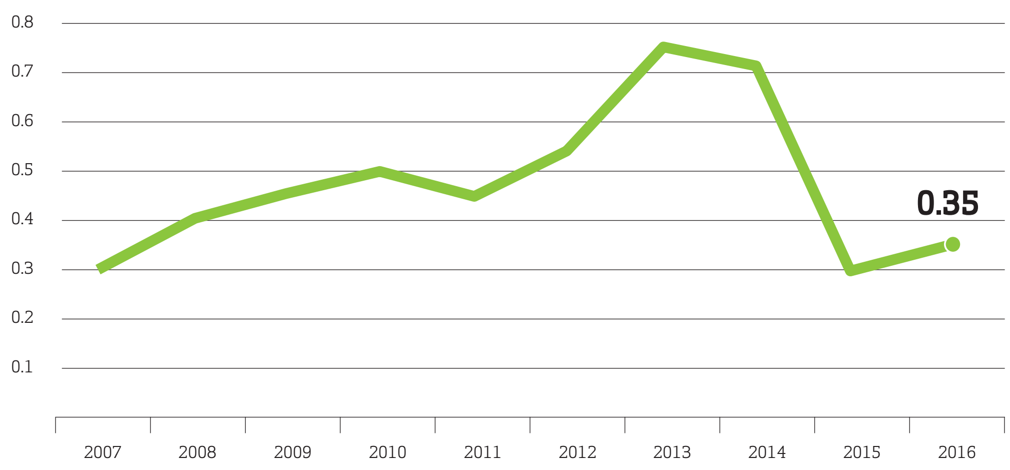
The table right discloses JKX's Scope 1 and 2 GHG emissions and an emissions intensity ratio of tonnes CO2 per million barrels of oil equivalent that JKX produced in 2016.

Global reporting initiative ('GRI')

During the year JKX reported according to the GRI's Sustainability Reporting Guidelines.

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.

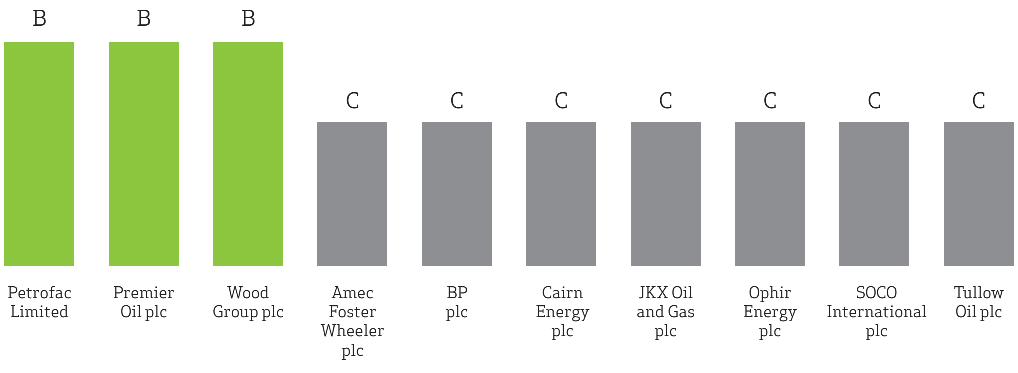
Environmental Incident Frequency Rate 2016 ('EIFR')



The EIFR target for 2016 was not to exceed 0.6 environmental incidents per 200,000 hours worked; JKX achieved 0.35.

Recordable incidents are classified using a qualitative risk assessment process based on the maximum reasonable consequence and the likelihood of an incident occurring is an indicator of environmental safety performance.

UK Oil & Gas 2016 Carbon Disclosure Project scores



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Mandatory GHG reporting

Data point	Units	Quantity 2015	Quantity 2016
Scope 1	tonnes CO_2e	339,149	273,169
Scope 2 (Location based)	tonnes CO_2e	568	627
Scope 2 (Market based)	tonnes CO_2e	566	629
Scope 1 & 2 Intensity	tonnes CO_2e /Mboe of production	103	83

OUR APPROACH

Employment

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. We have initiated a renewed focus on this in 2016 and expect significant progress to be made during 2017.

Our achievements

JKX employs more than 600 staff in five different countries which puts people as a top priority.

At year-end, Yuzhgazenergie LLC, the Russian subsidiary, employed 213 staff (2015: 249) at JKX's Koshekhablskoye production facilities and the Maikop administrative office. The Ukrainian subsidiary, Poltava Petroleum Company, employed 404 personnel (2015: 495) at the production site and at the Poltava office. The London office has 12 full time employees (2015: 22).

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.

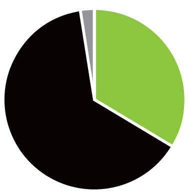
Each Group company complies with certain key principles, including:

- 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 Group 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.

During 2016 a total of 50 JKX staff took part in three Message Mapping® workshops to discuss, understand and agree where the company is, where it would like to be and how it will get there.

People – data

Staff by region



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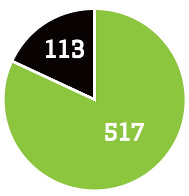
- Russia – 213
- Ukraine – 401
- Rest of the World – 16

Staff: Male/Female



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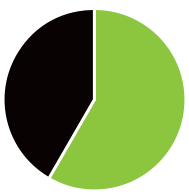
- Male – 82%
- Female – 18%

Directors and Senior Managers



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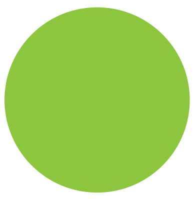
- Directors[1] – 7
- Senior Managers[2] – 5

Directors and Senior Managers: Male/Female



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- Male

[1] Company Directors consist of the Company's Board as detailed on pages 34 and 35.
[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.

STRATEGIC REPORT

Safe and responsible operations cont/

OUR APPROACH

Community

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

Our community engagement

JKX 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 undertaken by all Group companies. The number of employees who participate in cleanup activities is increasing year by year.

JKX contributes to improving local education by conducting plant tours and by providing employment and work experience opportunities. JKX contributes to raising environmental awareness through actively participating in various environmental events in regions.

Assistance in our local communities

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.

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

- equipment to level an area for the installation of fencing and the sand and crushed rock needed for the installation
- roader services for village tasks.

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 2016 amounted to:

- Ukraine UAH2,457,321 ($166,444) (2015: UAH2,757,119 ($122,351))
- Russia RR8,265,230 ($124,570) (2015: RR7,590,519 ($117,891))

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 JKX's 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

- Construction of playing facilities at Kindergarten Daisy in Bazylivschyna village
- Setting the playground at the Sokolovo-Balkovskaya village school
- Construction of a water supply system at Bazylivschyna village
- Construction of recreational areas at Mashevka Park

Russia

- Renovation of kindergartens Numbers 11 and 12 in Jodz village
- Roof repairs for secondary school No. 7 in the Maisky village

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.

Our investor engagement

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

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 2016 the Board carried out various meetings with potential and existing investors and with the wider investment community through analyst presentations and other events. This activity has been accelerated in the first quarter of 2017.

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

PPC supported the construction of playing facilities at Kindergarten Daisy, Bazylivschyna village

STRATEGIC REPORT

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 2015	Strategic objective impacted	Responsibility	Page
External risks – outside of our control						
Tax legislation	A	Production costs Group profit/loss Operating cash flow	↑	3	Chief Executive Officer	30
Geopolitical – Ukraine	B	Group profit/loss	–	3	The Board	30
Geopolitical – Group	C	Group profit/loss	–	3	The Board	30
Commodity prices	D	Group profit/loss Operating cash flow	–	3	Chief Financial Officer	30
Foreign exchange exposure	E	Group profit/loss	–	3	Chief Financial Officer	31
Operational risks – inside of our control						
Reservoir performance	F	Production volumes Group profit/loss Operating cash flow	–	3	Chief Executive Officer	31
Environmental, asset integrity and safety incidents	G	All Injury Frequency Rate Lost Time Injuries Environmental Incident Frequency Rate	–	3	Chief Executive Officer	31
Bribery and corruption	H	Group profit/loss	–	3	The Board	32

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

Risk Committee work in 2016

At the Group level, the new Audit Committee provided a fresh pair of eyes on the risk assessment, reporting and mitigation process. The Audit Committee restructured the focus of the Risk Committees' work and relating reporting to mainly focus on the extreme or high-rated risks and mitigation plans.

A Group Risk Manager was appointed in early 2017 who will be based in Kiev and, amongst other roles, will be responsible for the risk assessment and mitigation process across the Group. The Board expects that this will bring more resource and focus to implementing the risk mitigation plans which have been reviewed and agreed by the Risk Committee and Board and more frequent reporting on progress.

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 Group Risk Committee and subsidiary Risk Committees at our operations in Ukraine and Russia, have been in place throughout 2016 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

The Group 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 three times a year and reports into each Audit Committee meeting. 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 assessment

The Board monitors the risk profile of the Group and 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.

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 follows:

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 below are not set out in any order of priority, are likely to change and do not comprise all the risks and uncertainties that the Group faces.

STRATEGIC REPORT

Risk summary

External risks - not within our control

Tax legislation

Description

The Group is exposed to changes in local tax laws, particularly in Ukraine.

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, and can take an extended period for the courts to reach final judgment.

Impact

If Management's interpretation of tax legislation does not align with that of the tax authorities, the tax authorities 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.

JKX's Ukrainian operating subsidiary, Poltava Petroleum Company ('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 August to December 2010 ('2010 Claims') and for January to December 2015 ('2015 Claims').
In addition, in February 2017, the Company was awarded approximately $11.8 million in damages plus interest and costs of $0.3 million by an international arbitration tribunal pursuant to a claim made against Ukraine under the Energy Charter Treaty to recover Rental Fees and damages that PPC has incurred since 2011 (see Note 27 to the financial statements).

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
Production costs **Return on average capital employed**	**Medium**	**Medium**	**None**	**Chief Executive Officer**

How do we manage it?

The Board continues to receive regular legal advice regarding the cases against PPC in respect of various production related taxes to the 2010 Claims and 2015 Claims.

The Company intends to begin a dialogue with the Government of Ukraine in order to satisfy the terms of the international arbitration award and to reach a mutually beneficial outcome.

The Group maintains a transparent and open relationship with local, regional and national tax authorities in Ukraine and Russia.

In respect of the 2010 Claims and 2015 Claims, provisions of $10.6 million and $23.3 million, respectively, have been recognised in these financial statements to reflect the Company's estimate of the potential liability (see Note 27 to the financial statements).

Except for the $33.9 million provision in respect of the 2010 and 2015 Claims, the Group's financial statements do not include any other 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.

Further information – Chairmans statement P2

Geopolitical – Ukraine

Description

74% of the Group's revenues and most of its profits and cash flow from operations are derived from its activities in Ukraine.

Recent geopolitical tensions with Russia, political instability and ongoing military action in parts of Ukraine have negatively impacted its economy, financial markets and relations with the Russian Federation.

Any continuing or escalating military action in eastern Ukraine could have a further adverse effect on the economy.

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.

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
Return on average capital employed	**High**	**High**	**None**	**The Board**

How do we manage it?

To date, our operations have not been directly impacted by the unrest in Ukraine or the military conflict in the east.

The Company also takes all reasonable measures to reduce and limit our commercial exposure in Ukraine through the use of careful selection of contracting parties, advanced payments and careful cash management.

The Field Development Plan and future investment program in JKX's Ukrainian assets has been designed with contingencies to implement should these geopolitical risks increase and/or begin to impact operations.

Further information – Chairmans statement P2

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.

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. The constantly evolving legislation can create uncertainty for local operations if guidance or interpretation is not clear.

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.

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
Return on average capital employed	**High**	**High**	**None**	**The Board**

How do we manage it?

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 ongoing communications locally.

Our strategy is to employ skilled local staff working in the countries of operation and to engage established legal, tax and accounting advisers to assist in compliance.

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.

Further information – Strategic report P12

Commodity prices

Description

JKX is exposed to international oil and gas price movements and political developments in Russia which may affect the regulated gas price. Change in prices will have a direct effect on the Group's trading results.

Ukraine has 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. A prolonged period of low gas prices in Ukraine would impact the Group's liquidity.

In Russia, from 1 July 2016 the regulated maximum industrial price has increased by 1.95% however, following a renegotiation of its gas sales contract, YGE has agreed a reduction of 9.5% to the price at which it sells its gas to its sole buyer.

Oil prices recovered slightly from recent historic lows in 2016 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.

Impact

A period of low oil and/or gas prices could lead to impairments 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.

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
Gas realisations	**Medium**	**Medium**	**None**	**Chief Financial Officer**

How do we manage it?

JKX's policy is not to hedge commodity price exposure on oil, gas, LPG or condensate.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 2016, 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.

In Russia, all gas produced is sold to a local gas trading company through a gas sales contract which remains in place through 2017. The Company continues to seek to engage other buyers of its gas in Russia to improve realisations.

Further information – Strategic report P12

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 2016, the average Hryvnia and Rouble exchange rate devalued by 9% and 16% 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 gain of $0.4m in the income statement as a result of the devaluation of the Hryvnia and the strengthening of the Rouble.

The strengthening of the Rouble increased the carrying value of the assets held in Russia resulting in the Group's net assets increasing by $19.6m and increased the value of Group revenues and costs which are reported in US$.

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.

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
Return on average capital employed	**High**	**Low**	**None**	**Chief Financial Officer**

How do we manage it?

The Group attempts 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 70% 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,

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.

Further information – Financial review P19

Operational risks – within our control

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 Novomykolaivske 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. In 2015, 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 are critical in achieving the desired economic returns and to determine the availability and allocation of funds for future investment into the exploration for, or development of, other oil and gas reserves and resources. If reservoir performance is lower than forecast, sufficient finance may not be available for planned investment in other development projects which will result in lower production, profits and cash flows.

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
Production volumes	**Medium**	**Medium**	**None**	**Chief Executive Officer**

How do we manage it?

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 well intervention planning and further field development.

Our subsurface specialists and industry-recognised personnel are part of the daily monitoring and reservoir management process of our fields in Ukraine and Russia.

JKX's 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.

In 2016, the Board engaged several North American technical advisers with a broad range of global and regional expertise to support JKX's technical teams in reconstructing the Group's Field Development Plans and associated expected reservoir performance.

Further information – Regional operations update P16

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, 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.

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
All Injury Frequency Rate **Lost Time Injuries** **Environmental Incident Frequency Rate**	**Medium**	**High**	**None**	**Chief Executive Officer**

How do we manage it?

Health, safety and the environment is a priority of the Board who are involved in the planning and implementation of continuous improvement initiatives. A London-based HSECQ Manager reports directly to the Chief Executive Officer.

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 Group performance.

Operations in Ukraine, Russia and Hungary all have a dedicated HSECQ Team of local personnel 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.

Appropriate insurances are maintained at Group level by reputable insurers to manage the Group's financial exposure to any unexpected adverse events arising out of the normal operations.

Further information – Corporate social responsibility P22

STRATEGIC REPORT

Risk summary cont/

Operational risks – within our control cont/

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.

KPIs Affected	Probability + Velocity	Impact	Change from 2015	Responsibility
Return on average capital employed	**Medium**	**High**	**None**	**The Board**

How do we manage it?

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. Progress against the Plan is reported and discussed at every Audit Committee meeting.

The compliance programme focusses on training, monitoring, risk management, due diligence and regular review of policies and procedures.

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 staff as well as third parties.

Further information – Corporate social responsibility P22

Long term viability statement

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

Notwithstanding this material uncertainty, the Directors have assessed the viability of the Group over a three-year period to 31 December 2019, 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

On 28 January 2016, the entire Board of JKX changed and the new Board completed a review of the Group's assets during 2016. The new Board brought a new perspective and different ideas and through 2016, it has redefined JKX's strategy and strategic priorities.

To support the new strategy, Field Development Plans ('FDPs') for all our operated licences were rebuilt with the assistance of several external technical advisers with a broad range of global and regional expertise. The FDPs have been built using staff and external consultants from many different areas of expertise and have been reviewed by external engineers. The FDPs contain detailed future investment and production information on which to base expected future cash flows.

Summary of the strategic review by country

- **Ukraine:** a large-scale field development opportunity exists within our existing Rudenkivske licence which includes 135 wells over ten years and results in plateau gas production of approximately 110 million standard cubic feet per day (18,300 barrels of oil equivalent per day).
- **Russia:** operations, production and cash flow are now stable in Russia. Production can be increased in 2017 with several well workovers to the shallower Oxfordian reservoir. Significant improvements in production can be obtained from a single well to the deeper Callovian reservoir which would intersect predicted porous reservoirs within the Lower Callovian, Upper Callovian, and Oxfordian horizons.
- **Hungary and Slovakia:** significant appraisal and exploration potential exists but smaller in size, scale and cost when compared with the opportunities in Ukraine and Russia.

More detail on these opportunities and the Company's plans is provided on pages 8 to 10.

JKX's objective is to become the Ukrainian gas industry's champion in production, business practice, transparency and technology by 2020. 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 Ukraine to achieve this.

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 (see "Tax legislation" risk above) 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 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 2018. 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 2017 and current development plans in the case of 2018 through to December 2019. 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 risk which is critical to the Group's success but which is outside the control of management and could have a significant impact on the business:

- **Inadequate liquidity levels to settle legal disputes**

Beginning in 2015, the Company had lodged several claims under the Agreement between the United Kingdom and Ukraine for the Promotion and Reciprocal Protection of Investments (the "UK-Ukraine BIT") for approximately $168 million for excessive royalties and production taxes ('Rental Fees') paid by the Company's subsidiary Poltava Petroleum Company ('PPC') plus damages.

In February 2017, the international arbitration tribunal dismissed the main element of the Company's claim for payment of excessive Rental Fees. The tribunal ruled that Ukraine was found not to have violated its treaty obligations in respect of excessive levying of such taxes, but awarded the Company damages of approximately $11.8 million plus interest and costs of $0.3 million in relation to subsidiary claims.

As previously reported, in parallel to the claims made against Ukraine under the UK-Ukraine BIT, the Company has persistently defended its position in the Ukrainian courts regarding the Rental Fee charges levied for 2010 and 2015 totalling approximately $33.9 million (including interest and penalties, see Note 27 to the consolidated financial statements). Whilst the tribunal ruling poses additional challenges for the Company, in particular regarding the 2015 claims (totalling $23.3 million), the Company will continue to defend its position in the Ukrainian courts in all outstanding cases. At the same time, the Company has begun a dialogue with the Government of Ukraine in order to satisfy the terms of the arbitration award and reach a mutually beneficial outcome.

The Company's Ukrainian subsidiary, PPC, has recognised total provisions of $33.9 million (including interest and penalties, see Note 27 to the consolidated financial statements) in relation to separate court proceedings over the amount of Rental Fees paid in Ukraine for 2010 and 2015.

Confirmation of longer-term viability

The Board has undertaken a robust assessment of these risks and the other principal risks faced by the business detailed on pages 30 to 32 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 relation to the 2010 and 2015 Rental Fee claims, if and when they become payable. Assuming that the outstanding Rental Fee claims can be managed through successful court action or a negotiated payment plan with the Ukrainian Government, 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.

GENERAL INFORMATION

Glossary, Directors and Advisers

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 Hryvnia
US	United States
VAT	Value Added Tax
YGE	Yuzhgazenergie LLC

Conversion factors 6,000 standard cubic feet of gas = 1 boe

Ukrainian field names for the 2016 Annual Report

All of the names for our Ukrainian fields have been changed to the Ukrainian language spelling.

2016 Annual Report spelling:	2015 Annual Report spelling:
Rudenkivske	Rudenkovskoye
Ignativske	Ignatovskoye
Movchanivske	Molchanovskoye
Novomykolaivske	Novo-Nikolaevskoye
Elyzavetivske	Elizavetovskoye
Zaplavska	Zaplavskoye
West Mashivska	West Mashivskoye

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Mohawk Everyday Digital items are certified by the Rainforest Alliance.
FSC certification ensures responsible use of forest resources.

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NOTES

In this report

In the Strategic Report


ANNUAL REPORT 2016

JKX Oil & Gas plc

New FDP targets 600 billion cubic feet

- Updated field development plans focus on the Rudenkivske field in Poltava
- Technically recoverable reserves of 600 billion cubic feet (17 billion cubic metres)
- Plateau production of 18,300 boepd

Technological revolution The past 10 years sees tight oil plays production increase by 15 times.

29% gas tax rate blocks progress 12% would open the gas market to global energy investors and operators.

Tribunal award An opportunity to resolve historical legal issues.

All seeing the same picture Extreme transparency, the way forward.

135 wells and total investment of $660 million JKX will bring the capital and technology to start our own gas revolution, but Ukraine also needs to do its part.

"What's possible?" unleashes latent talent Tom updates the philosophy of the new JKX and sets the mindset.

www.jkx.co.uk

The Strategic Report (published with this document) covers a business overview, (including the Chairman's and Chief Executive's statements), the Company's strategy, (objective, business model and strategic priorities) and performance review (Regional operations update, Financial Review, Corporate Social Responsibility and Risk summary).

OVERVIEW

Governance and our performance

2016 began with major changes at the board level, and considerable uncertainty with regards to our future. In the face of this uncertainty, we have built a Board and senior management team with extensive experience of working at the highest levels in Ukraine and Russia, and we enter 2017 with optimism.

The Governance section on pages 34 to 73 demonstrates the Board's commitment to the highest standards of governance, transparency and engagement with all of the Company's shareholders and stakeholders.

JKX's financial performance presented in the Group financial statements on pages 80 to 120 reflects a year of challenging transformation. This was a necessary step to restore shareholder value to JKX, which the Board has committed to shareholders to achieve through transparent communication, by increasing efficiency and production, and by reducing needless costs.

Paul Ostling
Non Executive Chairman

GOVERNANCE

Board composition

Paul Ostling Non Executive Chairman

Appointed – 28 January 2016

Experience – 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 2016), 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 to2009). In 2011, Paul was named "Independent Director of the Year" by the Association of Independent Directors in Russia. Paul is a proficient Russian speaker.

Tom Reed Chief Executive

Appointed – 28 January 2016

Experience – 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 Chief Financial Officer

Appointed – 28 January 2016

Experience – has more than 15 years' experience working in Russia, Ukraine and Eastern Europe holding a variety of CFO roles. This includes acting as CFO from 2011 to 2016 at Russ Outdoor, the leading out-of-home advertising company in Russia, with assets across Russia and 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 more than 10 years' experience of managing the financial operations of Ukrainian businesses and working with local government and authorities in addition to serving as an internal auditor with LASMO plc, a London-based oil and gas exploration company with emerging market assets. Russell qualified as a UK Chartered Accountant with Arthur Andersen in 1996.

Vladimir Tatachuk Non Executive Director

Appointed – 28 January 2016

Experience – 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 Non Executive Director

Appointed – 28 January 2016

Experience – 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 as 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 an 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.

Bernie Sucher Non Executive Director

Appointed – 1 April 2016; resigned and reappointed 28 June 2016

Experience – is currently Chairman of UFG Asset Management. Previous experience includes leading Merrill Lynch's re-entry into Russia, becoming country head of Bank of America, co-founding the investment bank Troika Dialog and working with Cresvale, Goldman Sachs, and EF Hutton in New York, London, Hong Kong, and Tokyo. Bernie holds a BA from the University of Michigan and is a graduate of Columbia University's Senior Executive Program. Bernie is the Senior Independent Director, the Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees.

Alan Bigman Non Executive Director

Appointed – 1 April 2016; resigned and reappointed 28 June 2016

Experience – is currently a director of Sanchez Production Partners and is co-founder and Director of VTX Energy LLC in the United States. Previously, he served as Chief Financial Officer of LyondellBasell Industries, a leading global chemicals company, and held senior management positions at TNK-BP and SUAL. Alan obtained a Masters of Business Administration degree with High Distinction from Harvard Business School in June 1996 and a BA magna cum laude from Yale University in May 1989. Alan is Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

GOVERNANCE

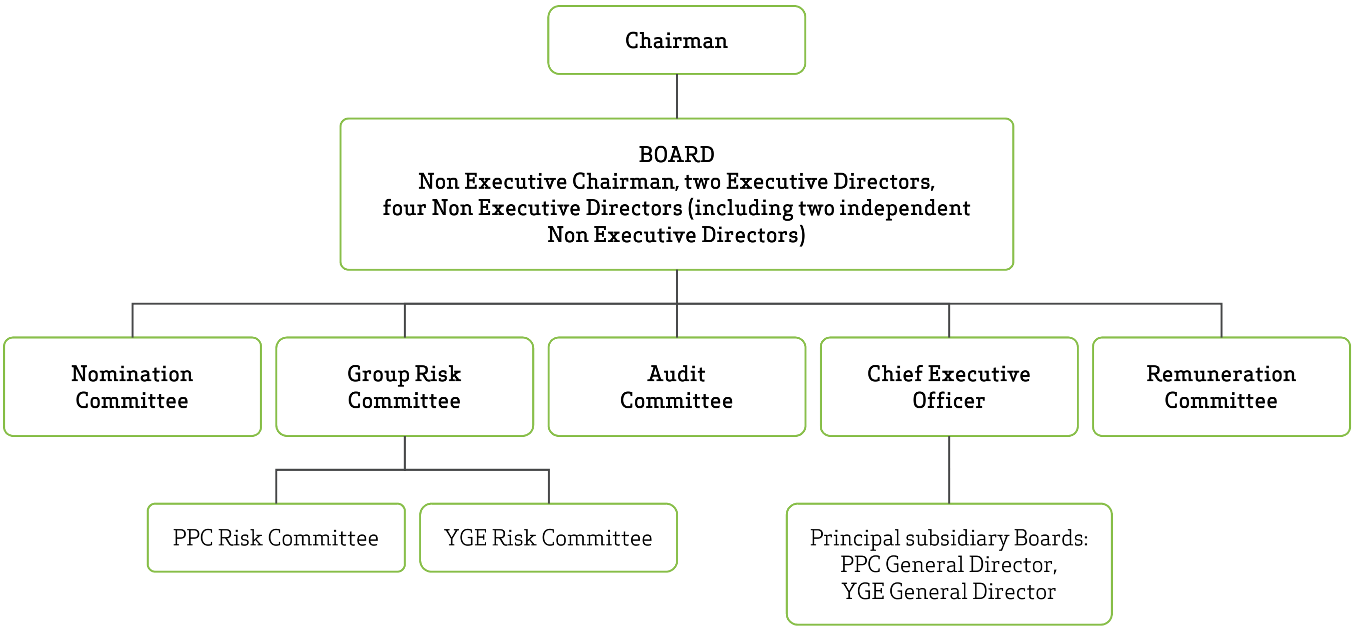
Corporate governance

Governance principles

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.

Governance framework



JKX Board replaced on 28 January 2016

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.

Due to the highly unusual circumstances of the entire Board being replaced on the same day, which included all the independent Non Executive Directors, from 28 January 2016 to 1 April 2016 when two new independent Non Executive Directors were appointed, the composition of the Board did not comply with UK Corporate Governance Code ('the Code') in respect of the number of independent Non-Executive Directors. Without independent Non-Executive Directors, the Company was not able to form the various committees (Audit, Remuneration and Nomination), which are required by the Code.

In the period from 28 January 2016 to 1 April 2016, a temporary Audit Committee was put in place consisting of Paul Ostling, as Chairman, and Russell Hoare, as Chief Financial Officer, to carry out the functions required under UKLA's Disclosure and Transparency Rules pending the establishment of a permanent Audit Committee.

In addition, base salaries for the newly appointed directors were set at temporary amounts pending the appointment of independent Non Executive Directors and the subsequent formation of a new Remuneration Committee to determine future incentive arrangements. Further details can be found in the Remuneration Report on pages 51 to 68.

On 1 April 2016, following a search by an independent executive search consultant, Alan Bigman and Bernie Sucher were appointed to the board as independent Non Executive Directors. This made the board composition compliant with the Code and a new Audit Committee was constituted along with a Remuneration Committee and Nominations Committee. Bernie Sucher was appointed the Senior Independent Director.

Since the 1 April 2016, 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, two independent Non Executive Directors and two Non Executive Directors that represent the interests of Proxima, JKX's second largest shareholder with a holding of almost 20%.

Board effectiveness

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 significant business risks are actively monitored and managed using robust control and risk management systems.

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

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

How the Board functions

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

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.

Monthly Board reporting

The Group provides the Board with a short "flash" report on monthly performance 6 working days after the month end and a more detailed consolidated monthly management report 15 working days after each month end, except for at the financial year-end and at the half-year when the reporting is delayed to accommodate the annual and half-year reporting process. The monthly 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, where possible, 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.

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.

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Corporate governance

Committees of the Board in 2016

As explained on page 36, the entire Board was replaced on 28 January 2016 which included the resignation of two of the five independent Non Executive Directors. Two new independent Non Executive Directors were appointed on 1 April 2016. During the period between 28 January and 1 April, the Company was not able to form the various committees (Audit, Remuneration and Nomination), which were compliant with the Code. On 1 April 2016, a new Audit Committee, Remuneration Committee and Nomination Committee were established.

During 2016, up until the General Meeting on 28 January 2016 and following the appointment of two new Non Executive Directors on 1 April 2016, the Board had three committees focusing on specialist areas, which were ultimately accountable to the Board. 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.

Committee memberships from 1 April 2016

	Audit Committee	Remuneration Committee	Nomination Committee
Paul Ostling	Member	Member	Chairman
Alan Bigman	Chairman	Member	Member
Bernie Sucher	Member	Chairman	Member
Vladimir Tatarchuk	–	Member	–
Vladimir Rusinov	Member	–	–

Committee memberships from 1 January to 28 January 2016

	Audit Committee	Remuneration Committee	Nomination Committee
Nigel Moore	–	Member	Chairman
Dipesh Shah OBE	Member	Chairman	–
Lord Oxford	–	–	Member
Alastair Ferguson	Member	–	–
Richard Murray	Chairman	Member	–

The roles and activities of each of these committees during 2016 are noted on pages 41, 45 and 51.

Board composition, independence and commitment

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.

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

- a Non Executive Chairman;
- two Executive Directors;
- two Non Executive Directors representing the interests of Proxima, JKX's second largest shareholder with a holding of almost 20%; and
- from their appointment on 1 April 2016, 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. The Board also regularly considers the appropriateness of Board composition.

Annual General Meeting 2016 – Appointment of Independent Non Executive Directors

At the Company's Annual General Meeting ('AGM') on 28 June 2016, Alan Bigman and Bernie Sucher, the two independent Non Executive Directors, were proposed for election to the Board by shareholders as they had both been appointed since the last general meeting of the Company. The resolutions to elect them were not passed because the Company's largest single shareholder, Eclairs Group Limited ('Eclairs'), voted against these two resolutions and a limited number of other shareholders voted. Eclairs is the owner of 47,287,027 shares (27.47% of the issued share capital) which represented approximately 96% of the votes cast against these two resolutions.

The Board convened a meeting immediately thereafter and considered the implications of the votes. The Board considered that the independent oversight of the Company was vital for the benefit of all shareholders and therefore reappointed Alan Bigman and Bernie Sucher as independent Non Executive Directors with immediate effect.

The Board has since consulted with Eclairs Group Limited to understand their objections. Alan Bigman and Bernie Sucher will be re-proposed for election to the Board by shareholders at the 2017 Annual General Meeting.

Board skills, experience and responsibilities

The Board has significant knowledge and experience of the oil and gas industry, engineering and financial matters, working in central and eastern Europe, particularly Ukraine and Russia, and turn-around and restructuring situations within the region. The key biographical details, relevant experience and responsibilities of each Director are provided on pages 34 and 35.

The Non-Executive Directors bring the skills and expertise necessary to challenge effectively, independently and constructively, the performance of the Executive Board and their strategy.

Board diversity

Until 28 January 2016, the Board comprised eight men (89%) and one woman (11%). From 28 January 2016 to 1 April 2016, the Board comprised five men and from 1 April 2016, the Board comprised seven 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 JKX's current gender diversity statistics are set out on page 27.

Senior Independent Director

Bernie Sucher was appointed as Senior Independent Director ('SID') following his appointment on 1 April 2016. Dipesh Shah was the SID from 1 January until his resignation on 28 January 2016.

The SID is 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.

2016 Board evaluation process

Following the change of the entire Board on 28 January 2016 and the appointment of two new independent Non Executive Directors later in the year, it was considered appropriate to defer the process of evaluating the performance of all the new Directors and committees in 2017. The Chairman will conduct one to one interviews with the Board and its committees and the Senior Independent Director will review the performance of the Chairman.

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. 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.

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Board activities

Attendance at meetings

In addition to six scheduled Board meetings, there were thirteen unscheduled meetings convened at short notice (2015: one).

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 2016 and individual attendance by Director is shown below:

Board and Committee meeting attendance in 2016

Number of meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
	19	4	3	1

Attendance/Eligibility:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Paul Ostling[1]	14/14	4/4	2/2	1/1
Tom Reed[2]	14/14	-	-	-
Russell Hoare[3]	14/14	1/1	-	-
Vladimir Tatarchuk[2]	13/14	-	1/2	-
Vladimir Rusinov[2]	14/14	3/3	-	-
Alan Bigman[4]	7/7	3/3	2/2	1/1
Bernie Sucher[4]	7/7	3/3	2/2	1/1
Nigel Moore[6]	5/5	-	1/1	-
Dr Paul Davies[6]	5/5	-	-	-
Cynthia Dubin[5]	5/5	-	-	-
Martin Miller[6]	5/5	-	-	-
Peter Dixon[6]	5/5	-	-	-
Dipesh Shah[5] OBE	4/5	-	1/1	-
Lord Oxford[6]	3/5	-	-	-
Alastair Ferguson[5]	5/5	-	-	-
Richard Murray[5]	5/5	-	1/1	-

1. Paul Ostling was appointed as a director on 28 January 2016 and was appointed Chairman of the temporary Audit Committee until 1 April 2016
2. Appointed as a director on 28 January 2016
3. Russell Hoare was appointed as a director on 28 January 2016 and was appointed a member of the temporary Audit Committee until 1 April 2016
4. Appointed as a director on 1 April 2016; resigned and reappointed 28 June 2016
5. Resigned 28 January 2016
6. Removed 28 January 2016

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 2016

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.

The initial Board schedule was focused on changes to the Board composition following the General Meeting of Shareholders on 28 January 2016. At subsequent meetings during the year matters considered included:

- the Chief Executive's report on strategic, and operational matters including business development activity and the political and economic developments in Ukraine and Russia
- the Chief Financial Officer's report which includes a report of actual performance against budget, reforecasting, updates on oil, gas and condensate prices, HSECQ matters and fund raising possibilities
- 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 implementation of a new vision for the Company and a field development plan using technology and knowledge transfer from US into Ukraine
- establishment of motivated qualified western professionals to lead and train existing teams in Ukraine
- managing the Group's liquidity including the repayment and subsequent restructuring of the existing Convertible Bond
- reduction in overhead costs and improved efficiency through the implementation of staff cuts in London, Ukraine and Russia
- responding to the Ukrainian government decrees regarding the level of production taxes
- responding to the repeated Police raids of office premises in Ukraine and managing the impact on the Group and the communication to shareholders
- management of the arbitration proceedings against Ukraine under the Energy Charter Treaty and other relevant investment treaties in addition to the management of other production tax related proceedings in the Ukrainian courts
- increased engagement with Governmental bodies in Ukraine
- increased transparency and engagement with shareholders regarding production and operations with the implementation of a regular reporting schedule.

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.

Five of the current Board appointments were approved by shareholders at the General Meeting on 28 January 2016. Alan Bigman and Bernie Sucher, the Company's two independent Non Executive Directors, were appointed to the Board on 1 April 2016, resigned as a result of the resolutions to appoint them not being passed at the Company's AGM on 28 June 2016 (see page 39), and were reappointed by the Board on the same day.

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. Alan Bigman and Bernie Sucher will stand for re-election at the 2017 Annual General Meeting, as they have been reappointed to the Board since the last AGM.

Full biographies of all the Directors can be found on pages 34 and 35.

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. Generally it meets at least once a year and more frequently if required.

The Committee met once during 2016 (2015: none). As noted above, the entire Board was replaced on 28 January 2016 and a new Nomination Committee could not be established until 1 April 2016 when two new independent Non Executive Directors were appointed following a search by an independent search consultant. Except for the Board replacement on 28 January and the reappointment of the independent Non Executive Directors following the AGM voting results (see page 39), no other appointments were made to the Board in 2016 (2015: none).

Membership and process

Until 28 January 2016, the Nomination Committee comprised two Non Executive Directors, Lord Oxford and Nigel Moore who were removed from the Board on 28 January 2016.

Two new independent Non Executive Directors were appointed on 1 April 2016 and a Nominations Committee was constituted in accordance with the requirements of the Code which comprised of Paul Ostling (as Chairman), Alan Bigman and Bernie Sucher.

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 has been tasked by the Board to consider succession planning.

Remuneration Committee

Details of the work of the Remuneration Committee is given in the Remuneration report on pages 51 to 68.

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Corporate governance

Compliance

Compliance with the UK Corporate Governance Code

The Board believes that during 2016 the Company was fully compliant with the provisions set out in the UK Corporate Governance Code, with the following 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 AGM on 4 June 2014. The service contract with Lord Oxford was terminated on 28 January 2016.

- As noted on page 36 above, from 28 January 2016 to 1 April 2016, the composition of the Board did not comply with the Code in respect of the number of independent Non-Executive Directors.

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.

The Board is responsible for identifying and evaluating the major business risks faced by the Company and for determining and monitoring the appropriate course of action to manage these risks. The Audit Committee reviews the Company's internal control processes and risk management systems and reports its conclusions to the Board.

For the year under review and up to the date of approval of the 2016 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. The Board has chosen, however, to strengthen the control system further with the recruitment of a Head of Risk Management and a Head of Procurement at the Group level but based in Kyiv, Ukraine.

In addition, the Board appointed Nadia Cansun as JKX General Counsel and Company Secretary to improve the Group's internal legal function. Nadia is a UK-qualified lawyer and has over 15 years of legal experience both in private practice and in-house in Russia, Ukraine and Eastern Europe.

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 29 to 32. The Group's Risk Committee held three meetings during the year (2015: three).

Further information on internal control and risk management is set out in the Audit Committee Report on page 45.

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 managers of operating subsidiaries in Russia and Ukraine, and other managers with specific responsibilities for the 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.

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 Executive Board.

Using our AFE system Group capital expenditures are reviewed 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 which is available on the Company's website, 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 potential 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 Chief Financial Officer 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.

Communication with shareholders

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

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. Quarterly operational updates and monthly production reports, which are announced to the London Stock Exchange and provided to shareholders, were commenced in 2016.

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 is mandated to support the Board in this process, being tasked to review requests from Directors for authorisations of situations of actual or potential conflict and making recommendations to the Board and to review any situations of actual or potential conflict that have been previously authorised by the Board. The Committee may also make recommendations regarding appropriateness of the authorisation.

GOVERNANCE

Corporate governance

Going concern

The Board closely monitors and manages the Group's 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. The Board also considers the current and future country and currency risks that the business is exposed to.

At the date of this report, there are circumstances which result 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 circumstances giving rise to the material uncertainty are discussed in Note 2 to the financial statements and relate to the potential for additional production related taxes becoming due for payment in Ukraine. 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 J. Ostling

Paul Ostling
Non Executive Chairman
17 March 2017

GOVERNANCE

Audit Committee Report

Attendance and eligibility

Members from 1 April 2016	Committee member since	Number of meetings in 2016 Attendance/Eligibility
Alan Bigman (as Chairman)	April 2016	3/3
Paul Ostling	January 2016	4/4
Bernie Sucher	April 2016	3/3
Vladimir Rusinov	April 2016	3/3

The Audit Committee comprises three Non Executive Directors, two of which are independent, and the Non Executive Chairman.

Audit Committee during 2016

As explained on page 36, the entire Board was replaced on 28 January 2016 which included the resignation of the two independent Non Executive Directors.

Up until their resignation on 28 January 2016, Richard Murray (as Chairman), Dipesh Shah and Alastair Ferguson made up the Audit Committee. No Audit Committee meetings took place in 2016 until after 28 January.

Two new independent Non Executive Directors were appointed on 1 April 2016. During the period from 30 January 2016 until 1 April 2016, when the Company did not have any independent directors, the Company established an interim Audit Committee comprising Paul Ostling and Russell Hoare, which carried out the requirements under the Disclosure and Transparency Rules 7.1.3R. 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.

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 2016. 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.

Composition of the Audit Committee

From 1 April 2016, the Audit Committee was chaired by Alan Bigman, an independent Non Executive Director. The Board determined that Alan Bigman has recent and relevant financial experience gained through his previous and current roles.

The Committee also included Bernie Sucher, the other Independent Non Executive Director, Paul Ostling, the Non Executive Chairman, and Vladimir Rusinov, Non Executive Director. This provides the Committee with an appropriate balance between those individuals with a financial or accounting background and those with wider experience of the oil and gas sector and doing business in regions in which JKX operates. 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

The Audit Committee met four times during 2016 (2015: five).

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Audit Committee Report

The Committee's meetings were always attended by the Chief Executive, the Chief Financial Officer, 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 2016 (2015: twice), the Committee Chairman 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 2016

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.

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 auditors' 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

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 2016 financial statements related to:

- The impact of an adverse international arbitration decision on the going concern of the Company;
- The Group's exposure to production-related taxes in Ukraine in respect of prior years; and
- The carrying value of the Group's Oil and Gas assets.

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 2016 and at the conclusion of the audit of these financial statements.

Matters considered	Response and conclusion
The Group's exposure to production-related taxes in Ukraine and its impact on going concern As detailed in Note 27 to the financial statements, JKX's Ukrainian operating subsidiary, Poltava Petroleum Company ('PPC'), has at times sought clarification of their status regarding a number of production related taxes. PPC continues to defend itself in the local courts against actions initiated by the tax authorities regarding production related taxes for August to December 2010 ('2010 Claims') and for January to December 2015 ('2015 Claims'). The 2015 Claims of approximately $23.6 million (plus interest and penalties) equate to the difference between the 55% official gas production tax rate in 2015 and the 28% rate at which the PPC was entitled to pay in 2015 under an Interim Award granted to PPC as part of, and until the conclusion of, the international arbitration process. In February 2017, the international arbitration tribunal awarded the Company approximately $11.8 million plus interest and costs of $0.3 million for damages pursuant to a claim made against Ukraine under the Energy Charter Treaty to recover $168 million in Rental Fees (plus damages) that PPC has paid on production of oil and gas in Ukraine since 2011. Accordingly, the Group's going concern assessment is sensitive to the outcome of the Company's production-related tax disputes with the Ukrainian Government. Should the Company lose the 2010 and 2015 Claims in the local courts and the Ukrainian Authorities demand settlement, the Group does not currently have sufficient cash resources to settle. This would affect its ability to meet its obligations to creditors and bondholders. 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 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 significant audit risk and accordingly the Committee received detailed verbal and written reporting from PricewaterhouseCoopers LLP ('PwC') on this matter. In addition, PwC's audit opinion provided includes an 'emphasis of matter' paragraph referencing a specific risk relating to the Company losing the 2010 and 2015 Claims after exhausting all potential avenues of legal defence, and the Ukrainian Government demanding immediate settlement, which together represent a material uncertainty. Whilst it is uncertain whether the Company will be successful in defending it 2015 and 2010 Claims, if unsuccessful, and immediate settlement is required, it may cast significant doubt about the Group's ability to meet its obligations as they fall due and to continue as a going concern. Having reviewed these reports and submissions, the Committee was satisfied that a provision of $33.9 million was required in respect of production taxes being claimed for 2010 and 2015, and the tribunal award totalling $12.1 million was disclosable as a contingent asset. Furthermore the Committee noted that the disclosures made in Note 27 to the financial statements appropriately reflected the uncertainties that necessarily persist. The Committee has advised the Board that, on the basis of management's reasonable expectations of a positive outcome in defending the 2010 Claims and from settlement negotiations with the Ukrainian Government in respect of the 2015 Claims and the arbitration award, the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis is the appropriate basis of preparation for the 2016 financial statements. However, the Committee has advised the Board that this uncertainty represents a material uncertainty, which should be, and is, appropriately disclosed in the financial statements (see Note 27 to the Group financial statements).

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Audit Committee Report

Matters considered	Response and conclusion
The carrying value of the Group's oil and gas assets As 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. In 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 interest in southern Russia due to the lower medium term visibility of gas prices which are set by the Russian government 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 2017 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, 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 in respect of the Russian and Hungarian CGUs (including sensitivity analyses in Note 5) had been appropriately disclosed in the financial statements.

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 2016 (2015: three).

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 29 to 32.

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 29.

Internal audit

During the year, KPMG was retained to build on their prior year's assessment on the adequacy of the Group's purchase-to-pay procedures and controls in Russia and Ukraine, as well as complete full internal audit procedures on the payroll process at the Group's operations in Russia and Ukraine. The scope of the payroll internal audit included the testing of design and operating effectiveness of controls across the full process.

In addition, to supplement the results of the controls testing performed as part of the payroll internal audit projects, a separate exercise was completed which analysed a significant amount of transactional data from payroll systems at Poltava Petroleum Company ('PPC') and Yuzhgazenergie LLC ('YGE'), the Group's operating subsidiaries in Ukraine and Russia, respectively.

The analysis of retrospective transactional data from the PPC and YGE payroll systems was undertaken in order to identify and quantify instances of potential fraud, errors and/or control weaknesses as well as any opportunities for improvement of Payroll processes.

The analysis was performed using data mining techniques with the aim of helping JKX management gain a better view of the control environment at PPC and YGE and identify improvements to current systems, processes and controls.

KPMG's independent assessment of our processes and controls has 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. In February 2017, a Risk Manager was employed in Kiev to engage more closely with the KPMG internal audit teams and ensure a year-round focus on internal audit matters.

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 and in 2016. 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 Chief Financial Officer 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 $109,000 for audit-related assurance services in 2016 in connection with the 2016 half year review process, $66,250 for assistance with the design of a new Board remuneration structure and policy and $2,000 for the use of PwC's 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.

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Audit Committee Report

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 focussed 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 in January 2017, 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.

The report was approved by the Board of Directors and signed on its behalf by

Alan Bigman
Chairman of the Audit Committee
17 March 2017

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Directors' Remuneration Report

Independence

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, from that date, the composition of the Board did not comply 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 was not able to form a Remuneration Committee compliant with the Code.

On 1 April 2016 two independent Non Executive Directors joined the Board and a Remuneration Committee comprising four Non Executive Directors was formed, which included three independent Non Executive Directors (including the Chairman).

Remuneration of the Board appointed on 28 January 2016

Temporary remuneration levels were put in place for the Board members appointed on 28 January 2016 pending the establishment of the Remuneration Committee. Following its formation in April 2016, the Remuneration Committee reviewed and approved the remuneration levels that had applied from 28 January 2016, which were rebased into their equivalent US Dollar amounts. This rebasing was done to reflect the functional and reporting currency of the Company.

Remuneration in 2016

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. The temporary remuneration levels adopted from 28 January 2016 and subsequently rebased into equivalent US Dollar amounts and approved as final were in accordance with this approved policy.

Annual bonuses in 2016 were based on a performance framework using a range of strategic, operational, organisational, financial and health and safety targets which were bespoke for each of the two Executive Directors.

Under the Performance Share Plan ('PSP') 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 2016, the Committee chose not to grant any awards to Executive Directors under the PSP pending submission of a new share plan for Directors to shareholders for approval at the 2017 AGM.

Remuneration in 2017

Following the significant votes against the Directors' Remuneration Policy and Directors' Remuneration Report at the Company's 2016 Annual General Meeting (see page 66), the Committee has identified a need for a new Directors' Remuneration Policy ('the Future Policy') with which to attract, retain and motivate the new management team and focus them on executing the new business strategy under unusually challenging market and company-specific conditions. The Committee is in the process of revising the Policy and expects to seek approval at the 2017 Annual General Meeting. Further details of the final proposed Future Policy will be provided in the Notice of Annual General Meeting 2017.

Remuneration disclosure

This Report is split into two parts: the Directors' Remuneration Policy and the Directors' annual remuneration report:

- **The Directors' Remuneration Policy applicable during 2016 (pages 51 to 55)** was unchanged from that approved by shareholders at the June 2014 AGM, and have therefore provided a summary in order to provide context.
- **The Annual Report on Directors' Remuneration (pages 56 to 68)** sets out details of how our remuneration policy has been applied for the year ended 31 December 2016. 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 2016.

At the 2017 AGM, the Directors' annual remuneration report will be put to an advisory shareholder vote together with a revised Director's Remuneration Policy ('the Future Policy') for which the Board is seeking approval from shareholders. Further details of the Future Policy will be provided in the Notice of the 2017 Annual General Meeting.

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Directors' Remuneration Report

Director's 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.

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 in order to attract, retain and motivate individuals with the appropriate skills and capabilities;
- ensure that there is an appropriate link between performance and reward; and
- award annual bonuses which reflect the achievement of short term financial and strategic objectives as well as personal performance.

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 Committee considers that the long-term incentives enshrined in the PSP do not provide an appropriate incentive structure given the situation the new Board found itself in on 28 January 2016. As such, the Board will be presenting a revised Directors' Remuneration Policy at the 2017 AGM which will contain a new long-term incentive element for Directors.

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 2016 is provided in the table below.

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, 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.
Performance metrics	Business and individual performance are considerations in setting base salary.

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, UK-based 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	UK-based Executive Directors are eligible to receive an annual contribution equivalent to 15% of base salary.
Performance metrics	Not performance related.

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.

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 or 150% of base salary in exceptional circumstances.
Performance metrics	Performance is assessed annually based on challenging and stretch targets for operational, organisational, financial and health and safety 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. Further details of the measures, weightings and targets applicable are provided on page 59.

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Directors' Remuneration Report

Director's Remuneration Policy

Performance Share Plan ('PSP') (There were no options granted to Directors under the PSP during 2016. The future policy which is being proposed at the 2017 AGM does not envisage the grant of any awards under the 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 67).
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.
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.

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. Fees are not paid to Directors representing shareholders.
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 membership 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 2016 are set out in the Annual Report on Remuneration. Fee levels will be next reviewed during 2017, with any increase effective 1 January 2018. 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

Executive Director service contracts, including arrangements for early termination, are 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.

	Date of contract	Notice period[1]	Date of termination[2]
Thomas Reed	28 January 2016	12 months	-
Russell Hoare	28 January 2016	12 months	-
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.

Executive Director Service Contract severance payments

On 28 January 2016, the Executive Director Service contracts for Paul Davies, Cynthia Dubin, Peter Dixon and Martin Miller 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 £62,772 for the forfeiture of all unexpired share options;
- payments of £398,028 related to shares deferred under the 2014 bonus arrangements for Executive Directors.

On 27 January 2016 the above amounts were approved and paid, prior to the General Meeting on 28 January 2016. The amounts relating to the payments in lieu of notice and unexpired share options are included in "Payments for loss of office" section in the Annual Report on Directors' Remuneration for 2016 (see page 61).

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 90 to 99 of the 2015 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.

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Directors' Remuneration Report

Annual Report on Remuneration

The following section provides details of how JKX's remuneration policy was implemented during the financial year ending 31 December 2016. 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

Members	From	To	Number of meetings in 2016 -Attendance/Eligibility
Bernie Sucher (Chairman)	1 April 2016	present	2/2
Alan Bigman	1 April 2016	present	2/2
Paul Ostling	1 April 2016	present	2/2
Vladimir Tatarchuk	1 April 2016	present	1/2
Dipesh Shah	1 June 2008	28 January 2016	1/1
Nigel Moore	26 June 2007	28 January 2016	1/1
Richard Murray	17 January 2013	28 January 2016	1/1

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 three times during 2016 (2015: four times).

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

When required, the Chief Executive attends Committee meetings; however no Director plays a part in any discussion regarding his own remuneration other than to be challenged on bonus targets and the degree to which they have been met.

During 2016, none of the Committee members had any personal financial interest and no conflicts of interests arise from cross-directorships or day-to-day involvement in running the Group.

Members from 1 April 2016	Role of the Committee	Activities during 2016
Bernie Sucher (as Chairman) Alan Bigman Paul Ostling Vladimir Tatarchuk	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: ▪ Approval of executive salary levels for 2016 ▪ Review and approval of performance targets for the 2016 Annual Bonus Scheme ▪ Drafting of an alternative long-term inventive share plan to be presented to shareholders at the 2017 AGM; and ▪ Review the application and appropriateness of current remuneration policies.

Given the greater focus that shareholders now apply to the remuneration policies of pubic company boards, the Company believes it appropriate to include one of the non executive shareholder representative directors on the Remuneration Committee, while also recognising the need for the remainder of the Committee to be independent directors in order to maintain corporate governance standards.

Advisers

Following changes to the Board in January 2016, the Board retained PriceWaterhouseCoopers until July 2016 to review and assess the Company's Remuneration Policy in light of the Company's new strategic goals. Their total fees in this respect were £50,000.

Single figure of total remuneration for Executive Directors (audited)

All Directors' remuneration was rebased to US Dollars from 28 January 2016 (the Group's reporting currency). The following Executive Directors' annual base salaries were agreed by the Remuneration Committee:

	2016 base salary
Tom Reed	$650,000
Russell Hoare	$450,000

The table below sets out a single figure for the total remuneration received by each Director for the year ended 31 December 2016 and the prior year. Through 2016, the Executive Directors contracts were settled in their Sterling equivalent. Figures in this report are disclosed in US Dollars (the Group's reporting currency). The average exchange rate used for 2016 in the table below is £1:$1.365 (2015: £1:$1.529). Amounts paid to Former Executive Directors have been translated at the 27 January 2016 exchange rate of £1:$1.500.

The level of base salaries have remained unchanged for both 2015 and 2016. The differences shown in this report are due to the movement in GBP to USD exchange rate from 2015 to 2016.

	Salary[4]		Benefits[5]		Annual Bonus[6]		Pension[7]		Total	
$'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Executive Directors										
Tom Reed[1]	599	-	28	-	634	-	-	-	1,261	-
Russell Hoare[1]	415	-	8	-	506	-	62	-	991	-
Former Executive Directors										
Paul Davies[2]	53	645	1	14	-	569	8	93	62	1,321
Cynthia Dubin[3]	38	456	1	6	-	401	6	69	45	932
Martin Miller[2]	17	243	-	6	-	183	2	29	19	461
Peter Dixon[2]	29	346	1	8	-	304	5	52	35	710
	1,151	1,690	39	34	1,140	1,457	83	243	2,413	3,424

1. Appointed 28 January 2016
2. Removed 28 January 2016
3. Resigned 28 January 2016
4. Salary: amount earned for the year
5. Benefits: the taxable value of benefits received in the year, including accommodation, life assurance, income protection and private medical cover
6. Annual Bonus: this is the total cash bonus earned based on performance during the 2015
7. Pension: annual contribution by the Group to directors' pension plans or cash in lieu
8. DSOS: no awards vested on performance to 31 December 2016 (2015: none) as the performance conditions were not met
9. PSP: no awards vested on performance to 31 December 2016 (2015: none) as the performance conditions were not met

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Directors' Remuneration Report

Annual Report on Remuneration

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 2016 and the prior year. Through 2016, the Chairman's contract was settled in its Sterling equivalent. The exchange rate used for 2016 in the table below is £1:$1.365 (2015: £1:$1.529) unless otherwise noted.

	Fees		Total remuneration	
$'000	**2016**	2015	**2016**	2015
Non Executive Directors				
Paul Ostling[1]	**246**	-	**246**	-
Alan Bigman[2]	**107**	-	**107**	-
Bernie Sucher[2]	**107**	-	**107**	-
Vladimir Tatarchuk[3]	**6**	-	**6**	-
Vladimir Rusinov[3]	**6**	-	**6**	-
Former Non Executive Directors				
Nigel Moore[4]	**20**[6]	242	**20**	242
Dipesh Shah[5]	**9**[6]	113	**9**	113
Lord Oxford[4]	**6**[6]	72	**6**	72
Alastair Ferguson[5]	**7**[6]	81	**7**	81
Richard Murray[5]	**8**[6]	96	**8**	96
	522	604	**522**	604

1. Appointed 28 January 2016
2. Appointed 1 April 2016; resigned and reappointed 28 June 2016
3. Appointed 28 January 2016; appointed to Board Committees 1 April 2016
4. Removed 28 January 2016
5. Resigned 28 January 2016
6. Sterling amounts paid have been converted at the exchange rate at 27 January 2016 payment date being £1:$1.500

Incentive outcomes for the year ended 31 December 2016 (audited)

Annual Bonus Scheme

The Annual Bonus Scheme for 2016 applied to Executive Directors and certain senior management including senior staff in Poltava Petroleum Company ('PPC') and Yuzhgazenergie ('YGE'). Bonuses were based on individual performances against objectives determined by the Committee during the first half of the year (since the Committee was not formed until 1 April 2016) and were designed to reward short-term performance. The scheme is discretionary and annual awards are not pensionable.

The performance conditions for the financial year were derived from the Company's Strategic Plan and were approved by the Board. Due to the exceptional circumstances the new Board inherited on 28 January 2016, individual KPIs were devised for each of the two Executive Directors with the total possible bonus equating to 150% of base salary. The bonuses approved by the Board for the Chief Executive Officer and Chief Financial Officer, as a proportion of base salary, equated to 105% and 121% respectively.

The targets set and the bonus outcomes achieved as a percentage of maximum for 2016 for the Chief Executive Officer

Element	Weighting to overall bonus	2016 Performance measures	2016 Performance targets	2016 Achievement	% of bonus achieved
Organisation	20%	Restructuring and appointment of senior management	Based on quantifiable figures to limit subjectivity as far as possible	Exceeded target but below stretch target	16%
Operations and Field Development Plans ('FDPs')	71%	Increase production	Targets established against each measure with a sliding scale between threshold and maximum	Exceeded target but below stretch target	45%
		Completion of FDPs, source financing options, establish FDP execution team		Exceeded target but below stretch target	
Health and safety targets	9%	Lost Time Injury Frequency Rate ('LTIF')	LTIF=0.25	Exceeded target	9%
		All Injury Frequency Rate ('AIFR')	AIFR=0.40	Exceeded target	
		Environmental Incident Frequency Rate ('EIFR')	EIFR=0.60	Exceeded target	
TOTAL	100%				70%

The targets set and the bonus outcomes achieved as a percentage of maximum for 2016 for the Chief Financial Officer

Element	Weighting to overall bonus	2016 Performance measures	2016 Performance targets	2016 Achievement	% of bonus achieved
Organisation	27%	Reorganisation of London and Group teams	Based on quantifiable headcount and cost savings targets	Exceeded target but below stretch target	20%
		Realisation of cost savings through reorganisation		Exceeded target but below stretch target	
Operations and financing	66%	Restructure Bond liabilities and monetise Russian asset	Specific targets set for individual tasks	Exceeded target	54%
		Development of new Group financing options		Exceeded target	
Health and safety targets	7%	Lost Time Injury Frequency Rate ('LTIF')	LTIF=0.25	Exceeded target	7%
		All Injury Frequency Rate ('AIFR')	AIFR=0.40	Exceeded target	
		Environmental Incident Frequency Rate ('EIFR')	EIFR=0.60	Exceeded target	
TOTAL	100%				81%

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Directors' Remuneration Report

Annual Report on Remuneration

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.

Annual bonuses were paid in February 2017.

Scheme interests awarded in 2016 (audited)

The Company only operated one long-term incentive plan during 2016 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 to Directors under the PSP during 2016 and the future policy, which is being proposed at the 2017 AGM, does not envisage the grant of any awards under the PSP.

There were no grants of awards under the approved Discretionary Share Option Scheme ('DSOS') during 2016. The approved policy does not envisage the grant of any DSOS awards in future.

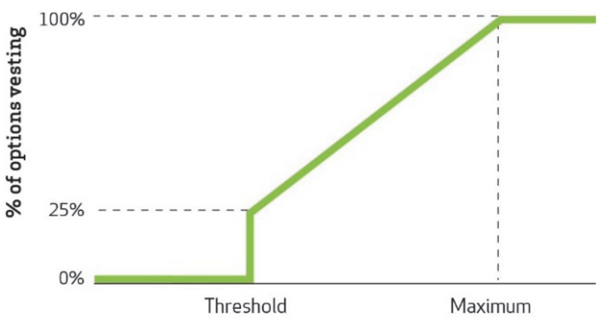
The PSP provides nil-cost options for Executive Directors and senior management. In the aggregate, the market value of shares that may be granted in any financial year under the DSOS and the PSP together cannot exceed 300% of basic salary for any Executive.

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.

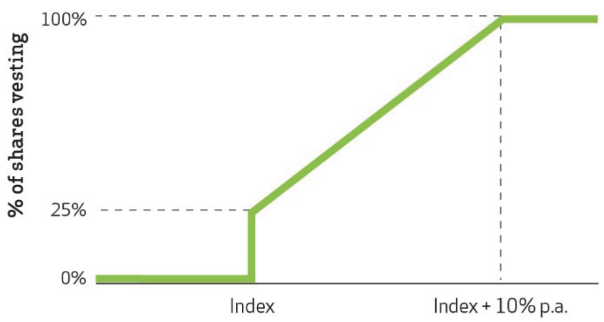
As at 31 December 2016, the maximum available shares under the Company's 5% and 10% limits was 7.2 million (2015: 0.7 million) and 15.8 million (2015: 9.3 million) shares respectively, out of an issued share capital of 172.1 million shares.

Vesting schedule for DSOS



3 year EPS growth p.a.

Vesting schedule for 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

2010 Performance Share Plan ('PSP') – Disclosure in respect of 2015 awards to former Executive Directors

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. The Committee did not grant any awards under the PSP to Directors during 2016 and will include an alternative long-term incentive plan in the Revised Remuneration Policy being submitted to Shareholders at the 2017 AGM. The PSP will continue to be used to award options to other executives within the business.

The grants made under the PSP in 2015 were as follows:

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-15	1,281,800	£0.335	£429,403	31-Dec-17
Cynthia Dubin	23-Mar-15	903,000	£0.335	£302,505	31-Dec-17
Peter Dixon	23-Mar-15	684,800	£0.335	£229,408	31-Dec-17

1. Closing market price on the date of the award

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 is based on performance relative to the relevant index, with 25% vesting for performance in line with the index. Vesting increases 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 recorded TSR must be 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.

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 £62,772 to Executive Directors to forfeit all unexpired share options (including those granted in 2015, as noted above).

2014 PSP and DSOS vesting

Options granted in 2014 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). PSP awards granted in 2014 vest based on a 3-year TSR performance as described above, with TSR assessed relative to the FTSE SmallCap index and FTSE All-Share Oil & Gas Producers index. As noted above, all unexpired options were forfeited on 28 January 2016.

Payments for loss of office (audited)

Executive Director Service Contract severance payments

The table below sets out the treatment in relation to Executive Directors who left the business during the year. 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 and their Executive Director Service contracts were terminated with immediate effect. The Board in place at that time approved payments:

- totalling £1,007,500 ($1,511,250) in lieu of notice, which is equivalent to 12 months' salary for Paul Davies, Cynthia Dubin and Peter Dixon, and 6 months' salary for Martin Miller;
- totalling £62,772 ($94,158) related to forfeiture of all unexpired share options for Executive Directors.

On 27 January 2016 the above amounts were approved and paid, prior to the General Meeting on 28 January 2016.

$'000	Payment in lieu of notice[1]	Settlement of unexpired options[1]	Total
Former Executive Directors			
Paul Davies	635	42	677
Cynthia Dubin	447	30	477
Martin Miller	90	-	90
Peter Dixon	339	22	361
	1,511	94	1,605

1. Sterling amounts paid have been converted at the exchange rate at 27 January 2016 payment date being £1:$1.500

In respect of the 2014 financial year, the Executive Directors' bonus was to be deferred into JKX shares however no deferred shares were issued. Following termination of Executive Directors contracts in January 2016, in addition to the payments noted above, the Board in place at that time approved payments to Former Executive Directors totaling £398,028 ($579,042) in lieu of the right to these deferred shares.

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Directors' Remuneration Report

Annual Report on Remuneration

Non Executive Director – Exit payments

On 28 January 2016, following a General Meeting of the Company, the Non Executive Director Service contracts of Nigel Moore, Dipesh Shah, Lord Oxford, Alastair Ferguson and Richard Murray were terminated with immediate effect. The Board in place at that time approved payments in lieu of notice totalling $149,880 (£99,750), equivalent to 3 months' salary for each of these five Non Executive Directors, with these amounts being approved and paid before the General Meeting on 28 January 2016.

$'000	Payment in lieu of notice[1] 2016
Former Non Executive Directors	
Nigel Moore	59
Dipesh Shah	27
Lord Oxford	18
Alastair Ferguson	22
Richard Murray	24
	150

1. Sterling amounts paid have been converted at the exchange rate at 27 January 2016 payment date being £1:$1.500

Executive Director remuneration for 2017

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 2017:

	2016 Salary	2017 Salary	% increase
Tom Reed	$650,000	$650,000	nil
Russell Hoare	$450,000	$450,000	nil

Similarly, no salary increase was awarded to the UK employees (2015: nil).

Pension and benefits

The Company will make a contribution equivalent to 15% of basic salary to the pension scheme of the individual's choice for any UK-based Executive Directors.

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).

Non Executive Director remuneration

The following Non Executive Service Contracts were in place during the year:

Non-Executive	Date of contract	Term of contract	Notice period	Date of termination[1]
Paul Ostling	28 January 2016	3 years	3 months	N/A
Vladimir Tatarchuk	28 January 2016	3 years	3 months	N/A
Vladimir Rusinov	28 January 2016	3 years	3 months	N/A
Alan Bigman	1 April 2016	3 years	3 months	N/A
Bernie Sucher	1 April 2016	3 years	3 months	N/A
Nigel Moore	13 July 2012	Indefinite	3 months	28 January 2016
Lord Oxford	1 January 2002	Indefinite	3 months	28 January 2016
Dipesh Shah	1 June 2008	Indefinite	3 months	28 January 2016
Alastair Ferguson	1 November 2011	Indefinite	3 months	28 January 2016
Richard Murray	1 January 2013	Indefinite	3 months	28 January 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.

Until 28 January 2016, 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 at that time 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.

Following the change of Board on 28 January 2016, all Non Executive Directors' service contracts were terminated and the new Non Executive Directors' service contracts were put in place for an initial term of three years.

The Non Executive Directors are 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.

All Non Executive Directors' remuneration was stated and paid in Sterling until 27 January 2016. From 28 January 2016, all Directors' remuneration was rebased to US Dollars (the Group's reporting currency).

Temporary remuneration levels were put in place for Non Executives that were appointed on 28 January 2016 pending the establishment of the Remuneration Committee. The Committee subsequently reviewed and approved the remuneration levels that had applied from 28 January 2016 and, except for the Board membership fee, rebased them to their equivalent US Dollar amounts. Since 28 January 2016, the Chairman's remuneration was settled in its Sterling equivalent, and the remuneration of the other Non Executive Directors was settled in US Dollars.

These fees were reviewed at the 2016 year end and no increase has been awarded from their 2016 level. Non Executive Directors' fees for 2016 and 2017 are as follows:

	From 1 January to 27 January 2016	From 28 January 2016	**2017**	% increase from 2016 to 2017
Chairman of the Company	£157,500	$250,000	$250,000	nil
Board membership fee[1]	£47,250	$120,000	$120,000	nil
Committee chairman - Audit	£10,500	$15,000	$15,000	nil
Committee chairman - Remuneration	£10,500	$15,000	$15,000	nil
Committee membership – Audit[1]	£5,250	$7,500	$7,500	nil
Committee membership – Remuneration[1]	£5,250	$7,500	$7,500	nil

1. No Board fees are paid by the Company for Non Executive shareholder representative directors

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.

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Directors' Remuneration Report

Annual Report on Remuneration

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 2015 and 2016 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.

	CEO			All UK employees
	2016 $'000	2015 $'000	% change 2015 - 16	% change 2015 - 16
Base salary	**652**	645	1%	0%
Taxable benefits	**29**	14	107%	11%
Annual bonus	**634**[1]	569[1]	11%[1]	5%[1]
Total	**1,315**	1,228	7%	6%

1. The calculations are based on the cash amount of the 2015 and 2016 bonuses paid during January 2016 and February 2017, respectively.

The level of base salary for the CEO has remained unchanged for both 2015 and 2016. The difference shown above is due to the movement in GBP to USD exchange rate from 2015 to 2016.

Relative importance of spend on pay

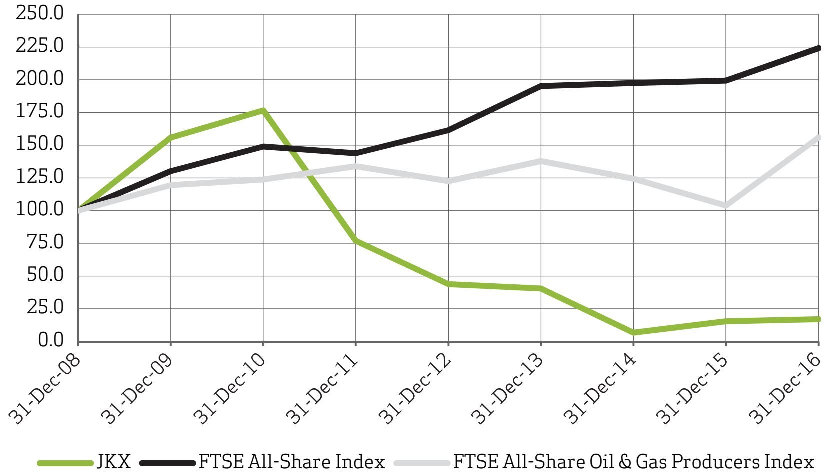
The table below show shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2015 and 31 December 2016, along with the percentage change in both.

	2016 £'000	2015 £'000	Year-on-year change
All-employee remuneration	**17,226**	15,361	12%
Distributions to shareholders	**–**	–	–

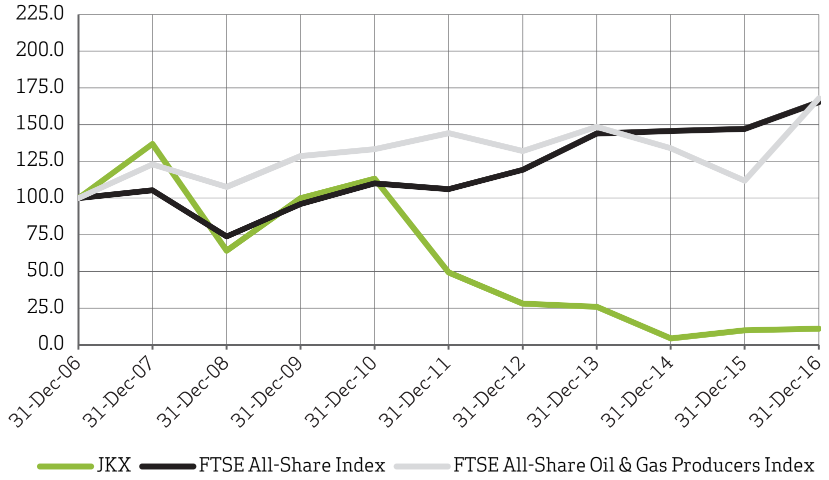
Review of past performance

The following graphs 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 an 8-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.

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



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Directors' Remuneration Report

Annual Report on Remuneration

The table below details the Chief Executive's "single figure" remuneration over an 8-year period. An investment of £100 in the Company on 31 December 2008 was worth £17.10 at 31 December 2016 (same investment on 31 December 2008 was worth £15.42 at 31 December 2015). The calculation of the return assumes dividends are reinvested to purchase additional equity.

From 28 January 2016, the CEO's remuneration was rebased to its equivalent US Dollar amount at that time. For years 2009 to 2015, the CEO's single figure remuneration amounts, which in previous Remuneration Reports were quoted in Sterling, have been converted into their US Dollar equivalent in each year using the following average Sterling:US Dollar exchange rates as follows: 2009: £1:$1.565; 2010: £1:$1.546; 2011: £1:$1.604; 2012: £1:$1.585; 2013: £1:$1.565; 2014: £1:$1.648; 2015:£1: $1.529.

	2009	2010	2011	2012	2013	2014	2015	**2016**
CEO single figure of remuneration - Paul Davies ($'000)	933	818	832	983	1,141	1,043	1,321	**62**
CEO single figure of remuneration – Tom Reed ($'000)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**1,261**
Total CEO single figure of remuneration ($'000)	933	818	832	983	1,141	1,043	1,321	**1,323**
STI award rates against maximum opportunity	64%	40%	43%	33%	62%	33 %	86%	**70%**
LTI award rates against maximum opportunity	0%	0%	0%	0%	0%	0%	0%	**0%**

Shareholder voting at the Annual General Meeting

At the Annual General Meeting ('AGM') 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:

	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 withheld[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

At last year's AGM held on 28 June 2016, the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	45,517,075	49.0%
Against	47,350,916	51.0%
Total votes cast (for and against, excluding withheld votes)	92,867,991	100 %
Votes withheld[1]	7,186	0.0%
Total votes (for, against and withheld)	92,875,177	

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

Where shareholders voted against the Annual Report on Remuneration, this was in part due to what the shareholders considered to be excessive reward for the Former Executive Directors that were in place during 2015 for unsatisfactory operational, financial and strategic management. In addition shareholders considered that the previous board was too large for the current circumstances of the Company and therefore total board remuneration was too high.

The entire JKX Board that was in place during 2015 was removed or resigned on 28 January 2016 and the new Remuneration Committee is in the process of drafting a proposed new Remuneration Policy, which it expects to put to shareholders for approval at the 2017 Annual General Meeting. It is expected that details of the final proposed new Future Policy will be provided with the 2017 Notice of AGM. The Board will seek to engage with shareholders before the 2017 AGM regarding the proposed Future Policy 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 the date of 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 2016, based on that day's closing middle market price of an ordinary share of the Company of 30.25 pence:

	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 2016 % salary/fee	Requirement met?
Executive Directors							
Tom Reed	-	-	-	-	100%	-	No
Russell Hoare	-	-	-	-	100%	-	No

Non Executive Directors	
Paul Ostling	-
Alan Bigman	-
Bernie Sucher	-
Vladimir Tatarchuk	-[1]
Vladimir Rusinov	-[1]

1. Vladimir Tatarchuk and Vladimir Rusinov are deemed to have a beneficial interest in 34,288,253 ordinary shares and Convertible Bonds with principal amount of $3.4m, which are held by Proxima Capital Group. At 31 December 2016, if fully converted, the convertible bonds held by Proxima would have resulted in the issue of a maximum of 2,819,077, representing 1.64% of the issued share capital, based on the conversion price of 76.29 pence per ordinary share and a US$/GBP exchange rate of 1.5809. Further information on the terms and conditions of the Convertible Bonds is disclosed in Notes 12 and 13 to the consolidated financial statements.

Since 31 December 2016, there have been no changes in the Directors' interests in shares of the Company.

The report was approved by the Board of Directors and signed on its behalf by

Bernard Sucher
Chairman of the Remuneration Committee
17 March 2017

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Directors' Remuneration Report

Annual Report on Remuneration

Directors' Share Options

Note		No of options at 1 January 2016	Options granted during year	Options exercised during year	Options forfeited during year	No of options at 31 December 2016	Exercise price	Market price	Date from which exercisable	Expiry date
P Davies										
1	09-Apr-13	**580,100**	-	-	580,100	-	£0.000	£0.705	09-Apr-16	09-Apr-23
1	09-Apr-13	**580,100**	-	-	580,100	-	£0.705	£0.705	06-Jun-16	06-Jun-23
2	28-Mar-14	**707,900**	-	-	707,900	-	£0.000	£0.598	28-Mar-17	28-Mar-24
2	28-Mar-14	**707,900**	-	-	707,900	-	£0.598	£0.598	28-Mar-17	28-Mar-24
3	20-Mar-15	**1,281,800**	-	-	1,281,800	-	£0.000	£0.330	20-Mar-22	20-Mar-25
		3,857,800	-	-	3,857,800	-				
P Dixon										
1	09-Apr-13	**247,400**	-	-	247,400	-	£0.000	£0.705	09-Apr-16	09-Apr-23
1	09-Apr-13	**247,400**	-	-	247,400	-	£0.705	£0.705	06-Jun-16	06-Jun-23
2	28-Mar-14	**302,600**	-	-	302,600	-	£0.000	£0.598	28-Mar-17	28-Mar-24
2	28-Mar-14	**302,600**	-	-	302,600	-	£0.598	£0.598	28-Mar-17	28-Mar-24
3	20-Mar-15	**684,800**	-	-	684,800	-	£0.000	£0.330	20-Mar-22	20-Mar-25
		1,784,800	-	-	1,784,800	-				
M Miller										
1	09-Apr-13	**247,400**	-	-	247,400	-	£0.000	£0.705	09-Apr-16	09-Apr-23
1	09-Apr-13	**247,400**	-	-	247,400	-	£0.705	£0.705	06-Jun-16	06-Jun-23
2	28-Mar-14	**302,600**	-	-	302,600	-	£0.000	£0.598	28-Mar-17	28-Mar-24
2	28-Mar-14	**302,600**	-	-	302,600	-	£0.598	£0.598	28-Mar-17	28-Mar-24
		1,100,000	-	-	1,100,000	-				
C Dubin										
1	09-Apr-13	**408,500**	-	-	408,500	-	£0.000	£0.705	09-Apr-16	09-Apr-23
1	09-Apr-13	**408,500**	-	-	408,500	-	£0.705	£0.705	06-Jun-16	06-Jun-23
2	28-Mar-14	**498,700**	-	-	498,700	-	£0.000	£0.598	28-Mar-17	28-Mar-24
2	28-Mar-14	**498,700**	-	-	498,700	-	£0.598	£0.598	28-Mar-17	28-Mar-24
3	20-Mar-15	**903,000**	-	-	903,000	-	£0.000	£0.330	20-Mar-22	20-Mar-25
		2,717,400	-	-	2,717,400	-				

1. 2010 DSOS/PSP in respect of 2013
2. 2010 DSOS/PSP in respect of 2014
3. 2011 DSOS/PSP in respect of 2015

On 28 January 2016, all unexpired share options (noted above) were forfeited. See page 61.

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 2017 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 (2015: nil). The Group made charitable contributions of $291,014 (2015: $240,242) for local educational, health and village infrastructure initiatives in Ukraine and Russia, details of which can be found on page 28.

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 26.

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 29 to 32 and in Note 14 to the financial statements.

Shares in JKX Oil & Gas plc

Details of movements in share capital during the year are set out in Note 16 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 2016, the Company did not purchase in the market any of its own ordinary 10p shares, to be held as treasury shares. At 31 December 2016, 402,771 (2015: 402,771) shares continued to be held as treasury shares representing 0.23% (2015: 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.

Directors' report – other disclosures

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.

Directors

The names and biographies of the Directors who held office as at the date of this Annual Report are set out on pages 34 and 35.

Directors who held office throughout 2016 and the changes made to the Board at that date are set out below:

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
Alan Bigman	Appointed 1 April 2016	Non Executive Director
Bernie Sucher	Appointed 1 April 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

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 may be required to retire by rotation at that meeting.

Directors and their interests

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 follows:

	1 January 2016 Ordinary Share Number	31 December 2016 Ordinary Share Number
Tom Reed[1]	Not Applicable	-
Russell Hoare[1]	Not Applicable	-
Paul Ostling[1]	Not Applicable	-
Alan Bigman[2]	Not Applicable	-
Bernie Sucher[2]	Not Applicable	-
Vladimir Tatarchuk [1]	Not Applicable	See note 3
Vladimir Rusinov [1]	Not Applicable	See note 3

1. Appointed 28 January 2016
2. Appointed 1 April 2016
3. 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 $3.4m, which are held by Proxima Capital Group. If fully converted at 31 December 2016, the convertible bonds held by Proxima would result in the issue of a maximum of 2,819,077, representing 1.64% of the issued share capital, based on the conversion price of 76.29 pence per ordinary share and a US$/GBP exchange rate of 1.5809. Further information on the terms and conditions of the Convertible Bonds is disclosed in Notes12 and 13 to the consolidated financial statements.

There were no changes to the shareholdings 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 51 to 68. 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 16 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, following repurchases and cancellation of bonds during 2016, has reduced to a nominal value of $16m, see Note 12 to the consolidated financial statements) 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 35 to the financial statements.

Directors' report – other disclosures

Substantial shareholders

At 31 December 2016 and at 28 February 2007, 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:

Substantial shareholders	31 December 2016 Number of shares	31 December 2016 % of total voting rights	28 February 2017 Number of shares	28 February 2017 % 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	22,295,598	12.95%	22,295,598	12.95%
Keyhall Holding Limited	19,656,344	11.42%	19,656,344	11.42%
Interneft Ltd	11,368,460	6.60%	11,368,460	6.60%

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 regulation.

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, comprising FRS 101 "Reduced Disclosure Framework", 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 parent company and of the profit or loss of the Group and parent company 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 for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the parent company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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.

The Directors are also responsible for safeguarding the assets of the parent 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 parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 have been paid or proposed for the year ended 31 December 2016. 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 44.

Future developments within the Group

The Strategic report starting on page 1contains details of likely future developments within the Group.

Loss

Details of the Company's loss for the year ended 31 December 2016 can be found on page 80.

Capitalised interest

See Group financial statements Note 5.

Long term incentive schemes

See pages 51 to 68 of the Directors' Remuneration Report.

Directors' responsibilities

Each of the Directors, whose names and functions are listed on pages 34 and 35, confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Annual Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that it faces; and
- 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 Group and parent company's performance, business model and strategy;

In the case of each director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent 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 Group and parent company's auditors are aware of that information.

By order of the Board

Nadia Cansun

Nadia Cansun
Company Secretary
17 March 2017

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 2016 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. At 31 December 2016, the Group has recorded a provision of $33.9m in relation to additional Rental Fees which may become immediately due and payable in Ukraine as a result of unfavourable outcomes in one or more of the ongoing court proceedings. This condition, along with the other matters explained in note 2 to the financial statements, indicates the existence of a material uncertainty 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 2016;
- the Consolidated statement of financial position as at 31 December 2016;
- 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: $1.0m which represents 5% of the average profit before tax, adjusted for exceptional items, for the last 5 years as defined in the accounting policies in Note 3.
- We identified three significant components out of the group's 37 separate reporting units, 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 Ukrainian component as part of our audit and visited the Russian component in the prior year.
- 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 – risk of payment of additional Rental Fees.
- Impact of additional Rental Fees on going concern

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 48 (Audit Committee Report), page 91 (critical accounting estimates and assumptions) and page 95 (Property, plant and equipment). Oil and gas assets in Russia, Ukraine and Hungary total $193.2m at 2016 year end after the recognition of a $2.0m impairment charge. These represent 99.3% of the Group's total Property, plant and equipment. We focused on this area due to the material nature of the balance, the judgement involved in assessing for impairment, the current economic climate which resulted in the renegotiation of the company's main sales contract in Russia and worse than expected drilling results in Hungary. *Ukraine* 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 Ukrainian Cash Generating Unit's ("CGU's"): Novomykolaivske and Elizavetivske. *Russia* For the Koshekhablskoye CGU in Russia, the 9.5% decrease in Rouble gas price from July 2016 following renegotiation of the main gas sales agreement constituted an impairment trigger, given the value of oil and gas assets are sensitive to changes in price. Management's assessment of recoverable amount did not give rise to an impairment. *Hungary* For the Hajdunanas IV CGU in Hungary, an impairment trigger was identified following worse than expected results from drilling of side track well, which did not identify commercially recoverable oil volumes. Following management's impairment assessment, an impairment loss of $2.0m was recorded on this CGU.	*Ukraine* We reviewed the criteria outlined in IAS 36 *Impairment of assets* and in particular considered changes in key assumptions such as commodity prices, reserves and discount rates since the prior year. We concur with management's conclusion that no impairment trigger has arisen in respect of these two Ukrainian CGU's. *Russia* We have evaluated the discounted cash flow model prepared by management which supports the carrying value of this CGU. We agreed the forecast gas price to the revised sales agreement, and compared expected gas price inflation in the model with Russian Ministry of Economics guidance, taking into account wider macro-economic factors. We concluded management's price forecast was reasonable. Management's production forecasts, another key assumption, were reconciled to the 31 December 2016 independent reserves report prepared by the group's reserves auditors, and found to be materially in line with their report. We challenged management on the technical feasibility of planned workovers which are predicted to increase production from 2017, and we consider these assumptions to be supportable. Other capital expenditure assumptions were assessed and found to be in accordance with our expectations. In addition we independently benchmarked inputs into the weighted average cost of capital calculation used to calculate the discount rate used in the model, and found these inputs to be consistent with management's. We were therefore able to conclude no impairment exists in respect of the Koshekhablskoye CGU. *Hungary* We confirmed forecast gas sales price is within an acceptable range of broker estimates. We also reviewed production forecasts and noted these were supported by actual February 2017 production data. Other key assumptions including discount rate, capital expenditure and operating expense were assessed and deemed reasonable. Based on our work, we concur with the amount of impairment loss recorded. Finally we 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 IAS 36.
Basis of going concern Refer to page 47 (Audit Committee Report) and page 85 (Basis of Preparation). The Group generated $14.6m positive operating cash flows in 2016, and international oil and gas prices have generally improved in 2016. However, as discussed in the area of focus below, the Group is subject to a number of challenges regarding production taxes ('Rental fees') in Ukraine for two separate periods, April to December 2010 and January to December 2015. If one or more of the ongoing court cases ends with an unfavourable outcome, and amounts become	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. We also considered historical accuracy of management's forecasting. We have challenged management on the timing of the payment of additional rental fees. We have also challenged management on the likelihood of certain other downside sensitivities. These include deterioration in oil and gas realisations and reductions in forecast production due to well integrity issues. While the

Independent Auditors' Report

to the members of JKX Oil & Gas plc

Area of focus	How our audit addressed the area of focus
immediately due and payable, the Group may not have sufficient cash to meet their obligations as they fall due. We focused on this area due to the uncertainty concerning the Group's cash flow forecast over the period 12 months from the date of the financial statements.	forecast is sensitive to decreases in production and price, the assumptions used in the model are reasonable. There is also an element of discretionary spend in the forecast which management believe could be reduced to alleviate any acute funding shortfall. From our audit work performed, it is clear the main uncertainty in the forecast relates to potential additional Rental Fee payments and associated interest/penalties and the timing of these additional payments as they are dependent on the result of ongoing disputes. The amounts which could become payable are material. Given the outcome of the legal action is not within the control of management, this has been deemed a material uncertainty which, if realised, may affect the Group's ability to continue as a going concern. We have therefore considered the adequacy of management's disclosure of this material uncertainty, included in Note 2. We concluded the disclosure is sufficient to inform the users of the financial statements about the risks facing the Group.
Taxation in Ukraine - production taxes Refer to page 47 (Audit Committee Report) and page 111 (Provisions) and page 115 (Taxation). The Group is subject to a number of challenges by the tax authorities in Ukraine concerning rental fees for periods from April to December 2010 and January to December 2015. The total assessments as well as potential interest and penalties for these periods are recorded as provisions in the statement of financial position and total \$33.9m as at 31 December 2016. The likelihood of a cash outflow in relation to a third dispute, in relation to January to March 2007 is now considered to be remote. The provision recorded in the prior year in respect of the 2010 dispute has reduced to \$10.6m at 31 December 2016 due to devaluation of the Ukrainian Hryvnia, despite late payment interest continuing to accrue. International arbitration Separate from Ukrainian court proceedings, the Group pursued an award from an international arbitrator alleging breaches by Ukraine of its obligations under the Energy Charter Treaty and Bi-Lateral Investment Treaties between the UK/Netherlands and Ukraine ("BIT"). The tribunal decision was released in February 2017, which dismissed the Company's main claim of excessive levying of Rental Fees by Ukraine, but awarded the Company damages of \$11.8 million plus interest, and costs of \$0.3 million in respect of subsidiary claims. Management have disclosed a contingent asset in respect of this award. The chance of success in the 2015 dispute is linked to the outcome of the international arbitration. Given the unfavourable tribunal ruling post year-end, the likelihood of a cash outflow in respect of the 2015 dispute has	We updated our understanding of events that have occurred during 2016 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, and review of the arbitration judgement. *2015 case* The negative outcome of the main international tribunal panel hearing delivered in February 2017 in respect of the Group's main claim of excessive levying of Rental Fees by Ukraine increases the likelihood of a potential cash outflow in respect of the 2015 dispute. This is due to the fact that the group relied on the Interim Award from the tribunal delivered in July 2015 in filing and paying Rental Fees in 2015 at a lower rate of 28% compared to the statutory rate of 55%, which has led to this exposure. We concur with management it is appropriate to record a provision in respect of the underpaid Rental Fees for 2015, along with potential late payment interest and penalties, as the risk of a cash outflow is now probable. *2010 case* In relation to the 2010 case, the Group's Ukrainian subsidiary has unsuccessfully petitioned the Supreme Court of Ukraine to appeal the ruling of a lower court. Notwithstanding management's intention to continue to pursue all legal avenues available in contesting the additional Rental Fees assessed, we concur with management it remains appropriate to recognise a provision for the potential 2010 exposure, which was recorded in the prior year. *Arbitration* As stated above, the Company was unsuccessful in respect of its main claim to the international tribunal however the tribunal awarded the Company \$11.8m in damages plus interest, and costs of \$0.3m in relation to subsidiary claims under the BIT. While binding under international law, this ruling still requires enforcement in the Ukrainian courts. As such, we concur with management that it is appropriate not to record a receivable at

Area of focus	How our audit addressed the area of focus
increased. A provision of $23.3m has been recorded, as the tribunal ruling was deemed an adjusting subsequent event. There is judgement in determining the accounting treatment for the Ukrainian Rental fee disputes as well as the tribunal award given the outcome of the cases cannot be predicted with certainty.	this time, given the uncertainty regarding its legalisation in Ukraine and hence eventual collection. The potential inflow of economic benefits is appropriately disclosed as a contingent asset in Note 27 of the financial statements.

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 Ukraine, Russia, UK and the Rest of World as set out in Note 4. The Group financial statements are a consolidation of 37 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 through involvement of 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 37 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. This included the main operating subsidiaries in Ukraine and Russia, as well as the parent company in the United Kingdom. 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 over 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.

The Group audit team performed the required audit procedures over impairment of oil and gas assets and going concern as the analysis of these issues is prepared by management at Group level.

We visited the Ukrainian operations as part of the current year audit. This included meeting with local management and component auditors. This assisted the Group's audit procedures on 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 Ukrainian 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 follows:

Overall group materiality	$1.0 million (2015: $1.7 million).
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 the Group's results and the nature of the exceptional items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $52,000 (2015: $85,000) 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 44, 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.

Independent Auditors' Report

to the members of JKX Oil & Gas plc

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.

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 73, 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 pages 45 to 49, 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 32 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 32 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 72, 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 2016. That report includes an emphasis of matter.

K Reynd

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2017

GROUP FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
Revenue	4	73,848	88,535
Cost of sales			
Exceptional item –production based taxes	18	(24,340)	(10,854)
Exceptional item - provision for impairment of oil and gas assets	5	(2,000)	(51,055)
Other production based taxes	20	(17,737)	(26,255)
Other cost of sales		(38,290)	(50,517)
Total cost of sales	20	(82,367)	(138,681)
Gross loss		(8,519)	(50,146)
Exceptional items	19	(4,484)	(2,988)
Other administrative expenses		(22,182)	(17,525)
Total administrative expenses		(26,666)	(20,513)
Gain/(loss) on foreign exchange		431	(4,919)
Loss from operations before exceptional items		(3,930)	(10,681)
Loss from operations after exceptional items		(34,754)	(75,578)
Finance income	21	1,836	1,289
Finance costs	22	(4,636)	(6,500)
Fair value movement on derivative liability	13	(599)	(1,921)
Loss before tax		(38,153)	(82,710)
Taxation – current	27	(1,341)	(4,827)
Taxation – deferred			
- before the exceptional items	27	1,209	(3,132)
- on the exceptional items	27	1,170	9,206
Total taxation	27	1,038	1,247
Loss for the year attributable to equity shareholders of the parent company		(37,115)	(81,463)
Basic loss per 10p ordinary share (in cents)			
- before exceptional items	29	(4.34)	(14.97)
- after exceptional items	29	(21.56)	(47.32)
Diluted loss per 10p ordinary share (in cents)			
- before exceptional items	29	(4.34)	(14.97)
- after exceptional items	29	(21.56)	(47.32)

GROUP FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016 $000	2015 $000
Loss for the year	**(37,115)**	(81,463)
Comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods when specific conditions are met		
Currency translation differences	**19,634**	(26,277)
Other comprehensive income/(loss) for the year, net of tax	**19,634**	(26,277)
Total comprehensive loss attributable to:		
Equity shareholders of the parent	**(17,481)**	(107,740)

GROUP FINANCIAL STATEMENTS

Consolidated statement of financial position

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
ASSETS			
Non-current assets			
Property, plant and equipment	5(a)	194,510	194,649
Intangible assets	5(b)	7,706	7,812
Other receivable	6	3,277	3,534
Deferred tax assets	28	18,724	15,603
		224,217	221,598
Current assets			
Inventories	8	4,585	3,689
Trade and other receivables	9	4,174	11,695
Restricted cash	10	201	312
Cash and cash equivalents	10	14,067	25,943
		23,027	41,639
Total assets		247,244	263,237
LIABILITIES			
Current liabilities			
Trade and other payables	11	(15,687)	(18,977)
Borrowings	12	(16,795)	(10,856)
Provisions	18	(34,510)	(10,854)
Derivatives	13	(1,341)	-
		(68,333)	(40,687)
Non-current liabilities			
Provisions	18	(4,264)	(4,135)
Other payables		(3,277)	(3,534)
Borrowings	12	-	(23,494)
Derivatives	13	-	(2,171)
Deferred tax liabilities	28	(14,537)	(14,950)
		(22,078)	(48,284)
Total liabilities		(90,411)	(88,971)
Net assets		156,833	174,266
EQUITY			
Share capital	16	26,666	26,666
Share premium		97,476	97,476
Other reserves	17	(159,911)	(179,545)
Retained earnings		192,602	229,669
Total equity		156,833	174,266

These financial statements on pages 80 to 120 were approved by the Board of Directors on 17 March 2017 and signed on its behalf by:

Tom Reed Director

Russell Hoare Director

GROUP FINANCIAL STATEMENTS

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Attributable to equity shareholders of the parent				
	Share capital $000	Share premium $000	Retained Earnings $000	Other reserves (Note 17) $000	Total equity $000
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
At 1 January 2016	26,666	97,476	229,669	(179,545)	174,266
Loss for the year	-	-	(37,115)	-	(37,115)
Exchange differences arising on translation of overseas operations	-	-	-	19,634	19,634
Total comprehensive loss attributable to equity shareholders of the parent	-	-	(37,115)	19,634	(17,481)
Transactions with equity shareholders of the parent					
Share-based payment charge	-	-	48	-	48
Total transactions with equity shareholders of the parent	-	-	48	-	48
At 31 December 2016	26,666	97,476	192,602	(159,911)	156,833

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.

GROUP FINANCIAL STATEMENTS

Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Cash generated from operations	31	17,038	12,797
Interest paid		(2,392)	(3,040)
Income tax paid		(10)	(696)
Net cash generated from operating activities		14,636	9,061
Cash flows from investing activities			
Decrease in held-to-maturity investments		-	2,700
Interest received		753	1,612
Proceeds from sale of property, plant and equipment		550	-
Purchase of intangible assets		(90)	(612)
Purchase of property, plant and equipment		(7,366)	(5,630)
Net cash used in investing activities		(6,153)	(1,930)
Cash flows from financing activities			
Restricted cash		111	247
Repayment of borrowings		(10,856)	(5,738)
Repurchase of convertible bonds		(9,036)	-
Net cash used in financing activities		(19,781)	(5,491)
(Decrease)/increase in cash and cash equivalents in the year		(11,298)	1,640
Cash and cash equivalents at 1 January		25,943	25,384
Effect of exchange rates on cash and cash equivalents		(578)	(1,081)
Cash and cash equivalents at 31 December	10	14,067	25,943

GROUP FINANCIAL STATEMENTS

Notes to 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.

The Company's Ukrainian subsidiary, Poltava Petroleum Company ('PPC') has made provision for potential liabilities arising from separate court proceedings regarding the amount of production taxes ('Rental Fees') paid in Ukraine for certain periods since 2010, which total approximately $33.9 million (including interest and penalties, see Note 27 to the consolidated financial statements). PPC continues to contest these claims through the Ukrainian legal system.

In addition, in 2015 and as detailed in Note 27, the Company and its wholly-owned Ukrainian and Dutch subsidiaries commenced international arbitration proceedings against Ukraine under the Energy Charter Treaty and BIT seeking a repayment of Rental Fees that PPC has paid on production of oil and gas in Ukraine since 2011, in addition to damages to the business.

In February 2017, the international arbitration tribunal ruled that Ukraine was found not to have violated its treaty obligations in respect of the levying of Rental Fees but awarded the Company damages of $11.8 million plus interest, and costs of $0.3 million in relation to subsidiary claims. No adjustment has been made in these financial statements to recognise any possible future benefit to the Company that may result from the tribunal award in the Company's favour for damages of $11.8 million plus interest, and costs of $0.3 million, with the tribunal ruling subject to enforcement proceedings in Ukrainian courts.

Taking into account the damages awarded to the Company and the Ukrainian court proceedings against PPC in respect of production taxes, there is a net shortfall of $21.7 million owed by the Group to Ukraine. Should PPC lose the claims against it in respect of production taxes due for 2010 and 2015, and the Ukrainian Authorities demand immediate settlement, the Group does not currently have sufficient cash resources to settle the claims and this would affect its ability to meet its obligations to creditors and bondholders.

Accordingly, the Group's going concern assessment is sensitive to the outcome of the production-related tax disputes with the Ukrainian Government.

The Directors have concluded that it is necessary to draw attention to the potential impact of the Group becoming liable for additional Rental Fees in Ukraine as a result of unfavourable outcomes in one or both of the ongoing court proceedings. It is unclear whether either or both of these claims against PPC will be realised and settlement enforced 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, as well as the availability of additional courses of action with respect to financing and/or negotiation with Ukraine for the settlement of any successful production tax claim, 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.

GROUP FINANCIAL STATEMENTS
Notes to consolidated financial statements

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 2015, except for the following:

▪ 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

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 2016:

	Effective for annual periods beginning on or after
▪ 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 2 'Share-based payment' (Amendments) (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 arrangements
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.

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 2016 were $1:£0.81 (2015: $1:£0.67), $1:27.19 Hryvnia (2015: $1:24 Hryvnia), $1:60.66 Roubles (2015: $1:72.88 Roubles), $1:293.40 Hungarian Forint (2015: $1: 289.43 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

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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 joint 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.

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.

Convertible bonds due 2018 – embedded derivative

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.

Upon redemption of convertible bonds by the Company in the market, the difference between the repurchase cost and the total of the carrying amount of the liability plus the repurchased embedded option to convert is recorded in the income statement. The gain in the year on the repurchase of convertible bonds (see Note 21) has been recognised in the income statement under Finance income.

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.

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 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.

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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.

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 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 51 to 68 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.

Provisions

Provisions are created where the Group has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits to settle the obligation, and where it can be reliably measured. Provision for onerous lease is recognised when the net cash outflows exceed the expected benefits to be received under the lease.
Provisions are measured at the best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. The amounts provided are based on the Group's best estimate of the likely committed outflow.

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 either because of their size or their nature 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 Notes 5 and 19 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 prepared under the fair value less cost of disposal approach. 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 ('2P') 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.

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b) Carrying value of intangible exploration and evaluation expenditure (Note 5 (b))

The carrying value 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.

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.

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.

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.

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 (2015: 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 includes 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.

2016	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	-	15,092	665	-	15,757	-	15,757
– Gas	-	35,945	18,343	-	54,288	-	54,288
– Liquefied petroleum gas	-	3,776	-	-	3,776	-	3,776
– Management services/other	-	23	4	-	27	-	27
	-	54,836	19,012	-	73,848	-	73,848
Inter segment revenue:							
– Management services/other	9,168	-	-	-	9,168	(9,168)	-
	9,168	-	-	-	9,168	(9,168)	-
Total revenue	9,168	54,836	19,012	-	83,016	(9,168)	73,848
Loss before tax:							
Loss from operations	(11,083)	(18,984)	(741)	(3,807)	(34,615)	(139)	(34,754)
Finance income					1,836	-	1,836
Finance cost					(4,636)	-	(4,636)
Fair value movement on derivative liability					(599)	-	(599)
					(38,014)	(139)	(38,153)
Assets							
Property, plant and equipment	204	93,010	97,894	3,402	194,510	-	194,510
Intangible assets	-	-	-	7,706	7,706	-	7,706
Other receivable	-	-	3,277	-	3,277	-	3,277
Deferred tax	-	3,556	12,578	2,590	18,724	-	18,724
Inventories	-	1,884	2,701	-	4,585	-	4,585
Trade and other receivables	914	338	2,621	301	4,174	-	4,174
Restricted cash	-	-	-	201	201	-	201
Cash and cash equivalents	6,146	5,480	1,899	542	14,067	-	14,067
Total assets	7,264	104,268	120,970	14,742	247,244	-	247,244
Total liabilities	(22,677)	(55,093)	(7,453)	(5,188)	(90,411)	-	(90,411)
Non cash expense (other than depreciation and impairment)	-	-	265	257	522	-	522
Exceptional item - provision for impairment of oil and gas assets	-	-	-	2,000	2,000	-	2,000
Exceptional item – production based taxes	-	24,340	-	-	24,340	-	24,340
Exceptional items – administrative expenses	4,454	-	-	30	4,484	-	4,484
Increase in property, plant and equipment and intangible assets	10	4,051	250	1,339	5,650	-	5,650
Depreciation, depletion and amortisation	381	12,028	7,355	-	19,764	-	19,764

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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

Major customers	2016 $000	2015 $000
1 Ukraine	-	20,168
2 Russia	19,008	16,151

There is 1 customer in Russia that exceed 10% of the Group's total revenues (2015: 2, one in Ukraine and one in Russia).

5.(a) Property, plant and equipment

2016	Oil and gas assets: Oil and gas fields Ukraine $000	Oil and gas assets: Gas field Russia $000	Oil and gas assets: Oil and gas fields Hungary $000	Other assets $000	Total $000
Group					
Cost					
At 1 January	560,186	177,469	36,289	20,315	794,259
Additions during the year	3,947	84	1,249	277	5,557
Foreign exchange equity adjustment	-	35,770	-	240	36,010
Disposal of property, plant and equipment	(110)	(142)	(567)	(2,536)	(3,355)
At 31 December	564,023	213,181	36,971	18,296	832,471
Accumulated depreciation, depletion and amortisation and provision for impairment					
At 1 January	459,551	89,291	32,687	18,081	599,610
Depreciation on disposals of property, plant and equipment	(110)	(54)	-	(2,265)	(2,429)
Exceptional item – provision for impairment of oil and gas assets	-	-	2,000	-	2,000
Foreign exchange equity adjustment	-	18,837	-	179	19,016
Depreciation charge for the year	11,572	7,219	-	973	19,764
At 31 December	471,013	115,293	34,687	16,968	637,961
Carrying amount					
At 1 January	100,635	88,178	3,602	2,234	194,649
At 31 December	93,010	97,888	2,284	1,328	194,510

Oil and gas fields in Russia have no items under construction (2015: $3.7m).

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2015	Oil and gas assets: Oil and gas fields Ukraine $000	Oil and gas assets: Gas field Russia $000	Oil and gas assets: Oil and 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

Exceptional item – provision for impairment of oil and gas assets

During 2015 impairment triggers were noted in respect of our oil and gas assets in Ukraine and Hungary. Impairment tests were completed resulting in impairments of $51.1m comprised of $49.6m in respect of our Ukrainian oil and gas fields and $1.5m in respect of our Hungarian oil and gas fields (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

2016	Ukraine $000	Hungary $000	Rest of World $000	Total $000
Group				
Cost:				
At 1 January	1,308	814	13,353	15,475
Additions during the year	-	-	90	90
Effect of exchange rates on intangible assets	-	-	(196)	(196)
At 31 December	1,308	814	13,247	15,369
Provision against oil and gas assets				
At 1 January and 31 December	1,308	-	6,355	7,663
Carrying amount				
At 1 January	-	814	6,998	7,812
At 31 December	-	814	6,892	7,706

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

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 Russian assets (see Note 5 (e)) and the Hungarian assets (see Note 5 (f)). In respect of the Group's Ukrainian assets, impairment triggers were noted in 2015 and a full impairment review was completed, however no impairment triggers were noted in 2016 (see Note 5 (d)).

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.

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5.(d) Impairment test for the Ukrainian oil and gas assets – 2015 information

Change in spelling of Ukrainian production licences

For the 2016 financial statements, all of the names of the Company's Ukrainian production licences have been changed to their Ukrainian language spelling. A list of the changes made from the previous years' financial statement is as follows:

2016 financial statements	Previous years' financial statements
Rudenkivske	Rudenkovskoye
Ignativske	Ignatovskoye
Movchanivske	Molchanovskoye
Novomykolaivske	Novo-Nikolaevskoye
Zaplavska	Zaplavskoye
Elyzavetivske	Elizavetovskoye

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 (Ignativske, Movchanivske, Rudenkivske, Novomykolaivske, Elyzavetivske) and one exploration licence (Zaplavska) in the Poltava region of Ukraine.

The Ignativske, Movchanivske, Rudenkivske, Novomykolaivske production licences contain one or more distinct fields which, together with the Zaplavska exploration licence, form the Novomykolaivske Complex ('NNC').

The Elyzavetivske production licence is located 45km from the Novomykolaivske 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 Elyzavetivske 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 Elyzavetivske production licence was awarded to PPC which included the West Mashivska field. Due to the proximity of the West Mashivska field to the Elyzavetivske plant, production will be tied back to the Elyzavetivske 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 Elyzavetivske will be generated.

Key Assumptions 2015 – NNC and Elyzavetivske

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 Elyzavetivske (including the West Mashivska 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 Elyzavetivske 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.
- Elyzavetivske's recoverable amount (including the West Mashivska extension) exceeds its carrying value by $34.9m and therefore Elyzavetivske'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 Elyzavetivske

		NNC Increase/(decrease) in impairment of $49.6m for NNC CGU $m	**Elyzavetivske** Increase/(decrease) in impairment headroom of $34.9mfor Elyzavetivske 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

5(e) Impairment test for Yuzhgazenergie LLC ('YGE'), Russia

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 2014, based on the assessment of FVLCD.

In Russia, the regulated maximum industrial gas price in Russia was increased by 1.95% from 1 July 2016 however, following a renegotiation of the gas sales contract, the Company agreed a reduction of 9.5% to the price at which it sells its gas to its sole gas customer in Russia in return for a longer-term "take or pay" agreement. This price reduction had not been anticipated in previous impairment reviews.

The Company is seeking to engage other buyers of its gas in southern Russia to improve gas realisations there and broaden its customer base.

This revision to our estimate of the future Russian gas prices constituted an impairment trigger. Accordingly an impairment test was undertaken.

In accordance with IAS 36, the impairment review was been undertaken in Russian Roubles, which is the functional currency of YGE.

Key Assumptions – YGE

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 2016. Such information included 2P reserves for YGE of 79.5 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 2048). 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 2017 these were based on the gas sales agreement that the Company had negotiated with its sole gas customer for the forecast gas production in 2017. The gas price is expected to remain at the same level through to 1 July 2017.
- Gas prices: from 1 July 2017 and annually thereafter, the gas prices have been increased by Rouble inflation of between 3.1% and 4.0% through to 2023, and estimated Russian inflation of 5.1% thereafter.

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- 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 13.2%. 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's recoverable amount exceeds it carrying amount by $14.7m and therefore YGE's Koshekhablskoye gas field was 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 reviewed 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

		Increase/(decrease) in impairment headroom of $14.7m for Yuzhgazenergie CGU $m
Impact if Adygean gas price:	growth rates increased by 10% annually	13
	growth rates reduced by 10% annually	(13)
Impact if production volumes:	increased by 10%	24
	decreased by 10%	(25)
Impact if future capital expenditure:	increased by 20%	(12)
	decreased by 20%	12
Impact if post-tax discount rate:	increased by 1 percentage point to 14.2%	(9)
	decreased by 1 percentage point to 12.2%	10

5.(f) Impairment test for Hungarian oil and gas assets

Hungarian property plant and equipment – Folyópart Energia Kft ('FEN')

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.

In December 2016, well Hn-2ST (sidetrack) was successfully completed on the HMP. This is the first drilling operation completed since JKX assumed operatorship in November 2014. The Hn-2ST (sidetrack) did not encounter any productive oil horizons, which had been included in the pre-drill estimates of contingent resources. The results from the Hn-2ST (sidetrack) therefore constituted an impairment trigger and a full impairment review was completed in respect of HMP.

Hungarian Cash Generating Unit ('CGUs')

HMP forms a single CGU which is serviced by a single processing facility and commonality of facilities, personnel and services. In accordance with IAS 36, the impairment review for HMP has been undertaken in US$ being the currency in which future cash flows from HMP will be generated.

Key Assumptions 2016 – HMP

The key assumptions used in the impairment testing in 2016 were:

- Production profiles: these were based on the latest available test and production data from the recent sidetrack Hn-2ST which was provided to independent reserve engineers. Using the independent reserves engineers' assessment, the Company included internally assessed 2P reserves of 0.16 MMboe;
- 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 based on a Capital Asset Pricing Model analysis for the Group's Hungarian assets.

Based on the key assumptions set out above HMP's carrying amount exceeded its recoverable amount exceeds by $2.0m and therefore HMP's assets were impaired due to the reduction in the estimated recoverable oil and gas volumes from this field.

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 reviewed below.

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 of $2.0m for HMP CGU $m
Impact if oil and gas prices:	increased by 10%	0.5
	decreased by 10%	(0.5)
Impact if oil and gas production volumes:	increased by 10%	0.5
	decreased by 10%	(0.5)
Impact if future capital and operating costs:	increased by 10%	(0.4)
	decreased by 10%	0.4

Impairment test for Hungarian oil and gas assets – 2015 disclosures

Hungarian property plant and equipment - Turkeve

Through its wholly owned Dutch subsidiary, JKX Hungary B.V., the Company held 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. During 2016, JKX sold its 50% beneficial interest in the Ny-7 discovery (within the Turkeve IV Mining Plot) to the operator.

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 which is serviced by a single processing facility and 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 were undertaken in US$ being the currency in which future cash flows from HMP, Turkeve and TZ-6 will be generated.

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 at 31 December 2015 and therefore the oil and gas assets related to HMP were not impaired;

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- Turkeve was impaired by $1.5m at 31 December 2015 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 at 31 December 2015 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 (2015: two and five years).

7. Investments

The net book value of unlisted investments comprises:

	2016 $000	2015 $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 2016. The investment reflects a 10% holding of the Company's ordinary share capital.

8. Inventories

	2016 $000	2015 $000
Warehouse inventory and materials	3,095	2,182
Oil and gas inventory	1,490	1,507
	4,585	3,689

9. Trade and other receivables

	2016 $000	2015 $000
Trade receivables	2,657	3,168
Less: provision for impairment of trade receivables	(550)	-
Trade receivables – net	2,107	3,168
Other receivables	1,019	5,143
VAT receivable	337	717
Prepayments	711	2,667
	4,174	11,695

As of 31 December 2016, trade and other receivables of $0.55m (2015: nil) were past due and impaired. The amount of the provision was $0.55m (2015: nil). The impaired receivable relates to a single gas customer, which is 6 months past due.

As of 31 December 2016, trade and other receivables of $2.1m (2015: $3.2m) were neither past due not impaired. 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:

	2016 $000	2015 $000
US Dollar	204	27
Sterling	69	-
Euros	131	44
Hungarian Forints	-	423
Ukrainian Hryvnia	182	563
Russian Roubles	2,540	7,254
	3,126	8,311

10. Cash and cash equivalents

	2016 $000	2015 $000
Cash	8,874	20,244
Short term deposits	5,193	5,699
Cash and cash equivalents	14,067	25,943
Restricted cash	201	312
Total	14,268	26,255

Short term deposits comprise amounts which are held on deposit, but are readily convertible to cash.

Restricted cash
Included in Restricted cash is $0.2m (2015: $0.3m) 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.

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11. Trade and other payables

	2016 $000	2015 $000
Trade payables	2,562	2,701
Other payables	2,759	2,692
Other taxes and social security costs	2,857	1,051
VAT payable	956	1,177
Accruals	6,553	11,356
	15,687	18,977

12. Borrowings

	2016 $000	2015 $000
Current		
Convertible bonds due 2018	16,795	10,856
Term-loans repayable within one year	16,795	10,856
Non-Current		
Convertible bonds due 2018	-	23,494
Term-loans repayable after more than one year	-	23,494

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.

Convertible bonds repurchased and cancelled

On 19 February 2016, in accordance with the terms and conditions of the Bonds, the Company repurchased 50 bonds with a total principal amount of $10m (19 February 2015: 20 Bonds, principal amount $4m). In June, September and October 2016, the Company repurchased and subsequently cancelled a total of 50 Bonds with par value of $10m resulting in $1.1m gain on redemption, which has been included in Finance income for the year (see Note 21). The remaining principal amount of outstanding Bonds at 31 December 2016 was $16.0m (2015: $36.0m)

Convertible bonds restructured on 3 January 2017

On 3 January 2017 a special resolution was approved by Bondholders to change the terms and conditions of the Bonds. The main amendments to the terms and conditions of the Bonds were as follows:

- the Bondholder's option to require redemption of all of the outstanding Bonds on 19 February 2017 was deleted;
- the final maturity date of the Bonds was extended to 19 February 2020, with the outstanding principal amount of the Bonds being repaid in three instalments; 33% on 19 February 2018; 33 % on 19 February 2019; and 34% on the 19 February 2020;
- the coupon rate of the Bonds was increased from 8% to 14%;
- the covenant which limited new borrowings by the Company has been removed; and
- the Company will make two payments to Bondholders in respect of prior accretion amounts, on 19 February 2017 and on 19 February 2018 of 12.0% and 3.0%, respectively, of the principal amount of the Bonds;

The revised terms and conditions of the Bond is considered to be a modification and therefore the difference in the amortised cost carrying amount at the modification date will be recognised through a change in the effective interest rate at the modification date through to the end of the revised estimated term of the Bond. There is therefore no immediate impact of the restructuring of the Bond on the Consolidated Income Statement in 2017.

The impact of the amendments to the Bond on the Consolidated Statement of Financial Position was to decrease the carrying amount of the total Bond liability of $18.1m (including the associated derivative) by $0.8m, which will be amortised over the estimated remaining life of the modified Bond.

13. Derivatives

	2016 $000	2015 $000
Current derivative financial instruments		
Reclassification from non-current derivative financial instruments	1,341	-
At the end of the year	1,341	-
Non-current derivative financial instruments		
At the beginning of the year	2,171	1,037
Partial settlement of derivative liability	(1,429)	(787)
Fair value loss movement during the year	599	1,921
Reclassification to current derivative financial instruments	(1,341)	-
At the end of the year	-	2,171

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 future dates together with accrued and unpaid interest to (but excluding) such dates:

Redemption Date	Maximum number of Bonds to be redeemed
19 February 2017	all outstanding Bonds

Current liabilities include $16.8m (2015: $10.9m) in respect of the put option available to bondholders on 19 February 2017 (2015: 19 February 2016). On 3 January 2017, this put option was cancelled as part of the Bond restructuring as detailed in Note 12. Bonds with a principal amount of $10.0m were redeemed on 19 February 2016 (19 February 2015: $4.0m) 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.

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.

Convertible Bond restructuring

On 3 January 2017, the Bondholders approved a restructuring of the terms and conditions of outstanding Convertible bonds. See Note 12 for details.

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14. 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 Value 2016 $000	Fair Value 2016 $000	Book and Fair Value 2015 $000
Financial assets			
Cash and cash equivalents and restricted cash (Note 10) – classified as loans and receivables	14,268	14,268	26,255
Trade receivables (Note 9) – classified as loans and receivables	2,107	2,107	3,168
Other receivables (Note 9) – classified as loans and receivables	1,019	1,019	5,143
Financial liabilities			
Trade payables (Note 11) - carried at amortised cost	2,562	2,562	2,701
Other payables (Note 11) - carried at amortised cost	2,759	2,759	2,692
Borrowings – convertible bonds due 2018 (Note 12) - carried at amortised cost	16,795	15,955	10,856
Borrowings – convertible bonds due 2018 (Note 12) - carried at amortised cost	-	-	23,494
Derivatives – fair value through profit or loss (Note 13)	1,341	1,341	2,171

Financial liabilities measured at amortised cost are carried at $22.1m (2015: $39.7m). The Group's borrowings at 31 December 2016 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 13). 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 2016 were:

- underlying share price of: £0.3025 (31 December 2015: £0.2725);
- £/US$ spot rate of 1.2340 (31 December 2015: £1/$1.4736);
- historic volatility of 53.42% (31 December 2015: 45.0%);
- discount rate of 8.2% (31 December 2015: 8.2%)
- risk free rate based on 1.14 years (31 December 2015: 2.14 years) US Treasury rate of 0.956% (31 December 2015: 0.932%).

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 $0.04m (31 December 2015: increase in the fair value loss for the year of $0.3m) and a decrease in the fair value loss of $0.02m (31 December 2015: decrease in the fair value loss of $0.1m) respectively, assuming that all other variables remain constant.

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 and other current assets, as at 31 December 2016 was $17.4m (2015: $34.6m).

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 12 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:

	2016 $000	2015 $000
Current liabilities (Note 12)	**(16,795)**	(10,856)
Convertible bonds due 2018– Non-current liability (Note 13)	**-**	(23,494)
Total cash (Note 10)	**14,268**	26,255
Net debt	**(2,527)**	(8,095)
Total shareholders' equity	**156,833**	174,266

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) 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. On 3 January 2017 this indebtedness covenant was cancelled as part of the Bond restructuring as detailed in Note 12.

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

Temporary capital controls were established by the National Bank of Ukraine ('NBU') on 1 December 2014 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.

The restrictions were effective until 8 June 2016 and were eased by the NBU resolution No. 342 on 9 June 2016. The resolution enables the repatriation of dividends from JKX's Ukrainian subsidiary for the years 2014 and 2015.

Prior to the easing of restrictions, Cash and short-term deposits held in Ukraine were subject to local exchange control regulations which restricted exporting capital from Ukraine. Following the easing of these restrictions on 9 June 2016, no cash or short term deposits included within this consolidated financial information is restricted (2015: $6.1m).

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 12) of 19 February 2016 and 2017.

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Group - 31 December 2016	Within 3 months $000
Maturity of financial liabilities	
Trade payables (Note 11)	2,562
Other payables (Note 11)	2,759
Borrowings – Convertible bonds due 2018[1]	16,795

[1]Prior to restructuring of the bonds on 3 January 2017. See Note 12.

Group - 31 December 2015	Within 3 months $000	3 months-1 year $000	1-2 years $000
Maturity of financial liabilities			
Trade payables (Note 11)	2,701	-	-
Other payables (Note 11)	2,692	-	-
Borrowings – Convertible bonds due 2018	12,296	1,040	30,171

Interest rate risk profile of financial assets and liabilities - Group

Fixed rate interest is charged on the Group's convertible bond (see Note 12). 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 2016	Within 1 Year $000
Floating rate	
Short term deposits (Note 10)	5,193
Other receivables (Note 9)	1,019
Other payables (Note 11)	2,759

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 11)	2,692

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 2016 would increase/decrease by $28,000 (2015: $52,000). 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:

	2016 \$000	2015 \$000
US Dollar	**1**	487
Sterling	**77**	(1,735)
Euros	**(642)**	307
Hungarian Forints	**72**	904
Ukrainian Hryvnia	**2,732**	3,320
Bulgarian Leva	**43**	90
Russian Roubles	**24**	5
Canadian Dollar	**1**	1
Total net	**2,308**	3,379

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 20 per cent (2015: 10 per cent) increase and decrease in the US Dollar against Sterling and against Hryvnia and Rouble (2015: 30 per cent against Hryvnia and Rouble), all other variables were held constant. Due to the significant foreign currency fluctuation in the UK, Ukraine and Russia 20 per cent has been used to calculate sensitivity for Sterling, Hryvnia and Rouble. 20 per cent (2015: 10/30 per cent) is the sensitivity rate 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.

	Hryvnia 2016 \$000	Hryvnia 2015 \$000	**Rouble 2016 \$000**	Rouble 2015 \$000	**Sterling 2016 \$000**	Sterling 2015 \$000
Profit/(loss) for the year and Equity						
20 per cent strengthening of the US Dollar/ (2015: 10/30 per cent)	**(455)**	(766)	**(4)**	(1)	**(13)**	158
20 per cent weakening of the US Dollar/(2015: 10/30 per cent)	**455**	766	**4**	1	**13**	(158)

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 30, 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 2016 as there is no impact on any outstanding amounts.

15. 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 2016 (2015: nil) to settle share options, therefore at the year end JKX Employee Benefit Trust held 5,000,000 shares in JKX Oil & Gas plc (2015: 5,000,000).

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16. Share capital

Equity share capital, denominated in Sterling, was as follows:

	2016 Number	2016 £000	2016 $000	2015 Number	2015 £000	2015 $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 2016 (2015: none) and no treasury shares were used in 2016 (2015: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2016 the market value of the treasury shares held was $0.2m (2015: $0.2m).

17. Other reserves

	Merger reserve $000	Capital redemption reserve $000	Foreign currency translation reserve $000	Total $000
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)
At 1 January 2016	30,680	587	(210,812)	(179,545)
Exchange differences arising on translation of overseas operations	-	-	19,634	19,634
At 31 December 2016	30,680	587	(191,178)	(159,911)

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 buyback 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 2016, the Russian Rouble ('RR') strengthened by approximately 17% (2015: devalued by 23%) from RR72.88/$ to RR60.66/$ (2015: devalued RR56.26/$ to RR72.88). A significant portion of the currency translation differences of US$19.6m (2015: US$26.3m) included in the Consolidated statement of comprehensive income arose on the translation of property, plant and equipment denominated in RR (see Note 5 (a)).

18. Provisions

	Onerous lease provision (2) $000	Production based taxes (1) $000	Total $000
At 1 January 2016	-	10,854	10,854
Foreign currency translation	(5)	(1,273)	(1,278)
Amount provided in the year	594	24,340	24,934
At 31 December 2016	589	33,921	34,510

1. The provision for production based taxes, which has been recognised as a charge in the 2016 Consolidated income statement, is in respect of a claim against PPC for additional Rental Fees for the period January to December 2015 (2015: for the period from August to December 2010). Both claims are being contested in the Ukrainian courts (see Note 27). The amount is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the 2016 year end rate of UAH27.19/$ (2015: UAH 24.0/$). The provision is based on the total value of the claims plus interest and penalties. The Board believes that the claims are without merit under Ukrainian law and the Company will continue to contest it vigorously. No contingent liabilities exist in respect of Ukrainian production taxes (2015: $30.0m).
2. See Note 19 for details.

Non-current provisions	Ukraine $000	Russia $000	Hungary $000	Total $000
Provision for site restoration				
At 1 January 2016	1,477	2,078	580	4,135
Foreign exchange adjustment	-	(145)	(5)	(150)
Revision in estimates	20	-	-	20
Unwinding of discount (Note 22)	46	213	-	259
At 31 December 2016	1,543	2,146	575	4,264

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 (2015: 2034). The Russia provision results from the decommissioning of 12 wells (2015:12) and removal of plant as required by the license obligation. Decommissioning is due to take place from 2017 to 2048 (2015: 2016 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.

19. Exceptional items

During the year, the exceptional items as detailed below have been included in administrative expenses in the income statement:

	2016 $000	2015 $000
Exceptional item – onerous lease provision (1) (see Note 18)	(594)	-
Exceptional item – lease costs (2)	(209)	-
Exceptional item – remuneration and severance costs (3)	(3,681)	-
Exceptional item – legal costs (4)	-	(2,988)
	(4,484)	(2,988)

1. The onerous lease provision covers the Group's liability for onerous lease contracts relating to London office. Following reduction in London office staff, three out of the four floors of the occupied building became surplus to requirements. Provision has been determined as the present value of the unavoidable costs relating to rents and rates to the end of the lease terms, net of the expected sub-lease income, discounted at 6%. The remaining life of the leases at 31 December 2016 is 5 years.
2. Represents rent and rate costs for the 4 months to 31 December 2016 relating to three floors of the London office building.
3. Exceptional charges of $3.7million comprise the following:
   $2.5 million of severance costs and additional remuneration which the previous Board approved and paid prior to the General Meeting on 28 January 2016;
   $0.5 million of professional advisory fees incurred in relation to the General Meeting and the replacement of the Board on 28 January 2016;
   $0.7 million severance costs incurred as a result of staff reductions mainly at the Group's London headquarters.
4. 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 was 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 2015 represents their legal costs that the Company paid in 2016.

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20. Cost of sales

	2016 $000	2015 $000
Operating costs	19,499	24,449
Depreciation, depletion and amortisation	18,791	26,068
Other production based taxes	17,737	26,255
	56,027	76,772
Exceptional item – production based taxes (Note 18)	24,340	10,854
Exceptional item - provision for impairment of oil and gas assets (Note 5)	2,000	51,055
	82,367	138,681

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2016 was $56.0m (2015: $76.7m).

21. Finance income

	2016 $000	2015 $000
Interest income on deposits	753	1,248
Interest income from government treasury bills	-	41
Gain on repurchase of Convertible bond	1,083	-
	1,836	1,289

22. Finance costs

	2016 $000	2015 $000
Bank interest payable	-	25
Borrowing costs	4,377	5,915
Unwinding of discount on site restoration (Note 18)	259	560
	4,636	6,500

23. Loss from operations – analysis of costs by nature

Loss from operations derives solely from continuing operations and is stated after charging the following:

	2016 $000	2015 $000
Depreciation – other assets (Note 5. (a))	973	1,440
Depreciation, depletion and amortisation – oil and gas assets (Note 5. (a))	18,791	26,151
Staff costs (net of $0.3m (2015: $0.2m) capitalised, Note 25)	17,828	18,537
Foreign exchange (gain)/loss	(431)	4,919
Operating lease payments		
- property lease rentals	826	877
- plant and equipment	1,797	1,402

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors:

	2016 $000	2015 $000
Audit of the parent company and consolidated financial statements	276	278
Fees payable to company's auditors for other services:		
- Audit of the Company's subsidiaries	186	173
- Audit related assurance services	109	110
- Other non-audit services	70	2
	641	563

24. Obligations under leases

At the reporting date, the Group's aggregate future minimum commitments under non-cancellable operating leases are as follows:

	2016 $000	2015 $000
Within one year	442	607
In the second to fifth years inclusive	1,276	2,038
After five years	-	425
	1,718	3,070

Operating leases primarily relate to rentals payable by the Group for certain of its office premises and staff accommodation.

25. Staff costs

	2016 $000	2015 $000
Wages and salaries	17,226	15,361
UK social security costs	453	1,092
Other pension costs	401	1,626
Share based payments (equity-settled) (Note 26)	48	658
	18,128	18,737

Staff costs are shown gross and $0.3m (2015: $0.2m) was capitalised, representing time spent on exploration and development activities.

During the year, the average monthly number of employees was:

	2016 Number	2015 Number
Management/operational	571	709
Administration support	59	55
	630	764

Included within management/operational are 2 (2015: 4) Directors on service contracts. Further details of the Directors and their remuneration are included on pages 51 to 68 which form part of these financial statements.

26. Share-based payments

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 2016, there were outstanding options under various employee share option schemes, exercisable during the years 2017 to 2026 (2015: 2016 to 2025), to acquire 2,168,450 (2015: 12,740,100) shares of the Company at prices ranging from 0.00p to £59.75p per share (2015: 0.00p to £70.50p). The vesting period for 2,168,450 (2015: 12,740,100) of the share options is 3 years, with an exercise period of 7 years making a 10 year maximum term.

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The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movements in, share options during the year.

	2016 Number	2016 WAEP	2015 Number	2015 WAEP
Outstanding as at 1 January	**12,740,100**	**28.39p**	10,854,700	45.75p
Granted during the year	**711,250**	**0.00p**	3,845,900	0.00p
Lapsed or forfeited during the year	**(11,282,900)**	**27.68p**	(1,960,500)	68.85p
Outstanding at 31 December	**2,168,450**	**22.78p**	12,740,100	28.39p
Exercisable at 31 December	**-**	**-**	-	-

For the share options outstanding as at 31 December 2016, the weighted average remaining contractual life is 8.3 years (2015: 8.3 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').

Lapsed or forfeited 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 £62,772 to forfeit 9,460,000 unexpired share options, which are included in the table above.

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 2016 (2015: nil). For DSOS 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 (2015: nil).

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.

711,250 (2015: 3,845,900) options were granted under PSP in 2016. 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) (2015: FTSE Fledgling 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 5.84p per option (2015: 10.35p).

Fair value of share options granted

No options were granted under the DSOS in 2016 (2015: nil).

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 $0.05m (2015: $0.7m).

The following table lists the inputs to the model used for the options granted in the years ended 31 December 2016 and 31 December 2015. The expected future volatility has been determined by reference to the historical volatility.

	2016 PSP	2015 PSP
Dividend yield	0.0%	0.0%
Expected share price volatility	82%	82%
Risk free interest rate	0.6%	0.6%
Exercise price	0.0p	0.0p
Expected life of option (years)	3.0	3.0
Weighted average share price	19.3p	33.5p

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 51 to 68.

27. Taxation

Analysis of tax on loss	2016 $000	2015 $000
Current tax		
UK - current tax	-	-
Overseas - current year	1,341	4,827
Current tax total	1,341	4,827
Deferred tax		
Overseas – prior year	(1,767)	-
Overseas - current year	(612)	(6,074)
Deferred tax total	(2,379)	(6,074)
Total taxation	(1,038)	(1,247)

Factors that affect the total tax charge

The total tax credit for the year of $1.0m (2015: $1.2m credit) is higher (2015: higher) than the average rate of UK corporation tax of 20% (2015: 20.25%). The differences are explained below:

Total tax reconciliation	2016 $000	2015 $000
Loss before tax	(38,153)	(82,710)
Tax calculated at 20.00% (2015: 20.25%)	(7,631)	(16,749)
Other fixed asset differences		
Net change in unrecognised losses carried forward	3,485	5,341
Differences relating to prior years	(1,767)	-
Permanent foreign exchange differences	3,327	10,769
Effect of tax rates in foreign jurisdictions	271	(256)
Rental fee provision	3,211	-
Other non-deductible expenses	191	1,839
Recognition of prior year losses	(2,125)	(2,191)
Total tax charge	(1,038)	(1,247)

The total tax credit for the year was $1.0m (2015: $1.2m credit) comprising a current tax charge of $1.3m (2015: $4.8) in respect of Ukraine, a deferred tax credit before exceptional items of $1.2m (2015: charge of $3.1m) and a deferred tax credit of $1.2m in respect of exceptional items (2015: $9.2m). The fall in current tax charge to $1.3m reflects lower profitability in Ukraine. In Ukraine, the corporate tax rate for 2016 was 18% and remains at this level for 2017. The total deferred tax credit of $2.4m (2015: $6.1m credit) comprises: a $2.9m credit reflecting the recognition of deferred tax assets in respect of Russian and Hungarian tax losses carried forward to future periods; and a net $0.5m charge (2015: $4.0m) relating to provision for Rental Fees in Ukraine and other tax timing differences on our oil and gas assets in Russia, Ukraine and Hungary.

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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%.

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 main rate of UK corporation tax reduces to 19% from 1 April 2017. In the March 2016 Budget a reduction in the main rate of UK corporation tax to 17% in 2020 was announced, which has not been substantively enacted. The impact of the rate reduction is not expected to have a material impact on UK current taxation.

The corporation tax rate in Ukraine for 2016 was 18% (2015: 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% of sales value for the duration of the Licence Agreement.

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, Subsoil Use Agreements were signed and attached to the licences and operations continued as before.

The Company and PPC have continued to invest in Ukraine on the basis that PPC would pay a royalty on sales at a rate of 5.5%.

In December 1994, a new fee on the production of oil and gas (known as a 'Rental Payment' or 'Rental Fee') was introduced through Ukrainian regulations. On 30 December 1995, JKX, together with its Ukrainian subsidiaries (including PPC), was issued with a Joint Decision of the Ministry of Economy, the Ministry of Finance and the State Committee for the Oil and Gas ('the Exemption Letter'), which established a zero rent payment rate for oil and natural gas produced in Ukraine by PPC for the duration of the Licence Agreement for Exploration and Exploitation of the Fields. 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 $180 million. 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 sought a repayment of $169 million 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 not to collect Rental Fees from PPC 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 (replacing the Emergency 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 was heard in early July 2016. A decision from the tribunal was awarded on 6 February 2017.

The tribunal ruled that Ukraine was found not to have violated its treaty obligations in respect of the levying of Rental Fees but awarded the Company damages of $11.8 million plus interest, and costs of $0.3 million in relation to subsidiary claims.

Rental Fee demands

The Group currently has two claims (2015: three) 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 2010 (2015: 2007), which in total amount to approximately $33.9 million (31 December 2015: $41 million) (including interest and penalties), as detailed below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the year end rate of $1:UAH27.2 (2015: $1:UAH 24.0).

- August – December 2010: approximately $10.6 million (2015: $10.9 million) (including $6.1 million (2015: $5.0 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 lost an appeal to the High Administrative Court of Ukraine and lost four appeals to the Supreme

Court of Ukraine. It is currently engaged in appeal processes in the High Administrative Court and is considering the basis of a further appeal to the Supreme Court. The Board intends to continue to pursue a successful decision in this case.

As part of these proceedings, property, plant and equipment that cost UAH158m (approximately $5.8million (2015: $6.3 million) at the year end rate of $1:UAH27.2 (2015: $1:UAH24.9) was required to be pledged as security against the non-settlement of the 2010 Rental Fee claim that may arise in the event that the Ukrainian authorities are successful. The net book value of the property, plant and equipment is $22.0 million based on the historical exchange rates at the dates of acquisition which were between $1:UAH5 and $1:UAH8.

- January – December 2015: approximately $23.3 million (2015: $24 million) (including $10.8 million (2015: $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%. PPC is in the process of court hearings in respect of the claim, although the Company considers such claims to be in direct violation of the Interim Award received from the arbitration tribunal, noted above. In addition, in April 2016, the tax authorities issued PPC with a separate demand for $0.1 million of penalties and interest on unpaid Rental Fees for the period of August-October 2015. PPC also filed lawsuits against the tax authorities to cancel the application of such additional penalties and interest.

The Interim Award for PPC to pay Rental Fees at 28% for 2015 was to remain in effect until final judgement is rendered on the main arbitration case. Following the tribunal's dismissal of the Company's claim for overpayment of Rental Fees, an exceptional charge of $24.3 million has been charged to the Consolidated income statement in the year (2015: $10.9 million) relating to the January – December 2015 claim.

A provision totalling $33.9 million is recognised at 31 December 2016 (2015: $10.9 million) in respect of the claim for the periods from August-December 2010 and from January- December 2015 (see Note 19).

No adjustment has been made to recognise any possible future benefit to the Company that may result from the tribunal award in the Company's favour for damages of $11.8 million plus interest, and costs of $0.3 million.

In the prior year there was a claim of approximately $6 million (including $3 million of interest and penalties) relating to the period January – March 2007. During the period the Supreme Court of Ukraine ruled in favour of the Company in respect of this claim and a second parallel case related to this claim was won by PPC with the High Administration Court of Ukraine.

28. Deferred tax

	Assets		Liabilities		Net	
	2016 $000	2015 $000	**2016 $000**	2015 $000	**2016 $000**	2015 $000
Provided deferred taxation – Net						
Fixed asset differences	**7,696**	8,250	**(14,537)**	(14,347)	**(6,841)**	(6,097)
Other temporary differences	**5,396**	5,162	**-**	(603)	**5,396**	4,559
Tax losses	**5,632**	2,191	**-**	-	**5,632**	2,191
Net deferred tax (liability)/asset recognised	**18,724**	15,603	**(14,537)**	(14,950)	**4,187**	653

A net deferred tax asset of $4.2m (2015: $0.7m-asset) arises as a result of PPC's activities ($8.2m net liability), Yuzhgaznergie LLC's activities ($12.6m net asset) and Riverside Energy kft activities ($0.2m net liability).

No deferred tax asset (2015: nil) is recognised in respect of brought forward UK losses. A deferred tax asset of $4.3m (2015: $2.2m-asset) has been recognised in respect of Yuzhgaznergie LLC losses, and a deferred tax asset of $1.4m (2015: nil) has been recognised in respect of Riverside Energy kft losses and other differences as sufficient future taxable profits are forecast against which the losses can be utilised. No other deferred tax is recognised as the directors do not believe that it would be prudent to do so.

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The movement on the deferred tax account in 2016 is as follows:	1 January 2016 $000	Exchange differences $000	(Charge)/ credit in the year $000	31 December 2016 $000
Deferred tax liabilities				
Fixed assets differences	(6,097)	496	(1,241)	(6,841)
Deferred tax assets				
Other temporary differences	4,559	104	733	5,396
Net change in recognised losses carried forward	2,191	555	2,886	5,632
	6,750	659	3,619	11,028
Net deferred tax movement	653	1,155	2,379	4,187

The movement on the deferred tax account in 2015 is as follows:	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

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	2016 $000	2015 $000
Tax losses	(49,458)	(42,235)
Fixed asset differences	(3,593)	(5,225)
Other temporary differences	(51)	(155)
	(53,102)	(47,615)

There is no expiry date on the remaining losses as 31 December 2016. 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. The UK corporation tax main rate will reduce to 19% on 1 April 2017 and in the March 2016 Budget a reduction to 17% in 2020 was announced. The impact of the rate reduction is not expected to have a material impact on provided UK deferred taxation but will reduce unprovided UK deferred tax balances in future periods.

In Russia from 2017 till 2020 a restriction has been introduced on the use of brought forward tax losses against future taxable profits. Brought forward tax losses in Russia can only mitigate a maximum of 50% of the taxable profits in those years. This has had the impact of reducing the recognised deferred tax asset on prior year tax losses incurred in Russia. From 2021 it is expected that all brought forward Russian tax losses can be utilised to mitigate all taxable profits. The 10 year limitation on the use of carried forward tax losses in Russia has been cancelled.

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 (2015: 172,125,916) and the loss for the relevant year.

Loss before exceptional item in 2016 of $7,461,522 (2015 loss: $25,772,141) is calculated from the 2016 loss of $ 37,115,477 (2015: $81,463,000) and adding back exceptional items of $ 30,823,955 (2015: 64,896,496) less the related deferred tax on the exceptional items of $ 1,170,000 (2015: $9,205,637).

The diluted earnings per share for the year is based on 172,125,916 (2015: 172,125,916) ordinary shares calculated as follows:

Loss	2016 $000	2015 $000
Loss for the purpose of basic and diluted earnings per share (loss for the year attributable to the owners of the parent):		
Before exceptional item	(7,462)	(25,772)
After exceptional item	(37,115)	(81,463)

Number of shares	2016	2015
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 2016 (2015: nil). 13,925,410 (2015: 29,849,048) potentially dilutive ordinary shares associated with the convertible bonds (Note 12) have been excluded as they are antidilutive in 2016, however they could be dilutive in future periods.

There were 3,101,400 (2015: 12,740,100) outstanding share options at 31 December 2016, of which 1,341,750 (2015: 7,141,100) had a potentially dilutive effect. All of the Group's equity derivatives were anti-dilutive for the year ended 31 December 2016.

30. Dividends

No interim dividend was paid for 2016 (2015: nil). In respect of the full year 2016, the directors do not propose a final dividend (2015: no final dividend paid).

31. Reconciliation of profit from operations to net cash inflow from operations

	2016 $000	2015 $000
Loss from operations	(34,754)	(75,578)
Depreciation, depletion and amortisation	19,764	27,591
Loss on disposal of fixed assets	311	122
Impairment of property, plant and equipment/intangible assets	2,000	51,055
Share-based payment costs	48	658
Cash (used in)/generated from operations before changes in working capital	(12,631)	3,848
Decrease/(increase) in operating trade and other receivables	8,119	(4,157)
(Decrease)/increase in operating trade and other payables	(2,102)	1,977
Exceptional item – increase in provision for production based taxes	24,340	10,854
Increase in provisions – onerous lease provision	594	-
(Increase)/decrease in inventories	(1,282)	275
Cash generated from operations	17,038	12,797

32. Capital commitments

Under the work programmes for the Group's exploration and development licenses the Group had committed $3.3m to future capital expenditure on drilling rigs and facilities at 31 December 2016 (2015: $1.3m).

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33. Related party transactions

The transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Key management personnel are considered to comprise only the Directors. The remuneration of Directors during the year was as follows:

	2016 $000	2015 $000
Short-term employee benefits	5,164	3,671
Post-employment benefits	62	231
Share-based payments	81	508
	5,307	4,410

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 51 to 68 and in the Directors Report on page 71.

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).

Vladimir Tatarchuk and Vladimir Rusinov were appointed to the Board on 28 January 2016 and are deemed to have a beneficial interest in Convertible Bonds with principal amount of $3.4m at the end of the year, which are held by Proxima Capital Group ('Proxima'). During the year, in accordance with the terms and conditions of the Bonds, redemptions of Proxima's bonds of principal amount $1.4m were made under the Bondholder Put Option (see Note 13) and Bond interest payments of $0.3m were made to Proxima in relation to their Bond holding.

Subsidiary undertakings and joint operations

The Company's principal subsidiary undertakings including the name, country of incorporation, registered address 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.

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 (Ukraine) Ltd, Baltic Energy Trading Ltd, EuroDril Limited, JP Kenny Exploration & Production Limited, Page Gas Ltd, Trans-European Energy Services Limited, JKX Limited.

35. Events after the reporting date

Convertible Bond restructuring

On 3 January 2017, the Bondholders approved a restructuring of the terms and conditions of outstanding Convertible Bonds. See Note 12 for details.

Tribunal Award

In 2015 the Company commenced arbitration proceedings against Ukraine on the basis of overpayment of production taxes ('Rental Fees') plus damages, as explained more fully in Note 27. The main arbitration case was heard in July 2016.

On 6 February 2017 the international arbitration tribunal ruled that Ukraine was found not to have violated its treaty obligations in respect of the levying of Rental Fees but awarded the Company damages of $11.8m plus interest, and costs of $0.3m in relation to subsidiary claims.

No adjustment has been made to recognise any possible future benefit to the Company that may result from the tribunal award.

Following the tribunal decision, a provision totalling of $23.6m was recognised at 31 December 2016 in respect of Rental Fees for the period from January- December 2015 (see Notes 18 and 27 for details).

COMPANY FINANCIAL STATEMENTS

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 2016;
- 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 Company's ability to continue as a going concern. One of the Company's subsidiaries has recorded a provision of $33.9m in relation to additional Rental Fees which may become immediately due and payable in Ukraine as a result of unfavourable outcomes in one or more of the ongoing court proceedings. This condition, along with the other matters explained in Note 2 to the financial statements, indicates 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 2016;
- 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 and compliance with applicable requirements

Companies Act 2006 opinion

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

COMPANY FINANCIAL STATEMENTS

Independent Auditors' Report

to the members of JKX Oil & Gas plc

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.

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 72, 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 group financial statements of JKX Oil & Gas plc for the year ended 31 December 2016. That report includes an emphasis of matter.

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2017

COMPANY FINANCIAL STATEMENTS

Company statement of financial position

For the year ended 31 December 2016

	Note	2016 $000	2015 $000
Assets			
Non-current assets			
Investments	B	21,424	8,242
Trade and other receivables	C	190,026	263,237
		211,450	271,479
Current assets			
Trade and other receivables	C	46,805	53,875
Cash and cash equivalents	E	3,162	12,515
		49,967	66,390
Total assets		261,417	337,869
Liabilities			
Current liabilities			
Trade and other payables	F	(103,285)	(129,638)
Derivatives	F	(1,341)	-
		(104,626)	(129,638)
Non-current liabilities			
Derivatives	F	-	(2,171)
Trade and other payables	F	-	(31,794)
		-	(33,965)
Total liabilities		(104,626)	(163,603)
Net Assets		156,791	174,266
Equity			
Share capital	G	26,666	26,666
Share premium		97,476	97,476
Other reserves	G	(503)	(503)
Retained earnings		33,152	50,627
Total equity		156,791	174,266

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 $17.5m (2015: $117.1m).

These financial statements on pages 123 to 135 were approved by the Board of Directors on 17 March 2017 and signed on its behalf by:

Tom Reed Director

Russell Hoare Director

COMPANY FINANCIAL STATEMENTS

Company statement of changes in equity

For the year ended 31 December 2016

	Share capital $000	Share premium $000	Retained earnings $000	Other reserves $000	Total equity $000
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

	Share capital $000	**Share premium $000**	**Retained earnings $000**	**Other reserves $000**	**Total equity $000**
At 1 January 2016	26,666	97,476	50,627	(503)	174,266
Loss for the financial year	-	-	(17,523)	-	(17,523)
Total comprehensive loss for the year	-	-	(17,523)	-	(17,523)
Share option charge	-	-	48	-	48
Total transactions with equity shareholders	-	-	48	-	48
At 31 December 2016	26,666	97,476	33,152	(503)	156,791

COMPANY FINANCIAL STATEMENTS

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 69 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.

The Company's Ukrainian subsidiary, Poltava Petroleum Company ('PPC') has made provision for potential liabilities arising from separate court proceedings over the amount of production taxes ('Rental Fees') paid in Ukraine for certain periods since 2007, which total approximately $33.9 million (including interest and penalties, see Note 27 to the consolidated financial statements). PPC continues to dispute these claims through the Ukrainian legal system.

In addition, in 2015 and as detailed in Note 27, the Company and its wholly-owned Ukrainian and Dutch subsidiaries commenced international arbitration proceedings against Ukraine under the Energy Charter Treaty seeking a repayment of Rental Fees that PPC has paid on production of oil and gas in Ukraine since 2011, in addition to damages to the business.

In February 2017, the international arbitration tribunal ruled that Ukraine was found not to have violated its treaty obligations in respect of the levying of Rental Fees but awarded the Company damages of $11.8 million plus interest, and costs of $0.3 million in relation to subsidiary claims. No adjustment has been made in these financial statements to recognise any possible future benefit to the Company that may result from the tribunal award in the Company's favour for damages of $11.8 million plus interest, and costs of $0.3 million.

Taking into account the damages awarded to the Company and the Ukrainian court proceedings against PPC in respect of production taxes, there is a net shortfall of $21.7 million owed by the Group to Ukraine. Should PPC lose the claims against it in respect of production taxes due for 2010 and 2015, and the Ukrainian Authorities demand settlement, the Group does not currently have sufficient cash resources to settle the claims and this would affect its ability to meet its obligations to creditors and bondholders.

Accordingly, the Group's going concern assessment is sensitive to the outcome of the Company's production-related tax disputes with the Ukrainian Government.

The Directors have concluded that it is necessary to draw attention to the potential impact of Group becoming liable for additional Rental Fees in Ukraine as a result of unfavourable outcomes in one or both of the ongoing court proceedings. It is unclear whether either or both of these claims against PPC will be realised and settlement enforced 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, as well as the availability of additional courses of action with respect to financing and/or negotiation with Ukraine for the settlement of any successful production tax claim, 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.

Adoption of new and revised standards

No new accounting standards, or amendments to accounting standards, or IFRS IC interpretations that are effective for the year ended 31 December 2016, have had a material impact on the company. Please refer to Group's accounting policies note on page 86 for the full disclosure.

Disclosure exemptions

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.

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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 2016 was $1/£0.81 (2015: $1/£0.67).

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 51 to 68 and in Note H 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.

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

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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.

B. Investments

The net book value of unlisted fixed asset investments comprises:

	2016 $000	2015 $000
Cost		
At 1 January	8,242	8,269
Additions	13,182	-
Disposals	-	(27)
At 31 December	21,424	8,242
Equity investment in subsidiaries		
At 31 December	21,424	8,242

Additions during 2016 relate to investment in the Company's subsidiary, JP Kenny Exploration & Production Limited.

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 were issued in February 2013 and which provided finance for the JKX Group of companies (see Note 12 to the consolidated financial statements).

At 31 December 2016, subsidiary undertakings of JKX Oil & Gas plc were:

Name	Business	% held (ordinary shares)	Country of incorporation and area of operation
Adygea Gas B.V. [1]	Holding	100.00	Netherlands
Baltic Catering Services [2]	Oil & gas services	100.00	Ukraine
Baltic Energy Trading Ltd* [3]	Oil & gas exploration and production	100.00	UK
Catering-Yug LLC[4]	Oil & gas services	100.00	Russia
Eastern Ukrainian Pipeline Ltd [8]	Oil & gas services	100.00	Ukraine
EuroDril Limited[3]	Oil & gas exploration, production and services	100.00	UK
JKX Bulgaria Limited* [5]	Oil & gas exploration and production	100.00	UK
JKX Bulkan BG EAD [10]	Oil & gas exploration and production	100.00	Bulgaria
JKX Carpathian BV [1]	Oil & gas exploration and production	100.00	Netherlands
JKX Georgia Ltd*[3]	Oil & gas exploration, production and services	100.00	UK
JKX Hungary BV [1]	Oil & gas exploration and production	100.00	Netherlands
JKX Ltd*[5]	Dormant	100.00	UK
JKX (Navtobi) Limited [9]	Oil & gas exploration and production	100.00	Cyprus
JKX (Nederland) B.V. [1]	Finance and Holding	100.00	Netherlands
JKX Oil & Gas (Jersey) Limited* [6]	Finance	100.00	Jersey
JKX Ondava BV [1]	Oil & gas exploration and production	100.00	Netherlands
JKX Services Limited*[5]	Services	100.00	UK
JKX Slovakia BV [1]	Oil & gas exploration and production	100.00	Netherlands
JKX Ukraine BV [1]	Finance and Holding	100.00	Netherlands
JKX (Ukraine) Ltd* [5]	Oil & gas exploration, production and services	100.00	UK
JP Kenny Exploration & Production Limited* [5]	Finance and Holding	100.00	UK
Kharkiv Investment Company [8]	Holding	100.00	Ukraine
Page Gas Ltd* [5]	Oil & gas exploration and production	100.00	UK
Poltava Gas B.V. [1]	Holding	100.00	Netherlands
Poltava Petroleum Company [2]	Oil & gas exploration and production	100.00	Ukraine
Folyópart Energia Kft [11]	Oil & gas exploration, production and services	100.00	Hungary
Shevchenko Farm[a 12]	Land lease	62.00	Ukraine
Trans-European Energy Services Limited* [5]	Oil & gas exploration, production and services	100.00	UK
Yuzhgazenergie LLC [7]	Oil & gas exploration, production and services	100.00	Russia

* Held directly by JKX Oil & Gas plc. All other companies are held through subsidiary undertakings.

Company registered addresses:
1. Schiphol Boulevard 283, Tower F, 7th floor, 1118 BH Schiphol, Netherlands
2. 153 Frunze Street, Poltava, 36002, Ukraine
3. Tricor Suite, 4th Floor, 50 Mark Lane, London, EC3R 7QR, England
4. 177-a Pervomaiskaya Str., Maikop, Adygea Republic, 385000, Russia
5. 6 Cavendish Square, London, W1G 0PD, England
6. 47 Esplanade, St Helier, JE1 0BD, Jersey
7. 400m from Shovgenovsk-Koshekhabl motor road, a. Koshekhabl, Koshekhablsky District, Republic of Adygea, 385400, Russia
8. Production site of JV PPC, Sokolova Balka, Novosanjary district, Poltava region, 39352, Ukraine
9. 1st Floor, 22 Stasicratous Olga Court, Nicosia, Cyprus
10. 45/A Bulgaria Boulevard, Sofia, 1404, Bulgaria
11. VI. Floor, Vaci ut 33, Budapest, 1134, Hungary
12. 27-V Peremohy Str., Sokolova Balka, Novi Sanzhary Rayon, Poltava Oblast, 39352, Ukraine

[a] Schevchenko farm is not consolidated in the Group financial statements as the Group does not control the entity.

In the opinion of the Directors the carrying value of the investments is supported by their underlying net assets.

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

C. Trade and other receivables

	2016 $000	2015 $000
Current		
Amounts owed by group undertakings	46,540	53,387
Prepayments and accrued income	102	70
VAT receivable	163	418
	46,805	53,875

$46.5 m (2015: $45.6m) 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.

	2016 $000	2015 $000
Non-current		
Amounts owed by group undertakings	190,026	263,237

$169.4m (2015: $217.6m) 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 $65.7m (recognised in 2015: $103.7m) related to intercompany loan receivables from various subsidiaries, of which, $5.1m (2015: nil) and $60.6m (2015: $103.7m) 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

	2016 $000	2015 $000
Total tax charge for the year	-	-

Factors that affect the total tax charge

The total tax charge for the year of nil (2015: nil) is higher (2015: higher) than the average rate of UK corporation tax of 20% (2015: 20.25%). The differences are explained below:

Total tax reconciliation	2016 $000	2015 $000
Loss on ordinary activities before taxation	(17,523)	(117,127)
Tax calculated at 20% (2015: 20.25%)	(3,505)	(23,718)
Other fixed asset differences	(1)	(2)
Net change in unrecognised losses carried forward	1,831	2,803
Non taxable income	(1,800)	(2,646)
Other non-deductible expenses	3,475	23,563
Total tax charge	-	-

Unprovided deferred tax	2016 $000	2015 $000
Tax losses	5,044	3,486
Property, plant and equipment differences	5	7
Other temporary differences	8	112
	5,057	3,605

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 main rate of UK corporation tax reduces to 19% from 1 April 2017. In the March 2016 Budget a reduction in the main rate of UK corporation tax to 17% in 2020 was announced, which has not been substantively enacted. The impact of the rate reduction is not expected to have a material impact on UK current or provided deferred taxation but is expected to reduce unprovided UK deferred tax balances in future periods.

E. Cash and cash equivalents

	2016 $000	2015 $000
Cash and cash equivalents	3,162	12,509
Restricted cash	-	6
Total	3,162	12,515

F. Trade and other payables

	2016 $000	2015 $000
Current		
Amounts owed to group undertakings	101,346	124,249
Trade payables	1,029	1,994
Accruals and deferred income	910	3,395
Derivatives (reclassification from non-current derivative financial instruments)	1,341	-
	104,626	129,638
Non-current		
Derivatives	-	2,171
Amounts owed to group undertakings	-	31,794

Maturity of financial liabilities

31 December 2016	In 1 year or less, or on demand $000	2-5 years $000
Maturity of financial liabilities		
Amounts owed to group undertakings	101,346	-
Trade payables	1,029	-
Derivatives	1,341	-

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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
Trade payables	1,994	-
Derivatives	-	2,171

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.

Convertible bonds repurchased and cancelled

On 19 February 2016, in accordance with the terms and conditions of the Bonds, the Company repurchased 50 bonds with a total principal amount of $10m (19 February 2015: 20 Bonds, principal amount $4m). In June, September and October 2016, the Company repurchased and subsequently cancelled a total of 50 Bonds with par value of $10m resulting in $1.1m gain on redemption, which has been included in Finance income for the year (see Note 21). The remaining principal amount of outstanding Bonds at 31 December 2016 was $16.0m (2015: $36.0m).

Convertible bonds restructured on 3 January 2017

On 3 January 2017 a special resolution was approved by Bondholders to change the terms and conditions of the Bonds. The main amendments to the terms and conditions of the Bonds were as follows:

- the Bondholder's option to require redemption of all of the outstanding Bonds on 19 February 2017 was deleted;
- the final maturity date of the Bonds was extended to 19 February 2020, with the outstanding principal amount of the Bonds being repaid in three instalments; 33% on 19 February 2018; 33 % on 19 February 2019; and 34% on the 19 February 2020;
- the coupon rate of the Bonds was increased from 8% to 14%;
- the covenant which limited new borrowings by the Company has been removed; and
- the Company will make two payments to Bondholders in respect of prior accretion amounts, on 19 February 2017 and on 19 February 2018 of 12.0% and 3.0%, respectively, of the principal amount of the Bonds;

The revised terms and conditions of the Bond is considered to be a modification and therefore the difference in the amortised cost carrying amount at the modification date will be recognised through a change in the effective interest rate at the modification date through to the end of the revised estimated term of the Bond. There is therefore no immediate impact of the restructuring of the Bond on the Consolidated Income Statement.

The impact of the amendments to the Bond on the Consolidated Statement of Financial Position was to decrease the carrying amount of the total Bond liability of $18.1m (including the associated derivative) by $0.8m, which will be amortised over the estimated remaining life of the modified Bond.

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 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:

	2016 Number	2016 £000	2016 $000	2015 Number	2015 £000	2015 $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 2016 (2015: none). There were no treasury shares used in 2016 (2015: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2016 the market value of the treasury shares held was $0.2m (2015: $0.2m).

Other reserves

	Capital Redemption Reserve $000	Foreign Currency Translation reserve $000	Total $000
At 1 January 2016 and 31 December 2016	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.

COMPANY FINANCIAL STATEMENTS

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H. Share-based payments

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 2016, there were outstanding options under various employee share option schemes, exercisable during the years 2017 to 2026 (2015: 2016 to 2025), to acquire 2,168,450 (2015: 12,740,100) shares of the Company at prices ranging from 0.00p to £59.75 per share (2015: 0.00p to £70.50p). The vesting period for 2,168,450 (2015: 12,740,100) 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.

	2016 Number	2016 WAEP	2015 Number	2015 WAEP
Outstanding as at 1 January	**12,740,100**	**28.39p**	10,854,700	45.75p
Granted during the year	**711,250**	**0.00p**	3,845,900	0.00p
Lapsed/forfeited during the year	**(11,282,900)**	**27.68p**	(1,960,500)	68.85p
Outstanding at 31 December	**2,168,450**	**22.78p**	12,740,100	28.39p
Exercisable at 31 December	**-**	**-**	-	-

For the share options outstanding as at 31 December 2016, the weighted average remaining contractual life is 8.3 years (2015: 8.3 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').

Lapsed and forfeited 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 £62,772 to forfeit 9,460,000 unexpired share options, which are included in the table above.

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 2016 (2015: nil). For DSOS 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 (2015: nil).

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.

711,250 (2015: 3,845,900) options were granted under PSP in 2016. 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) (2015: FTSE Fledgling 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 5.84p per option (2015: 10.35p).

Fair value of share options granted

No options were granted under the DSOS in 2016 (2015: nil).

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 $0.05m (2015: $0.7m).

The following table lists the inputs to the model used for the options granted in the years ended 31 December 2016 and 31 December 2015. The expected future volatility has been determined by reference to the historical volatility.

	2016 PSP	2015 PSP
Dividend yield	0.0%	0.0%
Expected share price volatility	82%	82%
Risk free interest rate	0.6%	0.6%
Exercise price	0.0p	0.0p
Expected life of option (years)	3.0	3.0
Weighted average share price	19.3p	33.5p

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 51 to 68.

I. Auditors' remuneration

	2016 $000	2015 $000
Audit services		
Fees payable to the Company's auditors for the audit of the parent company	40	40

J. Directors' remuneration

The remuneration of the Directors is disclosed in the audited section of the Remuneration Report on pages 51to 68, which form part of these financial statements.

K. Dividends

No interim dividend was paid for 2016 (2015: nil). In respect of the full year 2016, the directors do not propose a final dividend (2015: no final dividend paid).

L. 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:

	2016 $000	2015 $000
Within one year	319	510
In the second to fifth years inclusive	1,276	2,038
After five years	-	425
	1,595	2,973

M. Employees

There were no employees of the Company during the year (2015: none). Staff costs are met by group company JKX Services Ltd.

N. Events after the reporting date

See Note 35 to the consolidated financial statements.

Notes

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Paper, Mohawk Everyday Digital uncoated items are manufactured with wind power by offsetting emissions from purchased electricity with Renewable Energy Certificates (RECs) from Green-e certified wind power projects.
Mohawk Everyday Digital items are certified by the Rainforest Alliance.
FSC certification ensures responsible use of forest resources.

The Strategic Report (published with this document) covers a business overview, (including the Chairman's and Chief Executive's statements), the Company's strategy, (objective, business model and strategic priorities) and performance review, (Regional operations update, Financial Review, Corporate Social Responsibility and Risk summary).

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