JKX Oil & Gas plc

2017

Annual Report

In this report

STRATEGIC REPORT

How we performed this year

Update:

2017 has been another difficult year for JKX with further changes in the Board and senior leadership teams. The new Board, appointed at the end of 2017, is reassessing the company strategy based on its assessment of the current situation and prospects ahead.

page 13

Revenue	Profit/(loss) from operations before exceptional charges	Loss for the year
$76.4m	$7.8m	$(17.7)m
2016: $73.8m	2016: $(4.0)m	2016: $(37.1)m

Cash generated from operations	Cash flow from investing activities	Total year-end cash
$15.7m	$(16.0)m	$7.4m
2016: $17.0m	2016: $(6.2)m	2016: $14.3m

Outlook:

- Move forward with implementing our production enhancement plan in Ukraine
- Restart drilling on our Elizavetovskoye field in Ukraine
- Systematically review opportunities for acquisition and new licensing in Ukraine
- Prepare workover plan in Russia
- Disposal of our assets in Hungary and Slovakia

pages 4 and 11

STRATEGIC REPORT

Our Business

What we do

JKX is an oil and gas exploration and production company focused on central and eastern Europe.

Where we operate

Group statistics

	Ukraine	Russia	Hungary	Slovakia	**Group**
Licenses					
	1. Ignativske	1. Koshekhablskoye	1. Emod V	1. Svidnik	**17 licences**
	2. Elyzavetivske		2. Tiszavasvari IV	2. Medzilaborce	
	3. Rudenkivske		3. Hajdunanas IV	3. Snina	
	4. Novomykolaivske		4. Hajdunanas V	4. Pakostov	
	5. Movchanivske		5. Pely I		
	6. Zaplavska		6. Jaszkiser II		
Total licence area, sq. km	405	33	200	400	**1,037**
Stage					
	Exploration Appraisal Development Production	Appraisal Development Production	Exploration Appraisal Production	Exploration	**Exploration Appraisal Development Production**
Production					
2017 gas production, mmcf/d	16.7	29.8	0.7		**47.2**
2017 oil production, bopd	719	55	9		**784**
2017 total production, boepd	3,507	5,019	131		**8,658**
Reserves					
2P reserves, mmboe	23.3	71.7	0.0		**95.1**
3P reserves, mmboe	37.2	123.4			**160.6**
2C resources, mmboe	90.9	74.8	0.3		**166.0**
Staff	395	204	0		**615**

STRATEGIC REPORT
Chairman's statement

" The Board strives to make sure that the voices of all our shareholders, big and small, are heard and taken into account in our strategy and actions."

The Board has identified the following as immediate areas of focus:

1. Restoring a constructive relationship with the shareholders of the Company;
2. Ensuring full operational and financial alignment between all companies of the Group;
3. Operational risk management developing existing fields with proven, low risk technology;
4. Ensuring financial stability by building liquidity reserves, reducing debt and keeping tight control over cost;
5. Resolving outstanding tax issues.

Dear shareholder, as you are aware, 2017 has been another difficult year for JKX with disappointing results and further changes in the Board and senior leadership teams.

The new Board, appointed at the end of 2017, inherited a company with significantly depleted cash balances, risk management and control systems that had failed to anticipate or address the challenges that 2017 presented and the need for a new strategy. In the light of this difficult scenario the new Board is reassessing the Company strategy based on its assessment of the current situation and prospects ahead.

Relationship with shareholders
The Board strives to make sure that the voices of all our shareholders, big and small, are heard and taken into account in our strategy and actions. We seek an active and open communication with all shareholders while at the same time emphasising the independent role of the Board. All decisions are taken in the interest of the Company as a whole.

As a further step to manifest our approach, our two major shareholders - Eclairs Group Limited ("Eclairs"), which owns 27.54% of our shares and Proxima Capital Group ("Proxima"), which owns 19.97% of our shares - now both have nominees on the Board, indicating a new sense of confidence, alignment and shared focus.

Ensure full operational and financial alignment between all companies of the group
The Board is currently reviewing key processes to ensure they are harmonised throughout the Group and that learnings are shared on a Group wide basis. Procedures for investments (Capex) and operations (Opex) are now measured against Group wide criteria for risk, financial reward and timing. Whilst there is more work to do, interim financial controls have been introduced to ensure that all material expenditure is subject to centralised approval. In the current situation projects with short payback period and low risk are prioritised.

Focus on operational risk management developing existing fields step by step with proven, low risk technology
In 2017, the Company set out to unlock its reserves potential. Key to this strategy was our Rudenkivske gas fields in Ukraine. The results were disappointing whilst significantly depleting cash balances. To make the best use of available resources, the Company will in the near future concentrate on proven low risk technologies to achieve incremental production increases from each well while keeping the investment for each project at a minimum. This will allow us to spread the risk over many wells, both own wells and leased wells. New technologies and larger projects will be considered when the Board is comfortable with the risks involved, the project meets established criteria and is also acceptable from a cash outlay point of view. Better utilization of the capacity of the existing plants will be another area of focus.

Ensure financial stability by building liquidity reserves, reducing debt and keeping tight control over costs
On June 30, 2017 the unrestricted cash of the group was at $4.0 million compared to $14.1 million on December 31, 2016. This abrupt decrease was mainly due to $10.4 million spent on capital expenditures in the first half of 2017 ($2.5 million in the first half of 2016) and payments to bondholders in February 2017.

The Board and the new executive team (which includes a new CFO with relevant regional, technical and language skills) are now focussed on using the group's positive operating cashflow to pay off the remaining debt on schedule and consolidate our cash reserves through:

1. Strengthening control over costs and future spending, and
2. Eliminating unnecessary contracts and enhancing procedures and discipline in entering into new ones.

Our unrestricted cash on hand increased to $6.9 million on December 31, 2017 and all planned payments to bondholders were successfully made in February 2018, thus repaying a third of the capital outstanding on the bonds on schedule.

The Company's Ukrainian subsidiary, Poltava Petroleum Company ("PPC"), has secured a standing credit line of approximately $5.3 million and the Russian subsidiary, YGE, is in negotiation for another standing credit line.

More effective governance
We have made a significant effort to create a culturally diverse and widely experienced Board consisting of individuals with knowledge and skills in each of the key areas of risk for the Company - technical and engineering, finance and controls, and funding and capital markets. Additionally, all of your Directors have significant experience of operating in Ukraine or Russia - key markets for JKX.

In the current circumstances, the Board has not yet been able to recruit the full executive team needed to resolve the many issues your Company faces. The Board has therefore, as an interim measure, deployed its range of skills and experience and is playing an unusually active role in the management and leadership of the Company, with the General Directors of the operating companies reporting on all matters directly to the Chairman of the Board.

We believe that the current composition of the Board, and in particular the highly experienced independent Directors that have recently joined the Board, will help the Company navigate this difficult period whilst reinforcing our strong commitment to Board independence. In addition to the non-executive Chairman, the number of independent directors has been increased from 2 to 3, while the number of non-independent directors has been reduced from 4 to 3.

System of internal controls
The current Board, together with the Audit Committee, has carried out a risk-based review of the effectiveness of the Company's internal control and risk management systems and has introduced a number of interim measures to strengthen them. This work is ongoing.

Specifically, a breakdown in controls occurred in the Company's Ukrainian subsidiary during 2017. Several legal advisers were engaged without a proper transparent tender process. These advisers were paid legal fees of approximately $1 million, for which there is a lack of documentation supporting the nature and extent of work performed. As a result, the Audit Committee appointed KPMG to conduct a forensic examination of the process for appointment of legal advisers in Ukraine, the manner in which these specific payments were made and to investigate the nature of such payments and services provided. As at the date of this release, KPMG's investigation has recently been concluded and management has already implemented certain of the recommendations provided in their report.

Resolving outstanding tax issues
The Company has three material unresolved tax issues:

1. PPC has received a claim for underpayment of royalty for 2010. The claim, including interest and penalties, amounts to approximately $11.3 million. The claim is currently not being pursued due to a finding on technical grounds in favour of PPC by a court in Poltava. As a result, the tax notification was cancelled. The tax authorities' appeal against the decision was dismissed. The tax authorities have lodged another appeal with the Supreme Court.
2. PPC has received a claim for underpayment of royalty for 2015. The claim, including interest and penalties, amounts to approximately $25.8 million. The tax notification was subsequently cancelled. The case is still being contested in court.
3. PPC was awarded approximately $12.1 million by the Hague international tribunal in 2017. In response, the Government of Ukraine submitted an appeal to the UK High Court which was dismissed.

The Company will continue to defend its position in local courts. Given the materiality of these tax liabilities we have considered the risk to the Group's ability to continue as a going concern further in Note 2 to the financial information. Additional detail on tax litigation cases is provided in Note 27 to the financial information.

Outlook
Ukraine and Russia will remain our main areas of operation. The Board and management will devote full attention to our assets in these countries.

In Ukraine, we expect to stabilize and, shortly, to increase production and take advantage of the favourable market conditions. We will increase the use of leased wells and stimulate the production from our own wells through the implementation of the revised workover program. This is a low risk undertaking consisting of numerous smaller steps to better utilize existing well stock and to drill at least one new infill well.

In Russia we will enhance our technical capabilities and broaden our work with drilling companies and other existing and new contractors to ensure the highest level of technical efficiency. The goal is to enhance our capabilities so as to complete future well workovers on budget and on time.

We see a gradually improved cashflow through the second half of 2018 as the revised strategy starts to yield results. This includes an unrelenting focus on internal control and cost optimization.

People
JKX has gone through significant Board and management change on two occasions in the past two years – a remarkable challenge by itself and especially considering the operating environment it has had to navigate. I would like to thank JKX's staff for ensuring continuity and smooth operations in times of change and for their continued faith in the Company.

Finally, I would like to thank Victor Gladun, who took over as Acting CEO in June 2017 and has now returned to his role as General Director of PPC, Dmitriy Poddubny who served as acting CFO during the latter part of 2017, and Ben Fraser, our new CFO, for stepping up and shepherding the Company through turbulent times towards future success.

Hans Jochum Horn
Chairman

STRATEGIC REPORT

Market overview - Ukraine
Why are we here?

Throughout the history of JKX, Ukraine has remained our most important country of operation from a cash flow stand point. Because a large share of its energy needs is imported, Ukraine is one of the most attractive markets for hydrocarbons in the world.

Despite a dramatic reduction in gas consumption from as much as 110 bcma in 1991 to just 32 bcma in 2017, Ukraine remains Europe's sixths largest gas market. During the same period, domestic gas production has remained at the level close to 20 bcma, with the remainder imported (see Ukraine's Gas Balance 1991-2017 table below).

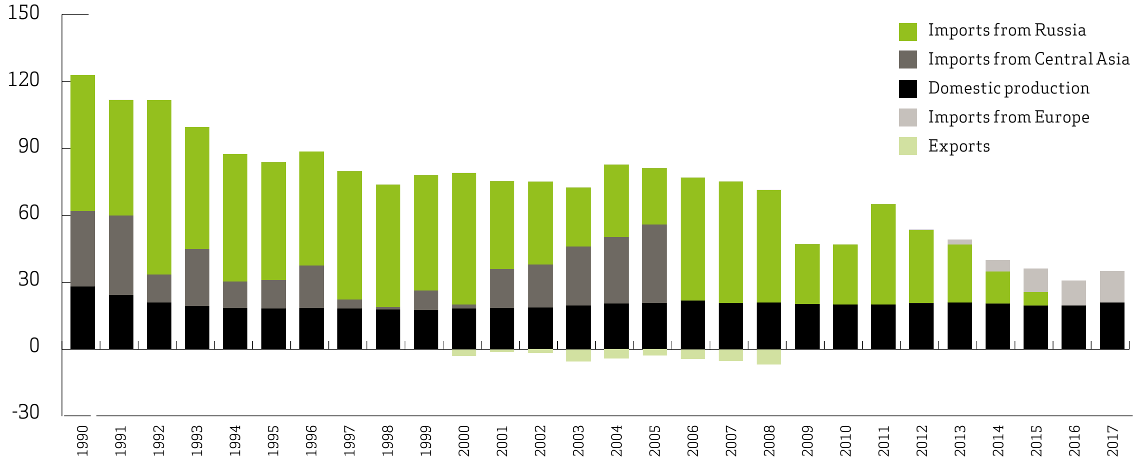
Over the past decade private gas producers like JKX, have enjoyed a significant premium to gas prices elsewhere in Europe, let alone other regions such as North America (see Ukraine's gas price premium below). Historically, the reason was that prices for the industrial sector that private gas producers supply was set based on the terms of the gas contract between Russia and Ukraine, which in turn was closely linked with the price of oil.

After Ukraine established alternative routes for gas imports from Europe (completely stopping commercial gas imports from Russia in 2016), Ukraine's price for gas has been based on European gas hub prices plus the (often very significant) additional cost of shipping gas from Europe to Ukraine. A premium to European gas prices is likely to persist in the future.

Our oil and LPG sales also tend to enjoy a premium over main European markets. Here again the price tends to be set by the marginal imported barrel. As a result, Ukrainian netbacks for all our products have been healthy.

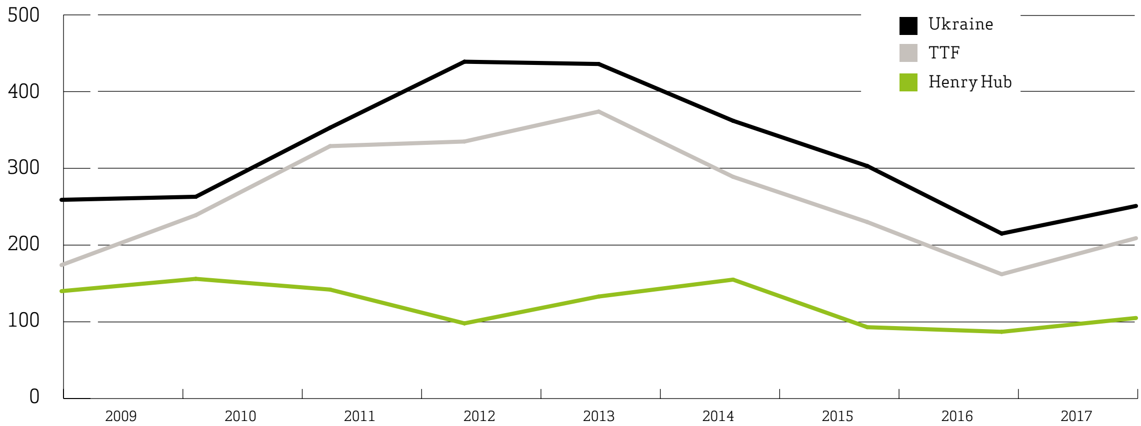
Meanwhile, the attractiveness of Ukraine as a destination for investors in gas production has recently increased further. In December 2017 the government of Ukraine took its first concrete step towards realizing its strategic goal of energy independence by significantly reducing royalty on new gas wells. Starting in January 2018 at least for a five year period the royalty on new gas wells was reduced from 29% to 12% for wells shallower than 5000 meters and from 14% to 6% for wells deeper than 5000 meters. Deregulation of the upstream industry started in 2017 and is expected to pick up in 2018. Reforms aim to simplify and modernize Ukraine's regulatory regime, making the permitting process easier and cheaper.

Ukraine's gas balance 1991-2017 (bcm)



Source: Energobusiness; Company Research

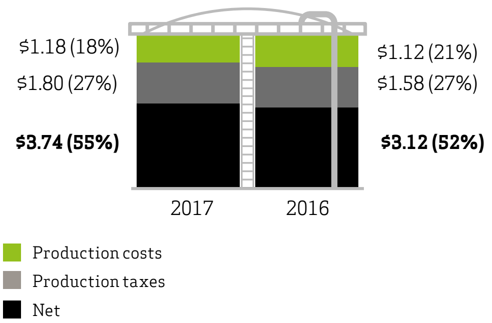
Ukraine's gas price premium ($/Mcm)



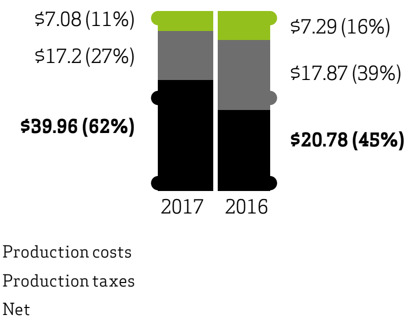
Source: Company Research

Netback

Netback analysis of gas sales (at $6.72/Mcf in 2017 and $5.92/Mcf in 2016)



Netback analysis of oil sales (at $64.26/bbl in 2017 and $45.94/bbl in 2016)



Principal risks associated with our business in Ukraine (detail on page 32-40)

Liquidity, funding, and portfolio management **A**

Commodity prices and FX fluctuations **H**

Reservoir and operational performance **C**

JKX's business assets in Ukraine

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

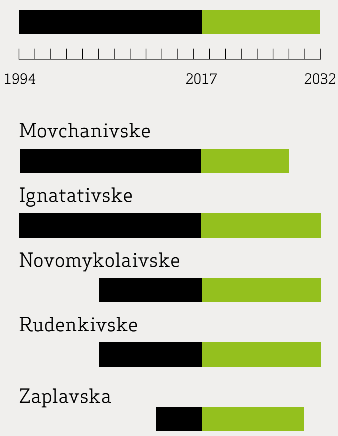
Elyzavetivske field
Our Elyzavetivske field and GPF, which are 45km from our Novomykolaivske Complex, began commercial production in 2014. The field currently produces from three wells.

Ukrainian reserves
At the end of 2017, our 2P reserves in Ukraine comprised 120.4 Bcf of gas and 3.2 MMbbl of oil (total 23.3 MMboe).

Project life cycle

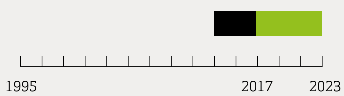
Novomykolaivske Complex

23 years
of commercial production to date



Elyzavetivske field

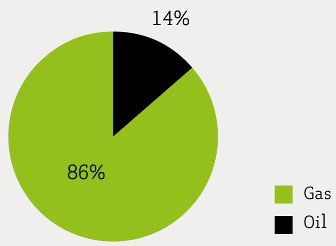
4 years
of commercial production to date



Reserves

Reserves split

86% gas



STRATEGIC REPORT

Market overview - Russia
Why are we here?

Russia is one of the global gas industry's most important players. It boasts the world's largest natural gas reserves and is the second largest producer of gas in the world after the United States. It is also second after the US in natural gas consumption.

On the other hand, enormous investments in gas production and transportation made by Gazprom over the past decade coupled with lower than expected gas demand growth in Europe and Russia have led to excess gas available in Russia. Gas prices are significantly lower than those in international markets, due to Russia's approach to industry regulation.

Nevertheless, our project enjoys several important advantages over competitors. Our Koshekhablskoye field is located in the autonomous republic of Adygeya in southern Russia. This is the region of Russia that enjoys one of the country's highest gas prices. This is because the gas industry's key reference price - regulated price for industrial consumers set for Gazprom - is set based on distance from Russia's key gas producing region - Nadym-Pur-Taz (NPT) in the far north. Adygeya is located more than 4000 km away from NPT and, as a result boasts the highest gas prices of all regions in Russia connected to Gazprom's pipeline system (see Russia's regional gas pricing below).

In addition, due to the depth of main production horizons at our field, Koshekhablskoye enjoys a significant production tax break compared to other producers.

Despite Russia's overall gas surplus, Russia's southern regions are short of gas with consumption exceeding production by more than three times. While Russia's average gas consumption has stagnated in recent years, Russia's southern regions such as Krasnodar have continued to grow (see South Russia gas supply and demand chart below).

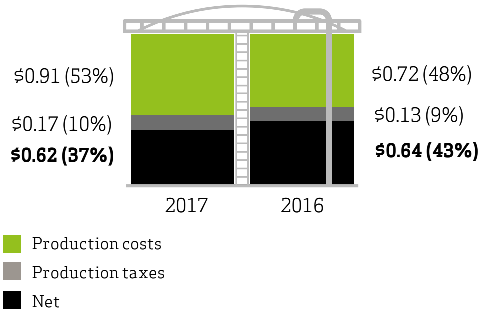
Southern Russia also boasts excellent infrastructure with easy access to roads and other infrastructure. Gazprom's gas pipeline system is highly developed in the region, with the main gas pipeline passing less than a kilometre from our gas plant.

Russia's regional gas pricing

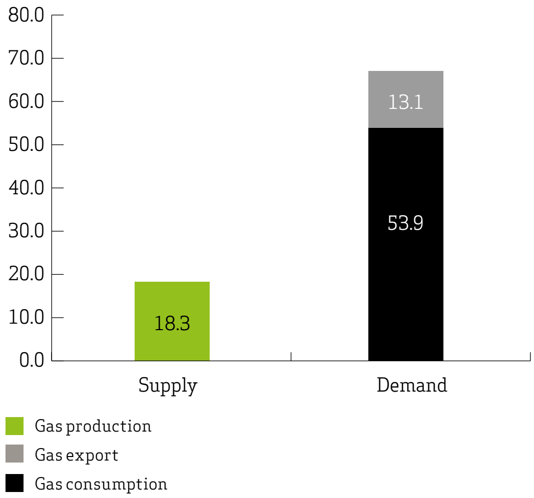
(Rub/Mcm)	Population	Industry (Min)	Industry (Max)
KhMAO	2,908	2,929	3,222
Chelyabinsk	3,483	3,871	4,258
Samara	3,531	4,074	4,481
Moscow	3,631	4,540	4,994
Adygeya	**3,680**	**4,634**	**5,097**

Netback

Southern Russia netback analysis gas (at $1.69/Mcf in 2017 and $1.49/Mcf in 2016)



South Russia gas supply and demand (Bcm)



Source: Company Research

JKX's business assets in Russia

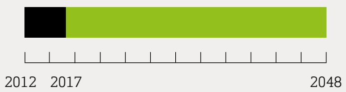
Koshekhablskoye field
Koshekhablskoye gas field is located in the Republic of Adygea, southern Russia where gas resource is scarce, and there are high transportation costs from Russia's main gas production area in the far north, some 4,000 km away.

Russian reserves
At the end of 2017, our 2P reserves in Russia comprised of 425.9 Bcf of gas and 0.7 MMbbl of oil (total 71.7 MMboe).

Koshekhablskoye project life cycle

Total project life cycle

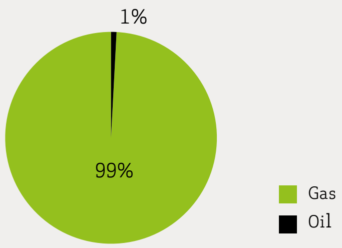
5 years
of commercial production to date



Reserves

Reserves split

99% gas



Principal risks associated with our business in Russia (detail on pages 32-40)

Geopolitical and fiscal risks B

Reservoir and operational performance C

STRATEGIC REPORT

Acting Chief Executive's statement

"Since the arrival of the new senior management team and the new Board, we have significantly revised our field development plans in Ukraine"

Management was also able to achieve results that bode well for the future:

- In Ukraine a new field development program designed to enhance production from our core fields and engage in low-risk appraisal has been designed and its implementation has begun;
- In addition, we received access to 14 wells owned by state companies on our licenses;
- We restarted production in Hungary after more than a three-year break and sustained production throughout the year;
- Finally, the Company continued to optimize its cost base, reduced its overall debt (through repayment of its bond obligations) and made progress in its legal proceedings with Ukraine.

2017 was another challenging year for JKX. Lack of positive results following the first stage of the Rudenkivske field fracturing programme and delays in the workovers of two wells in Russia have resulted in an overall production decline for the group of 14.1% from 10,083 boepd in 2016 to 8,658 boepd in 2017. As a result of the operational difficulties, the Company also went through major changes to senior management and the Board of Directors in the second half of the year.

At the same time, on the back of rising oil and gas prices group revenue was up by 3.5% year on year from $73.8m to $76.4m, while operating loss for the year decreased by 62% from ($34.8m) to ($13.2m).

Ukraine
In Ukraine, overall production for the year was down by 12%. Gas production was down by 10% from 18.6 MMcfd in 2016 to 16.7 MMcfd in 2017, while oil production fell down by 20% from 902 boepd in 2016 to 719 boepd in 2017. Due to the increased price for oil and gas, our revenue was up by 4.0% (from US$54.8 to US$57.0 million) compared to 2016.

One of the key contributing factors to the decline in production was a focus on the ultimately unsuccessful first stage of the Rudenkivske field fracturing program during the first half of the year. Following the fracturing of four Soviet-era wells, which resulted in mostly water production, an extensive review resulted in the key conclusion that a significant amount of geological work is still required to understand this complicated reservoir before further significant expenditure can be justified.

On the positive side, we were able to secure access to 14 old wells that belong to Ukrainian state companies located on our licenses thereby creating opportunities to generate low-cost production through workovers in the future.

Our technical team in Ukraine, which underwent significant changes during the second half of the year, has refocused on our core producing fields and generated a new production enhancement program. Early results have been promising. After carrying out several successful workovers, the Company has returned to drilling after an almost three-year break.

Russia
In Russia, our year-on-year gas production was down by 18% from 36.1 MMcfd in 2016 to 29.8 MMcfd in 2017. Our revenue was down by 7.4% (from US$19.0 million to US$17.6 million). The key reason for the decline was delays in two well workovers. The planned production tubing replacement workover at Well 25 was significantly delayed due to a fire on the workover rig and the time required by the rig operator to procure the necessary equipment replacement. As a result, the well was offline for four months.

The workover of well 5 has also not gone as planned. Replacement of damaged tubing at the well took longer than expected and production has not started. A side-track will now have to be performed once a new rig can be secured.

Hungary
In 2017, we relaunched our production at the Hajdunanas field in Hungary for the first time in more than three years. The sidetrack of well Hn-2 was completed in January 2017 and gas sales began in February. This was followed by a successful workover of well Hn-1 completed in October. As a result, in 2017 average gas production was 0.7 MMcfd, while average condensate production was 12.5 bpd. The Group is now pursuing a full divestment of its remaining Hungarian licence interests due to the refocus on its operations in Ukraine and Russia.

Slovakia
In Slovakia repeated delays to the drilling plans of the operator (Alpine Oil & Gas) have been caused by local protestors and lack of cooperation from authorities at both central and local levels. As a result, all project partners have been considering their future options. In early February 2018 the Board made a decision to withdraw from Slovakia.

Outlook
Since the arrival of the new senior management team and the new Board, we have significantly revised our field development plans in Ukraine.

Our plan for 2018 includes significant activity in Ukraine to boost production in our core fields and engage in low risk appraisal. This includes 12 workovers, 4 side-tracks and one new well. We plan to take advantage of the access we have gained to state-owned wells located on our licenses to target low-cost production enhancement opportunities. Our main development targets are production enhancement through evaluation of clastic reservoirs in the western part of the Ignativske field, infill drilling at the Elyzavetivske field, appraisal of the West Mashivske area of the Elyzavetivske license, and testing the deep Devonian horizons at our Movchanivske field.

Our approach to the development of the Rudenkivske field has changed significantly. The new field development plan now targets the Devonian horizons in the southern section of the field. This is where the Company was able to achieve the best results to date (wells R12 and R103) and where target depths are relatively shallow. Overall, compared to the previous Rudenkivske field development plan, the number of target wells and fracture stages have been significantly reduced.

Our plans in Ukraine are in part underpinned by significant reductions to royalty rates for new gas wells. Starting from January 1, 2018, new gas wells shallower than 5000 meters are taxed at the rate of 12% (instead of 29%). In addition, the recent passage of legislation that significantly deregulates the upstream industry gives us confidence that the Government of Ukraine is more supportive of new investment in gas production than before.

In Russia, we plan to contract a new workover rig for future operations and to complete a side-track of well 5 at our Koshekhablskoye field. Longer term our goal here is to increase production to the maximum operating capacity of our gas plant (60 million cubic feet per day).

Finally, I would like to thank our staff at all offices for their hard work during what was a very difficult period for JKX. I am proud of their commitment to our company and honoured to lead them during tough times. I am now confident that if we continue to persevere, together we will succeed in returning JKX to growth and financial success.

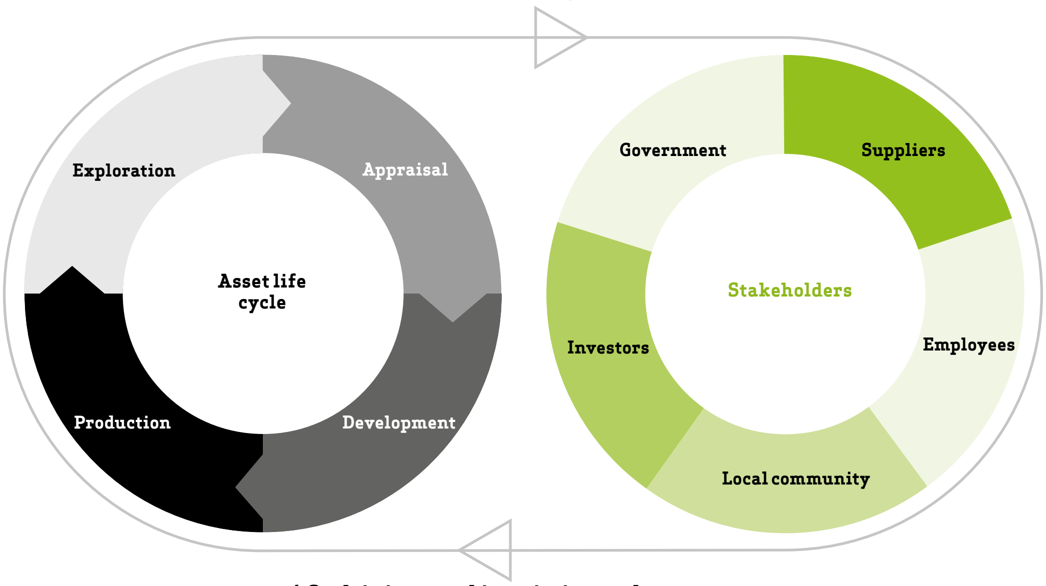
Victor Gladun
Acting Chief Executive Officer

STRATEGIC REPORT

Our business model

We strive to create value to our stakeholders by investing in exploration for, appraisal and development of oil and gas assets in Central and Eastern Europe.

We generate revenue from production and sales of oil, gas, condensate and LPG. Cash flow generated from sales is distributed to our stakeholders and reinvested in our business.



We manage a portfolio of assets in Russia, Ukraine, Hungary, and Slovakia.
We aim to evaluate where we can add the most value and manage our portfolio accordingly.

Exploration
We use highly experienced in-house and contracted technical staff to help us identify exploration targets both within our portfolio and elsewhere. However, exploration activity is currently not what we are focused on.

Appraisal
A large number of legacy wells are located in and around the area of the mature assets operated by JKX. Dedicated efforts to gain access and evaluate valuable data from these wells allow JKX to greatly reduce risks and costs of its appraisal activities and optimize further development planning.

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

Production
JKX has engaged experts in latest drilling, completion, and engineering technology from countries we operate in and abroad. Although production decline is a characteristic of oil & gas assets, we strive to minimize decline within our mature fields by identifying and executing production enhancement and workover opportunities.

Government.
Payments to government include production, payroll, corporate, VAT, land, utility, licensing and other taxes and fees. Through payment of taxes and fees we support local and national economies.

Suppliers
Payments to suppliers are made for equipment, materials and services. Where possible, we purchase local goods and services and develop infrastructure that benefits entire community. However, using new technologies proven internationally is important for maximizing returns from investing in and developing our assets.

Employees
We provide jobs in developed, emerging and developing economies, creating local purchasing power and improving standards of living.

Local community
We support local communities through providing both funding and staff time and commitment to charitable causes in Ukraine and Russia

Investors
We deploy capital provided by our investors, including bondholders and shareholders, and aim to realize attractive return on investments while adhering to our all commitments.

STRATEGIC REPORT

2018 Strategic objectives

New board

After the last AGM on 30 June 2017, almost the entire Board of JKX has changed. The new Board has a different vision and ideas on how to restore shareholder value at JKX. Therefore, through the second half of 2017 and beginning of 2018, JKX's strategy, its strategic priorities and performance measures were changing from those defined by previous management and documented in the 2016 Annual Report.

Strategic priorities

Our objective is to be one of the leading independent upstream exploration and production companies in central and eastern Europe and enhance shareholder value by increasing oil and gas production and cash flow through safe and responsible operations.

Our strategic priorities are:

Financial and operational stability.
The Company's liquidity decreased in 2017 putting an emphasis on building a liquidity reserve, strengthening governance and controls, and decreasing operational, technical, and subsurface risks.

Profitable production growth.
Our future production profile underpins the value of the Group. Our production is limited by the performance of our reservoirs and by the processing capacity of the Processing Facilities at our fields. Longer-term, we need to grow our reserve base and hence production through either successful exploration and appraisal activities within our existing assets, or through acquisition of new ones.

Operating safely and responsibly.
We work in environments that are challenging and hazardous by nature. As well as operating efficiently, it is vital that we also operate safely and responsibly. Our behaviour impacts on our employees, our shareholders, the wider community and the environment. Our performance in the society in which we operate, and the environment, are a critical part of measuring our overall performance.

STRATEGIC REPORT

2018 Strategic priorities and KPI's

Strategic priority

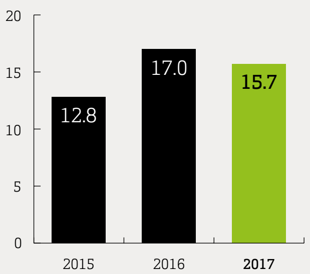
1 Financial and operational stability

Key activities planned 2018

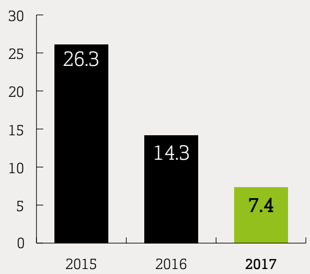
- Establish a liquidity reserve through maximizing the cash flow and access to external funding
- Review and improve internal governance and control procedures
- Focus on low-risk investments and use of proven technologies

Performance measures

Cash generated from operations, $ million



Liquidity (cash on hand and undrawn facilities), $ million



Associated principal risks

(detail on pages 32 to 40)

Liquidity, funding, and portfolio management A

Financial discipline and governance D

Strategic priority

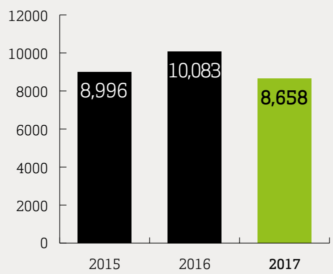
2 Profitable production growth

Key activities planned 2018

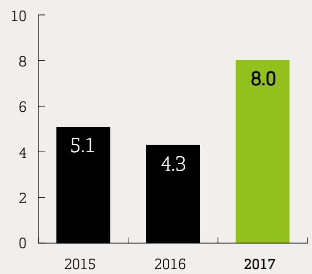
- Resume drilling in Ukraine
- Review other growth opportunities in our key markets
- Optimize workover program in Russia

Performance measures

Production volumes, boepd



EBITDA per boe,$per boe



Associated principal risks

(detail on page 32 to 40)

Geopolitical and fiscal risks B

Reservoir and operational performance C

Commodity prices and FX fluctuation H

Strategic priority

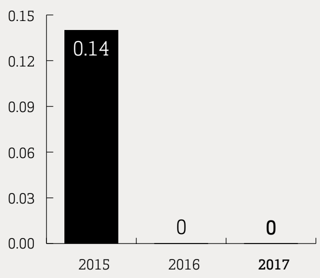
3 Operating safely and responsibly

Key activities planned 2018

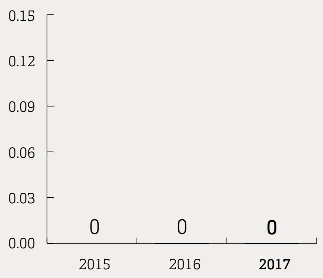
- To exceed internal and industry targets for AIFR, LTI, and EIFR

Performance measures

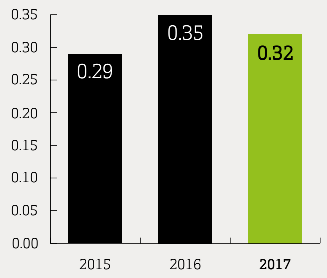
All Injury Frequency Rate ('AIFR')



Lost Time Injuries ('LTI')



Environmental Incident Frequency Rate ('EIFR')



Associated principal risks

(detail on page 32 to 40)

Health,Safety,and Environment E

Major breach of business, ethical, or compliance standards G

STRATEGIC REPORT

Regional operations update

Group production

In 2017 group average production was 8,658 boepd (2016: 10,083 boepd), comprising of 47.2 MMcfd of gas (2016: 54.7 MMcfd) and 784 bpd of oil and condensate (2016: 967 bpd), an overall reduction in production of 14%. The decline in gas production was mainly attributed to Well 25 being offline in Russia for 4 months due to a fire on the workover rig. The remaining drop in gas production was due to ongoing decline in the Elyzavetivske field in Ukraine. The reduction in group oil production was due to the decline of IG132 in the Ignativske field in Ukraine.

Ukraine

Novomykolaivske licences

Production
Average production from the Novomykolaivske group of fields in 2017 was 2,336 boepd (2016: 2,553 boepd) comprising 9.8 MMcfd of gas (2016: 10.0 MMcfd) and 701 bpd of oil and condensate (2016: 879 bpd). Despite the disappointing results of the Phase 1 fracturing campaign, gas production only reduced by 2% however oil reduced by 20%. The gas production during 2017 increased significantly in the Rudenkivske field due to the successful workovers of NN16 and NN47 at the end of 2016 which offset natural production declines in the rest of the fields. The decline in oil is mainly attributed to the decline of production of IG132.

Development and drilling
No drilling of new wells took place in 2017 as efforts were focused on delivering the Phase 1 frac project in the Northern part of the Rudenkivske field during the first half of the year. Enhancements continued through the year and towards the end of the year the first drilling related activity since 2014 resulted in the successful completion of the IG101 Sidetrack using the SMS rig.

Ignativske Field

Average production from the Ignativske field in 2017 was 949 beopd (2016: 1452 boepd) comprising 3.6 MMscf/d (2016: 4.5 MMscf/d) and 358 bopd (2016: 513 bopd). Natural decline contributed the most to the year on year decline with the reduction in IG132 having the largest effect on oil ouput. The following enhancement activities were carried out on wells in the Ignativske license during 2017:

- An electrical submersible pump (ESP) was installed in IG128 in May which increased the oil rate from 38 stb/d to 132 stb/d. At the end of the year the water cut had increased with the well producing 61 bopd during the last test of the year.
- De-waxing units were installed in IG132 and IG137 during 2017 to reduce downtime by removing the need for regular wax cutting jobs using slickline.
- IG101ST was completed at the end of December and was the first sidetrack of an existing well which has been carried out by PPC since 2006 and was the first drilling related operation carried out by PPC since IG140 at the end of 2014. The well was drilled to test the Tournaisian clastics in a neighbouring fault block and initial rates were 8.6 MMscf/d and 365 b/d of condensate.

Ignativske South waterflood project

Water injection continued into IG126 during 2017. In late January an ESP was installed in IG110 to increase the supply of water from 753 bwpd to 3447 bwpd. An acid job in IG126 further increased the rate of water injection to 7087 bwpd before problems with sand production meant that the ESP in IG110 had to be stopped in late February. Water injection was re-started in July once the pump had been repaired and a screen had been installed. The water injection rate averaged 3132 bwpd until after a flow meter check the ESP could not be re-started in August. A total of 245 Mstb of water was injected into IG126 during 2017.

Since the start of the pilot water injection in 2012 a total of 1.74 MMstb of water has been injected into IG126 and over the same period 229 Mstb of oil, 0.74 Bcf of gas and 0.02 Mstb of water has been produced from two wells in this part of the field. It is estimated that the incremental production as a result of the water flood project is 120 Mstb of oil and 0.4 Bcf of gas to date. The reservoir pressure has increased by 352 psi since the start of the waterflood project with 140 psi of this pressure increase occurring in the last year indicating that fill up has been progressing.

Due to problems with the water supply for the water injector and no incremental production achieved during 2017 this project is to be re-evaluated during 2018 leading to a decision whether to resume water injection.

Movchanivske Field
Average production from the Movchanivske field in 2017 was 685 boepd (2016: 771 boepd) comprising 3.0 MMscf/d (2016: 3.4 MMscf/d) and 181 bopd (2016: 198 bopd). Natural decline was only partially offset by the enhancements listed below. The following enhancement activities were carried out on wells in the Movchanivske license during 2017:

- M202 was placed on gas lift in August which resulted in an increase in the production rate by 0.2 MMscf/d and 20 bopd and has enabled consistent production from this well which was previously only able to produce periodically.
- M166X was re-started in September after having been shut-in since November 2016 due to only water being produced. This well produced 3.7 Mstb of oil and 22 MMscf of gas in the second half of 2017.
- M153 was successfully worked over in September to remove the packer and deepen the gas lift injection point. This resulted in an increase in production from 26 boepd to 130 boepd.
- M161-V16 was worked over in November to re-shoot the current interval with 4 ½" TCP guns. This was an attempt at increasing the oil rate by reducing the near wellbore skin damage. The average oil rate in December from this well was 33 bopd up from 25 bopd prior to the workover.
- De-waxing units were installed in M153 and M171 during 2017.

Novomykolaivske Field
Average production from the Novomykolaivske field in 2017 was 356 beopd (2016: 392 boepd) comprising 1.4 MMscf/d (2016: 1.4 MMscf/d) and 129 bopd (2016: 159 bopd). The GOR in two of the key producers has increased through the year contributing to the decline in oil rate and stabilisation of the gas production. The following enhancement activities were carried out on wells in the Novomykolaivske field during 2017:

- Additional W/L perforations were added in NN80 in September however no additional gas production was achieved and as such there were no other interventions on this field in 2017.

Rudenkivske Field
Average production from the Rudenkivske field in 2017 was 346 beopd (2016: 140 boepd) comprising 1.9 MMscf/d (2016: 0.8 MMscf/d) and 33 bopd (2016: 12 bopd). A significant increase in the production from Rudenkivske occurred in 2017 due to the successful workovers of the two leased wells NN16 and NN47 late in 2016. The following enhancement activities were carried out on wells in the Rudenkivske license during 2017:

- NN16 was placed on gas lift in January 2017 and is still producing intermittently.
- 6R had 17m of perforations added in April producing a total of 58.5 MMscf of gas at the beginning of May.
- R25 was abandoned in September due to no significant quantities of gas production being achieved, from this well, following the fracturing campaign.
- NN22 was worked over in June and produced an initial rate of 8 MMscf/d before production became hampered by water production. The well produced a total of 34 MMscf and 681 stb of condensate.
- R6 was placed on gas lift in October in an effort to accelerate clean-up following the fracturing of this well during the first half of the year. So far to date only minor quantities of gas have been produced from this well since fracturing.
- R10 was abandoned in November due to no significant quantities of gas production being achieved, from this well, following the fracturing campaign.

R19 is currently on intermittent production and like R6 has only produced minor quantities of gas since fracturing.

Rudenkivske Frac Project
During the first half of the year the focus was on delivering Phase 1 of the fracturing campaign in the Northern part of the Rudenkivske field. The objective was to de-risk contingent resources in this part of the field. Four wells, 19R, 25R, 10R and 6R, had a total of 12 stages pumped (including 2 re-fracs) using Schlumberger for the pumping operation. All chemicals were sourced by PPC. Operationally the project went smoothly with all stages pumped in 29 days and all 5 stages pumped on 19R were pumped in 6 days. This was a significant improvement on the last fracturing operation conducted by the company when 10 stages took a total of 62 days to pump. A post job review was carried out in the second half of 2017 which determined that the key failing was attributed to petrophysically derived properties not accurately representing the mobile water saturation in tight rock. This led to unexpected formation water production from the target zones. Based on the results of the Phase 1 fracturing campaign the contingent resources in both the Tournaisian and the northern part of the Devonian reservoirs have been removed from the total amount of contingent resources in the Rudenkivske license.

Production facilities
Operations at the main processing facility, the LPG plant and the oil loading facility continued smoothly throughout the year. A routine annual plant shutdown of 2 days for maintenance was successfully completed in September. Manifold pressure was reduced to 50 psig in October from 90 psig having a positive effect on 9 of the gas producing wells and also increasing oil production.

Elyzavetivske Production Licence

Production
Average production from the Elyzavetivske field in 2017 was 1,172 boepd (2016: 1,448 boepd) comprising 6.9 MMcfd of gas (2016: 8.6 MMcfd) and 18 bpd of condensate (2016: 23 bpd), an overall 19% decrease in production on the average for 2016. The decrease is as a result of the pressure decline in the field.

Development and drilling
There was no drilling activity on the Elyzavetivske field during the year. The following enhancements were carried out during 2017:

- EM53 was brought online in April with a rate of 1.3 MMscf/d on a 48/64ths" choke however the rate declined through the year due to liquid loading.
- EM205 was brought on line in June 2017 but was only able to produce 0.1 MMscf/d due to liquid loading.

Production facilities
The Elyzavetivske production facility continues to operate efficiently. The manifold pressure was dropped from 100 to 75 psig in November which helped stabilise the gas rate decline in the final quarter of 2017.

STRATEGIC REPORT

Regional operations update

Russia

Koshekhablskoye licence

Production

Average production from the Koshekhablskoye field in 2017 was 5,019 boepd (2016: 6082 boepd) comprising 29.8 MMcfd of gas (2016: 36.1 MMcfd) and 55 bpd (2016: 65 bpd) of condensate, a 17% decrease on the average for 2016. This decrease in production is due to the delays in working over Well 25 caused by a fire. In total Well 25 was offline for 4 months in 2017.

Development and drilling

Well 25 was shut-in during the first week of March for the rig up with the workover commencing in the first week of April. The workover was on schedule when a fire broke out around the drillers control cabin on the 12th April. At which point operations were suspended until 18th June once repairs had been completed. CRA (chrome) tubing was then run in hole and the well re-started production on the 6th July following an acid job.

Well 5 workover commenced on the 21st August. The ratch-latch was unable to be released due to difficulties in transmitting sufficient torque downhole. The tubing was then cut and retrieved in 3 separate parts taking a month more than planned. The casing repair and running of the completion was successful. Communication with the reservoir was not possible despite repeated efforts with coiled tubing during December.

Production from crestal well-20 has declined from 13.9 MMcfd to 11.7 MMcfd through the year without any additional acid stimulation. Production from this well has continued to exceed expectations despite the presence of a fish.

Since the workover to install chrome tubing in Well 25, production from this well has been more stable than prior to the workover. Production after the workover peaked at 10.5 MMscf/d on the 5th October prior to declining to 9.5 MMscf/d at the year end.

Well-27 has been producing gas at rates between 8.8–12.0 MMcfd on a monthly average basis, having required five acid treatments through the year (8 in 2016). 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 2017.

Hungary

Following applications made in 2015, JKX operates six Mining Plots (production licences) in Hungary which cover a total of 200 sq km. Theses licences are 100% owned by Riverside Energy Kft, the Company's wholly-owned Hungarian subsidiary, with the exception of the Emod V licence where Riverside has a 100% Paying Interest and a 97% Working Interest through the end of 2018.

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 2016 a sidetrack to the Hn-2 well (Hn-2ST) was completed. It had been planned to access remaining "attic" Pannonian reservoir gas and to test the oil potential of the underlying Miocene volcanoclastic sequence, previously productive in the Hn-1 well. An additional Pannonian gas bearing interval was identified, brought onto production in February 2017. 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 was a newly discovered productive horizon in the field. The underlying Miocene interval was found to be dry.

Gas sales commenced in February 2017 at an initial rate of 1.8 MMcfd, after a production and sales break of more than three years. Production continued through September 2017 when the Hn-2ST well was shut in, as a result of high water and sand production. In October the Hn-1 well was worked over and the Hn-1 Lower Pannonian reservoir was brought back on stream at a sales rate of 0.7 MMcfd.

As a result of strategic refocusing of JKX on its core areas, the Group is now pursuing a full divestment of its remaining Hungarian licence interests.

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 but sizeable prospects, both oil and gas targets, across the licences.

The combination of revised permitting procedures and local activist environmental opposition has delayed well location permitting, access and construction throughout 2017. Numerous initiatives have been followed in an effort to resolve the wellsite access and protestor issues. As a result of strategic refocusing of JKX on its core areas, the Group is now pursuing a withdrawal from Slovakia.

STRATEGIC REPORT

Reserves and resources

Reserves Update

Following an internal re-evaluation, we have reduced our 2P reserves from 109.4 to 95.1 million boe or 13% year-on-year. The most significant reduction is due to the negative results from the pilot fracturing program carried out at the Rudenkivske field in June 2017 in Ukraine.

An extensive review following the fracturing of 12 intervals in 4 Soviet era wells has led the Company to temper its assumptions about recovery rates per well throughout the field. A new field development plan has been generated based on this analysis (see below). As a result, we have reduced our Rudenkivske 2P reserves all of which were attributed to the Devonian clastic horizons located in the southern section of the field. Although some reserves were added to reflect historical production (and remaining potential) in the Visean horizons to the north of the field, total Rudenkivske 2P reserves have been reduced by 7.1 million boe or by 32%.

At the same time, 2.2 million boe of 2P reserves have been added in the Ignativske field to reflect the potential of Devonian clastics that extend from southern Rudenkivske into the Ignativske section of the field and which were previously not included in field development plans.

Once 2017 production of 1.2 million boe has been taken into account, total reduction of our reserves in Ukraine amounts to 5.8 million boe.

In addition, we have reduced our 2P reserves in Russia attributed to the planned Callovian well by 6.8 million boe. Given our current estimates of US$25-30 million required to drill a well to the target of 5800 meters on the one hand, and low gas prices in Russia on the other, the well is at present considered not economic. This reduction in reserves will have no impact on current production rates, an additional 1.8 million boe reduction in reserves is attributed to production in 2017.

Total remaining 2P reserves at 31 December 2017

	31 Dec 2016	Revisions	Production	31 Dec 2017
Total				
Oil (MMbbl)	3.9	0.2	(0.2)	**3.9**
Gas (Bcf)	632.6	(68.8)	(17.3)*	**546.5**
Oil + Gas (MMboe)	109.4	(11.4)	(3.0)	**95.1**
Ukraine				
Oil (MMbbl)	3.1	0.3	(0.2)	**3.2**
Gas (Bcf)	155.6	(29.1)	(6.1)	**120.4**
Oil + Gas (MMboe)	29.1	(4.6)	(1.2)	**23.3**
Russia				
Oil (MMbbl)	0.8	(0.1)	(0.0)	**0.7**
Gas (Bcf)	476.9	(40.1)	(10.9)	**425.9**
Oil + Gas (MMboe)	80.3	(6.8)	(1.8)	**71.7**

*0.26 Bcf produced in Hungary

Field-by-Field 2P reserves at 31 December 2017

MMboe	Dec 2016	Revisions	Production	Dec 2017
Ukraine				
Ignativske	3.9	2.2	(0.5)	**5.6**
Movchanivske	0.6	0.2	(0.1)	**0.7**
Novomykolaivske	0.7	(0.1)	(0.1)	**0.5**
Rudenkivske	22.2	(7.1)	(0.1)	**15.0**
Zaplavska	-	-	-	**-**
sub-total Novo-Nik production licences	27.4	(4.9)	(0.8)	**21.8**
Elyzavetivske	1.7	0.3	(0.4)	**1.6**
Total Ukraine	29.1	(4.6)	(1.2)	**23.3**
Russia				
Koshekhablskoye	80.3	(6.8)	(1.8)	**71.7**
Total	109.4	(11.4)	(3.0)	**95.1**

JKX contingent resources

There is no change to the contingent resources this year in any of the other fields except Rudenkivske. Rudenkivske requires a reduction in contingent resources to reflect the failure of the Frac campaign in 2017. The frac campaign was specifically targeting contingent resources in the Tournaisian and Devonian reservoirs in the north of Rudenkivske. The frac campaign in 2017 showed that these reservoirs are unable to produce sufficient quantities of gas to justify further development of this area.

MMboe	1C (low)	2C (best)	3C (high)
Ukraine			
Ignativske	11.98	17.53	50.10
Movchanivske	0.00	1.25	2.76
Novomykolaivske	0.00	0.00	0.15
Rudenkivske	9.16	65.52	197.89
Zaplavska	0.03	0.38	1.41
sub-total Novo-Nik production licences	21.17	84.68	252.31
Elyzavetivske	0.00	6.20	20.83
Total Ukraine	21.17	90.88	273.14
Russia			
Koshekhablskoye	24.12	74.77	107.53
Hungary			
Hajdunanas	0.00	0.00	0.00
Tiszavasvari 6	0.20	0.30	0.70
Total	45.49	165.95	381.37

Ukraine field development plans update

Since the arrival of the new senior management team and new Board, we have significantly revised our field development plans in Ukraine.

Our plan for 2018 includes significant activity to boost production in our core fields and engage in low risk appraisal. This includes 12 workovers, 4 sidetracks and one new well. We plan to take advantage of access we have gained to 5 state-owned wells located on our licenses to target low-cost production enhancement opportunities. Our main development targets are production enhancement through evaluation of clastic reservoirs in the western part of the Ignativske field, infill drilling at the Elyzavetivske field, appraisal of the West Mashivske area of Elyzavetivske, testing the deep Devonian horizons at our Movchanivske field and a sidetrack to target the same fault block as IG132.

Our approach to the development of the Rudenkivske field has changed significantly. The new field development plan now targets the Devonian horizons in the southern section of the field. This is where the Company was able to achieve the best results to date (wells R12 and R103) and where target depths are relatively shallow. Meanwhile, the number of planned wells targeting Visean sands in the northern part of the field – the main target of the previous field development plans - has been significantly reduced. Overall, compared to the previous Rudenkivske field development plan, the number of target wells and fracture stages have been significantly reduced. To achieve lower costs per reservoir penetration, the use of multilateral wells is envisaged. We expect to be able to finance the program from cashflow when drilling begins in 2019.

STRATEGIC REPORT
Performance in 2017

PRODUCTION SUMMARY	Total 2017	Second half 2017	First half 2017	Total 2016
Production				
Oil (Mbbl)	286	145	141	354
Gas (Bcf)	17.2	8.7	8.5	20.0
Oil equivalent (Mboe)	3,160	1,604	1,556	3,691
Daily production				
Oil (bopd)	784	788	779	967
Gas (MMcfd)	47	48	47	55
Oil equivalent (boepd)	8,658	8,717	8,598	10,083

OPERATING RESULTS	Total 2017 $m	Second half 2017 $m	First half 2017 $m	Total 2016 $m
Revenue				
Oil	17.3	10.2	7.1	15.8
Gas	54.4	25.7	28.7	54.3
Liquefied petroleum gas	4.6	2.4	2.2	3.8
Other	0.1	0.1	-	-
	76.4	38.4	38.0	73.8
Cost of sales				
Exceptional item – production based taxes	(4.4)	(2.6)	(1.8)	(24.3)
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets	5.6	5.6	-	-
Exceptional item – impairments and well write offs	(11.5)	(11.5)	-	(2.0)
Exceptional item – write off of appraisal expenditure in Ukraine	(9.4)	(9.4)	-	-
Other production based taxes	(16.9)	(7.9)	(9.0)	(17.7)
Depreciation, depletion and amortisation - oil and gas assets	(16.8)	(6.7)	(10.1)	(18.8)
Other operating costs	(19.9)	(7.3)	(12.6)	(19.5)
Total cost of sales	(73.2)	(39.7)	(33.5)	(82.4)
Gross profit before exceptional items	22.8	16.5	6.3	17.8
Gross profit/(loss) after exceptional item	3.3	(1.2)	4.5	(8.5)
Disposal of property, plant and equipment	(0.5)	0.1	(0.6)	-
Exceptional items	(1.5)	(0.2)	(1.3)	(4.5)
Administrative expenses	(15.9)	(9.3)	(6.6)	(22.2)
Gain/(loss) on foreign exchange	1.4	2.7	(1.3)	0.4
Gain/(Loss) from operations before exceptional items	7.8	10.0	(2.2)	(4.0)
Loss from operations after exceptional items	(13.2)	(7.9)	(5.3)	(34.8)

EARNINGS	Total 2017	Second half 2017	First half 2017	Total 2016
Net loss ($m)	**(17.7)**	(10.0)	(7.7)	(37.1)
Net (loss)/profit before exceptional items ($m)	**(0.7)**	4.3	(5.0)	(7.5)
Basic weighted average number of shares in issue (m)	**172**	172	172	172
(Loss)/profit per share before exceptional item (basic, cents)	**(0.41)**	2.48	(2.89)	(4.34)
Loss per share after exceptional item (basic, cents)	**(10.26)**	(5.8)	(4.46)	(21.56)
Pre-exceptional earnings before interest, tax, depreciation and amortisation ($m)[1]	**25.3**	17.0	8.3	15.8

SALES PRICES	Total 2017	Second half 2017	First half 2017	Total 2016
Oil (per bbl)	**$64.26**	$72.21	$57.45	$45.94
Gas (per Mcf)	**$3.50**	$3.32	$3.67	$2.95
LPG (per tonne)	**$467**	$510	$419	$375

COSTS OF PRODUCTION ($/boe)	Total 2017	Second half 2017	First half 2017	Total 2016
Production costs (excluding exceptional item)	**$6.27**	$4.53	$7.84	$5.38
Depreciation, depletion and amortisation	**$5.30**	$4.17	$6.46	$5.05
Production based taxes	**$6.74**	$4.99	$5.76	$4.89

CASH FLOW	Total 2017	Second half 2017	First half 2017	Total 2016
Cash generated from operations ($m)	**15.7**	11.7	4.0	17.0
Operating cash flow per share (cents)	**9.1**	6.8	2.3	9.9

STATEMENT OF FINANCIAL POSITION	Total 2017	Second half 2017	First half 2017	Total 2016
Total cash[2] ($m)	**7.4**	3.2	4.2	14.3
Borrowings (excluding derivatives) ($m)	**16.6**	0.3	16.3	16.8
Net debt[3] ($m)	**(9.2)**	2.9	(12.1)	(2.5)
Net (debt)/cash to equity (%)	**(6.3)**	1.6	(7.9)	(1.6)
Return on average capital employed[4] (%)	**(11.7)**	(2.4)	(9.3)	(22.4)
Increase in property, plant and equipment/ intangible assets ($m)				
Ukraine	**12.7**	4.4	8.3	4.0
Russia	**5.8**	4.1	1.7	0.3
Other	**0.8**	0.4	0.4	1.3
Total	**19.3**	8.9	10.4	5.6

1. Earnings before interest, tax, depreciation and amortisation ('EBITDA') is a non-IFRS measure and calculated using Loss from operations of $13.2m (2016: $34.8m) and adding back depletion, depreciation, amortisation and exceptional items of $38.5m (2016: $50.6m). 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

Ben Fraser
Chief Financial Officer

"Both the Ukrainian and the Russian assets have positive cash flow and the Group's liquidity is forecast to improve through 2018 and 2019."

Group revenues

3.5%

	2017 ($m)	2016 ($m)	Change ($m)	% Change
Ukraine	**57.0**	**54.8**	**2.2**	**4.0**
Gas	35.8	35.9	(0.1)	(0.3)
Oil	16.5	15.1	1.4	9.3
Liquefied Petroleum Gas ('LPG')	4.6	3.8	0.8	21.0
Other	0.1	-	0.1	
Russia	**17.6**	**19.0**	**(1.4)**	**(7.4)**
Gas	17.0	18.3	(1.3)	(7.1)
Condensate	0.6	0.7	(0.1)	(14.3)
Hungary	**1.8**	**-**	**1.8**	**100.0**
Gas	1.6	-	1.6	100
Condensate	0.2	-	0.2	100
Total	**76.4**	**73.8**	**2.6**	**3.5**

Sales prices

	2017	2016	Change	% Change
Ukraine				
Gas ($/Mcf)	6.72	5.92	0.80	13.5
Oil ($/bbl)	64.26	45.94	18.32	39.9
LPG ($/tonne)	467.49	374.81	92.68	24.7
Russia				
Gas ($/Mcf)	1.69	1.49	0.2	13.4
Hungary				
Gas ($/Mcf)	6.06	-	6.06	N/A
Group				
Gas ($/Mcf)	**3.50**	**2.95**	**0.55**	**18.6**
Oil ($/bbl)	**64.26**	**45.94**	**18.32**	**39.9**
LPG ($/tonne)	**467.49**	**374.81**	**92.68**	**24.7**

Average exchange rates

	2017	2016	Change	% Change
Russia (RUB/$)	58.30	64.31	6.01	9.3
Ukraine (UAH/$)	26.60	25.55	(1.05)	(4.1)

Results for the year
The Group has reported a loss of $17.7m for 2017 compared to a loss of $37.1m for 2016. Both of these losses include significant exceptional charges: $17.0m in 2017 and $29.7m in 2016 (net of deferred tax effects of $4.1m in 2017 and $1.2m in 2016).

Further details on the exceptional items in 2017, which include the unsuccessful Rudenkivske fracturing program, movement in the provision for production based taxes for 2010 and 2015, severance payments and non-cash impairment movements, are included in this review below.

The Group has reported a loss before exceptional items of $0.7m for 2017 which compares favourably to the loss before exceptional items of $7.5m for 2016.

Revenue
Although total Group production decreased 14.4% from 3,691 Mboe in 2016 to 3,160 Mboe in 2017, annual revenue increased 3.5% to $76.4m (2016: $73.8m) thanks to higher commodity prices in both Ukraine and Russia. It continues to be the case that our gas sales prices and netbacks are significantly higher in Ukraine than in Russia.

Ukraine revenues
The $2.2m increase in total revenues was due to the sales price increases shown in the table, the effects of which were offset by the decrease in total sales volumes from 1,336 Mboe in 2016 to 1,144 Mboe in 2017.

In dollar terms the average gas sales price increased by 13.5% from $5.92/Mcf in 2016 to $6.72/Mcf in 2017. This reflects both the 18.1% increase in average sales price in hryvnia terms from 5,379 UAH/Mcm in 2016 to 6,352 UAH/Mcm in 2017 and the hryvnia being weaker in 2017 than 2016. Since 2015 gas prices in Ukraine have been more closely following global market trends, and the increase in price of gas imported from Europe is a reason for the higher average gas sales price in 2017.

Total annual gas sales volumes decreased 12.2% from 171,828 Mcm in 2016 to 150,909 Mcm in 2017, primarily due to the annual gas production volume having decreased 10.3% from 192,732 Mcm in 2016 to 172,939 Mcm in 2017 (from 3,109 boepd in 2016 to 2,789 boepd in 2017). The two main factors for the lower production were the natural decline of the Elyzavetivske field and Novomykolaivske complex and the lower than usual enhancement activity in the first half of 2017 while the Rudenkivske field fracturing programme was being planned and carried out. For more detail please refer to the Regional operations update (pages 16-17).

The increase in average oil sales price from $45.94/bbl in 2016 to $64.26/bbl in 2017 reflects both the increase in Brent from an average of $43.55/bbl during the 2016 to $54.55/bbl during the 2017 and also our sales price's considerable average premium to Brent of $9.8/bbl during 2017. Domestic demand has remained robust through 2017 and greater than domestic supply.

The average LPG sales price increased to $467.49/tonne in 2017 (2016: $374.81/tonne) due to tight controls over customs clearance limiting LPG product imports. Higher sales price compensated the fall in sales volumes from 10,075 tonnes in 2016 to 9,855 tonnes in 2017.

Russia revenues
The $1.4m decrease in total revenues from $19.0m in 2016 to $17.6m in 2017 is due to lower gas production. Total annual gas production decreased by 17.7% from 374,176 Mcm in 2016 to 307,841 in 2017 (from 6,035 boepd in 2016 to 4,965 boepd in 2017), mainly because of delays in the workover of Well 25. This decrease was offset by a 13.4% increase of the average sales price in dollar terms from $1.49/Mcf in 2016 to $1.69/Mcf in 2017 due to both the appreciation of the rouble and a 3.9% rise in the average rouble gas sales price from 2016 to 2017.

Hungary revenues
Hungarian gas and condensate sales, which recommenced in February 2017 and made up 2% of the Group's volumes sold in 2017, are expected to continue throughout 2018.

Cost of sales
Exceptional items
Exceptional charges of $19.7m in 2017 are made up of the following:

- $9.4m costs incurred at Rudenkivske where there was an unsuccessful fracturing programme in the first half of 2017. Two of the wells included in the programme were abandoned due to lack of gas production and the other two wells are not expected to produce enough to pay back their costs.
- $5.9m movement in impairment provisions. As a result of the year end impairment review, impairment charges of $7.9m and $3.6m were made in respect of assets in Slovakia and Hungary and a reversal of $5.6m was made in respect of the Elyzavetivske field (see Note 5 to the financial statements).
- $4.4m of movement in provision for production-based taxes in respect of 2010 and 2015 (see Note 18 to the financial statements).

Cost of sales before exceptional items
2017 cost of sales before exceptional items totalled $53.6m (2016: $56m). This includes:

- $19.9m of operating costs, which is similar to the $19.7m recorded in 2016.
- $16.9m of production taxes, which is $0.8m lower than in 2016, mainly because of lower production volumes and the introduction of a lower royalty rate for oil in Ukraine. Only $1.8m of the total production taxes relate to Russia where the mineral extraction tax rate for wells deeper than 5,000m has remained at 312roubles/Mcm.
- $16.8m of depreciation, depletion and amortisation ('DD&A') charge for 2017, which is $1.9m lower than in 2016 because of the lower production volumes in Ukraine and Russia in 2017.

Analysis showing production costs, production taxes and netbacks for both our Ukrainian and Russian operations is shown on pages 7 and 8.

Administrative expenses
Exceptional items
Exceptional charges of $1.5m in 2017 consist of severance and legal costs relating to the departure of the previous CEO and CFO.

Other administrative expenses before exceptional items
Other administrative expenses before exceptional items have decreased by $6.7m to $15.9m in 2017 (2016: $22.2m) as a result of the following:

- A $4.7m decrease in legal and professional fees consisting of a $4.2m reduction in legal fees due to the completion of arbitration case and the cutting of a further $0.5m of advisory costs.
- A $2.5m decrease in staff and other administrative costs across the Group mainly as a result of cost savings initiatives.

STRATEGIC REPORT

Financial review

The effect of these decreases was offset by a $0.5m increase in marketing and lobbying costs to raise awareness of the previous strategy. Contracts with agencies engaged in this were cancelled in the second half of 2017.

Net finance charges
Finance costs, mainly comprising convertible bond interest, decreased from $4.6m in 2016 to $3.2m in 2017 due to the reduction in principal outstanding that occurred in 2016. $10.0m of the bonds were redeemed in February 2016 and subsequently bonds with face values of $2.2m, $1.4m and $6.4m were repurchased and subsequently cancelled in June, September and October 2016, respectively. In January 2017 the remaining $16.0m bonds outstanding were restructured as noted below.

Finance income of $0.3m comprises income from bank deposits of $0.3m (2016: $0.8m). 2016 income also included a $1.0m gain on the repurchase of convertible bonds noted above.

Taxation
The total tax charge for the year was $1.6m (2016: $1.0m) comprising a current tax charge of $3.0m (2016: $1.3m) and a deferred tax credit of $1.3m (2016: credit $2.4m) (see Note 27 to the financial statements). The higher 2017 $3.0m current tax charge relates to Ukraine due to the higher annual profit recorded.

Cash flows
Unrestricted cash held at the end of 2017 was $6.9m, or less than a half of the amount held at the start of the year. The main reason for this is the significant cash spent on capex during the year, as shown in the chart below.

Cash generated from operations was $15.7m (2016: $17.0m). Interest paid during the period comprised $1.8m bond interest (2016: $2.4m). Income tax paid in the period increased to $2.9m (2016: $0.01m), due to higher profits earned by our Ukrainian subsidiary.

Of the $16.7m total cash spent on investment projects during the year (2016: $7.5m), $9.4m relates to costs incurred at Rudenkivske already referred to as an exceptional item. Of the remaining $7.1m cash spent on capex in 2017, $1.1m relates to other enhancement projects in Ukraine, $1.5m relates to Hungary and $4.2m relates to Russia where there were workovers of Wells 25 and 5. At the year-end creditor balances totalling $1.6m of further capex incurred in respect of the Well 5 workover remained unpaid.

Net cash outflow from financing activities in the period mainly relates to the $1.9m of accretion payment to the bondholders in February 2017 (2016: $10.9m redemption of the Bond in February 2016 and $9.0m used to repurchase 50 convertible bonds).

No dividends were paid to shareholders in the period (2016: nil).

The resultant decrease in cash and cash equivalents in the period before adjusting for foreign exchange effects was $7.1m (2016: $11.3m).

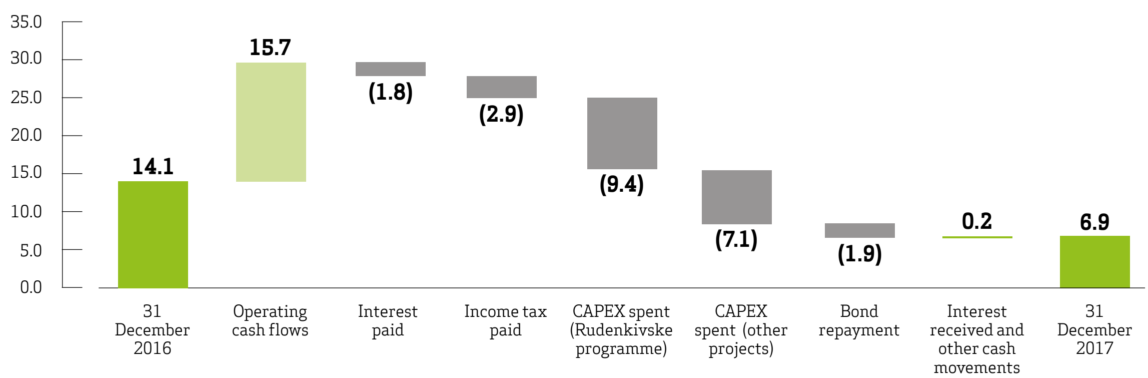
Liquidity
At start of 2017 the Company completed the restructuring of the remaining $16 million of Bonds. The financing of the Bonds is within the operating cash flow capabilities of the Company. The payment of $6.9 million due in February 2018 was made on time. The remaining payments are as follows: $0.8m in August 2018, $6.0m in February 2019, $0.4m in August 2019 and $5.8m in February 2020.

In December 2017 our operating subsidiary in Ukraine secured a 12 month revolving credit line from Tascombank for UAH150 million, equivalent to $5.3m as at 31 December 2017, which remains undrawn.

Going concern
While there are sensitivities related to issues such as sales prices, and technical and geological risks, and material uncertainties regarding production-related tax disputes with the Ukrainian Government, the Group has the resources and ability to address these. Both the Ukrainian and the Russian assets have positive cash flow and the Group's liquidity is forecast to improve through 2018 and 2019. As noted above, at current market prices and planned production levels, operating cash flow is sufficient to cover the bond repayment schedule. As a result the consolidated financial statements have been prepared on a going concern basis (see note 2 to the financial statements).

Ben Fraser
Chief Financial Officer

Cash flows ($m)



STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Our understanding

JKX Oil & Gas plc (JKX) are committed to understanding, monitoring and managing our social, environmental and economic impact to enable us to contribute to society's wider goal of sustainable development.

Achievements in 2017

- All Injury Frequency Rate (AIFR) of Zero
- Environmental Incident Frequency Rate ('EIFR') of 0.32
- Maintained our ISO 9001 Quality Management accreditation
- Maintained our ISO 14001 Environmental accreditation
- Maintained OHSAS 18001 Health and Safety accreditation
- Established and maintained the recording and monitoring process for our Greenhouse Gas reporting requirements
- Prepared and submitted the Carbon Disclosure Project report
- Prepared and submitted report to the Global Reporting Initiative
- Implemented the requirements of ISO 26000
- Prepared and submitted report Global Reporting Initiative report on Sustainability.
- Completed enhanced Stakeholder Management procedures
- Planning for the implementation of the Modern Slavery Act requirements 2017
- Updated and reviewed HSECQ Management Systems across the group
- Continued with ISO 9001 accreditation process for YGE.

Our vision
At JKX we are committed to target key health and safety issues and to identify and work with those bodies best placed to assist in injury/ill health reduction with the aim of achieving zero harm to employees, environment, contractors, communities & property.

Our approach
Our approach to governance, Health, Safety, Environment and Quality (HSECQ), people, supply chain, and social commitment directly affect our ability to run our business successfully.

Our impact
The increasing concern of environmental and social impacts means that to achieve long term success, JKX must continue looking after people and planet, not just profit.

Our csr process is board led
Our Health, Safety, Environment, Community and Quality ('HSECQ') manager reports directly to the CFO 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 monthly updates relating to the major CSR issues. A management review of all HSECQ systems is carried out every year.

Local responsibility
We have fully trained HSECQ teams. Our teams report to the General Director of the local operating company and the Group HSECQ manager.

CSR policies, procedures and standards
We aim to comply with all local laws and regulations and to exceed standards where possible. We expect our partners to reach the same standards.

STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Health and safety performance

Our approach

By integrating health, safety and environmental considerations into all aspects of our business, we protect our employees, our communities and the environment.

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

Health and safety policy

We believe this policy represents a clear statement of core principles and a sensible approach to health and safety management within the JKX Group of Companies.

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

Health and safety statistics

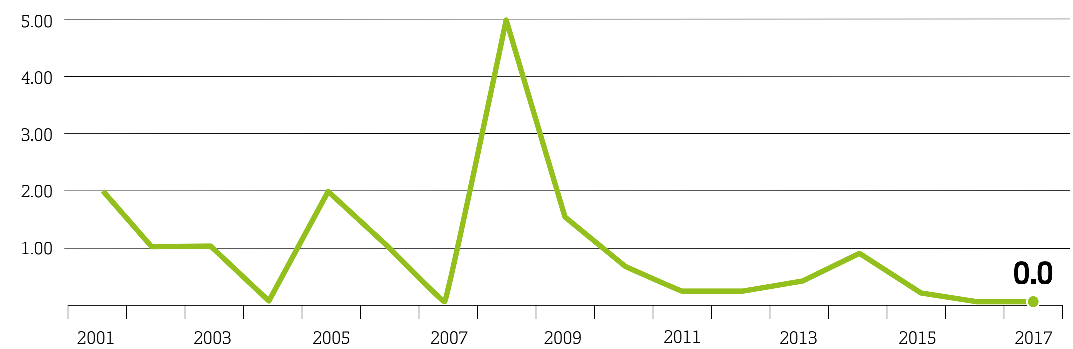
We set annual HSECQ targets for all levels within the organisation. During 2017 we achieving an AIFR of 0 per 200,000 hours worked.

With a combined labour force of 615 personnel in 2017 we reported 58 incidents, which demonstrates consolidation in our incident reporting procedures.

After the end of the reporting period in February 2018 during a well maintenance operation an accident happened, which resulted in the fatality of a PPC employee. A committee was established to conduct full investigation of the accident which is expected to conclude in Q2 2018.

Health and safety statistics

All Injury Frequency Rate ('AIFR') 2017



HSECQ Statistical Analysis for 2017

Fatal accident case	0
Lost time injuries	0
Medical treatment/Restricted work cases	0
Near miss/Loss/Hazards Property damage Unsafe act or conditions	58

Health and safety statistics

JKX and Contractors	2017	JKX and contractors	2017
Days away from work	0	Safety exposure man hours	1,247,650
Fatal accident cases	0	Fatal accident case frequency rate	0
Lost time injury cases	0	Lost time injuries frequency rate	0
Medical treatment/ Restricted work cases	0	Medical treatment/Restricted work cases frequency rate	0
Near miss/Loss/Hazzards Property damage/ Unsafe act or conditions	58	Near miss/Loss/Hazzards Property damage/ Unsafe act or conditions frequency	9.29
Environmental incidents	2	Environmental incidents frequency rate	0.32
Man-hours since last lost time injury	4,669,545	Man-hours since last fatal accident case	3,579,011

Our safety statistics for 2017
We have a clear Safety Management System, which provides a comprehensive and systematic vision of our objectives. In occupational health, the drug and alcohol policy continues to be successful throughout the Group with no instances of breaches noted. The policy applies to all our staff and contractors and forbids the possession and/or use of defined prohibited substances which includes drugs and alcohol. Our policy also clarifies our testing and inspection procedures.

Drilling risks
We recognize that the safety and efficiency of our drilling and workover operations depends primarily on the performance of our employees and contractors. We utilise a mix of primarily local staff with decades of local experience and expatriate supervisors on our drilling rigs to provide additional expertise and oversight. This has enabled us to define and manage risk more clearly using Western methodology.

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

We select supervisors for their expertise as well as for their familiarity with the regions where we operate. They understand and are sensitive to local working practices and culture, and work to enhance the education and training of local staff and contractors alike.

We make the best use of our resources by sharing expertise between our operating companies, and we have a strong collaborative environment where everybody contributes to analyse the risks and develop mitigating strategies in order to minimise it.

Before we even begin to drill or workover a well, we identify and address the inherent risks in drilling and workover operations. This industry best practice makes sure:

- Health, safety and environment issues are clearly identified and assessed;
- Regulatory and JKX requirements are met;
- Risks have been removed or mitigated according to a structured, systematic process, with any remaining risks demonstrated to be both tolerable and as low as reasonably practicable;
- Critical safety items and procedures are identified to manage remaining risks;
- A comprehensive environmental management plan has been developed;
- Social, health, and environmental benefits and opportunities are identified; and
- Personnel roles and responsibilities are indicated.

We have a Manager based in our London office that is responsible for the planning, reviewing and authorising of Group drilling and workover operations which significantly strengthens our capability to identify and manage drilling risk. Regular visits to site by JKX management and a daily drilling update is provided to the Board .

Health and safety risk management
We are proud to announce maintenance of our OHSAS 18001 Health & Safety accreditation which is accompanied by our ISO 14001 Environmental accreditation and our ISO 9001 Quality Management accreditation.

Consistent hazard assessment processes
In both Russia and Ukraine, we continued to carry out risk management studies using our proven Hazard and Operability ('HAZOP'), Hazard Identification ('HAZID') and As Low as Reasonably Practical ('ALARP') methodologies.

Health and safety training
Each location has an H&S training budget which includes legally required training from the host country H&S regulations. Additional training is provided according to operational requirements.

STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Environmental management system

The JKX Environmental Management System: a comprehensive, systematic, planned and documented management process.

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

The Environmental Report for 2017 on the annual performance of JKX in conjunction with TruCost has identified reduction measure targets for the 2018 campaign.

Environmental performance in 2017
In 2017, we again made good progress and we were pleased to continue the ongoing work with The Carbon Disclosure Project. JKX Oil and Gas are committed to providing information to investors about its environmental performance. JKX Oil and Gas achieved a D rating within the Energy sector.

Environmental incident frequency rate ('EIFR')
Our EIFR Target for 2017 was not to exceed 0.6 Environmental incidents per 200,000 hours worked; we achieved 0.32

Greenhouse gas ('GHG') emissions reporting
All emissions sources owned, operated or controlled by the Group are included in our reporting.

Our approach
Our terminals are self-sufficient and can maintain operations without the need for grid electricity therefore improving the security of supply. We used the Greenhouse Gas Protocol methodology for compiling our GHG data.

Mandatory GHG reporting
JKX is required to comply with UK government legislation on mandatory GHG reporting. The legislation requires all companies as a minimum, to report Scope 1 and 2 GHG emissions and an emission intensity ratio. According to the GHG Protocol Scope 2 Guidance released in January 2015, corporates now are to report two scope 2 emission totals – location-based and market-based. Since market-based emission factors are not available to any of JKX's Russia and Ukraine locations, residual emission factors are only adopted for offices in U.K., and average grid emission factors are adopted for locations in Russia and Ukraine.

Global reporting initiative ('GRI')
The GRI Reporting Framework is intended to provide a generally accepted framework for reporting on an organisation's economic, environmental, and social performance.

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

Our achievements
During 2017 some advances were made in our Supply Chain Initiative, and this will continue in 2018 with a more focused approach to procurement and supply.

Environmental Incident Frequency Rate ('EIFR')

Mandatory GHG reporting

Data point	Units	Quantity 2017
Scope 1	tonnes CO_2e	331,554
Scope 2 (Location based)	tonnes CO_2e	697
Scope 2 (Market based)	tonnes CO_2e	706
Scope 1 & 2 Intensity (Location based)	tonnes CO_2e /Mboe of production	99

STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Community, stakeholder engagement , quality and Investor engagement

Community

Our approach
We are committed to engaging with the community to share the benefits of our success at our operating plants.

Our Community Engagement.
We conduct 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.

Assistance in our local communities
In practical terms, our community support frequently involves using the Company's plant and machinery - as well as manpower - to provide much-needed assistance.

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. We 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 the communities in which we work is not tolerated.

Charitable donations and volunteering
Each operation has a limited budget for good causes and we handle charitable donations at a local level.

Locally, donations from the Group during 2017 amounted to $923,000 across the group. Subject to management approval, staff may be given additional time off in order to join in certain charity-related activities. A detailed list of donations is available on request.

Our Stakeholder engagement

Our performance
In 2017 we continued to make progress by improving our stakeholder communications in Ukraine, Hungary, Slovakia and Russia.

Outlook
Stakeholder surveys were conducted in 2017 to understand if we were meeting stakeholder and customer expectations. The results of the surveys were discussed with senior management and reviewed as part to the JKX Annual Management Review.

Quality

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

Outlook
The new versions of ISO 9001 as well as OHSAS 18001 & ISO 14001 are required by the third quarter of 2018. Practical workshops are planned in 2018 to support the organisation and get acquainted with the new standards.

Our investor engagement

We seek to enhance shareholder value through responsible and effective communication with our shareholders.

STRATEGIC REPORT

Principal risks and how we manage them

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

Responsibilities
The Board is responsible for the Group's system of internal control and risk management systems and for reviewing their effectiveness. As most of the Board members were appointed at the end of 2017, the Board and Executive team are in the process of assessing and, if needed, strengthening the systems and processes.

Risk management process
The risk management 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.

Our risk management process involves the Group Risk Committee and subsidiary Risk Committees in Ukraine and Russia. Subsidiary Risk Committees have been in place throughout 2017 and up to the date of approval of this Annual Report. A Group Risk Committee was in place in the first half of 2017. However, due to the Board and management changes in 2017, there were no Group risk committee meetings in the second half of 2017 and beginning of 2018. A Group risk committee is now being re-established.

Risk Committee
The purpose of the Group Risk Committee is to assist the Board in the operation and implementation of the risk management process, and to provide 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 reports to the Board. The composition of the Group Risk Committee includes representatives from our Ukrainian and Russian Risk Committees to expand on the risks identified locally and their related mitigation plans.

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.

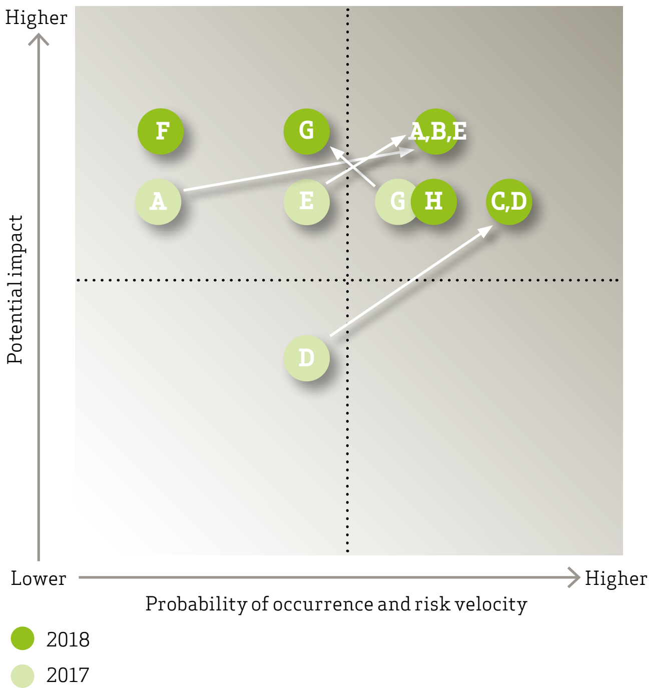
Risks are then logged with reference to consequence rating, multiplied by the likelihood rating as follows:

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 on this and the following page. Also presented is an assessment of the probability of each risk occurring, its potential impact should it occur, the Key Performance Indicators ('KPIs') and strategic priorities most affected as each risk increases, how each risk is being managed or mitigated and whether the overall business risk has increased or decreased since the last Annual Report.

The principal risks set out on the following page 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.

Risk Profile

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



Risk Summary

Risk Profile	What is the risk	KPIs affected	Change from 2016	Strategic Objective impacted	Responsibility	Page
A	Liquidity, funding, and portfolio management	- Cash from operations - Liquidity	↑	1, 2	CFO	34
B	Geopolitical and fiscal risks	- Production - Liquidity	–	1, 2	The Board	34
C	Reservoir and operational performance	- Production - Cash from operations - EBITDA per boe	–	1, 2	Acting CEO	36
D	Financial discipline and governance	- Liquidity - Cash from operations	↑	1	Acting CEO	36
E	Health, safety, and environment	- AIPR - LTI - EIFR	↑	3	Acting CEO	36
F	Asset integrity	- Production - Liquidity	–	3	Acting CEO	38
G	Major breach of business, ethical, or compliance standards	- Cash from operations - Liquidity	↑	3	The Board	38
H	Commodity prices and FX fluctuations	- Liquidity - EBITDA per boe	–	1, 2	CFO	38

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

STRATEGIC REPORT

Principal risks and how we manage them

What is the risk	Probability + velocity	Impact	Change from 2016
Liquidity, funding, and portfolio management			
Description: As for any other exploration and production company, our fields are prone to natural production decline and hence replacing our reserves is important for long-term success. Our ability to ensure long-term sustainable production depends on having sufficient funds to invest in our development and efficient allocation of capital on investment projects or acquisitions. It is important to maintain sufficient liquidity to allow for operational, technical, commercial, legal, and other contingencies. Having sufficient funds to invest in development projects or other growth opportunities is subject to not only cash flow generated by existing operations, but also access to external capital (such as equity or debt financing) or ability to carry out corporate transactions (such as mergers, acquisitions, or divestitures). **Impact:** Inability to build or maintain sufficient liquidity may result in increased risk of having insufficient funds on hand to address unanticipated cash outflows, need to suspend planned payments to third parties, or other unplanned actions to urgently build sufficient liquidity. Poor capital allocation decisions, inability to access external sources of capital or execute corporate transactions may result in long-term decline in production and cash flow from existing operations and further reduced ability to engage in new development projects. With unrestricted cash on hand at 31 December 2017 of $6.9 million compared to $14.1 million at 31 December 2016, this risk has increased compared to the previous year.	HIGH	HIGH	↑
Geopolitical and fiscal risks			
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. There are geopolitical risks related to these countries and relationship between them. Some of such risks may be related to changes in: • taxes • capital controls • laws and regulations • political situation, or • investor sentiment Both countries have relatively weak judicial systems that are susceptible to outside influence, and it can take an extended period for the courts to reach final judgment. 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. 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. Geopolitical tensions between Ukraine and Russia, political instability and 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 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. 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 Ukrainian 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 which the Group is currently legalizing in Ukraine (see Note 27 to the financial statements). The Group's operations and financial position may also 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.	HIGH	HIGH	–

Responsibility	How do we manage it?	Further information
Chief Financial Officer	The Board plans to accumulate sufficient liquidity by deferring high-risk investment projects and minimizing costs. Upon internal review of reserves and development plans our plan for 2018 includes activity to boost production in our core fields and to engage in low risk appraisal. Additionally, the new plan envisages more modest but more realistic development strategy for the Rudenkivske field starting in 2019. PPC, has secured a standing credit line of approximately $5.3 million and YGE is considering options for a similar facility. Projects are analysed and ranked across the Group and capital is allocated accordingly. Additionally, the Company has established a new Investment Committee which provides an additional venue for discussing and making investment decisions. Details are provided in Note 2 to the financial statements and in the long- term viability statement.	Chairman's statement page 4 Financial review page 24
The Board	In respect of the 2010 Claims and 2015 Claims, provisions of $11.3 million and $25.8 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 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. 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.	Chairman's statement page 4 Financial review page 24

STRATEGIC REPORT

Principal risks and how we manage them/cont.

What is the risk	Probability + velocity	Impact	Change from 2016
Reservoir and operational performance			
Description: Subsurface and operational risks are inherent for our business. The reservoir performance cannot be predicted with certainty, and operations required for hydrocarbon production are subject to risks of interruption or failure. Production from our mature fields at the Novomykolaivske Complex in Ukraine require a high level of maintenance and intervention to minimize the production decline. In Russia, acidization of deep, high pressure and high temperature wells and other well maintenance procedures to stabilise production are required, increasing risk of failure. **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. Inability to ensure continuous operation of wells, flowlines, production facilities and successful execution of drilling, workover, repair, and enhancement interventions may result in lower production, profits and cash flows. In 2017, the Company embarked on a major appraisal program of the Rudenkivske field in Ukraine, with the results being significantly lower than initially expected. Given the resultant decreased amounts of liquidity, accuracy of our forecasts is even more important.	HIGH	HIGH	–
Financial discipline and governance			
Description: The Group has presence in six countries with major operations in Russia, Ukraine, and the United Kingdom. Such a complex structure requires rigorous governance and control procedures to be in place to ensure an appropriate level of financial discipline and controls, as well as delegation of authority along the corporate and management structure. Over the past few years, the Group has gone through several major Board and management changes, changes of advisors and contractors, and a significant reduction of staff across its operations. These changes require additional efforts to ensure proper implementation of governance, controls, and financial discipline procedures. **Impact:** Failure to establish appropriate level of financial discipline, governance and controls may lead to unnecessary or inappropriate spending, lack of control over procurement, contracting, investing decisions, and exposure to increased legal, regulatory, or financial risks.	HIGH	HIGH	↑
Health, safety, and environmental risks			
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.	HIGH	HIGH	↑

Responsibility	How do we manage it?	Further information
Acting Chief Executive Officer	There is daily monitoring and reporting of the well and plant performance at all our fields. Production data is analysed by our in-house technical expertise. This supports well intervention planning and further field development. Our subsurface and operations specialists and industry-recognised personnel are part of the daily monitoring and reservoir management process of our field and assets.	Regional operations update page 16
Acting Chief Executive Officer	The Board and the executive team are in the process of a conducting a thorough assessment of existing governance and control procedures on a Group and asset levels to identify gaps given Board, staff, and management changes and implement a new framework more appropriate for current circumstances. In the meantime, existing controls have been strengthened significantly with Executives and the Board reviewing and approving practically all contracts, payments, and investment decisions.	Chairman's statement page 4 Financial review page 24
Acting Chief Executive Officer	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 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 insurance policies, provided by reputable insurers, are maintained at Group level to mitigate the Group's financial exposure to any unexpected adverse events arising out of the normal operations. In April 2017 during a planned workover of well 25 in Russia there were delays in the workover due to a fire on the workover rig. The fire was limited to the rig itself and was promptly put out without any injuries. In February 2018 an accident happened that resulted in the fatality of an operator at PPC. A committee has been established to conduct a full investigation of the accident. It is expected to conclude in Q2 2018.	Corporate social responsibility page 28 CEO statement page 10

STRATEGIC REPORT

Principal risks and how we manage them/cont.

What is the risk	Probability + velocity	Impact	Change from 2016
Asset integrity			
Description: Our operations depend on maintaining and adhering to license requirements and related regulations by set by government authorities in countries we operate in. **Impact:** Failure to comply with license obligations and other regulations or requirements may result in our licenses being suspended or revoked which will require us to suspend production and operations.	MED	HIGH	—
Major breach of business, ethical, or compliance standards			
Description: The Company is subject to numerous requirements and standards including the UK Bribery Act, UK Listing Rules, UK Corporate Governance Code, UK Listing Rules and Disclosure and Transparency Rules, among others. Additionally, some of our stakeholders, such as financial institutions, may require us to comply with other requirements or ask us to provide information on our business, operations, employees and shareholders as part of Know Your Client ("KYC") procedures. **Impact:** Failing to comply with onerous regulations and requirements, such as failure to implement adequate systems to prevent bribery and corruption, could result in prosecution, fines or penalties imposed on the Company or its officers, suspension of operations or listing. Inability to clear KYC procedures to satisfaction of the third parties may result in refusal to engage in business relationships with the Company.	HIGH	HIGH	↑
Commodity prices and FX fluctuations			
Description: JKX is exposed to international oil and gas price movements, policy developments in Russia which may affect the regulated gas price, and movements in exchange rates. Such changes will have a direct effect on the Group's trading results. Gas prices in Ukraine are correlated with gas prices in Europe. Since Ukraine stopped purchasing gas from Russia directly, domestic gas prices were at a premium to those in Europe. Change in gas import flows may have impact on gas prices in Ukraine, and a prolonged period of low gas prices would impact the Group's liquidity. In Russia, from 1 July 2017 the regulated price which our sales contract is tied to has increased by 3.9% however, prevailing prices remain significantly lower than in Europe due to existing regulations. Oil prices recovered from recent historic lows in 2016 and are predicted to not increase further in the short term by many market commentators. The Company sells the oil it produces at prices determined by the global oil market. During 2017, the average Hryvnia exchange rate has depreciated by 4% and average Rouble exchange rate has appreciated by 15% against the US Dollar. **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, Funding, and Portfolio Management Risk) and reduce shareholder returns including dividends and share price.	MED	MED	—

Responsibility	How do we manage it?	Further information
Acting Chief Executive Officer	Status of our licenses and relevant license obligations are monitored on a country level. In 2015, our subsidiary in Russia received notices from two regulatory authorities, Rosnedra and Rosprirodnadzor, related to obligations to explore deeper Callovian reservoirs in our field. These notices were addressed in 2017 and will continue to be addressed in 2018.	Corporate social responsibility page 28 CEO statement page 10
The Board	Compliance related activities include training, monitoring, risk management, due diligence and regular review of policies and procedures. We prohibit bribery and corruption in any form by all employees and by those working for and/or connected with the business. Employees are expected to report actual, attempted or suspected bribery or other issues related to compliance to their line managers or through our independently managed confidential reporting process, which is available to all staff as well as third parties. In 2017, we engaged an independent consultant to assess our anti-bribery and corruption ("ABC") policies, procedures, and practices and we are in the process of implementing recommendations to further strengthen our ABC framework. In dealing with the third parties, our policy is to maximize transparency and provide all information available to address KYC-related procedures and requests.	Corporate social responsibility page 28 Chairman's statement page 4
Chief Financial Officer	JKX's policy is not to hedge commodity price exposure on oil, gas, LPG or condensate and not to hedge foreign exchange risk. JKX attempts to maximise its realisations versus relevant benchmarks while keeping credit risk to a minimum by selling mostly on spot markets and on a prepayment basis, ensuring sales are as closely matched as possible, in terms of timing and volume, to production. In 2017, hydrocarbons produced in Ukraine were sold by way of direct contracts with customers or open and transparent auctions conducted via an independent provider (such as Ukrainian Energy Exchange) or our own sales platform. As commodity prices in Ukraine closely follow international benchmarks, significant changes in the exchange rates are reflected in commodity prices providing a natural hedge. In Russia, all gas produced was sold to a single local gas trading company through a long-term gas sales contract with prices set in Roubles. Sales price for gas is fixed and is subject to increase according to changes in a tariff set by relevant regulatory bodies. The Company continues to seek to engage other buyers of its gas in Russia to improve realisations. 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.	Financial review page 24

STRATEGIC REPORT

Principal risks and how we manage them/cont.

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 2020, taking account of the Group's current position and the potential impact of the principal risks documented above.

Summary of the strategic review by country

- **Ukraine**. We have moved forward with implementing our production enhancement plan in Ukraine. The current plan for 2018 includes workovers of 10 more wells (including on three wells that belong to the state), as well as 4 side tracks. We are also planning to begin drilling a new well on our Elizavetovskoye field shortly. Early results will be used to develop a longer- term production plan for Ukraine. In addition, we have started to systematically review opportunities for acquisition and new licensing in Ukraine.
- **Russia.** Operations, production and cash flow are now stable in Russia. Further growth in production can be obtained from workover of well 5 or other existing well(s).
- **Hungary and Slovakia.** After a review of the Group's portfolio by the Board, it has been decided to focus on our Ukrainian and Russian operations. Therefore, the Board has initiated disposal of our assets in Hungary, while the company has relinquished its position in Slovakia.

More detail on these opportunities and the Company's plans is provided on pages 10 to 11.

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.

The Group has been operating in Ukraine for over 20 years and in Russia for over 10 years. Most of the Group's profits and cash flows continue to be generated in Ukraine and, to lesser extent, in Russia. However there remain significant risks associated with operating in these emerging markets in general, and operating our assets specifically, 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, various scenarios for reservoir performance, 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. 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 2018 and current development plans in the case of 2019 through to December 2020. 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*

The Company has persistently defended its position in the Ukrainian courts regarding the Rental Fee charges levied for 2010 and 2015 totalling approximately $37.1 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 $25.8 million), the Company will continue to defend its position in the Ukrainian courts in all outstanding cases.

The Company's Ukrainian subsidiary, PPC, has recognised total provisions of $37.1 million in relation to separate court proceedings over the amount of Rental Fees paid in Ukraine for 2010 and 2015.

In addition, beginning in 2015 the Company 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 excessive royalties and production taxes ('Rental Fees') paid by PPC plus damages. In February 2017, the tribunal awarded the Company damages of approximately $11.8 million plus interest and costs of $0.3 million in relation to subsidiary claims. There is no guarantee that the Company will secure receipt of these damages and costs in the near future.

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 34 to 40 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.

Governance and Financial statements

GOVERNANCE

Board composition

Hans Jochum Horn Non Executive Chairman

Appointed –24 October 2017

Experience –worked in emerging markets for more than 25 years, primarily in Russia/CIS and Africa. Previous experience included roles as CEO and Chairman of the Board of Rendeavour, Africa's largest urban developer, CEO and Chairman of the Board of Renaissance Group, and a director and head of the Audit Committee of Uralkali and Eurochem.

Hans Jochum Horn was the Country Managing Partner for Russia / CIS from 1990 to 2005 at Arthur Andersen and subsequently Ernst & Young. He has been a frequent advisor to governments and regional authorities in CIS and Africa.

Hans Jochum holds an MA in Accounting and Auditing from the Norwegian School of Economics, as well as an MBA from the University of Mannheim, Germany. He has served as Chairman of the Norwegian Association of MBA Graduates, was the founding member of the German Chamber of Commerce in Russia, and former President of Junior Achievement Russia.

Adrian Coates Non Executive Director, Senior Independent Director.

Appointed - 8 December 2017

Experience – is currently a Non Executive director of Petropavlovsk PLC, a UK premium listed gold mining company with assets in Russia and a Non Executive director of Thor Explorations ltd, a TSX-V listed mining exploration and development company with assets in West Africa. He was a Non Executive Director of Regal Petroleum from 2008 to 2017 and of Polyus Gold from 2010 to 2015. Mr. Coates has many years' experience in the investment banking industry, having held positions with HSBC, UBS and Credit Suisse First Boston, with a specialisation in the natural resources sector. Mr. Coates holds a Master's degree in Economics from University of Cambridge and an MBA from the London Business School and is currently the Senior Independent Director.

Michael Bakunenko Non Executive Director

Appointed –8 December 2017

Experience – an Executive Chairman of the Board at PJSC Ukrnaftoburinnya, the third largest private oil and gas E&P Company in Ukraine since September 2015. From 2011 to 2015 Mr. Bakunenko was Deputy Board Chairman, Director of Corporate Development and Strategy at PJSC Ukrnafta, the largest oil company in Ukraine. Prior to this Mr. Bakunenko worked for 8 years in the investment banking industry, notably at Goldman Sachs in New York and Renaissance Capital in Moscow and Kiev. Mr. Bakunenko holds a Bachelor's degree from Lehigh University and Master's degree from Columbia University.

Christian Bukovics Non Executive Director

Appointed – 9 February 2018

Experience – currently a director at AEEV Ltd, pursuing low-cost onshore oil opportunities in the CIS. Until 2013, Christian worked for Shell for 33 years, based in eight countries on four continents. From 2006 to 2013 he was Exploration VP for Russia and the CIS region, a member of Shell's global exploration leadership team and board chairman of CMOC during part of that period. Earlier roles included VP Commercial for Global Exploration, GM Shell Technical Services Iran and GM Shell Temir (Kazakhstan). Mr. Bukovics holds a PhD in Physics from University of Vienna.

Vladimir Rusinov Non Executive Director

Appointed – 8 December 2017

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 had previously been a director of the company from 28 January 2016 until 30 June 2017. 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.

Andrey Shtyrba Non Executive Director

Appointed – 24 October 2017

Experience – currently CEO of Stevedores Yamal LLC, a logistics company operating in Russia. Previously Andrey was Managing Director of Sovfrakht Management Company LLC (which provides logistics in Russia and Ukraine), a Managing Director of Alfa Capital Partners, Director of Corporate Finance and Vice President of Alfa Bank as well as holding positions with Credit Swiss First Boston and KPMG's audit and tax practice. Andrey holds a degree (with Honours) in Economics from the Finance Academy in Moscow.

Vladimir Tatarchuk 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.

GOVERNANCE

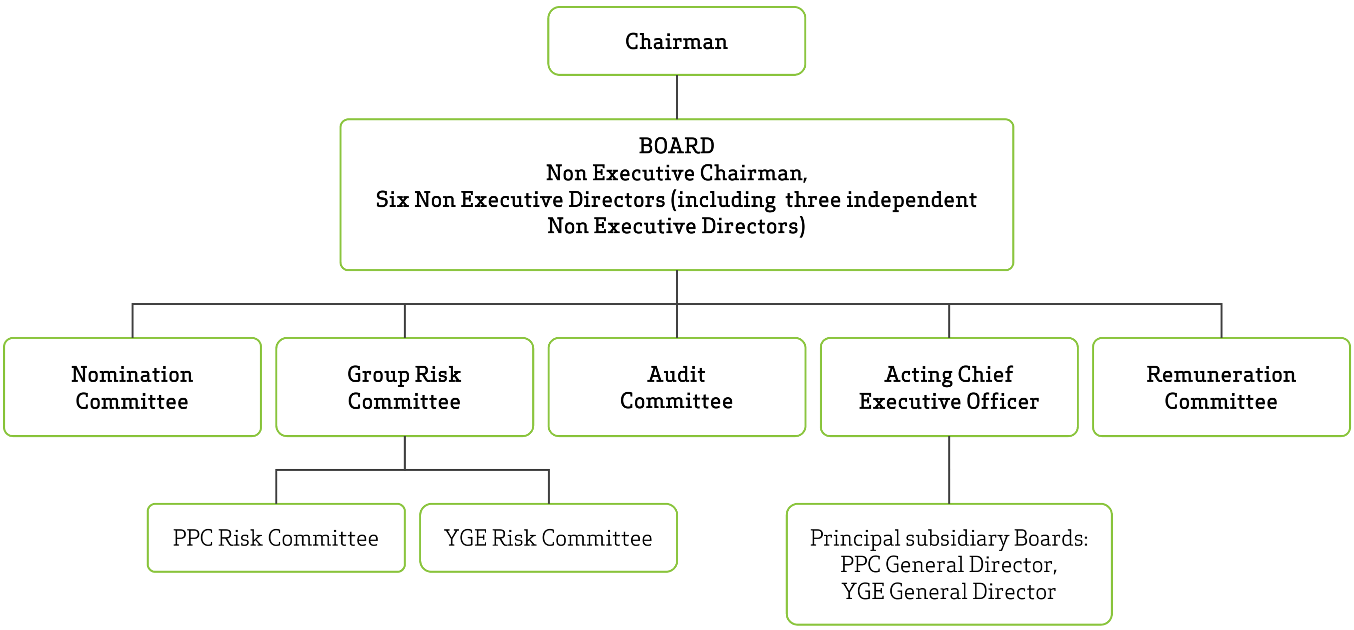
Corporate governance

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 and the Board set the tone and take the lead to ensure that good practice flows throughout the Group.

Governance framework



JKX Board changes during 2017

At the Annual General Meeting of the Company held on 30th June 2017, shareholders voted not to reappoint three Board members (Tom Reed, Russell Hoare and Vladimir Rusinov). Of the remaining four Directors, three gave notice and resigned with effect from 24th October 2017 (Paul Ostling, Bernie Sucher and Alan Bigman). At a board meeting held on 24th October Andrey Shtyrba and Hans Jochum Horn were appointed as Directors, and at a board meeting held on 8th December Vladimir Rusinov, Adrian Coates and Michael Bakunenko were then appointed as Directors.

Due to these highly unusual circumstances from 24th October until 8th December 2017 when a new independent Non Executive Director was 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.

In the period from 24th October until 8th December 2017, Mr Hans Jochum Horn (as Chairman) and Andrey Shtyrba constituted the Audit Committee and carried out the functions required under UKLA's Disclosure and Transparency Rules.

In the period from 24th October until 8th December 2017, Vladimir Tatarchuk was the sole member of the Remuneration Committee.

In the period from 24th October until 2nd November the Nomination Committee was not constituted. In the period from 2nd October until 8th December 2017, Andrey Shtyrba (as Chairman) and Mr Hans Jochum Horn constituted the Nomination Committee.

On 8th December 2017, following a search by an independent executive search consultant, Adrian Coates was appointed to the Board as an independent Non Executive Director. This made the Board composition compliant with the Code. Adrian Coates was also appointed to the Audit and Nomination Committees and as Senior Independent Director on the same date.

On the 8th December Michael Bakunenko and Vladimir Rusinov were appointed to the Board as Non Executive Directors and members of the Audit Committee, and Andrey Shtyrba and Hans Jochum Horn were appointed to the Remuneration Committee in addition to Vladimir Tatarchuk

On 9th February 2018 Christian Bukovics was appointed to the Board as a Non Executive Director and a member of the Remuneration and Nomination Committee.

The Group is now led by an experienced Board of directors consisting of a Non Executive Chairman, three independent Non Executive Directors and three Non Executive Directors, two of whom represent the interests of Proxima, JKX's second largest shareholder with a holding of almost 20% and one of whom represents the interests of Eclairs, JKX's largest shareholder with a holding of over 27%.

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 (Acting) Chief Executive Officer or Chief Financial 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 2017, there were 9 unscheduled Board meetings (2016: five), including one meeting at which the Non Executive Directors met in private session, with an open agenda to discuss the current issues affecting the Group (2016: once). The increase in the number of unscheduled Board meetings in 2017 was needed for the Board members to build a strategic direction for the Company and to address ongoing developments.

The Chairman, in consultation with the Directors and senior executives, 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 5 working days after the month end. 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 cash, cash flow forecast, receivables and payables 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 Chairman ensures 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.

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.

GOVERNANCE

Corporate governance

Committees of the Board in 2017

As explained on page 44, Tom Reed, Russell Hoare and Vladimir Rusinov were not reappointed as Directors at the Annual General Meeting held on 30th June 2017, and Paul Ostling, Alan Bigman and Bernie Sucher resigned as Directors with effect from 24th October 2017. During the period between 24 October and 8 December the Company was not able to form the various committees (Audit, Remuneration and Nomination) in a form which was compliant with the Code.

During 2017, up until 24th October 2017 and from 8th December 2017 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 1st January 2017 until 24th October 2017

	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 (until 30th June 2017)	Member	–	–

In the period from 24th October until 8th December 2017, Mr Hans Jochum Horn (as Chairman) and Andrey Shtyrba constituted the Audit Committee and carried out the functions required under UKLA's Disclosure and Transparency Rules.

In the period from 24th October until 8th December 2017, Vladimir Tatarchuk was the sole member of the Remuneration Committee.

In the period from 24th October until 2nd November the Nomination Committee was not constituted. In the period from 2nd October until 8th December 2017, Andrey Shtyrba (as Chairman) and Mr Hans Jochum Horn constituted the Nomination Committee.

On 8th December 2017 Adrian Coates was appointed to the Audit and Nomination Committees.

On the 8th December Michael Bakunenko and Vladimir Rusinov were appointed to the Audit Committee, and Andrey Shtyrba and Hans Jochum Horn were appointed to the Remuneration Committee in addition to Vladimir Tatarchuk

Committee memberships from 8th December 2017 until year end

	Audit Committee	Remuneration Committee	Nomination Committee
Hans Jochum Horn	Member	Member	Chairman
Adrian Coates	Chairman	–	Member
Vladimir Rusinov	Member	-	–
Andrey Shtyrba	Member	Chairman	Member
Michael Bakunenko	Member	–	–
Vladimir Tatarchuk	–	Member	–

The roles and activities of each of these committees during 2017 are noted on pages 49, 53 and 66.

Board composition, independence and commitment

Up until the General Meeting on 30th June 2017, the Board of 7 members comprised:

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

Following the General Meeting on 30th June 2017, (see above), the Board of 4 comprised:

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

Following the resignation of Mr Paul Ostling, Mr Bernie Sucher and Alan Bigman on 24th October 2017, (see above) and the Board Meetings on the same day , the Board of 3 comprised:

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

Following appointment of Michael Bakunenko, Adrian Coates and Vladimir Rusinov on 8th December 2017 and Mr Christian Bukovics on 9th February 2018, the Board of 7 now comprises:

- a Non Executive Chairman, and
- 2 Non Executive Director representing the interests of Proxima, JKX's second largest shareholder with a holding of almost 20%
- 1 Non Executive Director representing the interests of Eclairs, JKX's largest shareholder with a holding of over 27%
- 3 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.

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 42 and 43.

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

Board diversity
During the period covered by this report the Board consisted entirely of men with 5 different nationalities.

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.

Senior Independent Director
Bernie Sucher was Senior Independent Director ('SID') following his appointment on 1 April 2016 until the date of his resignation on 24th October. Adrian Coates was appointed as SID on 8th December 2017.

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.

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, (Acting) Chief Executive Officer or other Executive Directors, or where such contact is inappropriate.

2017 Board evaluation process
Following the Board changes in 2016 and 2017, 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 during 2018.

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 once the Board has been embedded.

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.

GOVERNANCE

Corporate governance

Board activities

Attendance at meetings

In addition to six scheduled Board meetings, there were nine unscheduled meetings convened at short notice (2017: six).

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 2017 and individual attendance by Director is shown below:

Board and Committee meeting attendance in 2017

Number of meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
	15	5	3	3

Attendance/Eligibility:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Hans Jochum Horn[2,5,7]	3/3	1/1	1/1	1/1
Andrey Shtyrba[2,5,7]	2/3	1/1	1/1	1/1
Adrian Coates[4,5,6]	1/1	1/1	-	1/1
Michael Bakunenko[4,6]	1/1	1/1	-	-
Vladimir Rusinov[3,4,6]	8/8	1/1	-	-
Vladimir Tatarchuk	14/15	-	2/3	-
Paul Ostling[1]	12/12	4/4	2/2	2/2
Tom Reed[3]	7/7	-	-	-
Russell Hoare[3]	7/7	-	-	-
Alan Bigman[1]	12/12	4/4	2/2	2/2
Bernie Sucher[1]	12/12	4/4	2/2	2/2

1. Paul Ostling , Alan Bigman and Bernie Sucher resigned as Directors on 24 October 2017
2. Andrey Shtyrba and Hans Jochum Horn were appointed as Directors on 24th October 2017 and also appointed to the Audit committee on the same date
3. Russell Hoare Tom Reed and Vladimir Rusinov were not reappointed as Directors on 30th June 2017
4. Michael Bakunenko, Vladimir Rusinov and Adrian Coates were Appointed as a Directors with effect from 8th December 2017
5. On 2nd November 2017 Hans Jochum Horn and Andrey Shtyrba and on 8th December Adrian Coates were appointed to the Nomination Committee.
6. On 8th December 2017 Vladimir Rusinov, Adrian Coates and Michael Bakunenko were appointed to the Audit Committee
7. On 8th December 2017 Andrey Shtyrba, Hans Jochum Horn were appointed to the Remuneration Committee; and
8. Vladimir Tatarchuk was appointed as a Director on 28th 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 2017

As described on page 44 Alan Bigman, Paul Ostling and Bernie Sucher resigned on 24th October 2017. After that date there was no independent Non Executive Director who had been a member of the Board prior to that date. In view of this lack of continuity the details set out in this section that relate to the period prior to 24th October are based on the minuted discussions of the Board.

During the year the Board used a rolling agenda of strategy, finance, operations, commercial matters, corporate governance and compliance including the matters set out below. All Directors have the authority to add any item to the Board agenda.

- the (Acting) Chief Executive's report on strategic, and operational matters including political and economic developments, particularly in Ukraine
- 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;
- Additional funding opportunities;
- Compliance (including ABC) issues.
- 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
- managing the Group's liquidity including the payment of interest on the existing Convertible Bond
- reduction in overhead costs and improved efficiency through the implementation of staff cuts in London, Ukraine and Russia
- 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.

In the period from 24th October the Board also considered a number of additional matters as a priority including:

- Reconstituting the Board and its committees with the skills and experiences required to address the challenges that the Company faced and in order to comply with the requirements of applicable legislation and the Code;
- Identifying and addressing critical gaps in the senior management team;
- Introducing enhanced management information updates focussing on key parameters including production, liquidity and future cashflow;
- Introducing enhanced monitoring and control processes centralised to the Board appropriate to the Company's financial position - focussing in particular on procurement, cost and payment;
- Overhaul of the capex approval process by ensuring that appropriate screening criteria such as risk, payback period, cashflow impact and return on investment are considered;
- Development of a future strategy reflecting the Company's position and its opportunities and challenges;
- Review and management of ongoing tax and other litigation;
- Identifying sources of third party financing and arranging for a standby facility; and
- Prioritisation of the 2018 group budgeting process.

Re-electing your Board

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

All the independent Non Executive Directors (including the Chairman) stood down and were reappointed at the EGM held on 22nd March 2018. Of the remaining Directors one (Vladimir Tatarchuk) was reappointed at the 2016 Annual General Meeting and two were appointed to the Board on 8th December 2017.

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. Michael Bakunenko and Vladimir Rusinov will stand for re-election at the 2018 Annual General Meeting, as they have been appointed to the Board since the last AGM.

Full biographies of all the Directors can be found on pages 42 and 43.

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.

	Committee member since	To	Number of meetings in 2017 Attendance/Eligibility
Hans Jochum Horn	November 17	present	1/1
Andrey Shtyrba	November 17	present	1/1
Adrian Coates	December 17	present	1/1
Alan Bigman	April 2016	October 17	2/2
Bernie Sucher	April 2016	October 17	2/2
Paul Ostling	April 2016	October 17	2/2

The Committee met 3 times during 2017 (2016: once). As noted above, following the removal of the Executive Directors at the AGM held on 30th June 2017 and the resignation of the remaining independent Directors on 24 October 2017 a new Nomination Committee was not established until 2nd November 2017.

GOVERNANCE
Corporate governance

New independent Non Executive Directors were appointed in 2017 following a search by an independent search consultant (Drax) that has no other connection with the Group , as well as Non Executive Directors representing the interests of the 2 most significant shareholders.

Membership and process
Until 24th October 2017, the Nomination Committee comprised three independent Non Executive Directors (Paul Ostling, Bernie Sucher and Alan Bigman) who resigned from the Board with effect from that date. Following these resignations there was no member of the Committee who had been a member of the Committee prior to that date. In view of this lack of continuity the details set out in this section that relate to the period prior to 24th October are based solely on the minuted discussions of the Nomination Committee.

The Nomination Committee was reconstituted on 2nd November 2017 and comprised Hans Jochum Horn (as Chairman) and Andrey Shtyrba, although in the absence of further independent Non Executive Directors it was not compliant with the Code. On 8th December 2017, Adrian Coates was appointed as an independent Non Executive Director and member of the Nomination Committee which then consisted of Hans Jochum Horn (as Chairman), Adrian Coates and Andrey Shtyrba and was compliant with the Code.

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

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

Remuneration Committee
Details of the work of the Remuneration Committee is given in the Remuneration report on pages 61 to 73.

Compliance

Compliance with the UK Corporate Governance Code
The Board believes that during 2017 the Company was fully compliant with the provisions set out in the UK Corporate Governance Code, with the following exceptions:

i) As noted on page 44 above, from 24th October 2017 to 8th December 2017, the composition of the Board did not comply with the Code in respect of the number of independent Non Executive Directors and certain Committees were accordingly either not constituted, or constituted but did not comply with the Code. From 8th December 2017 all Committees were constituted but the membership of the Remuneration Committee and Audit committee are not in compliance with the Code as a result of the membership of Directors who are not independent in order to ensure full transparency with significant shareholders.

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.

Following the resignation of all the independent directors on 24th October and the appointment of the current Board the current Board, together with the Audit Committee, has carried out a risk based review of the effectiveness of the Company's internal control and risk management systems and has introduced a number of interim measures to strengthen them, including steps to bolster the authorisation of procurement of all services and the central oversight to all payments across the Group. This work is ongoing.

Specifically, a breakdown in controls occurred in the Company's Ukrainian subsidiary during 2017. Several legal advisers were engaged without a proper transparent tender process. These advisers were paid legal fees of approximately $1 million, for which there is a lack of documentation supporting the nature and extent of work performed. As a result , the Audit Committee appointed KPMG to conduct a forensic examination of the process for appointment of legal advisers in the Ukraine, the manner in which these specific payments were made and to investigate the nature of such payments and services provided. As at the date of this release, KPMG's investigation has recently been concluded and management has already implemented certain of the recommendations provided in their report.

Other than this issue, the Board has concluded that for the period up until the date of the Annual Report the Company's current procedures, policies and systems as reinforced by the interim measures referred to above 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 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 32 to 40. Further information on internal control and risk management is set out in the Audit Committee Report on page 53.

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 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 Head of Internal Audit 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 or after 24th October 2017 is significant and rapid improvements in the frequency and extent of communication with all shareholders. The new Board 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. 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

GOVERNANCE

Corporate governance

conflict that have been previously authorised by the Board. The Committee may also make recommendations regarding appropriateness of the authorisation.

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

Hans Jochum Horn
Chairman
27 April 2018

GOVERNANCE

Audit Committee Report

Attendance and eligibility

Member	Committee member since	To	Number of meetings in 2017 Attendance/Eligibility
Hans Jochum Horn	October 2017	present	1/1
Michael Bakunenko	December 2017	present	1/1
Adrian Coates (as Chairman)	December 2017	present	1/1
Andrey Shtyrba (as Chairman)	October 17	present	1/1
Vladimir Rusinov[1]	April 2016/December 2017	June 17/present	1/1
Alan Bigman (as Chairman)	April 2016	October 17	4/4
Paul Ostling	January 2016	October 17	4/4
Bernie Sucher	April 2016	October 17	4/4

1. Vladimir Rusinov was appointed to the Committee on 1st April 2016, ceased to be a member on 30th June 2017 and was reappointed 8th December 2017.

The Audit Committee currently comprises 4 Non Executive Directors, two of whom are independent, and the Non Executive Chairman.

Audit Committee during 2017

Up until 30th June 2017 Alan Bigman, (as Chairman), Paul Ostling, Bernie Sucher and Vladimir Rusinov made up the Audit Committee. Vladimir Rusinov was not reappointed to the Board at the Annual General Meeting held on 30th June 2017 and also ceased to be a member of the Audit Committee on that date.

From 30th June 2017 until 24th October 2017 the Audit Committee consisted of Alan Bigman (as Chairman), Paul Ostling and Bernie Sucher.

Following the resignation of Alan Bigman, Paul Ostling and Bernie Sucher on 24th October 2017 and the appointment of Andrey Shtyrba as an independent Non Executive Director and Hans Jochum Horn as a Non Executive Chairman on the same day the Audit committee consisted of Andrey Shtyrba (as Chairman) and Hans Jochum Horn until 8th December 2017.

On 8th December 2017 Michael Bakunenko, Vladimir Rusinov and Adrian Coates were appointed as Directors of the Company and subsequently appointed to the Audit committee, with Adrian Coates appointed as Chairman on the same day.

The Audit Committee has carried out the requirements under the Disclosure and Transparency Rules 7.1.3R throughout the period that this report covers. Paul Ostling, Alan Bigman, Russell Hoare, Adrian Coates and Hans Jochum Horn have relevant financial experience as defined by the Code.

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

Until 24th October 2017 the Audit Committee was chaired by Alan Bigman, an independent Non Executive Director. The Board determined that Alan Bigman had 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 (until 30th June 2017), Non Executive Director.

GOVERNANCE

Audit Committee Report

From 24th October 2017 until 8th December the Audit Committee was chaired by Andrey Shtyrba, an independent Non Executive Director. The Committee also included Hans Jochum Horn, the Non Executive Chairman.

From 8th December until the year end the Audit Committee was chaired by Adrian Coates, an independent Non Executive Director. The Committee also included Hans Jochum Horn, the Non Executive Chairman, Andrey Shtyrba, Independent Non Executive Director, Michael Bakunenko, Non-executive Director and Vladimir Rusinov, Non Executive Director.

The Board determined that Andrey Shtyrba, Hans Jochum Horn and Adrian Coates had recent and relevant financial experience gained through their previous and current roles and that for the purposes of the Disclosure and Transparency Rules Hans Jochum Horn is independent applying the guidance set out in B.1.1 of the Code

The composition of the Audit Committee over the relevant period provided 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 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 five times during 2017 (2016: four).

The Committee's meetings were attended when considered appropriate by the Chairman of the Committee by the (Acting) 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 2017 (2016: 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 2017

As described on page 53 Alan Bigman, Paul Ostling and Bernie Sucher resigned on 24th October 2017. After that date there was no member of the Committee who had been a member of the Committee immediately prior to that date. In view of this lack of continuity the details set out in this section that relate to the period prior to 24th October are based solely on the minuted discussions of the Committee.

During the period covered by this report, the Committee had an annual work plan, developed from its terms of reference, with standing items that the Committee considered 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.

1st January – 24th October

Internal controls and risk	External auditors	Accounting, tax and financial reporting
▪ 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 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	▪ 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	▪ 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

Internal controls and risk	External auditors	Accounting, tax and financial reporting
▪ Commissioned and received an independent expert's review of the effectiveness of the Group's Anti-Bribery and Corruption policies, systems and implementation and reviewing an action plan to address issues raised	▪ Considered and approved letters of representation issued to the external auditors	

Additionally Between 24th October - 31st December

Internal controls and risk	External auditors	Accounting, tax and financial reporting
▪ Initiation of a group wide review of internal controls and their implementation ▪ Implementation of enhanced interim controls relating to cost, procurement and payment ▪ Review of the capex approval process, including identification of additional screening criteria (including risk, payback period, cash flow impact, return on investment, etc) to ensure effective allocation of capital ▪ Review of Anti-Bribery and Corruption resourcing, implementation and effectiveness and response to the independent expert's review ▪ Identification and management of legacy issues, both documented and undocumented ▪ Review of resourcing available to the Internal Audit function and its risk based deployment	▪ Review of hydrocarbon reserves base and commissioning of further assurance work. ▪ Review of impairment status of assets and commissioning of further assurance work. ▪ Agreement of external auditors' remuneration for the 2017 statutory accounts	▪ Ongoing analysis of future cash flow and liquidity and implementation of monthly financial update reports ▪ Review of ongoing tax and other litigation

In the period from 24th October, and in particular in the period from 8th December when Michael Bakunenko, Vladimir Rusinov and Adrian Coates were appointed as Directors of the Company and subsequently appointed to the Audit committee, the Committee has focussed on introducing monitoring and control processes appropriate to the Company's financial position. This work has continued in the period from the end of 2017 until the date of the Annual Report and in particular the Audit Committee has additionally engaged KPMG to review the appointment of legal advisers in the Ukraine, the manner in which payments to them were made and the nature of such payments.

As recorded above, areas of particular focus since 24th October have included regular monitoring of the cash position, future cash flow and liquidity, implementation of enhanced interim controls for procurement, cost and payment, overhaul of the capex approval process by ensuring that appropriate screening criteria such as risk, payback period, cash flow impact, return on investment are considered and that management are focussed on ongoing tax and other litigation and on anti-bribery and corruption.

GOVERNANCE

Audit Committee Report

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 2017 financial statements related to:

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

Other significant issues considered, which were not directly related to risk of misstatement, were payments made to legal advisers in Ukraine (discussed further on page 50) and the ability of the group to remain a going concern (discussed further on page 90).

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 2017 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 $25.8 million (2016: $23.3 million) (including 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. In March 2017, the Ukrainian government lodged an appeal against the tribunal award in the High Court of the United Kingdom. In October 2017, the High Court dismissed the appeal and there are no further avenues of appeal for the Ukrainian government. The Government of Ukraine is therefore still liable to pay to JKX the sum of $11.8 million plus interest and costs of $0.3 million in relation to subsidiary claims, as previously ordered. While binding under international law, the tribunal ruling still requires enforcement in the Ukrainian courts. The potential inflow of economic benefits is disclosed as a contingent asset in Note 27 of the financial statements. 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 $37.1 million (2016: $33.9 million) (including interest and penalties) 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 2017 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).

GOVERNANCE

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.	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 2018 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 oil and gas assets in Ukraine and Russia, and noted that full disclosure of the key assumptions in respect of the CGUs (including sensitivity analyses in Note 5) had been appropriately disclosed in the financial statements. The Committee also reviewed an impairment reversal in respect of the Elizavetivske field. During 2014 the Elyzavetivske field was impaired by $12.8m after significant erosion of the headroom from 2013. The main driver of the impairment was the reduction in reserves. Had this impairment not been made, then the carrying value of Elyzavetivske would have been $6.1m as at 31 December 2017. Therefore, a reversal of $5.6m has been recognised. In Hungary, management identified an impairment trigger and a full impairment review was completed. The carrying amount exceeded its recoverable amount by $2.8m and therefore the assets were impaired to nil due to the reduction in the estimated recoverable oil and gas volumes. Furthermore, the absence of a firm work programme at year end to develop the Hungarian exploration and evaluation assets, led to an additional impairment of $0.8m. In Slovakia, during 2017 there was no progress with the exploration licences and at year end there were no further exploration or evaluation planned or budgeted. On 16 March 2018 the Company gave a formal notice of relinquishment of Svidnik, Medzilaborce and Snina exploration licences to the other parties in the joint venture. The assets were impaired in full by $7.9m.

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 senior management and functional experts, 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. Following the resignation of the executive directors in 2017 the membership of the Risk committee is in the process of being reviewed to ensure it remains fit for purpose.

The Risk Committee met once in 2017 (2016: 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 34 to 39.

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 pages 32 to 33.

The Audit Committee will review the latest Risk Register and related output, and challenge 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 34 to 39.

Internal audit

During the year the Board appointed an internal audit manager with direct access to the Chairman of the Audit Committee who undertook a number of significant pieces of work including:

- Assessment of the effectiveness of key aspects of the procurement process implemented in PPC, the Ukrainian subsidiary of JKX, including a full scope review of purchase-to-pay procedures and controls that included testing of design and operating effectiveness of controls across the entire process.
- Regular monitoring of the implementation of procurement process improvements recommended by KPMG in prior years for YGE, the Russian subsidiary of JKX. The full-scope audit of procurement process in Russia is planned for 2018.
- Reviewing PPC's last asset stock taking process and its results, performing a root cause analysis of the identified issues and recommending improvements to both the inventory management process and stock taking procedures.
- Following the abandonment of the fracturing program at PPC, Internal Audit actively participated in the PPC review of the decision making process that led to the fracturing methodology adopted and well-candidate selection and provided its independent view of the learnings which will be applied to the design of the PPC Field Development Program.
- Following prior year reviews of HR and Payroll processes, Internal Audit, together with KPMG, reviewed PPC's compliance with local payroll legislation. This required the recalculation of all payroll cycles for a 1 year period, investigation of identified differences and the preparation and implementation of a mitigation plan.

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

External audit

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

PwC were reappointed as the Company's auditors in 2011 following a competitive tender process. The audit partner rotated in 2013 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.

GOVERNANCE

Audit Committee Report

The Committee approves all non-audit services from PwC. In addition to the statutory audit fee, PwC and member firms charged the Group US$38,625 for audit-related assurance services in 2017 in connection 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.

Adrian Coates

Chairman of the Audit Committee
27 April 2018

GOVERNANCE

Directors' Remuneration Report

Independence

Prior to 24 October 2017 the Remuneration Committee comprised three independent Non-Executive Directors. On 24 October 2017 Paul Ostling, Alan Bigman and Bernie Sucher left the Board with immediate effect. 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 the same day Hans Jochum Horn and Andrey Shtyrba were appointed to the Board as independent Non-Executive Directors with immediate effect.

On 8 December 2017 Adrian Coates, Michael Bakunenko and Vladimir Rusinov joined the Board as Non-Executive Directors of the Company. On 11 December 2017, a Remuneration Committee was formed with Mr. Shtyrba appointed as Chairman and Hans Jochum Horn and Vladimir Tatarchuk as members. On 9 February 2018 Christian Bukovics joined the Company as an independent Non-Executive Director, he was also appointed to the Committee as a member.

Since Mr. Shtyrba has only recently became a Chairman of the Remuneration Committee, he is not in the position to comment with regards to the Directors' remuneration decisions made during 2017 and in particular prior to his appointment. Please note, there were no changes relating to Directors' remuneration made during the year.

Remuneration in 2017

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.

Non-Executive Directors' fees for 2017 remained on the same level as in 2016.

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 2017, 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. The new share plan for Directors was not approved by shareholders at the 2017 AGM.

Remuneration in 2018

The Directors' Remuneration Policy revised during 2016-2017 was not approved by shareholders at the Company's 2017 Annual General Meeting (see page 72). Details of the proposed Future Policy were provided in the Notice of Annual General Meeting 2017.

Therefore, the Directors' Remuneration Policy, together with the changes proposed by the Committee, approved by shareholders at the AGM in June 2014 will remain in place.

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 2017 (pages 61 to 65)** 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 66 to 73) sets** out details of how our remuneration policy has been applied for the year ended 31 December 2017. 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 2017.

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 http://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.

Following results of the AGM on 30 June 2017 at which Thomas Reed, Russell Hoare, and Vladimir Rusinov were removed as Directors of the Company, the Board was actively looking for new Executive and Non-Executive Directors. Victor Gladun and Dmitriy Poddubny,

GOVERNANCE

Directors' Remuneration Report

the General Director and the Finance Director of Ukrainian operating subsidiary, had taken on the role of Acting CEO and Acting CFO. On 20 November 2017 Ben Fraser joined the Company as CFO with immediate effect.

At present, neither the Acting CEO nor CFO have been appointed to the Board as Directors. Thus, their remuneration is not included in this report.

Remuneration to Executive Directors removed from the Board on 30 June 2017 was paid in accordance with the Remuneration policy provided below.

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 combined potential remuneration from the annual bonus and long-term incentives ensures that the balance of the Executive remuneration package is weighted towards at risk performance pay with a higher weighting on long-term remuneration.

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

A summary of the Directors' remuneration policy applicable during 2017 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 were 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 applied across the Group.
Opportunity	Any base salary increases were applied in line with the outcome of the annual review.
Performance metrics	Business and individual performance were considerations in setting base salary.

Pension

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

Benefits

Purpose and link to strategy	To provide competitive benefits.
Operation	Executive Directors received benefits which consisted primarily of life assurance, income protection and private medical cover, although could have included any such benefits that the Committee deemed appropriate.

[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 reviewed comparator companies periodically to ensure they remain appropriate and retains the discretion to adjust the reference group or companies as appropriate.

Opportunity	Benefits values varied by role and were reviewed periodically relative to market circumstances. The cost of the benefits provided changed in accordance with market conditions and would, therefore, determined the maximum amount that would have been paid in the form of benefits during the Policy Period. The Committee retained the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the company's control had 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 were set at the start of the year according to strategic priorities. At the end of the year, the Remuneration Committee determined the extent to which the targets had been achieved, with any bonus payments delivered in cash. For Executive Directors, the Committee had 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 were subject to clawback provisions in the event of gross misconduct, material misstatement, or in any other circumstance that the Committee considered appropriate.
Opportunity	For Executive Directors, the maximum annual bonus opportunity was 100% of base salary, with target bonus set at 40% of maximum. For threshold level performance, the annual bonus would be between 0% to 20% of base salary.
Performance metrics	Performance was assessed annually based on challenging and stretch targets for operational, organisational, financial and health and safety performance. The measures selected could vary each year depending on business context and strategy, and measures would be weighted appropriately according to business priorities. Under normal circumstances, financial measures would make up at least half of the total bonus opportunity. The Committee had discretion to adjust the formulaic bonus outcomes both upwards and downwards within the plan limits (including down to zero) to ensure alignment of pay with the underlying performance of the business, e.g., in the event of a target being significantly missed or unforeseen circumstances outside of management control.

GOVERNANCE

Directors' Remuneration Report

Performance Share Plan ('PSP') (There were no options granted to Directors under the PSP during 2017. The future policy proposed at the 2017 AGM did not envisage the grant of any awards under the PSP and was not approved by the shareholders)

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 had 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 was subject to meeting shareholding requirements (see page 73).
Opportunity	The PSP provided 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 was subject to continued employment and the Company's performance over a 3-year performance period. If no entitlement had been earned at the end of the relevant performance period, awards would lapse. From 2015, PSP awards were based on a number of financial and strategic measures, which could include, but were 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 were subject to an underpin such that for any awards to vest, the Remuneration Committee must have satisfied themselves that health and safety performance was satisfactory over the performance period. Each measure could have been applied a weighting of between 0% and 50%. The Committee had the discretion to adjust the performance measures and weightings in advance of making an award to ensure that they continued to be linked to the delivery of Company strategy. Under each measure, threshold performance would result in up to 25% of maximum vesting for that element. The vesting level would increase on a sliding scale to 100% vesting for stretch levels of performance. Vesting of PSP awards would 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 was 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 had discretion to adjust the formulaic PSP outcomes within the plan limits to ensure alignment of pay with performance, i.e. to ensure the outcome was 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.
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 2017 are set out in the Annual Report on Remuneration. Fee levels will be next reviewed during 2018, with any increase effective 1 January 2019. 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 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
Thomas Reed	28 January 2016	12 months	30 June 2017
Russell Hoare	28 January 2016	12 months	30 June 2017

1. The notice period is 12 months by the Company or the individual

Executive Director Service Contract severance payments

Following results of the AGM on 30 June 2017, two Executive Directors, Tom Reed and Russell Hoare had been removed from the Board of Directors. The Board agreed on a three months transition period. During this period, Tom Reed and Russell Hoare were to remain as an advisor to the Acting CEO and Acting CFO respectively and continued to be remunerated on the basis of their previous contractual arrangements with the Company. The termination of the contracts had been brought forward and took effect from 12 midnight on 31 July 2017. The following amounts were approved at the Committee meeting on 27 July 2017:

- payments "in lieu of notice" totalling $1,100,000 equivalent to 12 months' salary for Tom Reed and Russell Hoare;
- pro-rated bonus payments totalling $170,000;
- payments of 20% benefits differential totalling $220,000;
- deductions relating to overpayment of 2016 bonus, totalling $126,000 were subtracted from the total.

Payments totalling $1,364,000 were paid in two tranches, 40% of the total was paid on 25 August 2017, with the remaining 60% on 27 September 2017. The amounts relating to the payments in lieu of notice, pro-rated bonus payments and benefits differential are included in "Payments for loss of office" section in the Annual Report on Directors' Remuneration for 2017 (see page 68).

Payments from existing awards

Executive Directors were not eligible to receive payment from any awards.

GOVERNANCE

Directors' Remuneration Report

The following section provides details of how JKX's remuneration policy was implemented during the financial year ended 31 December 2017. 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 2017 - Attendance/Eligibility
Andrey Shtyrba (Chairman)	11 December 2017	present	1/1
Hans Jochum Horn	11 December 2017	present	1/1
Vladimir Tatarchuk	1 April 2016	present	2/3
Bernie Sucher (Chairman)	1 April 2016	24 October 2017	2/2
Alan Bigman	1 April 2016	24 October 2017	2/2
Paul Ostling	1 April 2016	24 October 2017	2/2

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 2017 (2016: three 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 2017, 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 2017
Andrey Shtyrba (as Chairman) - appointed 11 December 2017 Hans Jochum Horn - appointed 11 December 2017 Vladimir Tatarchuk Bernie Sucher (as Chairman) - resigned 24 October 2017 Alan Bigman - resigned 24 October 2017 Paul Ostling - resigned 24 October 2017	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's website	In addition to regular topics, the Committee engaged in specific matters including: ▪ Approval of executive salary levels for 2017 ▪ Review and approval of performance targets for the 2017 Annual Bonus Scheme ▪ Drafting of an alternative long-term incentive 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.

Single figure of total remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Director for the year ended 31 December 2017 and the prior year. Through 2017 and 2016, contract for Tom Reed was stated and settled US Dollars and contract for Russell Hoare was stated in US Dollars and settled in its Sterling equivalent. Figures in this report are disclosed in (the Group's reporting currency).

The level of base salaries have remained unchanged for both 2016 and 2017.

$'000	Salary[2] 2017	2016	Benefits[3] 2017	2016	Annual Bonus[4] 2017	2016	Pension[5] 2017	2016	Total 2017	2016
Executive Directors - removed 30 June 2017										
Tom Reed[1]	325	599	-	28	-	634	-	-	325	1,261
Russell Hoare[1]	225	415	4	8	-	506	34	62	263	991
	550	1,014	4	36	-	1,140	34	62	588	2,252

1. Appointed 28 January 2016, removed from the Board of Directors 30 June 2017. Figures exclude bonus and benefit differential agreed and paid as part of severance package to two Executive Directors removed 30 June 2017. Please refer to 'Payments for loss of office' section on page 68.
2. Salary: amount earned for the year
3. Benefits: the taxable value of benefits received in the year, including life assurance, income protection and private medical cover
4. Annual Bonus: this is the total cash bonus earned based on performance during 2017 and 2016
5. Pension: annual contribution by the Group to directors' pension plans or cash in lieu

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

The table below sets out a single figure for the total remuneration received by each Director for the year ended 31 December 2017 and the prior year.

All Directors' remuneration was rebased to US Dollars from 28 January 2016 (the Group's reporting currency). Through 2017, contracts for Paul Ostling and Adrian Coates were settled in its Sterling equivalent.

$'000	Fees 2017	2016	Total remuneration 2017	2016
Non-Executive Directors				
Hans Jochum Horn[1]	50	-	50	-
Andrey Shtyrba[1]	25	-	25	-
Adrian Coates[2]	10	-	10	-
Michael Bakunenko[2]	1	-	1	-
Vladimir Tatarchuk[5]	8	6	8	6
Vladimir Rusinov[6]	4	6	4	6
Former Non-Executive Directors				
Paul Ostling[3]	216	246	216	246
Alan Bigman[4]	116	107	116	107
Bernie Sucher[4]	116	107	116	107
	546	472	546	472

1. Appointed 24 October 2017, appointed to Board Committees 11 December 2017
2. Appointed 8 December 2017, appointed to Board Committees 11 December 2017
3. Appointed 28 January 2016, resigned 24 October 2017
4. Appointed 1 April 2016; resigned and reappointed 28 June 2016. Resigned 24 October 2017
5. Appointed 28 January 2016; appointed to Board Committees 1 April 2016.
6. Appointed 28 January 2016; appointed to Board Committees 1 April 2016. Removed from the Board of Directors 30 June 2017 and reappointed 8 December 2017.

Incentive outcomes for the year ended 31 December 2017 (audited)

Annual Bonus Scheme

The Annual Bonus Scheme for 2017 applied to Executive Directors and certain senior management including senior staff in Poltava Petroleum Company ('PPC'). The scheme is discretionary and annual awards are not pensionable.

Bonuses to two Executive Directors removed 30 June 2017 were part of severance package approved by Remuneration Committee (please refer to 'Payments for loss of office' section on page 68). They were based on a similar performance framework as in 2016 using a range of strategic, financial and organisational targets.

Scheme interests awarded in 2017 (audited)

The Company only operated one long-term incentive plan during 2017 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 2017. An alternative long-term incentive plan in the Revised Remuneration Policy submitted to Shareholders at the 2017 AGM had not been approved by the Shareholders. The PSP will continue to be used to award options to other executives within the business.

The PSP provides nil-cost options for Executive Directors and senior management.

GOVERNANCE

Directors' Remuneration Report

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 2017, the maximum available shares under the Company's 5% and 10% limits was 7.5 million (2016: 7.2 million) and 16.1 million (2016: 15.8 million) shares respectively, out of an issued share capital of 172.1 million shares.

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. Following results of the AGM on 30 June 2017 two Executive Directors, Tom Reed and Russell Hoare had been removed from the Board. The Board agreed on a three months transition period. During this period, Tom Reed and Russell Hoare were to remain as an advisor to the Acting CEO and Acting CFO respectively and continued to be remunerated on the basis of their previous contractual arrangements with the Company. The termination of the contracts had been brought forward and took effect from 12 midnight on 31 July 2017. The following amounts were approved at the Committee meeting on 27 July 2017:

- payments "in lieu of notice" totalling $1,100,000 equivalent to 12 months' salary for Tom Reed and Russell Hoare;
- pro-rated bonus payments totalling $170,000;
- payments of 20% benefits differential totalling $220,000;
- deductions relating to overpayment of 2016 bonus, totalling $126,000 were subtracted from the total.

Payments totalling $1,364,000 were paid in two tranches, 40% of the total was paid on 25th August 2017, with the remaining 60% on 27th September 2017.

$'000	Payment in lieu of notice	20% benefits differential	Pro-rated bonus	Deductions for 2016 bonus	Total
Executive Directors – removed 30 June 2017					
Tom Reed	650	130	70	(35)	815
Russell Hoare	450	90	100	(91)	549
	1,100	220	170	(126)	1,364

Non-Executive Director – Exit payments

On 31 July 2017, three independent non-executive directors, Paul Ostling, Alan Bigman and Bernie Sucher, have each tendered their resignations from the Board and their three months' notice was complete on 24 October 2017. No additional payments were agreed.

Executive Director remuneration for 2017

Base salary

An Executive Director's basic salary and the other fixed elements of pay were 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[1]	% increase
Tom Reed	$650,000	$325,000	nil
Russell Hoare	$450,000	$225,000	nil

1. The level of base salary for the CEO and CFO has remained unchanged for both 2016 and 2017. The difference shown above is due to the removal of both Executive Directors from the Board on 30 June 2017.

The average salary increase awarded in the middle of the year pay review for UK employees was 4.0% (2016: nil).

Pension and benefits

The Company provided 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 could 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
Hans Jochum Horn	24 October 2017	3 years	3 months	N/A
Andrey Shtyrba	24 October 2017	3 years	3 months	N/A
Adrian Coates	8 December 2017	3 years	3 months	N/A
Michael Bakunenko	8 December 2017	3 years	3 months	N/A
Vladimir Tatarchuk	28 January 2016	3 years	3 months	N/A
Vladimir Rusinov	28 January 2016 removed 30 June 2017, reappointed 8 December 2017	3 years	3 months	30 June 2017, reappointed 8 December 2017
Paul Ostling	28 January 2016	3 years	3 months	24 October 2017
Alan Bigman	1 April 2016	3 years	3 months	24 October 2017
Bernie Sucher	1 April 2016	3 years	3 months	24 October 2017

All Non-Executive Directors' service contracts were put in place for an initial term of three years, a finite term, as recommended by Section B.2.3 of the Code. In the event of early termination, the Non-Executive Directors' contracts provided for compensation of three months base fee.

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).

These fees were reviewed at the 2017 year end and no increase has been awarded from their 2017 level. Non-Executive Directors' fees for 2017 and 2018 are as follows:

	2017	**2018**	% increase from 2017 to 2018
Chairman of the Company	$250,000	**$250,000**	nil
Board membership fee	$120,000	**$120,000**	nil
Senior Independent Director	$15,000	**$15,000**	nil
Committee chairman - Audit	$15,000	**$15,000**	nil
Committee chairman - Remuneration	$15,000	**$15,000**	nil
Committee chairman - Nomination	$15,000	**$15,000**	nil
Committee membership – Audit	$7,500	**$7,500**	nil
Committee membership – Remuneration	$7,500	**$7,500**	nil
Committee membership – Nomination	$7,500	**$7,500**	nil

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.

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.

GOVERNANCE

Directors' Remuneration Report

The CEO's remuneration includes base salary, taxable benefits 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 2016 and 2017 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
	2017 $'000	2016 $'000	% change 2016 - 17	% change 2016 - 17
Base salary	**325**	652	(50)%	4%
Taxable benefits	**-**	29	(100)%	(100)%
Annual bonus	**-**	634[1]	(100)%[1]	(100)%[1]
Total	**325**	1,315	(75)%	(65)%

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

The level of base salary for the CEO has remained unchanged for both 2016 and 2017. The difference shown above is a result of the removal of Thomas Reed as Director from the Board of the Company following results of the AGM on 30 June 2017.

Relative importance of spend on pay

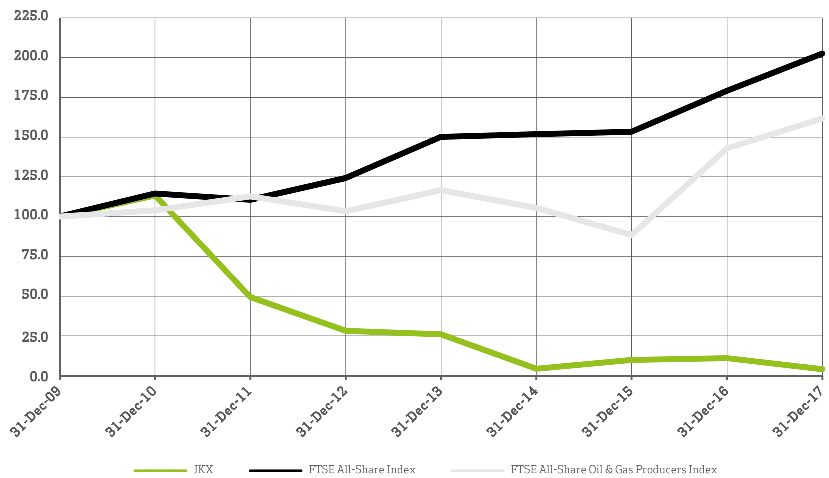
The table below show shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2016 and 31 December 2017, along with the percentage change in both.

	2017 $'000	2016 $'000	Year-on-year change
All-employee remuneration	**14,104**	17,226	(18)%
Distributions to shareholders	**–**	–	–

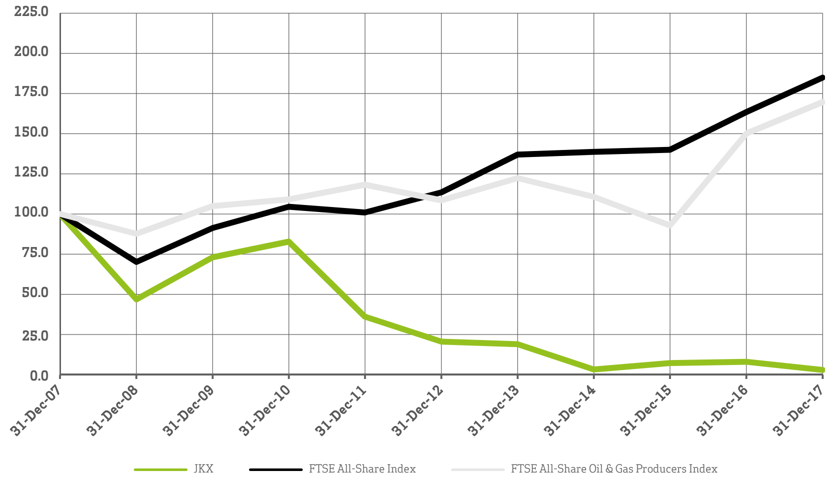
Review of past performance

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 a 9-year and 11-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



The table below details the Chief Executive's "single figure" remuneration over a 9-year period. An investment of £100 in the Company on 31 December 2008 was worth £4.0 at 31 December 2017 (same investment on 31 December 2008 was worth £17.10 at 31 December 2016). 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	**2017**
CEO single figure of remuneration - Paul Davies ($'000)	933	818	832	983	1,141	1,043	1,322	62	**-**
CEO single figure of remuneration – Tom Reed ($'000)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,261	**325**
Total CEO single figure of remuneration ($'000)	933	818	832	983	1,141	1,043	1,322	1,323	**325**
STI award rates against maximum opportunity	64%	40%	43%	33%	62%	33 %	86%	70%	**0%**
LTI award rates against maximum opportunity	0%	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 witheld[1]	85,133	0.08%
Total votes (for, against and withheld)	104,890,395	

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

GOVERNANCE

Directors' Remuneration Report

At the AGM held on 30 June 2017, the votes on the revised Directors' Remuneration Policy, which has not been approved, received the following votes from shareholders:

	Total number of votes	% of votes cast
For	20,865,585	19.75%
Against	84,759,100	80.25%
Total votes cast (for and against, excluding withheld votes)	105,624,685	100 %
Votes witheld[1]	18,582	0.02%
Total votes (for, against and withheld)	105,643,267	

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 30 June 2017, the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	55,154,208	52.22%
Against	50,470,947	47.78%
Total votes cast (for and against, excluding withheld votes)	105,625,155	100 %
Votes witheld[1]	18,112	0.02%
Total votes (for, against and withheld)	105,643,267	

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 revised Directors' Remuneration Policy, this was in part due to what the shareholders considered to be excessive reward for the Former Executive Directors that were in place during 2016-2017 for unsatisfactory operational, financial and strategic management. Proposed new Future Policy was provided with the 2017 Notice of AGM.

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 2017, based on that day's closing middle market price of an ordinary share of the Company of 11.00 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 – removed 30 June 2017							
Tom Reed	-	-	-	-	100%	-	No
Russell Hoare	-	-	-	-	100%	-	No

Non-Executive Directors	
Hans Jochum Horn	
Andrey Shtyrba	
Adrian Coates	
Michael Bakunenko	
Vladimir Tatarchuk	-[1]
Vladimir Rusinov	-[1]
Non-Executive Directors – resigned 24 October 2017	
Paul Ostling	-
Alan Bigman	-
Bernie Sucher	-

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 $3.4m, which are held by Proxima Capital Group. At 31 December 2017, if fully converted, the convertible bonds held by Proxima would have resulted in the issue of a maximum of 2,819,077, representing 1.64% of the issued share capital, based on the conversion price of 76.29 pence per ordinary share and a US$/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 2017, 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

Andrey Shtyrba
Chairman of the Remuneration Committee
27 April 2018

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 limited by shares and 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 (2016: nil). The Group made charitable contributions of US$ 923,000 (2016: US$291,014) for local educational, health, sport and village infrastructure initiatives in Ukraine and Russia.

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 27 to 31.

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 34 to 39 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 2017, the Company did not purchase in the market any of its own ordinary 10p shares, to be held as treasury shares. At 31 December 2017, 402,771 (2016: 402,771) shares continued to be held as treasury shares representing 0.23% (2016: 0.23%) of the shares then in issue.

Restrictions on voting

No member shall, unless the Directors otherwise determine, be entitled in respect of any share held by him/her to vote either personally or by proxy at a shareholders' meeting or to exercise any other right conferred by membership in relation to shareholders' meetings if any call or other sum presently payable by him/her to the Company in respect of that share remains unpaid. In addition, no member shall be entitled to vote if he/she has been served with a notice after failing to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

Amendment of Articles of Association

Any amendments to the Articles may be made in accordance with the provisions of the Companies Act by way of special resolution.

Directors

The names and biographies of the Directors who held office as at the date of this Annual Report are set out on pages 42 and 43.

Directors who held office throughout 2017 and the changes made to the Board at that date are set out below:

Name	Appointed	Position
Hans Jochum Horne	24th October 2017	Non Executive Chairman
Andrey Shtyrba	24th October 2017	Non Executive Director
Adrian Coates	8th December 2017	Non Executive Director
Michael Bakunenko	8th December 2017	Non Executive Director
Vladimir Rusinov	8th December 2017	Non Executive Director
Vladimir Tatarchuk	28th January 2016	Non Executive Director

	Removed/Resigned	
Paul Ostling	Resigned 24th October 2017	Non Executive Chairman
Tom Reed	Removed 30th June 2017	Chief Executive Officer
Russell Hoare	Removed 30th June 2017	Chief Financial Officer
Vladimir Rusinov	Removed 30th June 2017	Non Executive Director
Alan Bigman	Resigned 24th October 2017	Non Executive Director
Bernie Sucher	Resigned 24th October 2017	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 2017 Ordinary Share Number	31 December 2017 Ordinary Share Number
Hans Jochum Horn[1]	Not Applicable	-
Andrey Shtyrba [2]	Not Applicable	-
Adrian Coates[3]	Not Applicable	-
Michael Bakunenko[4]	Not Applicable	See Note 4
Vladimir Tatarchuk [5]	Not Applicable	See note 7
Vladimir Rusinov[6]	Not Applicable	See note 7

1. Appointed 24th October 2017
2. Appointed 24th October 2017
3. Appointed 8th December 2017
4. Michael Bakunenko was appointed on 8th December 2017 and is deemed to have a beneficial interest in 47,287,027 ordinary shares
5. Appointed 28 January 2016
6. Appointed 28th January 2016, removed 30th June 2017, reappointed 8th December 2017
7. 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 $3.4m, which are held by Proxima Capital Group. If fully converted at 31 December 2017, the convertible bonds held by Proxima would result in the issue of a maximum of 2,819,077, representing 1.64% of the issued share capital, based on the conversion price of 76.29 pence per ordinary share and a US$/GBP exchange rate of 1.5809. Further information on the terms and conditions of the Convertible Bonds is disclosed in Notes 12 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.

Directors' report – other disclosures

Details of Directors' remuneration and share options are shown in the Remuneration Report on pages 66 to 70. 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.

Substantial shareholders

At 31 December 2017 and at 28 February 2018, 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 2017 Number of shares	31 December 2017 % of total voting rights	28 February 2018 Number of shares	28 February 2018 % of total voting rights
Eclairs Group Limited	47,287,027	27.54%	47,287,027	27.54%
Proxima Capital Group	34,288,253	19.97%	34,288,253	19.97%
Neptune Invest & Finance Corp	22,295,598	12.98%	22,295,598	12.98%
Keyhall Holding Limited	19,656,344	11.45%	19,656,344	11.45%
Interneft Ltd	11,368,460	6.62%	11,368,460	6.62%

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 2017. 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 90.

Future developments within the Group

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

Loss

Details of the Company's loss for the year ended 31 December 2017 can be found on page 85.

Capitalised interest

No interest was capitalised in 2017 (2016: nil).

Long term incentive schemes

See pages 64 to 68 of the Directors' Remuneration Report.

Directors' responsibilities

Each of the Directors, whose names and functions are listed on pages 42 and 43, 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

Prism CoSec Ltd.
Company Secretary
27 April 2018

Independent Auditors' Report

to the members of JKX Oil & Gas plc

Report on the audit of the group financial statements

Qualified opinion

In our opinion, except for the possible effects of the matter described in the "Basis for qualified opinion paragraph" below, 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 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with 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.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated statement of financial position as at 31 December 2017; the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for qualified opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

As discussed in Note 1 to the group financial statements, there were a number of payments made to legal advisers in Ukraine during the year ended 31 December 2017, which in total amounted to approximately $1.00m. The Audit Committee engaged an independent firm to conduct a forensic examination of the process for appointment of legal advisers in Ukraine, the manner in which these specific payments were made and to investigate the nature of such payments and services provided. While this investigation concluded there was a breakdown in the group's internal control in relation to the engagement and contracting with these legal advisers, the Committee has not been able to conclude on the nature of the payments made, and the extent to which these were valid payments for legal services provided. We have therefore not been able to obtain sufficient, appropriate audit evidence, and as such we are not able to conclude whether the payments made to these advisers were for a proper purpose and are appropriately classified in the income statement. As a result, our audit opinion is qualified in respect of this limitation on the scope of our audit.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the group in the period from 1 January 2017 to 31 December 2017.

Material uncertainty relating to going concern

Without further modifying our opinion on the financial statements, 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 2017, the Group has recorded a provision of $37.1m 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. These conditions, along with the other matters explained in note 2 to the financial statements, indicate 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.

Explanation of material uncertainty

Note 2 to the financial statements details the directors' disclosures of the material uncertainty relating to going concern.

As described in Note 2, 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 $37.1 million (including interest and penalties, see Note 27 to the financial statements). PPC continues to contest these claims through the Ukrainian legal system. There is a risk that one or more of the ongoing court cases ends with an unfavourable outcome, and amounts become immediately due and payable. If this were the case, the group may not have sufficient cash to meet its obligations as they fall due.

Given this risk, the directors have drawn attention to this in disclosing a material uncertainty relating to going concern in the basis of preparation to the financial statements.

What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included updating our understanding of events in relation to the ongoing disputes that have occurred in 2017 and up to the date of this report. We have explained this further in the Key Audit Matter "Taxation in Ukraine - production taxes" below which deals with the accounting for the Rental Fees.

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, capital costs and operating costs. We considered the consistency of the forecast with 2017 actuals and other forecasts made by management, for example in impairment models. We also considered historical accuracy of management's forecasting.

We reviewed management's downside sensitivities and performed our own sensitivity analysis, focusing on reasonable downside scenarios including lower than forecast production and lower commodity prices. We also understood the level of committed vs discretionary spend to determine where costs could be reduced if necessary to mitigate any short term cash shortfall.

The base case going concern forecast does not include any outflows in respect of the Rental Fee exposures. The total amounts which could become payable are material, and the group may not have sufficient cash to meet the obligations should they become immediately due. This has been deemed a material uncertainty which, if realised, may affect the group's ability to continue as a going concern.

Our audit approach

Overview - materiality, audit scope, key audit matters

- Overall group materiality: $1.15m (2016: $1.05m), based on 0.5% of total assets. We used a lower specific materiality for income statement line items which was based on 1% of total revenues ($0.76m).
- We identified three significant components out of the group's 37 reporting units, which we selected due to their size and contribution to the group's total assets and revenues.
- Specific audit procedures were performed on certain balances and transactions at a further two reporting units.
- Payments to legal advisers in Ukraine.
- Use of the going concern assumption.
- Review of carrying value of oil and gas assets – Russia, Ukraine and Hungary.
- Taxation in Ukraine - production taxes.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and equivalent local laws and regulations applicable to significant component teams, and compliance with terms of oil and gas licences in the group's key operating locations. Our tests included, but were not limited to, enquiries of management, review of minutes of meetings of the Board of Directors and review of significant component auditors' work. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We found payments to legal advisers in Ukraine to be a key audit matter, and our opinion is qualified in this respect as discussed in the Basis for qualified opinion paragraph above. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the Basis for qualified opinion and Material uncertainty relating to going concern sections, we have determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Independent Auditors' Report

to the members of JKX Oil & Gas plc

Key audit matter	How our audit addressed the key audit matter
Review of carrying value of oil and gas assets- Russia, Ukraine and Hungary Refer to page 58 (Audit Committee Report), page 97 (Critical accounting estimates and assumptions) and page 101 (Property, plant and equipment). Oil and gas assets in Russia, Ukraine and Hungary recorded within Property, plant & equipment total $193.0m at the 2017 year-end after the recognition of an impairment charge of $2.8m and an impairment reversal of $5.6m. We focused on this area due to the material nature of the balance and the judgement involved in impairment assessments, which depend on estimates of forward looking data including oil and gas production, commodity prices and future costs. *Ukraine* There are two Cash Generating Units ("CGU") in Ukraine. Due to a revision to field development plans and resulting reduction in 2P reserves, management identified an impairment trigger in respect of the Novomykolaivske CGU. The resulting impairment test showed no impairment loss had occurred. In respect of the Elizavetivske CGU, due to better than expected production in 2017 and upward revision in reserves, management have identified an impairment reversal of $5.6m which has arisen in the year. *Russia* In 2017, there were delays in completing the workover of well 5, which resulted in cost overruns and production from the Koshekhablskoye CGU being lower than forecast. Management concluded this represented an impairment trigger and performed an impairment test, which showed no impairment loss had arisen. *Hungary* An impairment trigger was identified on the Hajdunanas IV CGU in Hungary due to 2017 production being lower than forecast in the 2016 impairment test. As a result of management's impairment test, the Hajdunanas IV assets were written off in full.	We examined management's assessment of impairment indicators for the group's oil and gas assets, and agreed with their conclusion that impairment triggers had arisen on the Novomykolaivske, Koshekhablskoye and Hajdunanas IV CGU's. Accordingly, we obtained management's impairment assessments and performed the following procedures: ▪ Tested that management's calculation of recoverable amount, based on Fair Value Less Costs of Disposal ("FVLCD"), was in line with accounting standards; ▪ Obtained management's internal reserves reassessment and understood changes to 2P reserves compared to the prior year, when reserves were supported by an updated Competent Person's Report ("CPR"). We also considered the competence of management's internal experts to conclude that the closing 2P reserves figures were reliable; ▪ Compared management's forecast oil and gas prices to consensus forecasts obtained from a collection of brokers and independent consultants. We found that management's forecasts were within a reasonable range of the consensus forecasts; ▪ For the Koshekhablskoye CGU, where prices are regulated, we compared the 2018 price forecast to current contracted prices and confirmed the appropriateness of assumed inflationary price increases thereafter by agreeing to a Russian Ministry of Economics forecast; ▪ Compared capital and operating cost forecasts to latest field development plans, and considered changes since the prior year CPR, taking into account 2017 capital programs. We also considered historical forecasting accuracy of management to assess that future cost estimates are reliable; and ▪ Benchmarked the key inputs into management's discount rates to arrive at a range we considered reasonable. Management's discount rates for each CGU were within this range. We also evaluated the disclosure of impairment tests in the financial statements and concluded these are appropriate. In respect of the Elizavetivske impairment reversal, we obtained management's cash flow model prepared under a FVLCD methodology. We tested assumptions by performing the same procedures as those outlined above. We also tested that the amount of the impairment reversal was appropriate, taking into account the requirements of IAS 36 as they apply to impairment reversals.
Taxation in Ukraine - production taxes Refer to page 57 (Audit Committee Report) and page 116 (Provisions) and page 120 (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	We updated our understanding of events in relation to the ongoing disputes that have occurred in 2017 and up to the date of this report. This included discussions with our internal legal specialists in Ukraine, the Group's internal legal department and review of the High Court ruling in the United Kingdom. *2010 case*

total assessments as well as potential interest and penalties for these periods are recorded as provisions in the consolidated statement of financial position and total $37.1m (2016: $33.9m). The movement in the year is attributable to accrual of additional late payment interest and fluctuations in the UAH to USD exchange rate.

International arbitration
Separate from Ukrainian court proceedings, as set out in the Group's 2016 Annual Report, the Group pursued an award from an international arbitrator alleging breaches by Ukraine of its obligations under certain international treaties. 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 $11.8m plus interest and costs of $0.3m in relation to subsidiary claims.

The Ukrainian government lodged an appeal against the tribunal award in the High Court of the United Kingdom. In October 2017, the High Court dismissed the appeal and there are no further avenues of appeal for the Ukrainian government. Management have disclosed a contingent asset in respect of this award due to some doubt about the likely success of enforcement of the tribunal award in Ukrainian courts.

There are multiple legal proceedings in respect of the 2010 case in which the Group is challenging both the tax authorities application of tax law and also the conduct of the tax audit. While the Group were successful in the most recent court hearings in respect of the 2010 dispute, there remains legal avenues for appeal for the Ukrainian government including a pending cassation hearing in the Supreme Court of Ukraine. The outcome of the cassation hearing is difficult to predict, so we agree with management it is appropriate to continue to recognise a provision in respect of the 2010 exposure.

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 increased the likelihood of a potential cash outflow in respect of the 2015 dispute. This is because the Group relied on an 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. There have not been any major developments in 2017. Actions in the Ukrainian courts were suspended pending the outcome of the tribunal hearing and have not yet resumed. Notwithstanding this, considering the ruling by the tribunal in February 2017 which dismissed the Group's main claim, we concur with management the likelihood of a cash outflow in respect of the underpaid Rental Fees in 2015 is probable and it is appropriate to retain a provision in the financial statements.

Arbitration award

As stated above, the Group was unsuccessful in respect of its main claim to the international tribunal however the tribunal awarded the Group $11.8m in damages plus interest, and costs of $0.3m in relation to subsidiary claims. In October 2017, the High Court dismissed the Ukrainian government's appeal. While binding under international law, the tribunal ruling still requires enforcement in the Ukrainian courts. As such, we concur with management that it is appropriate not to record a receivable at 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 structure of the group, the accounting processes and controls, and the industry in which it 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 financial statements are a consolidation of 37 reporting units, comprising the Group's operating businesses and centralised functions within these segments. We performed full scope audit procedures over the financial information of three reporting units, one located in the UK and one each in Russia and Ukraine. Because of their size, this gave us coverage of over 99% of group revenues. Audit procedures were also performed on specific financial statement line items in a further two reporting units, including a UK service company and an operating entity in Hungary.

Apart from the full scope audits performed over the Ukrainian and Russian reporting entities, all work was performed by the UK group engagement team. The group engagement team also performed certain audit procedures in respect of the Russian and Ukrainian entities, namely work over management's impairment reviews and assessment of cash flows contributed by these entities forming part of the group's going concern assessment.

Independent Auditors' Report

to the members of JKX Oil & Gas plc

We also visited the group's operating locations in Russia and Ukraine during the 2017 audit cycle, including meeting with local management and our component audit teams.

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 in aggregate 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	\$1.15m (2016: \$1.05m).
How we determined it	0.5% of total assets.
Rationale for benchmark applied	We considered the activities of the group and also materiality levels used by auditors of other similar upstream oil and gas companies. Due to the Group's declining profitability, and given a significant portion of the group's value is captured in oil and gas assets, we believe an asset measure is the most relevant. We used a lower specific materiality for certain income statement financial statement line items. This approach reflects the relative size of income statement balances when compared to the balance sheet. This specific materiality was calculated based on 1% of total revenues (\$0.76m).

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between \$0.60m and \$1.00m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$0.06m (2016: \$0.05m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to other than the material uncertainty we have described in the material uncertainty relating to going concern section above. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 40 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 40 of the Annual Report 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.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group its environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 77, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group obtained in the course of performing our audit.
- The section of the Annual Report on page 56 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on pages 76-77, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Independent Auditors' Report

to the members of JKX Oil & Gas plc

Other required reporting

Companies Act 2006 exception reporting

In respect solely of the limitation on our work relating to payments to legal advisers in Ukraine, described in the Basis for qualified opinion paragraph above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

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.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 18 May 2006 to audit the financial statements for the year ended 31 December 2006 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2006 to 31 December 2017.

Other matter

We have reported separately on the company financial statements of JKX Oil & Gas plc for the year ended 31 December 2017 and on the information in the Directors' Remuneration Report that is described as having been audited. That report includes a material uncertainty related to going concern section.

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 April 2018

GROUP FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December 2017

	Note	2017 $000	2016 $000
Revenue	4	76,436	73,848
Cost of sales			
Exceptional item –production based taxes	18	(4,357)	(24,340)
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets	5	5,636	-
Exceptional item – provision for impairment of Hungary and Slovakia	5	(11,450)	(2,000)
Exceptional item – write off of appraisal expenditure in Ukraine	5	(9,391)	-
Other production based taxes	20	(16,956)	(17,737)
Other cost of sales	20	(36,647)	(38,290)
Total cost of sales	20	(73,165)	(82,367)
Gross profit/(loss)		3,271	(8,519)
Disposal of property, plant and equipment	5	(548)	-
Exceptional items	19	(1,513)	(4,484)
Other administrative expenses		(15,862)	(22,182)
Total administrative expenses		(17,923)	(26,666)
Gain on foreign exchange		1,424	431
Profit/(loss) from operations before exceptional items		7,847	(3,930)
Loss from operations after exceptional items		(13,228)	(34,754)
Finance income	21	348	1,836
Finance costs	22	(3,164)	(4,636)
Fair value movement on derivative liability	13	(3)	(599)
Loss before tax		(16,047)	(38,153)
Taxation – current	27	(2,964)	(1,341)
Taxation – deferred			
- before the exceptional items	27	(2,765)	1,209
- on the exceptional items	27	4,113	1,170
Total taxation	27	(1,616)	1,038
Loss for the year attributable to equity shareholders of the parent company		(17,663)	(37,115)
Basic loss per 10p ordinary share (in cents)			
- before exceptional items	29	(0.41)	(4.34)
- after exceptional items	29	(10.26)	(21.56)
Diluted loss per 10p ordinary share (in cents)			
- before exceptional items	29	(0.41)	(4.34)
- after exceptional items	29	(10.26)	(21.56)

GROUP FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	2017 $000	2016 $000
Loss for the year	**(17,663)**	(37,115)
Other comprehensive income to be reclassified to profit or loss in subsequent periods when specific conditions are met		
Currency translation differences	7,118	19,634
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Remeasurements of post-employment benefit obligations	(333)	-
Other comprehensive income for the year, net of tax	6,785	19,634
Total comprehensive income attributable to:		
Equity shareholders of the parent	**(10,878)**	(17,481)

GROUP FINANCIAL STATEMENTS

Consolidated statement of financial position

For the year ended 31 December 2017

	Note	2017 $000	2016 $000
ASSETS			
Non-current assets			
Property, plant and equipment	5(a)	194,031	194,510
Intangible assets	5(b)	-	7,706
Other receivable	6	3,136	3,277
Deferred tax assets	28	20,840	18,724
		218,007	224,217
Current assets			
Inventories	8	5,824	4,585
Trade and other receivables	9	4,969	4,174
Restricted cash	10	497	201
Cash and cash equivalents	10	6,929	14,067
		18,219	23,027
Total assets		236,226	247,244
LIABILITIES			
Current liabilities			
Current tax liabilities		(645)	(592)
Trade and other payables	11	(12,368)	(15,095)
Borrowings	12	(7,630)	(16,795)
Provisions	18	(37,269)	(34,510)
Derivatives	13	-	(1,341)
		(57,912)	(68,333)
Non-current liabilities			
Provisions	18	(5,341)	(4,264)
Other payables		(3,136)	(3,277)
Borrowings	12	(9,003)	-
Derivatives	13	(3)	-
Deferred tax liabilities	28	(14,922)	(14,537)
		(32,405)	(22,078)
Total liabilities		(90,317)	(90,411)
Net assets		145,909	156,833
EQUITY			
Share capital	16	26,666	26,666
Share premium		97,476	97,476
Other reserves	17	(153,126)	(159,911)
Retained earnings		174,893	192,602
Total equity		145,909	156,833

These financial statements on pages 85 to 125 were approved by the Board of Directors on 27 April 2018 and signed on its behalf by:

Hans Jochum Horn Chairman

Ben Fraser Chief Financial Officer

GROUP FINANCIAL STATEMENTS

Consolidated statement of changes in equity

For the year ended 31 December 2017

	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 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
At 1 January 2017	26,666	97,476	192,602	(159,911)	156,833
Loss for the year	-	-	(17,663)	-	(17,663)
Exchange differences arising on translation of overseas operations	-	-	-	7,118	7,118
Remeasurement of post-employment benefit obligations	-	-	-	(333)	(333)
Total comprehensive loss attributable to equity shareholders of the parent	-	-	(17,663)	6,785	(10,878)
Transactions with equity shareholders of the parent					
Share-based payment credit	-	-	(46)	-	(46)
Total transactions with equity shareholders of the parent	-	-	(46)	-	(46)
At 31 December 2017	26,666	97,476	174,893	(153,126)	145,909

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 2017

	Note	2017 $000	2016 $000
Cash flows from operating activities			
Cash generated from operations	31	15,723	17,038
Interest paid		(1,760)	(2,392)
Income tax paid		(2,933)	(10)
Net cash generated from operating activities		11,030	14,636
Cash flows from investing activities			
Interest received		348	753
Dividend received		114	-
Proceeds from sale of property, plant and equipment		291	550
Purchase of intangible assets		(9,581)	(90)
Purchase of property, plant and equipment		(7,131)	(7,366)
Net cash used in investing activities		(15,959)	(6,153)
Cash flows from financing activities			
Restricted cash		(296)	111
Repayment of borrowings		(1,920)	(10,856)
Repurchase of convertible bonds		-	(9,036)
Net cash used in financing activities		(2,216)	(19,781)
Decrease in cash and cash equivalents in the year		(7,145)	(11,298)
Cash and cash equivalents at 1 January		14,067	25,943
Effect of exchange rates on cash and cash equivalents		7	(578)
Cash and cash equivalents at 31 December	10	6,929	14,067

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.

As described in the Chairman's statement on page 5, an investigation into the procurement of legal services in Ukraine, and subsequent payments made to legal advisers, has been commissioned by the Audit Committee and is now complete. While this investigation concluded there was a breakdown in the group's internal control in relation to the engagement and contracting with these legal advisers, the Committee has not been able to conclude on the nature of the payments made, and the extent to which these were valid payments for legal services provided. The current Board has introduced a number of measures to strengthen the Company's internal control systems and this work is underway.

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 $37.1 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 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, 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 $25 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.

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 2016, except for the following:

- IAS 7 'Statement of cash flows' (Amendments) 01-Jan-17
- IAS 12 'Income taxes' (Amendments) 01-Jan-17

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 2017 and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

Effective for annual periods beginning on or after

- IFRS15 'Revenue from contracts with customers' 01-Jan-18

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

To assess the impact of IFRS 15 on the Group's revenue recognition, a 5-step model had been applied to analyse sales contracts in Ukraine, Russia and Hungary. According to the analysis carried out by the Group, the current practice of revenue recognition complies with the new IFRS 15 revenue recognition standard and no impact is expected from the adoption of the new standard on 1 January 2018.

- IFRS 9 'Financial instruments' 01-Jan-18

The Group has reviewed its financial assets and is expecting no impact from the adoption of the new standard on 1 January 2018. The majority of the Group's financial assets that are currently classified at amortised cost will satisfy the conditions for classification at amortised cost and hence there will be no change to the classification for these assets. However, investments in equity instruments do not meet the criteria to be classified at amortised cost and will have to be reclassified to financial assets at fair value through profit or loss as of 1 January 2018. The Group is currently estimating the impact of reclassification on the value of its unlisted investment as there is a lack of liquid market and the fair value is judgemental.

We have also focused on the potential impact of transition to IFRS 9 on the carrying value of trade receivables. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group does not expect the new guidance in IFRS 9 to result in material changes to impairment provisioning based on the assessments undertaken to date.

Financial liabilities held by the Group comprise of trade and other payables and Convertible Bonds due 19 February 2020. Convertible Bonds were restructured on 3 January 2017. The Group has reviewed its financial liabilities and is expecting no impact from the adoption of the new standard on 1 January 2018:

Under IAS 39 the revised terms and conditions of the Bond were considered to be a modification and therefore the difference in the amortised cost carrying amount at the modification date was 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. In accordance with IFRS 9, following a modification or renegotiation of a financial asset or financial liability that does not result in de-recognition, an entity is required to recognise any modification gain or loss immediately in profit or loss. Any gain or loss is determined by recalculating the gross carrying amount of the financial liability by discounting the new contractual cash flows using the original effective interest rate. The difference between the original contractual cash flows of the Bond and the modified cash flows discounted at the original effective interest rate is trivial and hence there will be no impact on adoption of IFRS 9 on 1 January 2018.

- IFRS 2 'Share-based payment' (Amendments) 01-Jan-18
- IFRS 16 'Leases' 01-Jan-19

As a Lessee, the Group is required to recognise all lease contracts on the balance sheet subject to certain, limited exceptions. The Group will not be required to recognise lease contracts with a term of less than 12 months on the balance sheet. The Group is currently assessing the impact of IFRS 16.

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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 2017 were $1:£0.74 (2016: $1:£ 0.81), $1: 28.07 Hryvnia (2016: $1: 27.19 Hryvnia), $1: 57.60 Roubles (2016: $1: 60.66 Roubles), $1: 258.63 Hungarian Forint (2016: $1: 293.40 Hungarian Forint).

Goodwill and fair value adjustments arising on acquisition are treated as assets/liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment and other intangible assets

Property plant and equipment comprises the Group's tangible oil and gas assets together with computer equipment, motor vehicles and other equipment and are carried at cost, less any accumulated depreciation and accumulated impairment losses. Cost includes purchase price and construction costs for qualifying assets, together with borrowing costs where applicable, in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Oil and gas assets

Exploration, evaluation and development expenditure is accounted for under the 'successful efforts' method. The successful efforts method means that only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised.

Exploration and evaluation costs are valued at costs less accumulated impairment losses and capitalised within intangible assets. Development expenditure on producing assets is accounted for in accordance with IAS 16, 'Property, plant and equipment'. Costs incurred prior to obtaining legal rights to explore are expensed immediately to the income statement.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible assets or property plant and equipment according to their nature. Intangible assets are not amortised and comprise costs relating to the exploration and evaluation of properties which the Directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to property plant and equipment following an impairment review and are depreciated accordingly. Where properties are appraised to have no commercial value, the associated costs are treated as an impairment loss in the period in which the determination is made.

Costs related to hydrocarbon production activities are depreciated on a field by field unit of production method based on commercial proved plus probable reserves of the production licence, except in the case of assets whose useful life differs from the lifetime of the field, which are depreciated on a straight-line basis over their anticipated useful life of up to 10 years.

The calculation of the 'unit of production' depreciation takes account of estimated future development costs and is based on current period end unescalated price levels. The 'unit of production' rate is set at the beginning of each accounting period. Changes in reserves and cost estimates are recognised prospectively.

Other assets
Depreciation is charged so as to write off the cost, less estimated residual value, over their estimated useful lives, using the straight-line method, for the following classes of assets:

Motor vehicles	- 4 years
Computer equipment	- 3 years
Other equipment	- 5 to 10 years

The estimated useful lives of property plant and equipment and their residual values are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Assets under construction are not subject to depreciation until the date on which the Group makes them available for use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the relevant period.

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the criteria for recognition under IFRS 3 (revised) are recognised at their fair value at the acquisition date. In a business combination achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Acquisition costs are expensed.

Goodwill is recognised as an asset and is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Impairment losses on goodwill are not reversed.

On disposal of a subsidiary or 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

GROUP FINANCIAL STATEMENTS
Notes to consolidated financial statements

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.

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 2020 – 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. 2016 gain on the repurchase of convertible bonds (see Note 21) had been recognised in the income statement under Finance income in the year ended 31 December 2016.

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'.

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.

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.

Pension obligations

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid (hryvnia), and that have terms approximating to the terms of the related obligation. Currently, there is no sufficiently developed market of bonds denominated in hryvnia with a sufficiently long period of repayment which would be consistent with an estimated period of payment of all benefits. In such cases the Standard allows using current market rates to discount respective short-term payments and calculating the discount rate for long-term liabilities by extending the current market rates along the yield curve.

The current service cost of the defined benefit plan, recognised in the Income Statement, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes curtailments and settlements. Past-service costs are recognised immediately in the Income Statement.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the statement of profit or loss.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

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

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

- 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 61 and 73 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, where indicators of impairment have been identified on a CGU. 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.

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 ((a))

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.

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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 (2016: 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.

2017	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	-	16,458	636	174	17,268	-	17,268
– Gas	-	35,835	16,998	1,630	54,463	-	54,463
– Liquefied petroleum gas	-	4,607	-	-	4,607	-	4,607
– Management services/other	33	50	15	-	98	-	98
	33	56,950	17,649	1,804	76,436	-	76,436
Inter segment revenue:							
– Management services/other	11,020	-	-	-	11,020	(11,020)	-
	11,020	-	-	-	11,020	(11,020)	-
Total revenue	11,053	56,950	17,649	1,804	87,456	(11,020)	76,436
Loss before tax:							
Loss from operations	(1,911)	3,733	(2,692)	(12,255)	(13,125)	(103)	(13,228)
Finance income					348	-	348
Finance cost					(3,164)	-	(3,164)
Fair value movement on derivative liability					(3)	-	(3)
					(15,944)	(103)	(16,047)
Assets							
Property, plant and equipment	268	90,024	102,961	778	194,031	-	194,031
Intangible assets	-	-	-	-	-	-	-
Other receivable	-	-	3,136	-	3,136	-	3,136
Deferred tax	-	7,536	11,293	2,011	20,840	-	20,840
Inventories	-	2,497	3,327	-	5,824	-	5,824
Trade and other receivables	572	1,528	2,004	865	4,969	-	4,969
Restricted cash	269	-	-	228	497	-	497
Cash and cash equivalents	2,762	3,141	558	468	6,929	-	6,929
Total assets	3,871	104,726	123,279	4,350	236,226	-	236,226
Total liabilities	(18,227)	(56,732)	(9,313)	(6,045)	(90,317)	-	(90,317)
Non cash expense (other than depreciation and impairment)	80	-	36	-	116	-	116
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets	-	5,636	-	-	5,636	-	5,636
Exceptional item - provision for impairment of oil and gas assets	-	-	-	2,755	2,755	-	2,755
Exceptional Item - write off of exploration and appraisal costs	-	-	-	8,695	8,695	-	8,695
Exceptional item – write off of appraisal expenditure in Ukraine	-	9,391	-	-	9,391	-	9,391
Exceptional item – production based taxes	-	4,357	-	-	4,357	-	4,357
Exceptional items - other	1,513	-	-	-	1,513	-	1,513
Increase in property, plant and equipment and intangible assets	203	12,688	5,771	660	19,322	-	19,322
Depreciation, depletion and amortisation	116	12,139	5,173	-	17,428	-	17,428

GROUP FINANCIAL STATEMENTS
Notes to consolidated financial statements

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 item – 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

Major customers	2017 $000	2016 $000
Russia	**16,964**	19,008

There is one customer in Russia that exceeds 10% of the Group's total revenues (2016: one in Russia).

5. Property, plant and equipment and Intangible assets
5.(a) Property, plant and equipment

2017	Oil and gas assets Oil and gas fields Ukraine $000	Gas field Russia $000	Oil and gas fields Hungary $000	Other assets $000	Total $000
Group					
Cost					
At 1 January	564,023	213,181	36,971	18,296	832,471
Additions during the year	3,172	5,756	471	344	9,743
Foreign exchange equity adjustment	-	12,088	-	117	12,205
Disposal of property, plant and equipment	-	(876)	-	(500)	(1,376)
At 31 December	567,195	230,149	37,442	18,257	853,043
Accumulated depreciation, depletion and amortisation and provision for impairment					
At 1 January	471,013	115,293	34,687	16,968	637,961
Depreciation on disposals of property, plant and equipment	-	(24)	-	(487)	(511)
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets	(5,636)	-	-	-	(5,636)
Exceptional item – provision for impairment of oil and gas assets in Hungary	-	-	2,755	-	2,755
Foreign exchange equity adjustment	-	6,957	-	58	7,015
Depreciation charge for the year	11,794	4,962	-	672	17,428
At 31 December	477,171	127,188	37,442	17,211	659,012
Carrying amount					
At 1 January	93,010	97,888	2,284	1,328	194,510
At 31 December	90,024	102,961	-	1,046	194,031

Oil and gas fields in Ukraine and Russia include $2.6m and $4.8m respectively relating to items under construction (2016: nil).

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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

Exceptional item – provision for impairment of oil and gas assets
During 2016 and 2017 impairment triggers were noted in respect of our oil and gas assets in Ukraine, Russia and Hungary. Full impairment disclosures for each of the impairment tests are made in the Note 5 (c).

5.(b) Intangible assets: exploration and evaluation expenditure

2017	Ukraine $000	Hungary $000	Rest of World $000	Total $000
Group				
Cost:				
At 1 January	1,308	814	13,247	15,369
Additions during the year	9,391	-	190	9,581
Exceptional item – write off of appraisal expenditure in Ukraine	(9,391)	-	-	(9,391)
Effect of exchange rates on intangible assets	-	-	799	799
At 31 December	1,308	814	14,236	16,358
Provision against oil and gas assets				
At 1 January	1,308	-	6,355	7,663
Exceptional item - Impairment of Hungarian and Slovakian assets	-	814	7,881	8,695
At 31 December	1,308	814	14,236	16,358
Carrying amount				
At 1 January	-	814	6,892	7,706
At 31 December	-	-	-	-

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

Exceptional item – write off of appraisal expenditure in Ukraine and provision for impairment of intangible assets
Full details are provided in the Note 5 (d).

5.(c) Impairment test for property, plant and equipment

A review was undertaken at the reporting date of the carrying amounts of property, plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review impairment triggers were noted in relation to the Ukrainian, Russian and the Hungarian assets.

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.

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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.

Impairment test for the Ukrainian oil and gas assets

The latest reserve estimates for the Novomykolaivske Complex included a significant downwards revision from 29.1 MMboe to 23.3 MMboe which constituted an impairment trigger. In addition, a review was also undertaken for the Elyzavetivske filed where performance through 2017 was significantly better than expected.

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 – NNC and Elyzavetivske

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available information assessed internally. Such information included 2P reserves for NNC and Elyzavetivske of 21.8 MMboe and 1.6 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 2031). 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 2018 is based on current and forecast gas prices realised by PPC. For the following ten years a forward gas price curve was used with gas prices remaining constant thereafter.
- Oil prices: the Company used a forward price curve for the next ten years and remaining constant thereafter.
- Production taxes: the Company has assumed production tax rates of 29% for gas and oil. A gas tax rate of 12% is applied to new wells.
- 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 19.2%. 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:

- the recoverable amount of NNC's oil and gas assets ($117.2m) exceeds its carrying amount ($83.9) by $33.3m and therefore NNC's oil and gas assets were not impaired.
- Elyzavetivske's recoverable amount (including the West Mashivska extension) ($12.3) exceeds its carrying amount ($0.5) by $11.8m, and therefore a reversal has been made, as explained in more detail below.

Elyzavetivske impairment reversal

During 2014 the Elyzavetivske field was impaired by $12.8m after significant erosion of the headroom from 2013. The main driver of the impairment was the reduction in reserves. Had this impairment not been made, then the carrying value of Elyzavetivske would have been $6.1m as at 31 December 2017. Therefore, a reversal of $5.6m has been recognised.

Sensitivity analysis for the NNC and Elyzavetivske

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:

		NNC Increase/(decrease) in headroom of $33.3m for NNC CGU $m	**Elyzavetivske** Increase/(decrease) in headroom of $11.8m for Elyzavetivske CGU $m
Impact if gas price:	increased by 20%	38.6	5.8
	reduced by 20%	(38.6)	(5.9)
Impact if gas production volumes:	increased by 10%	19.3	2.9
	decreased by 10%	(19.3)	(2.9)
Impact if future capital expenditure:	increased by 20%	(18.5)	(0.5)
	decreased by 20%	18.5	0.5
Impact if post-tax discount rate:	increased by 2 percentage points to 21.2%	(10.5)	(0.4)
	decreased by 2 percentage points to 17.2%	10.5	0.3

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.

During 2017 YGE experienced delays in its workover of Well 5 that was not successfully completed. This was considered significant enough to trigger an impairment review.

In accordance with IAS 36, the impairment review has 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 assessed internally. Such information included 2P reserves for YGE of 71.7 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: from 1 July 2018 and annually thereafter, the gas prices have been increased by 3.9% through to 2021, and estimated Russian inflation of 4.0% thereafter.
- 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 11.5%. 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 ($115.3m) exceeds it carrying amount ($100.8m) by $14.5m 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.

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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 headroom of $14.5m for Yuzhgazenergie CGU $m
Impact of Adygean gas price:	growth rates increased by 10% annually	11.4
	growth rates reduced by 10% annually	(11.4)
Impact of production volumes:	Increased by 10%	27.3
	Decreased by 10%	(27.3)
Impact of future capital expenditure:	Increased by 20%	(10.5)
	Decreased by 20%	10.5
Impact of post-tax discount rate:	Increased by 1 percentage point to 12.5%	(9.9)
	Decreased by 1 percentage point to 10.5%	11.1

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.

In December 2016, well Hn-2ST (sidetrack) was successfully completed on the Hajdunanas IV Mining Plot (HMP). This was 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. In October 2017 workover of well Hn-1 was completed however actual results were lower than expected. The results from the Hn-2ST (sidetrack) and Hn-1 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 – HMP
The key assumptions used in the impairment testing in 2017 were:

- Production profiles: these were based on the latest available test and production data from the recent production from Hn-1 and internal assessment. The Company included internally assessed 2P reserves of 0.04 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 of nil exceeded its recoverable amount by $2.8m and therefore HMP's assets were impaired to nil due to the reduction in the estimated recoverable oil and gas volumes from this field.

5.(d) Appraisal expenditure written off and impairment test for intangible assets

Exceptional item – appraisal expenditure written off
After the well stimulation programme to target contingent resources in the Northern part of Rudenkivske two of the wells were abandoned due to lack of gas production. Other wells are only expected to produce insignificant quantities of gas. The total amount of written off expenditure is $9.4m.

Impairment of Hungarian exploration and evaluation expenditure

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.

In 2017, the absence of a firm work programme at year end to develop the Hungarian reserves constituted an impairment trigger and accordingly an impairment test was undertaken. At year end there were no further exploration or evaluation planned or budgeted. There is no clear indication that FVLCD is greater than zero and the assets were impaired in full by $0.8m.

Impairment of Slovakian exploration and evaluation expenditure
During 2017 there was no progress with the exploration licenses in Slovakia and at year end there were no further exploration or evaluation planned or budgeted. There is no clear indication that FVLCD is greater than zero and the assets were impaired in full by $7.9m.

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 (2016: two and five years).

7. Investments

The net book value of unlisted investments comprises:

	2017 $000	2016 $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 2017. The investment reflects a 10% holding of the Company's ordinary share capital.

8. Inventories

	2017 $000	2016 $000
Warehouse inventory and materials	4,441	3,095
Oil and gas inventory	1,383	1,490
	5,824	4,585

During the year obsolete inventories of $0.6m were written off to profit and loss under 'cost of sales' at Poltava Petroleum Company ('PPC'), our wholly owned subsidiary in Ukraine.

9. Trade and other receivables

	2017 $000	2016 $000
Trade receivables	3,348	2,657
Less: provision for impairment of trade receivables	(505)	(550)
Trade receivables – net	2,843	2,107
Other receivables	508	1,019
VAT receivable	469	337
Prepayments	1,149	711
	4,969	4,174

As of 31 December 2017, trade and other receivables of $0.5m (2016: $0.6m) were past due and impaired. The amount of the provision was $0.5m (2016: $0.6m). The impaired receivable relates to a single gas customer, which is 18 months past due. Legal proceedings were initiated at the end of 2016 and are currently ongoing in order to recover the amount outstanding.

As of 31 December 2017, trade and other receivables of $2.8m (2016: $2.1m) were neither past due nor impaired. There is no difference between the carrying value of trade and other receivables and their fair value.

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2017 $000	2016 $000
US Dollar	137	204
Sterling	17	69
Euros	487	131
Hungarian Forints	44	-
Ukrainian Hryvnia	776	182
Russian Roubles	1,890	2,540
	3,351	3,126

10. Cash and cash equivalents

	2017 $000	2016 $000
Cash	4,958	8,874
Short term deposits	1,971	5,193
Cash and cash equivalents	6,929	14,067
Restricted cash	497	201
Total	7,426	14,268

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 (2016: $0.2m) 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. The other $0.3m (2016: nil) relates to funds received by the Trustees of the JKX Death in Services scheme pending distribution to the beneficiaries.

11. Trade and other payables

	2017 $000	2016 $000
Trade payables	2,828	2,562
Other payables	2,209	2,759
Other taxes and social security costs	2,166	2,265
VAT payable	1,121	956
Accruals	4,044	6,553
	12,368	15,095

12. Borrowings

	2017 $000	2016 $000
Current		
Convertible bonds due 2020 (2016: 2018) [1]	7,630	16,795
Term-loans repayable within one year	7,630	16,795
Non-Current		
Convertible bonds due 2020 (2016: 2018)	9,003	-
Term-loans repayable after more than one year	9,003	-

1. At 31 December 2017 current liabilities included $7.6m, out of which $6.9m is due to be repaid on 19 February 2018, and represents $5.3m in respect of Bond principal, $0.5m in respect of prior accretion amounts and $1.1m is Bond interest payment; $0.7m is due to be repaid on 19 August 2018 and represents Bond interest payment.

Convertible bonds due 2020 (2016: 2018)

On 19 February 2013 the Company successfully completed the placing of $40m of guaranteed unsubordinated convertible bonds with institutional investors which were due 2018 (prior to restructuring) raising cash of $37.2m net of issue costs.

Prior to restructuring the Bonds had 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 2020 (2018 prior to restructuring) 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).

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 was removed; and
- the Company were to 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.

19 February 2017 the Company made the first payment to Bondholders of $1.9m, 12.0% of the principal amount of the Bonds, in respect of prior accretion amounts and in accordance with the terms and conditions of the Bond. On 19 February 2018 the Company made a payment of the first instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with final accretion payment of $0.5m (3.0% of the principal amount of the Bonds) and $1.1m interest payment in accordance with the terms and conditions of the Bond.

The revised terms and conditions of the Bond was considered to be a modification and therefore the difference in the amortised cost carrying amount at the modification date was 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. Interest, after the deduction of issue costs is charged to the income statement using an effective rate of 17.3% (18.0% prior to restructuring).

There is therefore no 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 (at 31 December 2016, includes the associated derivative) by $0.7m, which will be amortised over the estimated remaining life of the modified Bond.

In accordance with IFRS 9, following a modification or renegotiation of a financial liability that does not result in de-recognition, the Group is required to recognise any modification gain or loss immediately in profit or loss. Any gain or loss is determined by recalculating the gross carrying amount of the financial liability by discounting the new contractual cash flows using the original effective interest rate. The difference between the original contractual cash flows of the Bond and the modified cash flows discounted at the original effective interest rate is trivial and hence there will be no impact on adoption of IFRS 9 on 1 January 2018.

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 – 2016 information

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. 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 year ended 31 December 2016 (see Group Annual Return for the year ended 31 December 2016, Note 21). The remaining principal amount of outstanding Bonds at 31 December 2016 was $16.0m. There were no Bonds repurchases during 2017.

Credit facility

On 15 December 2017, PPC, our subsidiary in Ukraine, has secured a 12 month revolving credit line from Tascombank for UAH150 million. At 31 December 2017 the total short-term line of credit amounted to $5.3m at an exchange rate of $1: 28.07 Hryvnia. The amount outstanding at 31December 2017 was nil, so the undrawn portion totaled $5.3m. The facility will be available through 14 December 2018.

The main terms and conditions of the revolving credit line are as follows:

- drawdowns can be made either in USD or UAH;
- interest rate cost for USD drawn down is 10%;
- interest rate cost for UAH drawn down: 17.5% to 30 days, 18.0% 31 to 90 days, 20.75% 91 to 180 days, 22.5% 181 to 365 days;
- borrowing above UAH90m, equivalent to $3.2m at 31 December 2017 will require a corporate guarantee from JKX Oil & Gas Plc;

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

- assets with a market value of UAH355m, equivalent to $12.6m at 31 December 2017 have been identified for use as a collateral, collateral is to be provided only on drawdown;
- amount borrowed will be repaid during the last 4 months, by equal-sized monthly payments, to be effected on the last day of the month/the last day of the credit limit period.

The credit facility of $5.3m includes two financial covenants:

- to keep gross margin at no less than 50% during the period of the credit facility agreement, based on PPC's financial reporting results;
- starting from the first quarter of 2018 and during the period of the credit facility agreement, PPC is to maintain the following ratio as per the financial reporting: ratio between financial (interest) debt and EBITDA (adjusted to the annual value) at no more than 3.0.

13. Derivatives

	2017 $000	2016 $000
Current derivative financial instruments		
At the beginning of the year	1,341	-
Reclassification to/from non-current derivative financial instruments	(1,341)	1,341
At the end of the year	-	1,341
Non-current derivative financial instruments		
At the beginning of the year	-	2,171
Reclassification from/to current derivative financial instruments	1,341	(1,341)
Full/partial settlement of derivative liability	(1,341)	(1,429)
Fair value loss movement during the year	3	599
At the end of the year	3	-

Convertible bonds due 2020 – embedded derivatives

Bondholder Put Option– cancelled 3 January 2017

Bondholders had 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

At 31 December 2016 current liabilities included $16.8m in respect of the put option available to bondholders on 19 February 2017. 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 in addition to an early redemption premium of $0.9m in accordance with the terms and conditions of the bond.

Company Call Option

The Company can redeem the Bonds at any time in full but not in part at their principal amount plus one semi-annual coupon plus any accrued interest. If the Bonds are called prior to 19 February 2020, the redemption price will also include an additional U.S. $6,000 per Bond.

The Company can redeem the Bonds any time in full but not in part at their principal amount plus any accrued interest 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.

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 2017 $000	Fair Value 2017 $000	Book Value 2016 $000	Fair Value 2016 $000
Financial assets				
Cash and cash equivalents and restricted cash (Note 10) – classified as loans and receivables	7,426	7,426	14,268	14,268
Trade receivables (Note 9) – classified as loans and receivables	2,843	2,843	2,107	2,107
Other receivables (Note 9) – classified as loans and receivables	508	508	1,019	1,019
Financial liabilities				
Trade payables (Note 11) - carried at amortised cost	2,828	2,828	2,562	2,562
Other payables (Note 11) - carried at amortised cost	2,209	2,209	2,759	2,759
Accruals (Note 11) - carried at amortised cost	2,262	2,262	2,351	2,351
Borrowings – convertible bonds due 2020 (2016: 2018) (Note 12) - carried at amortised cost (current)	7,630	6,486	16,795	15,955
Borrowings – convertible bonds due 2020 (2016: 2018) (Note 12) - carried at amortised cost (non-current)	9,003	7,653	-	-
Derivatives – fair value through profit or loss (Note 13)	3	3	1,341	1,341

Financial liabilities measured at amortised cost are carried at $23.9m (2016: $24.5m). The Group's borrowings at 31 December 2017 relate entirely to the convertible bonds due 2020 (31 December 2016: 2018).

Fair value hierarchy

Derivatives

At the year end the Group's derivative financial instrument related to embedded derivative within the convertible bonds due 2020 (2016: 2018) (Note 13). The value of the derivative was calculated at inception using the Monte Carlo simulation methodology and subsequently using the Black-Scholes formula, and 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 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 2017 were:

- underlying share price of: £0.11 (2016: £0.3025);
- £/US$ spot rate of 1.3513 (2016: £1/$1.2340);
- historic volatility of 56.29% (2016: 53.42%);
- risk free rate based on the maturity which is 2.14 year US Treasury rate of 1.874%, 1.14 year US Treasury rate of 1.831% and 0.14 year US Treasury rate of 1.302% (continuously compounded). At 31 December 2016 risk free rate was based on 1.14 years US Treasury rate of 0.956%.

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 $0.01m and a decrease in the fair value loss that would bring derivative's fair value to nil (2016: increase in the fair value loss for the year of $0.04m, decrease in the fair value loss of $0.02m, 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 2017 was $10.8m (2016: $17.4m).

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.

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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:

	2017 $000	2016 $000
Convertible bonds due 2020 (2016: 2018) (current and non-current, Note 12)	(16,633)	(16,795)
Total cash (Note 10)	7,426	14,268
Net debt	(9,207)	(2,527)
Total shareholders' equity	145,909	156,833

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 included a financial covenant which limited 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 2016 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 but have subsequently been eased by the NBU resolution No. 342 on 9 June 2016. The resolution enabled the repatriation of dividends from JKX's Ukrainian subsidiary for the years 2014 and 2015. NBU issued the Resolution No.33 on 13 April 2017 which enabled the repatriation of dividends for 2016.

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, no cash or short term deposits included within this consolidated financial information is restricted.

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 financial liabilities was as follows:

Group - 31 December 2017	Within 3 months $000	3 months - 1year $000	1-2 years $000	2-3 years $000
Maturity of financial liabilities				
Trade payables (Note 11)	2,828	-	-	-
Other payables (Note 11)	2,209	-	-	-
Accruals (Note 11)	2,262	-	-	-
Borrowings – Convertible bonds due 2020	6,880	750	6,411	5,821

Group - 31 December 2016	Within 3 months $000
Maturity of financial liabilities	
Trade payables (Note 11)	2,562
Other payables (Note 11)	2,759
Accruals (Note 11)	2,351
Borrowings – Convertible bonds due 2018[1]	16,795

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

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 – 31 December	2017 Within 1 Year $000	2016 Within 1 Year $000
Floating rate		
Short term deposits (Note 10)	1,971	5,193
Other receivables (Note 9)	508	1,019
Other payables (Note 11)	2,209	2,759

Floating rate financial assets comprise cash deposits placed on money markets at call, seven day and monthly rates.

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 2017 would increase/decrease by $28,150 (2016: $28,000). 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:

	2017 $000	2016 $000
US Dollar	1	1
Sterling	(451)	77
Euros	464	(642)
Hungarian Forints	130	72
Ukrainian Hryvnia	1,263	2,732
Bulgarian Leva	50	43
Russian Roubles	6	24
Canadian Dollar	1	1
Total net	1,464	2,308

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 5 per cent (2016: 20 per cent) increase and decrease in the US Dollar against Sterling and against Hryvnia and Rouble (2016: 20 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 5 per cent has been used to calculate sensitivity for Sterling, Hryvnia and Rouble. 5 per cent (2016: 20 per cent) is the sensitivity rate that best represents management's assessment of the possible

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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 2017 $000	Hryvnia 2016 $000	**Rouble 2017 $000**	Rouble 2016 $000	**Sterling 2017 $000**	Sterling 2016 $000
Profit/(loss) for the year and Equity						
5 per cent strengthening of the US Dollar/ (2016: 20 per cent)	(60)	(455)	-	(4)	21	(13)
5 per cent weakening of the US Dollar/(2016: 20 per cent)	60	455	-	4	(21)	13

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 38, 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 2017 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 2017 (2016: nil) to settle share options, therefore at the year end JKX Employee Benefit Trust held 5,000,000 shares in JKX Oil & Gas plc (2016: 5,000,000).

16. Share capital

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

	2017 Number	2017 £000	2017 $000	2016 Number	2016 £000	2016 $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 2017 (2016: none) and no treasury shares were used in 2017 (2016: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2017 the market value of the treasury shares held was $0.1m (2016: $0.2m).

17. Other reserves

	Merger reserve $000	Capital redemption reserve $000	Foreign currency translation reserve $000	Post-employment benefit obligation reserve $000	Total $000
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)
At 1 January 2017	30,680	587	(191,178)	-	(159,911)
Exchange differences arising on translation of overseas operations	-	-	7,118	-	7,118
Remeasurement of post-employment benefit obligations	-	-	-	(333)	(333)
At 31 December 2017	30,680	587	(184,060)	(333)	(153,126)

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 2017, the Russian Rouble ('RR') strengthened by approximately 5% (2016: strengthened by 17%) from RR60.66/$ to RR57.60/$ (2016: strengthened RR72.88/$ to RR60.66/$). A significant portion of the currency translation differences of US$7.1m (2016: US$19.6m) included in the Consolidated statement of comprehensive income arose on the translation of property, plant and equipment denominated in RR (see Note 5 (a)).

Post-employment benefit obligation reserve relates to a defined benefit pension plan in PPC, our subsidiary in Ukraine. Under the Ukrainian legislation, employees who work in hazardous conditions have the right for an early retirement. PPC has jobs with hazardous working conditions (hereinafter referred to as the "list II") and participates in the government defined benefit plan. Upon early retirement the pensioners are entitled to a pension which is financed by their employers until they enrolled into a regular pension scheme financed by a Pension Fund of Ukraine. The early pension benefit (in the form of a monthly annuity) is payable by employers only until the employee has reached the statutory retirement age (60 – for males and females). The right to pension emerges once a

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

number of conditions pertaining to pension insurance service record and service record in hazardous jobs have been met and a certain age has been reached. Once employees from the list II have reached 55 years of age, PPC would compensate to Pension Fund of Ukraine pension obligation for the next 5 years on a monthly basis. The employer is responsible for 100% for "list II" categories of early pensioners. Pensions are calculated using a formula based on the employee's salary, pension insurance service record, and total length of past service at specific types of workplaces ("list II" category) and, thus, the pension plan is a defined benefit plan by its nature.

18. Provisions

Current provisions	Onerous lease provision (2) $000	Production based taxes (1) $000	Total $000
At 1 January 2017	589	33,921	34,510
Foreign currency translation	28	(1,213)	(1,185)
Amount released in the year	(31)	-	(31)
Amount utilised in the year	(468)	-	(468)
Amount provided in the year	86	4,357	4,443
At 31 December 2017	204	37,065	37,269

1. The provision for production based taxes, is in respect of a claim against PPC for additional rental fee for the period August to December 2010 and January to December 2015. $4.4m was recognised as a charge in the 2017 Consolidated income statement and relates to interest accrued during 2017, out of which $1.1m relates to August to December 2010 liability and $3.3m to January to December 2015. Both claims are being contested in the Ukrainian courts (see Note 27). The amount is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the 2017 year end rate of UAH28.07/$ (2016: UAH 27.19/$). The provision at 31 December 2017 includes 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.
2. See Note 19 for details.

Non-current provisions	Ukraine $000	Russia $000	Hungary $000	Total $000
Provision for site restoration				
At 1 January 2017	1,543	2,146	575	4,264
Foreign exchange adjustment	-	(115)	50	(65)
Revision in estimates	900	(84)	-	816
Unwinding of discount (Note 22)	131	195	-	326
At 31 December 2017	2,574	2,142	625	5,341

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 (2016: 2034). The Russia provision results from the decommissioning of 12 wells (2016:12) and removal of plant as required by the license obligation and is due to start from 2049 (2016: 2049). 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:

	2017 $000	2016 $000
Exceptional item – onerous lease provision (1) (see Note 18)	(55)	(594)
Exceptional item – lease costs (2)	-	(209)
Exceptional item – remuneration and severance costs (3)	(1,364)	(3,681)
Exceptional item – legal costs (3)	(94)	-
	(1,513)	(4,484)

1. 2017 onerous lease provision concerns the Group's liability for onerous lease contracts relating to its London office. Following a reduction in London office staff in 2016, three out of the four floors of the occupied building became surplus to requirements. Subsequently, two out of three floors have been assigned to new tenants. The 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 6.5% (2016: 6%). The remaining life of the leases at 31 December 2017 was 4 years (2016: 5 years).
2. 2016 lease costs represented rent and rate costs for the 4 months to 31 December 2016 relating to three floors of the London office building.
3. $1.4 million of severance costs paid to two Executive Directors removed from the Board of Directors at the AGM on 30 June 2017 (2016: $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 in relation to 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); $0.1 million of professional advisory fees incurred in relation to the removal of two Executive Directors from the Board of Directors.

20. Cost of sales

	2017 $000	2016 $000
Operating costs	19,891	19,499
Depreciation, depletion and amortisation	16,756	18,791
Other production based taxes	16,956	17,737
	53,603	56,027
Exceptional item – production based taxes (Note 18)	4,357	24,340
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets (Note 5)	(5,636)	-
Exceptional item – provision for impairment of Hungary and Slovakia (Note 5)	11,450	2,000
Exceptional item – write off of appraisal expenditure in Ukraine (Note 5)	9,391	-
	73,165	82,367

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2017 was $2.0m (2016: $1.1m).

21. Finance income

	2017 $000	2016 $000
Interest income on deposits	348	753
Gain on repurchase of Convertible bond	-	1,083
	348	1,836

22. Finance costs

	2017 $000	2016 $000
Borrowing costs	2,838	4,377
Unwinding of discount on site restoration (Note 18)	326	259
	3,164	4,636

23. Loss from operations – analysis of costs by nature

Loss from operations derives solely from continuing operations and is stated after charging/(crediting) the following:

	2017 $000	2016 $000
Depreciation – other assets (Note 5. (a))	672	973
Depreciation, depletion and amortisation – oil and gas assets (Note 5. (a))	16,756	18,791
Staff costs (net of $0.2m (2016: $0.3m) capitalised, Note 25)	14,368	17,828
Foreign exchange gain	1,424	431
Operating lease payments		
- property lease rentals	817	826
- plant and equipment	2,225	1,797

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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

	2017 $000	2016 $000
Audit of the parent company and consolidated financial statements	288	276
Fees payable to company's auditors for other services:		
- Audit of the Company's subsidiaries	198	186
- Audit related assurance services	101	109
- Other non-audit services	41	70
	628	641

24. Obligations under leases

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

	2017 $000	2016 $000
Within one year	428	442
In the second to fifth years inclusive	932	1,276
	1,360	1,718

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

25. Staff costs

	2017 $000	2016 $000
Wages and salaries	14,145	17,226
UK social security costs	300	453
Other pension costs	210	401
Share based payments (equity-settled) (Note 26)	(46)	48
	14,609	18,128

Staff costs are shown gross and $0.2m (2016: $0.3m) was capitalized, representing time spent on exploration and development activities.

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

	2017 Number	2016 Number
Management/operational	448	571
Administration support	79	59
	527	630

There are no Directors on service contracts included within management/operational (2016: 2). Further details of the Directors and their remuneration are included on pages 61 to 73 which form part of these financial statements.

26. Share-based payments

Share options are granted to senior management based on performance criteria. The scheme rules are described in the Directors' Remuneration Report. All share-based payments are equity settled.

According to the Plan that is currently in place, the Remuneration Committee has the ability to grant awards of nil-cost options annually to senior management of the Group, conditional on the Group performance over a period of at least three years.

At 31 December 2017, there were outstanding options under Performance Share Plan (PSP) (2016: under various employee share option schemes), exercisable during the years 2018 to 2026 (2016: 2017 to 2026), to acquire 1,059,650 (2016: 2,168,450) shares of the Company at nil cost per share (2016: share price ranging from nil to £59.75p). The vesting period for 1,059,650 (2016: 2,168,450) 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.

	2017 Number	2017 WAEP	2016 Number	2016 WAEP
Outstanding as at 1 January	**2,168,450**	**22.78p**	12,740,100	28.39p
Granted during the year	-	-	711,250	0.00p
Lapsed or forfeited during the year	**(1,108,800)**	**44.55p**	(11,282,900)	27.68p
Outstanding at 31 December	**1,059,650**	**0.00p**	2,168,450	22.78p
Exercisable at 31 December	-	-	-	-

For the share options outstanding as at 31 December 2017, the weighted average remaining contractual life is 8.0 years (2016: 8.3 years). Weighted average exercise prices ('WAEP') of options outstanding at 31 December 2017 is nil (2016:22.78) due to lapse of remaining DSOS awards granted in 2014 during the year, which had an exercise price of 59.75p.

During the year no share options were granted in accordance with the Performance Share Plan ('PSP'), which was introduced in 2010. And no share options were granted in accordance with the Discretionary Share Option Scheme ('DSOS'). This 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').

From 2015 onwards, grants under DSOS ceased in accordance with our policy.

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 Scheme

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 2017 (2016: 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 (2016: 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.

No share options were granted under PSP in 2017 (2016: 711,250). 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) (2016: FTSE Fledgling index) and the All-Share Oil & Gas Producers index (other half of options). The weighted average fair value of options granted during 2016 under the PSP was 5.84p per option.

Fair value of share options granted

The fair value of options granted under the PSP in 2016 was estimated as at the date of the grant using a variant of the Monte Carlo model, taking into account the terms and conditions upon which the options were 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 credit for the year was $0.05m (2016: charge of $0.05m).

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

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

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

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 61 to 73.

27. Taxation

Analysis of tax on loss	2017 $000	2016 $000
Current tax		
UK - current tax	-	-
Overseas - current year	2,964	1,341
Current tax total	2,964	1,341
Deferred tax		
Overseas – prior year	-	(1,767)
Overseas - current year	(1,348)	(612)
Deferred tax total	(1,348)	(2,379)
Total taxation	1,616	(1,038)

Factors that affect the total tax charge

The total tax charge for the year of $1.6m (2016: $1.0m credit) is higher (2016: higher) than the average rate of UK corporation tax of 19.25% (2016: 20%). The differences are explained below:

Total tax reconciliation	2017 $000	2016 $000
Loss before tax	(16,047)	(38,153)
Tax calculated at 19.25% (2016: 20.00%)	(3,089)	(7,631)
Other fixed asset differences		
Net change in unrecognised losses carried forward	2,709	3,485
Differences relating to prior years	-	(1,767)
Permanent foreign exchange differences	913	3,327
Effect of tax rates in foreign jurisdictions	354	271
Rental fee provision	(3,280)	3,211
Other non-deductible expenses	2,642	191
De-recognition of prior year losses	1,367	(2,125)
Total tax charge/(credit)	1,616	(1,038)

The total tax charge for the year was $1.6m (2016: $1.0m credit) comprising a current tax charge of $3.0m (2016: $1.3m) in respect of Ukraine, a deferred tax charge before exceptional items of $2.7m (2016: credit of $1.2m) and a deferred tax credit of $4.1m in respect of exceptional items (2016: credit of $1.2m). The increase in current tax charge to $3.0m (2016: $1.3m) reflects higher profitability in Ukraine. In Ukraine, the corporate tax rate for 2017 was 18% and remains at this level for 2018. The total deferred tax credit of $1.3m (2016: $2.4m credit) comprises: a $5.4m credit mainly reflecting the recognition of deferred tax assets in respect of Ukrainian Rental fee provision and impairment reversal for Elizavetovskoye field; and a net $4.1m charge (2016: $0.2m) relating to derecognition of deferred tax assets in respect of Hungarian tax losses brought forward and other tax timing differences on our oil and gas assets in Russia and Hungary.

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 20% to 19% with effect from 1 April 2017. Accordingly, the Company's profits for this accounting year are taxed at an effective rate of 19.25%.

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.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 and Finance Bill 2016. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. 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 2017 was 18% (2016: 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 repayment of more than $180 million in Rental Fees that PPC 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 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.

In March 2017, Ukraine's Ministry of Justice filed a claim with the High Court of the United Kingdom naming JKX as a defendant in an application seeking to set aside the arbitration award for damages against Ukraine and in favour of JKX.

In October 2017 the High Court of the United Kingdom, ordered that the application brought by Ukraine seeking to set aside the recent Uncitral arbitration award against Ukraine and in favour of JKX be dismissed. The Government of Ukraine is therefore still liable to pay to JKX the sum of USD11.8 million plus interest and costs of USD0.3 million in relation to subsidiary claims, as previously ordered. The Judge also ordered that Ukraine should pay JKX's costs of $83,638.

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

Rental Fee demands

The Group currently has two claims (2016: two) 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 (2016: 2010), which in total amount to approximately $37.1 million (2016: $33.9 million) (including interest and penalties), as detailed below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the year end rate of $1:UAH28.07(2016: $1: UAH 27.2).

- August – December 2010: approximately $11.3 million (2016: $10.6 million) (including $6.8 million (2016: $6.1 million) of interest and penalties). On 11 March 2014 PPC won the case in the Poltava Court. The tax office appealed and the Kharkiv Appellate Administrative Court reversed the earlier decision. PPC then lost an appeal in the High Administrative Court of Ukraine and the Supreme Court rejected PPC's application for the appeal. PPC has discovered that there were in fact certain procedures that were not followed regarding the tax notifications that formed the basis of the original claims against PPC. Certain documentation was found to be missing from the files of the tax authorities. In April 2017 the Poltava Circuit Administrative Court found in favour of PPC and cancelled the tax notification decisions on the grounds that due process had not been followed. On 1 June 2017 the Kharkiv Appellate Administrative Court upheld the judgment of the Poltava Circuit Administrative Court. The tax authorities filed a cassation complaint. On 5 February 2018 the tax authorities' appeal against the decision was dismissed.
- January – December 2015: approximately $25.8 million (2016: $23.3 million) (including $11.2 million (2016: $10.8 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.

Following the tribunal's dismissal of the Company's claim for overpayment of Rental Fees, an exceptional charge of $4.4 million has been charged to the Consolidated income statement in the year (2016: $24.3 million) relating to interest accrued on the August – December 2010 and January – December 2015 claims (see Note 18).

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 since the award is still subject to enforcement proceedings in the Ukrainian courts.

In 2015 there was a claim of approximately $6 million (including $3 million of interest and penalties) relating to the period January – March 2007. During 2016 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. As such no provision is recorded in respect of this claim, and the Group considers the case closed.

28. Deferred tax

	Assets		Liabilities		Net	
	2017 $000	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Provided deferred taxation – Net						
Fixed asset differences	**5,111**	7,696	**(14,922)**	(14,537)	**(9,811)**	(6,841)
Other temporary differences	**9,982**	5,396	**-**	-	**9,982**	5,396
Tax losses	**5,747**	5,632	**-**	-	**5,747**	5,632
Net deferred tax asset /(liability)recognized	**20,840**	18,724	**(14,922)**	(14,537)	**5,918**	4,187

A net deferred tax asset of $5.9m (2016: $4.2m-asset) arises as a result of PPC's activities $2.8m net liability (2016: $8.2m net liability), Yuzhgazenergie LLC's activities $11.3m net asset (2016: $12.6m net asset) and Riverside Energy kft activities $2.6m net liability (2016: $0.2m net liability).

No deferred tax asset (2016: nil) is recognised in respect of brought forward UK losses. A deferred tax asset of $5.7m (2016: $4.3m-asset) has been recognised in respect of Yuzhgazenergie LLC losses and other differences as sufficient future taxable profits are forecast against which the losses can be utilised. Deferred tax asset of $1.4m (2016: $1.4m) has been derecognised in respect of Riverside Energy kft losses brought forward. No other deferred tax is recognised as the directors do not believe that it would be prudent to do so.

The movement on the deferred tax account in 2017 is as follows:	1 January 2017 $000	Exchange differences $000	(Charge)/ credit in the year $000	31 December 2017 $000
Deferred tax liabilities				
Fixed assets differences	(6,841)	146	(3,116)	(9,811)
Deferred tax assets				
Other temporary differences	5,396	116	4,470	9,982
Net change in recognised losses carried forward	5,632	121	(6)	5,747
	11,028	237	4,464	15,729
Net deferred tax movement	4,187	383	1,348	5,918

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 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	2017 $000	2016 $000
Tax losses	(51,939)	(49,458)
Fixed asset differences	(3,641)	(3,593)
Other temporary differences	(27)	(51)
	(55,607)	(53,102)

There is no expiry date on the remaining losses as 31 December 2017. 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 be fixed at 19% for next 2 years and starting from 1 April 2020 - 17%. 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 (2016: 172,125,916) and the loss for the relevant year.

Loss before exceptional items in 2017 of $701,204 (2016 loss: $7,461,522) is calculated from the 2017 loss of $17,662,920 (2016: $37,115,477) and adding back exceptional items of $21,074,348 (2016: $30,823,955) less the related deferred tax on the exceptional items of $4,112,632 (2016: $1,170,000).

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

The diluted earnings per share for the year is based on 172,125,916 (2016: 172,125,916) ordinary shares calculated as follows:

	2017 $000	2016 $000
Loss		
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	(701)	(7,462)
After exceptional item	(17,663)	(37,115)

Number of shares	2017	2016
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 2017 (2016: nil). 13,791,259 (2016: 13,925,410) potentially dilutive ordinary shares associated with the convertible bonds (Note 13) have been excluded as they are antidilutive in 2017, however they could be dilutive in future periods.

There were 1,059,650 (2016: 2,168,450) outstanding share options at 31 December 2017, of which none (2016: 1,341,750) had a potentially dilutive effect. All of the Group's equity derivatives were anti-dilutive for the year ended 31 December 2017.

30. Dividends

No interim dividend was paid for 2017 (2016: nil). In respect of the full year 2017, the directors do not propose a final dividend (2016: no final dividend paid).

31. Reconciliation of loss from operations to net cash inflow from operations

	2017 $000	2016 $000
Loss from operations	(13,228)	(34,754)
Depreciation, depletion and amortisation	17,428	19,764
Loss on disposal of fixed assets	557	311
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets	(5,636)	-
Exceptional item - provision for impairment of Hungary and Slovakia	11,450	2,000
Exceptional item – write off of appraisal expenditure in Ukraine	9,391	-
Exceptional item – increase in provision for production based taxes	3,144	24,340
Increase in provisions – onerous lease provision	83	594
Share-based payment (credit)/charge	(46)	48
Cash (used in)/generated from operations before changes in working capital	23,143	12,303
(Increase)/decrease in operating trade and other receivables	(1,179)	8,119
Decrease in operating trade and other payables	(4,897)	(2,102)
Increase in inventories	(1,344)	(1,282)
Cash generated from operations	15,723	17,038

32. Capital commitments

Under the work programmes for the Group's exploration and development licenses the Group had no commitments to future capital expenditure on drilling rigs and facilities at 31 December 2017 (2016: $3.3m).

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:

	2017 $000	2016 $000
Short-term employee benefits	**2,579**	5,164
Post-employment benefits	**43**	62
Share-based payments (credit)/charge	**(46)**	81
	2,576	5,307

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 61 to 73 and in the Directors Report on pages 74 to 77.

The number of board executives for 2017 was 5 to the 30th June. Then July to October only 3 board executives remained. Therefore board costs were reduced for this period. Also, no bonus was awarded to the Board for 2017.

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 were thought to have a beneficial interest in Convertible Bonds with principal amount of $3.4m at 31 December 2017 (2016: $3.4m), which are held by Proxima. In February 2017, in accordance with the terms and conditions of the restructured Bonds, redemptions of Proxima's bonds of $0.4m were made in respect of prior accretion amounts (2016: $1.5m under the Bondholder Put Option) (see Note 12 and 13) and Bond interest payments of $0.4m (31 December 2016: $0.3m) were made to Proxima in relation to their Bond holding.

Since the Annual General Meeting on 30 June 2017 Vladimir Rusinov was removed from the Board of Directors. On 8 December 2017 he was reappointed to the Board.

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

In early February 2018 the Board approved a decision to withdraw from Slovakia. On 16 March 2018 the Company gave a formal notice of relinquishment of Svidnik, Medzilaborce and Snina exploration licences to the other parties in the joint venture.

COMPANY FINANCIAL STATEMENTS

Independent Auditors' Report

to the members of JKX Oil & Gas plc

Report on the audit of the company financial statements

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 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the company statement of financial position as at 31 December 2017; the company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in the Directors' Report, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Material uncertainty relating to going concern

Without further modifying our opinion on the financial statements, 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. At 31 December 2017, one of the company's subsidiaries has recorded a provision of $37.1m 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. These conditions, along with the other matters explained in Note A to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Explanation of material uncertainty

Note A to the financial statements details the directors' disclosures of the material uncertainty relating to going concern.

As described in Note A, 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 $37.1 million (including interest and penalties, see Note 27 to the consolidated financial statements). PPC continues to contest these claims through the Ukrainian legal system. There is a risk that one or more of the ongoing court cases ends with an unfavourable outcome, and amounts become immediately due and payable. If this were the case, PPC may not have sufficient cash to remain viable and therefore may not be able to remit dividends to the company, which would impact the ability of the company to meet its obligations as they fall due.

Given this risk, the directors have drawn attention to this in disclosing a material uncertainty relating to going concern in the basis of preparation to the financial statements.

What audit procedures we performed

We have updated our understanding of events in relation to the ongoing disputes that have occurred in 2017 and up to the date of this report, and have detailed this in a separate Key Audit Matter in our report on the group financial statements included on pages 78-79.

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, capital costs and operating costs. We considered the consistency of the forecast with 2017 actuals and other forecasts made by management, for example in impairment models. We also considered historical accuracy of management's forecasting.

We reviewed management's downside sensitivities and performed our own sensitivity analysis, focusing on reasonable downside scenarios including lower than forecast production and lower commodity prices. We also understood the level of committed vs discretionary spend to determine where costs could be reduced if necessary to mitigate any short term cash shortfall.

The base case going concern forecast does not include any outflows in respect of the Rental Fee exposures. The total amounts which could become payable are material, and the company may not have sufficient cash to meet the obligations should they become immediately due. This has been deemed a material uncertainty which, if realised, may affect the company's ability to continue as a going concern.

Our audit approach

Overview - materiality, audit scope, key audit matters

- Overall materiality: $0.60m (2016: $0.60m), based on 0.5% of net assets.
- The UK engagement team performed a full scope audit of the company, testing all material financial statement line items.
- Use of the going concern assumption.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules and UK tax legislation. Our tests included, but were not limited to, enquiries of management, review of minutes of meetings of the Board of Directors and review of correspondence with legal advisers. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The matter described in the Material uncertainty relating to going concern section is the key audit matter to be communicated in our report. We determined that there were no other key audit matters applicable to the company to communicate in our report. This is not a complete list of all risks identified by our audit.

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 structure of the company, the accounting processes and controls, and the industry in which it operates.

The UK engagement team performed a full scope audit of the company, testing material financial statement line items.

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 in aggregate 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 materiality	$0.60m (2016: $0.60m).
How we determined it	0.5% of net assets.
Rationale for benchmark applied	The company's primary purpose is to hold investments in subsidiaries, so we consider net assets is an appropriate benchmark. The overall materiality figure used was restricted by the allocation of materiality to the company as part of the overall group scoping exercise which was $0.60m.

COMPANY FINANCIAL STATEMENTS

Independent Auditors' Report

to the members of JKX Oil & Gas plc

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $0.06m (2016: $0.05m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to other than the material uncertainty we have described in the material uncertainty relating to going concern section above. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)
In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company
We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 40 of the Annual Report that they have 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 40 of the Annual Report as to how they have assessed the prospects of the company, 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 company 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.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the company and statement in relation to the longer-term viability of the company. 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. ***(Listing Rules)***

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 77, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on page 56 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities Statement set out on pages 76-77, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept by the company and returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 18 May 2006 to audit the financial statements for the year ended 31 December 2006 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2006 to 31 December 2017.

COMPANY FINANCIAL STATEMENTS

Independent Auditors' Report

to the members of JKX Oil & Gas plc

Other matter

We have reported separately on the group financial statements of JKX Oil & Gas plc for the year ended 31 December 2017. The opinion in that report is qualified and also includes a material uncertainty related to going concern section.

Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 April 2018

COMPANY FINANCIAL STATEMENTS

Company statement of financial position

For the year ended 31 December 2017

	Note	2017 $000	2016 $000
Assets			
Non-current assets			
Investments	B	21,424	21,424
Trade and other receivables	C	152,133	190,026
		173,557	211,450
Current assets			
Trade and other receivables	C	351	46,805
Cash and cash equivalents	E	1,320	3,162
		1,671	49,967
Total assets		175,228	261,417
Liabilities			
Current liabilities			
Trade and other payables	F	(104,508)	(103,285)
Derivatives	F	-	(1,341)
		(104,508)	(104,626)
Non-current liabilities			
Derivatives	F	(3)	-
Total liabilities		(104,511)	(104,626)
Net Assets		70,717	156,791
Equity			
Called up share capital	G	26,666	26,666
Share premium account		97,476	97,476
Other reserves	G	(503)	(503)
Retained earnings		(52,922)	33,152
Total equity		70,717	156,791

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 $86.0m (2016: $17.5m).

These financial statements on pages 131 to 143 were approved by the Board of Directors on 27 April 2018 and signed on its behalf by:

Hans Jochum Horn Chairman

Ben Fraser Chief Financial Officer

COMPANY FINANCIAL STATEMENTS

Company statement of changes in equity

For the year ended 31 December 2017

	Called up share capital $000	Share premium account $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

	Called up share capital $000	**Share premium account $000**	**Retained earnings/(accumulated losses) $000**	**Other reserves $000**	**Total equity $000**
At 1 January 2017	**26,666**	**97,476**	**33,152**	**(503)**	**156,791**
Loss for the financial year	**-**	**-**	**(86,028)**	**-**	**(86,028)**
Total comprehensive loss for the year	**-**	**-**	**(86,028)**	**-**	**(86,028)**
Share option credit	**-**	**-**	**(46)**	**-**	**(46)**
Total transactions with equity shareholders	**-**	**-**	**(46)**	**-**	**(46)**
At 31 December 2017	**26,666**	**97,476**	**(52,922)**	**(503)**	**70,717**

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

A. Presentation of the financial statements

Basis of preparation

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 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) .

Please refer to Directors' report on page 74 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 regarding the amount of production taxes ('Rental Fees') paid in Ukraine for certain periods since 2010, which total approximately $37.1 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 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 $11.3 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.

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 2017, have had a material impact on the company. Please refer to Group's accounting policies note 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.

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

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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 2017 was $1/£0.74 (2016: $1/£0.81).

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 page 64 and in Note I on share based payments.

Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from share premium, net of any tax effects. When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from share premium.

Repurchased JKX Oil & Gas plc shares are classified as treasury shares in shareholders' equity and are presented in the reserve for own shares. The consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium. No gain or loss is recognised in the financial statements on the purchase, sale, issue or cancellation of treasury shares.

JKX Employee Benefit Trust

The JKX Employee Benefit Trust was established in 2014 to hold ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme.

The trust has been consolidated in the Group financial statements in accordance with IFRS 10. The cost of shares temporarily held by the trusts are reflected as treasury shares and deducted from equity.

Leasing

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Under operating leases, the risks and rewards of ownership are retained by the lessor. The Company has no finance leases.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Derivative financial instruments

The Company accounts for derivative financial instruments in line with IFRS 7 – 'Financial Instruments: Disclosures' and IAS 39 – 'Financial Instruments: Recognition and measurement'.

Any such derivative was initially recorded at fair value on the date at which the contract was entered into and subsequently re-measured at fair value on subsequent reporting dates.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices adjusted for estimated transaction costs that would be incurred in an actual transaction, or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows.

Convertible bonds due 2020

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 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.

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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.

B. Investments

The net book value of unlisted fixed asset investments comprises:

	2017 $000	2016 $000
Cost		
At 1 January	**21,424**	8,242
Additions	**-**	13,182
At 31 December	**21,424**	21,424
Equity investment in subsidiaries		
At 31 December	**21,424**	21,424

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 13 to the consolidated financial statements).

At 31 December 2017, 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 does not need to be consolidated as the Group does not have any control over 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

	2017 $000	2016 $000
Current		
Amounts owed by group undertakings	-	46,540
Prepayments and accrued income	182	102
VAT receivable	169	163
	351	46,805

Balance at 31 December 2016 of $46.5m owed by subsidiary undertakings was unsecured, bore interest based on LIBOR plus a mark-up and was repayable on demand. Although amounts owed by group undertakings were due on demand, it was management's intention that the amounts would not be demanded in less than one year.

	2017 $000	2016 $000
Non-current		
Amounts owed by group undertakings	152,133	190,026

$152.1m (2016: $169.4m) 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 $84.7m (recognised in 2016: $65.7m) related to intercompany loan receivables, of which, $41.7m (balance at 1 January 2017 of $46.5 less movement in 2017 of $4.8m) (2016: $5.1m) is due within one year from its wholly owned subsidiary and $43.0m (2016: $60.6m) is due from various subsidiaries after more than one year. 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

	2017 $000	2016 $000
Total tax charge for the year	-	-

Factors that affect the total tax charge

The total tax charge for the year of nil (2016: nil) is higher (2016: higher) than the average rate of UK corporation tax of 19.25% (2016: 20%). The differences are explained below:

Total tax reconciliation	2017 $000	2016 $000
Loss on ordinary activities before taxation	(86,028)	(17,523)
Tax calculated at 19.25% (2016: 20%)	(16,560)	(3,505)
Other fixed asset differences	(1)	(1)
Net change in unrecognised losses carried forward	916	1,831
Non taxable income	(22)	(1,800)
Other non-deductible expenses	15,667	3,475
Total tax charge	-	-

Unprovided deferred tax	2017 $000	2016 $000
Tax losses	5,838	5,044
Property, plant and equipment differences	5	5
Other temporary differences	(8)	8
	5,835	5,057

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.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 and Finance Bill 2016. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. 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

	2017 $000	2016 $000
Cash and cash equivalents	1,320	3,162
Total	1,320	3,162

F. Trade and other payables

	2017 $000	2016 $000
Current		
Amounts owed to group undertakings	103,767	101,346
Trade payables	584	1,029
Accruals and deferred income	157	910
Derivatives	-	1,341
	104,508	104,626
Non-current		
Derivatives	3	-

Maturity of financial liabilities

31 December 2017	In 1 year or less, or on demand $000	2-5 years $000
Maturity of financial liabilities		
Amounts owed to group undertakings	103,767	-
Trade payables	584	-
Accruals	157	-
Derivatives	-	3

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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	-
Accruals	910	
Derivatives	1,341	-

Non-current derivative financial instruments

Convertible bonds due 2020 – embedded derivatives

On 19 February 2013 the Company successfully completed the placing of $40m of guaranteed unsubordinated convertible bonds with institutional investors which were due 2018 (prior to restructuring) 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.

Prior to restructuring the Bonds had 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 2020 (2018 prior to restructuring) 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).

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 had been removed; and
- the Company were to 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.

19 February 2017 the Company made first payment to Bondholders of $1.9m, 12.0% of the principal amount of the Bonds, in respect of prior accretion amounts and in accordance with the terms and conditions of the Bond. 19 February 2018 the Company made a payment of the first instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with final accretion payment of $0.5m (3.0% of the principal amount of the Bonds) and $1.1m interest payment in accordance with the terms and conditions of the Bond.

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 is 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. Interest, after the deduction of issue costs is charged to the income statement using an effective rate of 17.3% (18.0% prior to restructuring).

There is therefore no 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 (at 31 December 2016, includes the associated derivative) by $0.7m, which will be amortised over the estimated remaining life of the modified Bond.

In accordance with IFRS 9, following a modification or renegotiation of a financial liability that does not result in de-recognition, the Group is required to recognise any modification gain or loss immediately in profit or loss. Any gain or loss is determined by recalculating the gross carrying amount of the financial liability by discounting the new contractual cash flows using the original effective interest rate. The difference between the original contractual cash flows of the Bond and the modified cash flows discounted at the original effective interest rate is trivial and hence there will be no impact on adoption of IFRS 9 on 1 January 2018.

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 – 2016 information

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. 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 ended 31 December 2016 (see Group Annual Return for the year ended 31 December 2016, Note 21). The remaining principal amount of outstanding Bonds at 31 December 2016 was $16.0m. There were no Bonds repurchases during 2017.

Bondholder Put Option– cancelled 3 January 2017
Bondholders had 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

At 31 December 2016 current liabilities included $16.8m in respect of the put option available to bondholders on 19 February 2017. On 3 January 2017, this put option was cancelled as part of the Bond restructuring. Bonds with a principal amount of $10.0m were redeemed on 19 February 2016 in addition to an early redemption premium of $0.9m in accordance with the terms and conditions of the bond.

Company Call Option
The Company can redeem the Bonds at any time in full but not in part at their principal amount plus one semi-annual coupon plus any accrued interest. If the Bonds are called prior to 19 February 2020, the redemption price will also include an additional U.S. $6,000 per Bond.

The Company can redeem the Bonds any time in full but not in part at their principal amount plus any accrued interest 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:

	2017 Number	2017 £000	2017 $000	2016 Number	2016 £000	2016 $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 2017 (2016: none). There were no treasury shares used in 2017 (2016: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2017 the market value of the treasury shares held was $0.1m (2016: $0.2m).

Other reserves

	Capital Redemption Reserve $000	Foreign Currency Translation reserve $000	Total $000
At 1 January 2017 and 31 December 2017	587	(1,090)	(503)

The foreign currency translation reserve comprises differences arising from the retranslation of the Company balance sheet from £ Sterling into US Dollars in 2006.

H. Share-based payments

Share options are granted to senior management based on performance criteria. The scheme rules are described in the Directors' Remuneration Report. All share-based payments are equity settled.

According to the Plan that is currently in place, the Remuneration Committee has the ability to grant awards of nil-cost options annually to senior management of the Group, conditional on the Group performance over a period of at least three years.

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

At 31 December 2017, there were outstanding options under Performance Share Plan (PSP) (2016: under various employee share option schemes), exercisable during the years 2018 to 2026 (2016: 2017 to 2026), to acquire 1,059,650 (2016: 2,168,450) shares of the Company at nil cost per share (2016: share price ranging from 0.00p to £59.75p). The vesting period for 1,059,650 (2016: 2,168,450) 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.

	2017 Number	**2017 WAEP**	2016 Number	2016 WAEP
Outstanding as at 1 January	**2,168,450**	**22.78p**	12,740,100	28.39p
Granted during the year	**-**	**-**	711,250	0.00p
Lapsed/forfeited during the year	**(1,108,800)**	**44.55p**	(11,282,900)	27.68p
Outstanding at 31 December	**1,059,650**	**0.00p**	2,168,450	22.78p
Exercisable at 31 December	**-**	**-**	-	-

For the share options outstanding as at 31 December 2017, the weighted average remaining contractual life is 8.0years (2016: 8.3 years). Weighted average exercise prices ('WAEP') of options outstanding at 31 December 2017 is nil (2016:22.78) due to lapse of remaining DSOS awards granted in 2014 during the year, which had an exercise price of 59.75p.

During the year no share options were granted in accordance with the Performance Share Plan ('PSP'), which was introduced in 2010. And no share options were granted in accordance with the Discretionary Share Option Scheme ('DSOS'). This 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').

From 2015 onwards, grants under DSOS ceased in accordance with our policy.

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 2017 (2016: 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 (2016: 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.

No share options were granted under PSP in 2017 (2016: 711,250). 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) (2016: 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 0.0p per option (2016: 5.84p).

Fair value of share options granted

The fair value of options granted under the PSP in 2016 was estimated as at the date of the grant using a variant of the Monte Carlo model, taking into account the terms and conditions upon which the options were 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 credit for the year was $0.05m (2016: charge of $0.05m).

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

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

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 61 to 73.

I. Auditors' remuneration

	2017 $000	2016 $000
Audit services		
Fees payable to the Company's auditors for the audit of the parent company	42	40

J. Directors' remuneration

The remuneration of the Directors is disclosed in the audited section of the Remuneration Report on pages 61 to 73, which form part of these financial statements.

K. Dividends

No interim dividend was paid for 2017 (2016: nil). In respect of the full year 2017, the directors do not propose a final dividend (2016: 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:

	2017 $000	2016 $000
Within one year	332	319
In the second to fifth years inclusive	932	1,276
	1,264	1,595

M. Employees

There were no employees of the Company during the year (2016: 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.

General information

Glossary

2P reserves	Proved plus probable
3P reserves	Proved, probable and possible
P50	Reserves and/or resources estimates that have a 50 per cent probability of being met or exceeded
AFE	Authorisation For Expenditure
AIFR	All Injury Frequency Rate
Bcf	Billion cubic feet
Bcm	Billion cubic metres
bcpd	Barrel of condensate per day
boe	Barrel of oil equivalent
boepd	Barrel of oil equivalent per day
bopd	Barrel of oil per day
bpd	Barrel per day
bwpd	Barrels of water per day
cfpd	Cubic feet per day
EPF	Early Production Facility
FEN	Folyópart Energia Kft
GPF	Gas Processing Facility
HHN	HHE North Kft
Hryvnia	The lawful currency of Ukraine
HSECQ	Health, Safety, Environment, Community and Quality
HTHP	High Temperature High Pressure
KPI	Key Performance Indicator
LIBOR	London InterBank Offered Rate
LPG	Liquefied Petroleum Gas
LTI	Lost Time Injuries
Mbbl	Thousand barrels
Mboe	Thousand barrels of oil equivalent
Mcf	Thousand cubic feet
Mcm	Thousand cubic metres
Mstb	Thousand stock tank barrels
MMcfd	Million cubic feet per day
MMbbl	Million barrels
MMboe	Million barrels of oil equivalent
MMstb	Million stock tank barrels
PPC	Poltava Petroleum Company
Psi	Pounds per square inch
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

Directors and advisers

Directors
Hans Jochum Horn
Adrian Coates
Michael Bakunenko
Christian Bukovics
Vladimir Rusinov
Andrey Shtyrba
Vladimir Tatarchuk

Company Secretary
Prism CoSec Limited
42-50 Hersham Road
Walton-on-Thames
Surrey, KT12 1RZ

Registered office
6 Cavendish Square, London W1G 0PD
Registered in England
Number: 3050645

Registrars
Equiniti
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

Solicitors
Cleary Gottlieb Steen & Hamilton
2 London Wall Place
London EC2Y 5AU

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place, London WC2N 6RH

Financial advisors
SPARK Advisory Partners Limited
5 St. John's Lane
London
EC1M 4BH

Public relations
EM Communications
25 Southampton Buildings
London, WC2A 1AL

Designed and produced by DB&CO www.dbandco.co.uk,
Board photography Harriet Birt and Tamás Korchmáros
Cover photography Monty Rakusen
Printed in the UK by Pureprint Group Ltd.

The report is printed on Amadeus 50 Recycled Silk which is produced with 50% recycled fibre from both pre and post-consumer sources, together with 50% virgin fibre from sustainable forests independently certified according to the rules of the Forest Stewardship Council. All pulps used are Elemental Chlorine Free (ECF) and the manufacturing mill is accredited with ISO 14001 standard for environmental management.

JKX Oil & Gas plc
6 Cavendish Square
London W1G 0PD
+44 (0)20 7323 4464