JKX Oil & Gas plc

2018

Annual Report

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STRATEGIC REPORT

How we performed this year

Update:

2018 was a year of achievement for JKX. On the back of successful operations we built up our liquidity reserves and reduced our borrowings. Our cash now significantly exceeds our bond debt. We resumed drilling in Ukraine and sourced a new rig in Russia. Both countries exceeded 2017 production. We also benefitted from a strong market in Ukraine.

Revenue

$92.9m

2017: $74.6m

Profit from operations before exceptional charges

$20.7m

2017: $7.5m

Profit/(loss) for the year

$15.3m

2017: $(17.7)m

Cash generated from continuing operations

$37.3m

2017: $14.2m

Cash flow used in investing activities

$12.8m

2017: $16.0m

Total year-end cash

$19.2m

2017: $6.9m

Outlook:

- In Ukraine we are drilling side tracks and new wells as we continue to execute our new five year development plan.
- In Russia we are undertaking a substantial three well workover programme targeting a significant increase in production.
- We expect a final decision on one of the two outstanding tax claims in 2019.

STRATEGIC REPORT

Our business

What we do

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

Where we operate

Group statistics

	Ukraine	Russia	Hungary	**Group**
Licences				
	1. Ignativske	1. Koshekhablskoye	1. Emod V	**13 licences**
	2. Elyzavetivske		2. Tiszavasvari IV	
	3. Rudenkivske		3. Hajdunanas IV	
	4. Novomykolaivske		4. Hajdunanas V	
	5. Movchanivske		5. Pely I	
	6. Zaplavska		6. Jaszkiser II	
Total licence area, sq. km	405	33	200	**638**
Stage				
	Exploration Appraisal Development Production	Appraisal Development Production	Exploration Appraisal Production	**Exploration Appraisal Development Production**
Production				
2018 gas production, MMcfd	17.6	30.7	0.5	**48.8**
[MMcm]	[497]	[868]	[14]	**[1,379]**
2018 oil production, bopd	751	58	7	**816**
2018 total production, boepd	3,677	5,169	91	**8,937**
Reserves				
2P reserves, MMboe	24.2	69.8	0.0	**93.9**
3P reserves, MMboe	36.1	115.8	0.0	**151.8**
2C resources, MMboe	90.9	74.8	0.0	**166.0**
Staff	372	197	0	**569**

Note: there are minor differences in the tables above due to rounding effects.

STRATEGIC REPORT

Chairman's statement

Dear shareholder, I am pleased to present the results for the full 2018 year and to report that 2018 has been a year of significant and positive change for the Company, with progress made in many key areas.

Previously the Board identified the following areas of immediate focus for 2018:

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

It is particularly notable that I am able to report the first full year profit for the year ended 31 December 2018 since 2013 and that in 2018 we have moved from having a net debt of $9.7m at the start of the year to a closing net cash position of $8.2m.

This represents a significant improvement in the Company's financial position and a vindication of the hard work and commitment from the Company's officers and staff over the year. The Company's focus has been on cost and risk control, building liquidity reserves, stabilising the operations, improving the contractor base and achieving successful results from the workover programme, as well as achieving stronger oil and gas prices.

Along with improved financial results there has also been positive progress in the other key focus areas I identified in the 2017 Annual Report:

Relationship with shareholders
For the first time in many years the Company's Board and senior leaders have remained stable since the last annual report, the only changes in the Board arising from the sale of Proxima's 19.97% shareholding to our new strategic investor, Cascade Investment Fund. I would like to recognise Proxima's support of the Company and to welcome Cascade. I look forward to a constructive relationship with Cascade over the years to come, whilst ensuring the continued independent nature of the Board.

During the year all the independent Directors (myself included) stood down and offered ourselves up for re-election at an EGM held on 22 March 2018 in order to ensure that we had the confidence of all shareholders.

I am glad to be able to report that all the directors were reappointed - as were Mr Bakunenko and Mr Rusinov who stood down and offered themselves up for re-election at the AGM held on 25 June 2018.

The Board seeks to foster an active and open communication with all our shareholders. During the year I have met with a range of shareholders to ensure that I can explain our strategy and discuss their concerns in order to ensure that decisions are taken in the best interests of the Company as a whole.

Operational and financial alignment between all companies of the Group
The Board has undertaken a review of key processes and has introduced a number of new policies and procedures in order to ensure the robustness of the Group control framework and a harmonised approach on a Group-wide basis. These processes will enhance the Board and senior management's ability to identify and manage risk.

In 2018, the Group has also reviewed its existing contractor base. This work has included comprehensive rig tender exercises in both Ukraine and Russia, to find rigs of a suitable standard to carry out the 2019 work plan. New drilling contractors have been appointed and additional contracts will be concluded in the near future. In addition a five year field development plan has been approved for Ukraine as well as a three well work over programme for Russia.

Focus on operational risk management developing existing fields step by step with proven, low risk technology
In 2018 Poltava Petroleum Company ('PPC') undertook an active work programme including working over leased and owned wells, three successful side-tracks and a new well completed. As a consequence annual production from Ukrainian assets increased by 4.8% in 2018 compared to 2017 and we are now starting to see the benefits of the work done in Q4 2018 and Q1 2019. The Group production from the first 2 months of 2019 is 11% higher than for the same period in 2018 and 9% higher than the average monthly production during 2018.

During 2018 successful production from two leased wells in the northern part of Rudenkivske further confirmed the presence of commercial hydrocarbons and plans are in place to drill a side-track in this field in 2019. Access to WM215, a leased well in the West Mashivska licence, together with the implementation of the necessary flowline connections led to first production from this field in the second half of the year. After year end a new well has been drilled in the new West Mashivska field (WM3) and 3D seismic shooting completed. Preparations are underway for the testing of WM3 and the seismic now being processed.

In Russia production increased by 3% in 2018 compared to 2017. Despite a continuing decline in Well 20 through the year, Russian production is up year-on-year, with the help of periodic acid jobs, due to the continued stable performance of Well 25 and 27.

Ensure financial stability by building liquidity reserves, reducing debt and keeping tight control over costs
As reported above, the Company has recorded its first full year profit after tax since 2013 (2018: $15.3 m, 2017: Net loss $17.7 m) and has moved from being in a net debt position to a net cash

position (2018 net cash: $8.2 m, 2017: net debt: $9.7m).

The Board and the senior executive team have successfully used the Group's positive operating cash flow to pay off debt on schedule and to consolidate cash reserves by strengthening cost controls and ensuring improved procurement and payment procedures in order to reduce future spend.

All planned payments to bondholders were successfully made in February 2018 and 2019, thus repaying on schedule one third of the capital outstanding on the bonds in 2018 (capital repaid 2018: $5.3 m) and one half of the remainder in 2019 (2019: $5.3 m). The final capital repayment ($5.4 m) will be made in February 2020.

Resolving outstanding tax issues
The Company's principal operating Company, PPC, has three material unresolved tax issues relating to:

1. A claim for underpayment of rental fees for 2010. The claim, including interest and penalties, amounts to approximately $12.4m. A ruling from the Supreme Court of Ukraine is expected in H1 2019.
2. Claims for underpayment of rental fees for 2015. The claims, including interest and penalties, amount to approximately $30.1m. The tax notification was subsequently cancelled. The cases are still being contested in court. We do not expect any final ruling in these cases before 2020.
3. An award of approximately $12.1m made by the Hague international tribunal in 2017. In February 2019 we filed for recognition of this award in the Ukrainian courts, and although material uncertainties remain over practical enforcement, we expect the recovery in 2020 at the earliest.

As described above, the timing of the court processes dealing with the royalty claims has become much clearer during 2018, and a decision on the claim for underpayment of rental fees for 2015 is not expected before 2020. This provision for potential liability of $30.1m has consequently been reclassified from short term to long term liabilities. This reclassification, together with the improved cash position, means that the company reasonably expects to have sufficient liquidity to pay tax claims that may arise if we do not successfully defend our position in Ukrainian courts.

More effective governance
The Board is culturally diverse, widely experienced and consists of individuals with knowledge and skills in each of the key areas of risk for the Company and with significant experience of operating in JKX's key markets.

As described in last year's Annual Report and Accounts, an external investigation was commissioned in Q1 2018 into the procurement of legal services and subsequent payments made to legal advisers in Ukraine in 2017. This investigation concluded that there had been a breakdown in internal controls and a number of measures have been introduced to strengthen the Company's internal control systems.

The Board's approach to the senior executive leadership remains unchanged and fit for purpose. In practice this means that each operating subsidiary has a General Director reporting directly to the Chairman whilst a Group Chief Financial Officer provides Group level overview and leadership. At the same time the highly experienced Board continues to make its range of skills and experience available to the Company.

We believe that the current composition of the Board continues to provide the Company with access to expertise and skills that would not otherwise be available to it, whilst reinforcing the Directors' strong commitment to Board independence. In addition to the non-executive Chairman, the number of independent directors has remained steady at three, while the number of non-independent directors has been reduced from three to one.

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

In Ukraine, we are starting to see the benefits of the work done and plan developed in 2018. Production figures in Q1 2019 have risen to 5,009 boepd (2018 average annual production: 3,677 boepd). We will continue to prioritise low cost, low risk activities in order to maximise the impact of our free cash using the newly appointed drilling contractors and we will enhance our technical capabilities to ensure on time and on budget delivery of work packages.

In Russia a rig has arrived for the first well of the three well workover programme planned for 2019 and we are exploring alternative sales strategies in order to secure stable, long term sales at increased prices.

We anticipate a gradually improved cash flow through 2019 as the Group strategy and focus on operational excellence starts to yield results. This includes an unrelenting focus on internal control and cost optimisation.

In summary the key areas of focus for 2019 are:

- successful implementation of the five year field development programme;
- continued focus on financial stability, risk management and cost control;
- resolving outstanding tax issues; and
- an initial, strategic review of areas of new opportunity.

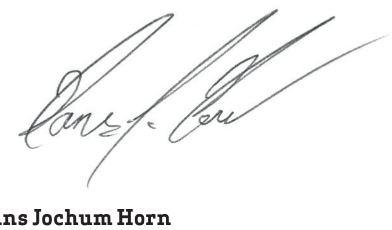
People
In 2018 the company suffered the tragic loss of an operator in Ukraine. This sad loss has caused the company to review its HSE provision across all its operations, in particular in high risk activities.

2018 has been a period of organisational stability for JKX following a period of significant Board and management change. This stability has given us the chance to continue right-sizing the organisation and to ensure that we have the correct resources in the right places in order to implement our revised strategy.

I would like to thank JKX's staff for ensuring continuity and smooth operations and to both our staff and our shareholders for their continued faith in the Company.

I remain optimistic about the Company, whilst being realistic about the challenges that it continues to face.

On behalf of the Board



Hans Jochum Horn
Chairman

STRATEGIC REPORT

Market overview - Ukraine

Why are we here?

Ukraine is our most important market, providing most of our cash flow.

Gas consumption still exceeds Ukrainian domestic production, which leaves an incentive for us to increase our production further. The gas market remains liberal and natural gas prices were strong during 2018.

Reserves
Ukraine holds 1.1 trillion cubic metres (37.1 trillion cubic feet) of proven gas reserves - the second largest proven reserves in Europe.

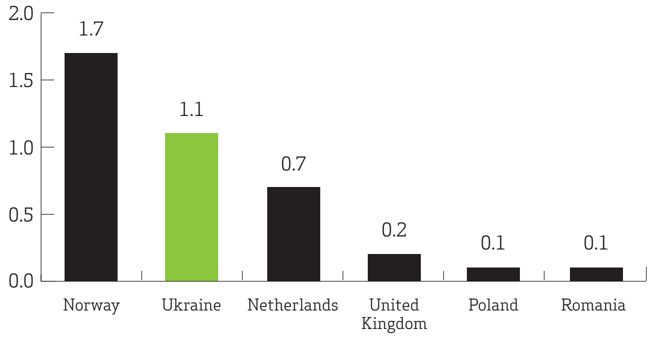
Regulatory and investment climate
Ukraine continues to improve the investment climate in the gas production sector. Notable developments in 2018 include a new fiscal regime for wells in force from January 2018, which reduced rental fee for new wells of less than 5,000 metres to 12%, and for deeper wells to 6%.

Opportunities
The Government and the State Geological Survey of Ukraine announced electronic auctioning of oil and gas field licences, which is a significant step towards a more transparent process. In total, 30 oil and gas licences have been made available for auction and there is the opportunity for further investments in Production Sharing Agreements.

JKX's expertise in this market, gained through more than 25 years of successful business in Ukraine, leaves us well placed to take advantage of these and other investment opportunities as they emerge.

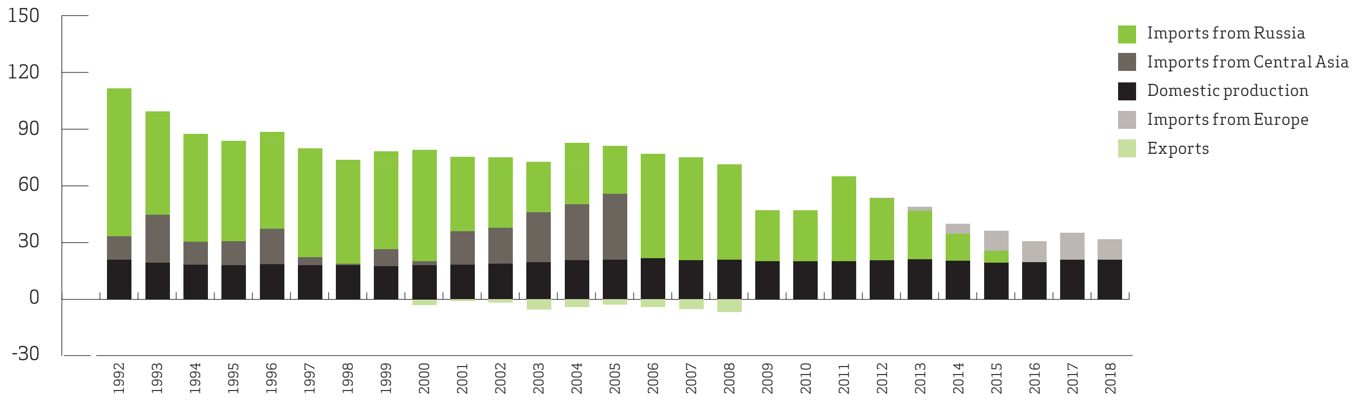
Total proven gas reserves in Europe

Trillion cubic metres (data as of end 2017)



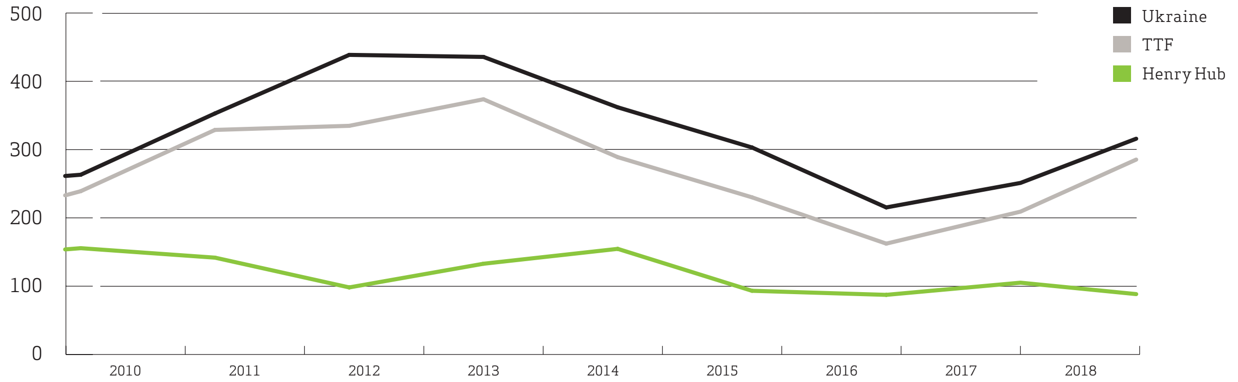
Source: BP Statistical Review of World Energy 2018

Ukraine's gas balance 1992-2018 (bcm)



Source: Energobusiness; Company Research.

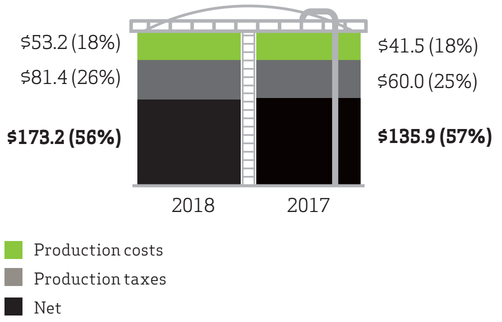
Ukraine's gas price premium ($/Mcm)



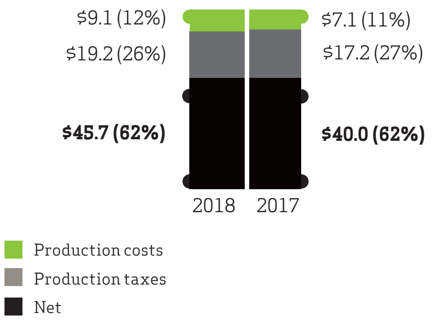
Source: Company Research.

Netback

Netback analysis of gas sales (at $307.8/Mcm in 2018 and $237.4/Mcm in 2017)



Netback analysis of oil sales (at $74.0/bbl in 2018 and $64.3/bbl in 2017)



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 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.

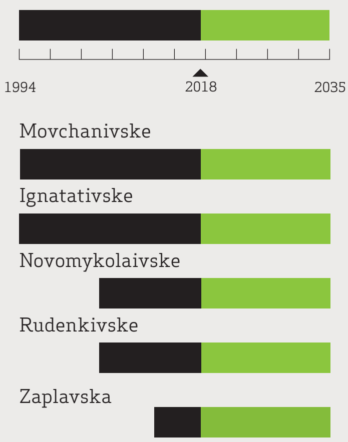
Elyzavetivske field
Our Elyzavetivske field and GPF, which are 45km from our Novomykolaivske Complex, began commercial production in 2014. The field currently produces from eight wells.

Ukrainian reserves
At the end of 2018, our 2P reserves in Ukraine comprised 129.8 Bcf of gas and 2.5 MMbbl of oil (total 24.2 MMboe).

Project life cycle

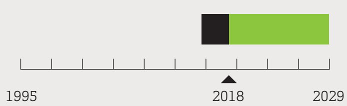
Novomykolaivske Complex

24 years
of commercial production to date



Elyzavetivske field

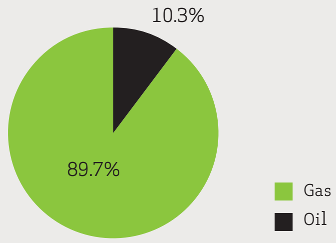
5 years
of commercial production to date



Reserves

Reserves split

89.7% gas



STRATEGIC REPORT

Market overview - Russia
Why are we here?

We have access to high quality, long life reserves in Russia together with an established processing facility.

Whilst gas prices are regulated, they are stable and increase year on year. Our focus is now to increase production volumes closer to the plant capacity, in order to maximise return on the capital expenditure invested.

Despite Russia's overall gas surplus, Russia's southern regions are short of gas with consumption exceeding production by more the three times. Whilst Russia's average gas consumption has stagnated in recent years, Russia's southern regions such as Krasnodar have continued to grow.

Our Koshekhablskoye field is located in the Autonomous Republic of Adygea in southern Russia. This region enjoys some of the country's highest gas prices. This is because the gas industry's key reference price - the regulated price for industrial consumers set for Gazprom - is set based on the distance from Russia's key producing region - Nadym Pur Taz (NPT) in Russia's far north. Adygea is located more than 4,000 km from NPT.

Adygean regional authorities are proactively working on investment projects aimed at boosting industrial potential, and as the major local energy supplier we look forward to their development.

Due to the depth of the main production horizons in our Koshekhablskoye field, we enjoy a significant production tax break as compared to other non-Gazprom producers.

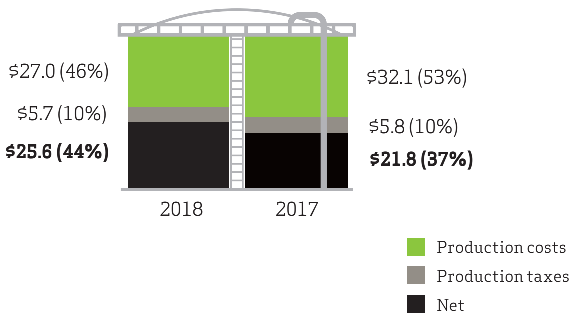
Notwithstanding our access to some of the highest regional gas prices in Russia, we continue to seek opportunities to increase gas sales margins, particularly by direct gas sales to end users. In the longer term we remain extremely well placed for any liberalisation of the gas market in Russia.

Regulated gas pricing by region (RUB/Mcm)

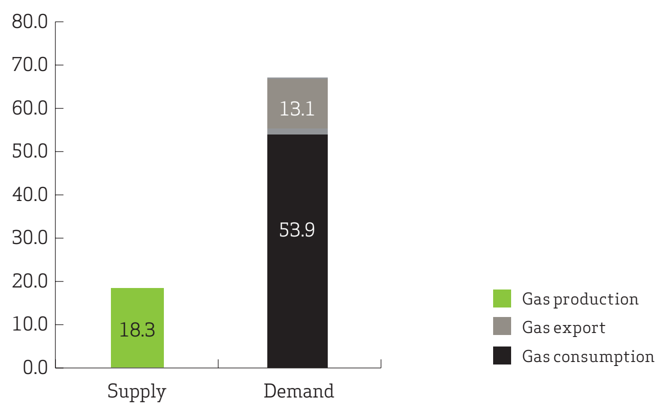
Region	Residential price	Industrial price
YaNAO	2,573	2,574
KhMAO	3,007	3,029
Chelyabinsk	3,601	4,003
Samara	3,651	4,213
Moscow	3,754	4,694
Adygeya	**3,805**	**4,792**

Netback

Netback analysis of gas sales (at $58.3/Mcm in 2018 and $59.7/Mcm in 2017)



Southern Russia gas supply and demand (Bcm)



Source: Company Research.

JKX's assets in Russia

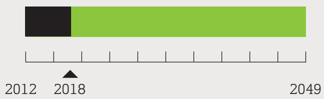
Koshekhablskoye field
Koshekhablskoye gas field is located in the Republic of Adygea, southern Russia where gas resource is scarce, and there are high transportation costs from Russia's main gas production area in the far north, some 4,000 km away.

Russian reserves
At the end of 2018, our 2P reserves in Russia comprised of 414.6 Bcf of gas and 0.7 MMbbl of oil (total 69.8 MMboe).

Koshekhablskoye project life cycle

Total project life cycle

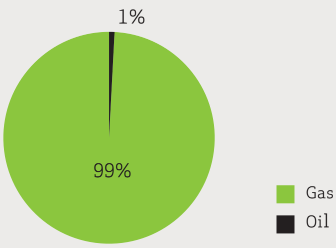
6 years
of commercial production to date



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

General directors statements Ukraine

Ukraine

Victor Gladun General Director

In 2018 in Ukraine we achieved our best financial results since 2011 and a new well was drilled for the first time in 5 years. Profitability was increased by access to third party wells operated under service or rental agreements.

Our revenue was up by 32% (from $57.0m to $75.3m) due to the increased price for oil and gas.

Gas production for the year was up by 5% from 16.7 MMcfd (474 Mcmd) in 2017 to 17.6 MMcfd (497 Mcmd) in 2018, while oil production was also up by 5% from 719 boepd in 2017 to 751 boepd in 2018.

Key elements of 2018 activity were getting access to third party wells under service or rental agreements and entering the West Mashivska field, one of our main undeveloped assets. To enable production from this field, we installed 8 km of pipeline and commenced a 113 km^2 3D seismic acquisition programme, completed in February 2019.

The five year development plan for all five Ukrainian licences was approved by the Board in September 2018 and implementation began in December, ending the year with encouraging results from a side track on Ignativske. 2019 is off to a good start with first quarter production more than 40% higher than in 2018.

In 2019 we continue to focus on the quality of our in house technical team, as well as our contractors and suppliers.

Highlights

- $10.9m invested in the fields
- First new well drilled after five year break
- 20 work overs
- Three sidetracks
- First production from the West Mashivska field

Warehouse in Novomykolaivske,Ukraine.

Russia

Russia

Alexander Bogdanov General Director

In 2018 we achieved a 3% production increase in spite of minimal capital expenditure. We also developed a three well workover programme and selected contractors and equipment suppliers to implement it.

Our gas processing facility has considerable spare capacity and does not require significant investment to handle increased production volumes. Our medium term objective is to maximise utilisation of this spare capacity.

We have now initiated a substantial three well workover programme and a newly contracted rig was mobilised to the field in late 2018 for the first workover on Well 5. We also took delivery of 5,500m of corrosion resistant high specification chrome tubing for use in Well 20. Successful completion of the three well work over programme will give a significant production increase in the medium term.

Importantly, in 2018 we obtained approval from the Ministry of Natural Resources and Environment of the Russian Federation to defer its Callovian obligations until 2025 relieving us of a significant short term licence commitment.

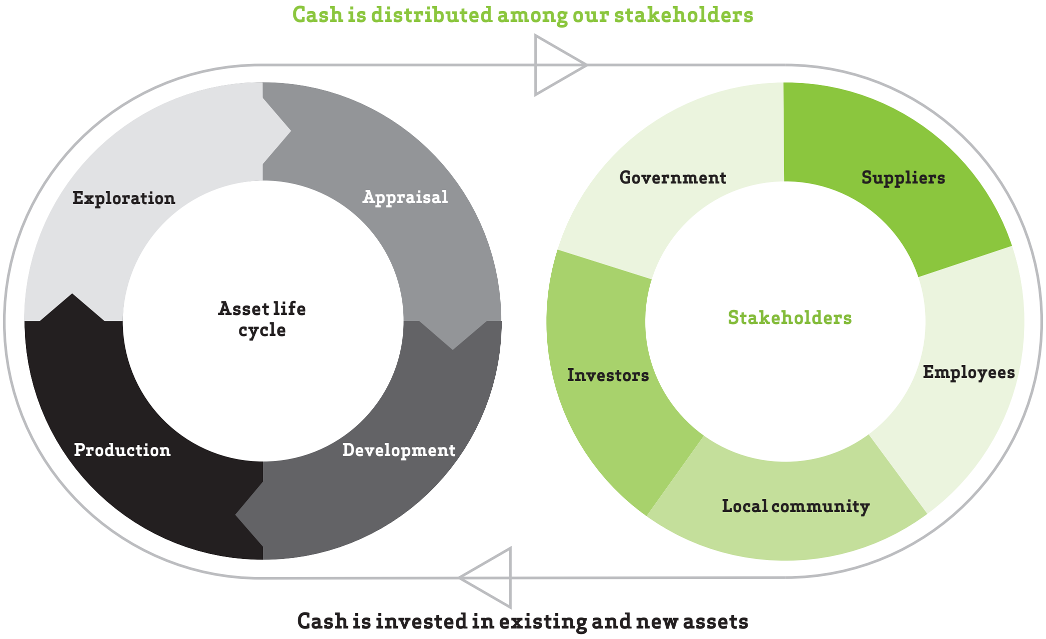
Highlights

- Rig mobilised to Well 5 to commence workover programme
- Deferral of Callovian obligation until 2025

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 eastern Europe.

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



We manage a portfolio of assets in Russia, Ukraine and Hungary.
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 the 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

2019 Strategic objectives

Our objective is to be a leading independent emerging market upstream company and enhance shareholder value by increasing oil and gas production and cash flow through safe and responsible operations.

Our strategic priorities are:

1. Financial and operational stability

The technical challenges inherent in our business, commodity price volatility and the need to be able to react to future risks and opportunities mean that we have an emphasis on building a liquidity reserve, maintaining strong governance and controls, and effectively managing operational, technical, and subsurface risks.

2. Profitable production growth

Our future production profile underpins the value of the Group. We aim to maximise production from our existing fields, and 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.

3. 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

2019 Strategic priorities

Strategic priority

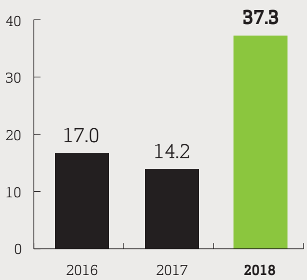
1 Financial and operational stability

Key targets 2019

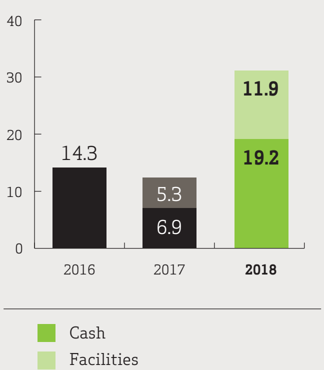
- Growing our liquidity reserve through maximizing the cash flow and access to external funding
- Maintaining strong and stable governance
- Focus on low-risk investments and use of proven technologies
- Resolution of at least one of the outstanding rental fee claim cases

Performance to date

Operating cash flow from continuing operations, $million



Liquidity (cash and available facilities), $million



Associated principal risks

(detail on pages 32 to 40)

- Liquidity, funding, and portfolio management — A
- Financial discipline and governance — D

Strategic priority

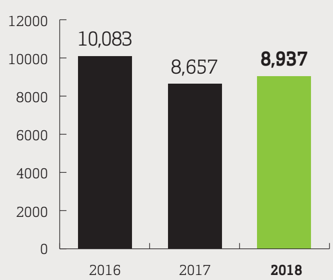
2 Profitable production growth

Key targets 2019

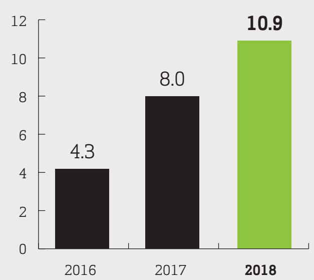
- Continue implementing five year development plan in Ukraine
- Implement three well workover programme in Russia
- Review other growth opportunities in our key markets

Performance to date

Production volumes, boepd



EBITDA $per boe



EBITDA is defined on page 23

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

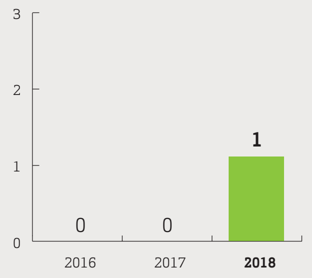
3 Operating safely and responsibly

Key targets 2019

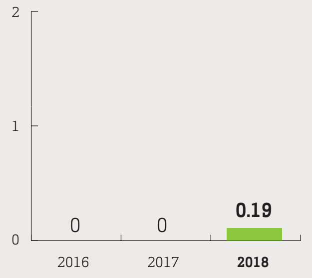
- Zero fatalities
- To exceed internal and industry targets for AIFR, LTI, and EIFR

Performance to date

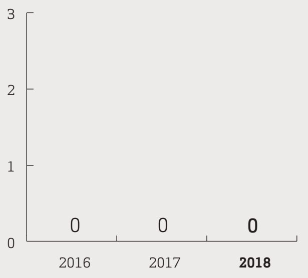
Fatalities



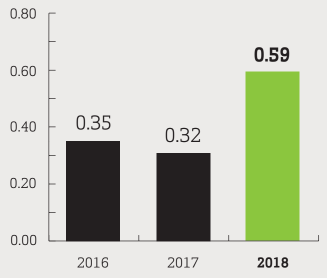
All Injury Frequency Rate ('AIFR')



Lost Time Injury ('LTI') cases



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

Operations review

Group production

In 2018 group average production was 8,937 boepd (2017: 8,657 boepd), an overall increase in production of 3%. The increase in production year-on-year was a result of the ongoing drilling and workover programme in Ukraine and higher uptime in Russia.

Group production

	boepd		Workovers*		Sidetracks		New wells	
Cash generating unit	2018	2017	2018	2017	2018	2017	2018	2017
Novomykolaivske complex	2,414	2,335	18	15	2	1	0	0
Elyzavetivske licence	1,263	1,172	2	0	0	0	1	0
Total Ukraine	3,677	3,507	20	15	2	1	1	0
Russia	5,169	5,019	0	2	0	0	0	0
Hungary	91	131	0	1	0	0	0	0
Total Group	8,937	8,657	20	18	2	1	1	0

*Includes abandonments.

Gas and oil production increased year-on-year in all cash generating units, except Hungary.

	Gas, MMcfd		Gas, Mcmd		Oil, bopd	
Cash generating unit	2018	2017	2018	2017	2018	2017
Novomykolaivske complex	10.1	9.8	286	276	731	701
Elyzavetivske licence	7.5	6.9	211	196	20	18
Total Ukraine	17.6	16.7	497	474	751	719
Russia	30.7	29.8	868	843	58	55
Hungary	0.5	0.7	14	20	7	9
Total Group	48.8	47.2	1,379	1,337	816	783

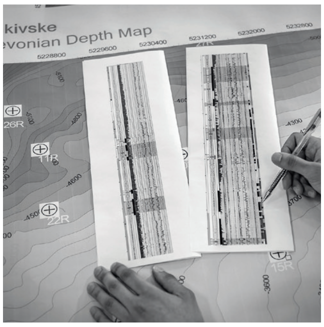
Ukraine

Novomykolaivske complex production and operations

	boepd		Workovers		Sidetracks	
Field name	2018	2017	2018	2017	2018	2017
Ignativske	1,395	1,349	6	5	1	1
Molchanivske	346	260	2	2	1	0
Novomykolaivske	286	383	2	0	0	0
Rudenkivske	387	343	8	8	0	0
Novomykolaivske complex	2,414	2,335	18	15	2	1

The increase in Novomykolaivske complex production year-on-year was mostly attributed to production from two sidetracks, and the workover of a leased well in Rudenkivske.

Outlook
Following the creation of a five year field development plan and the recent success of IG103 sidetrack a follow-up well, IG142, is planned in 2019 to target another structural high point in the potentially productive horizons in the area directly south of IG103 sidetrack.



In Novomykolaivske one firm well, and one contingent well, are planned to be drilled to appraise the V16 to the south of the main field in 2019. Success of these two wells would lead to further wells targeting the shallow Visean sands to the west of the Molchanviske licence. These wells benefit from a relatively low capex cost due to the target depth being less than 2000m.

In Rudenkivske, following the success of the leased well workovers in 2018, a sidetrack is planned to further evaluate the Visean sands in the north western part of the field in 2019. Commercial success of this sidetrack could lead to the drilling of at least 7 more wellbores targeting the Visean sands in the North of Rudenkivkse.

Elyzavetivske licence production and operations

	boepd		Workovers		New wells	
Field name	**2018**	2017	**2018**	2017	**2018**	2017
Elyzavetivske	**1,177**	1,172	**1**	0	**1**	0
West Mashivska	**86**	0	**1**	0	**0**	0
Elyzavetivske Licence	**1,263**	1,172	**2**	0	**1**	0

The increase in production from the Elyzavetivske licence was mainly the result of the successful workover of two leased wells, one of which was on the West Mashivska licence.

Outlook
Following the successful workover of a leased well in West Mashivska and the tie-in to the Elyzavetivske facilities a new well was spudded in the West Mashivska field in December 2018.

After year end the shooting of a 3D seismic survey has been completed and is now being processed which along with the results from the first new well will enable a field development plan to be created for this field, the only undeveloped field in our portfolio.

Russia

Koshekhablskoye licence production and operations

	boepd		Workovers	
Field name	**2018**	2017	**2018**	2017
Well 20	**1,733**	2,153	**0**	0
Well 25	**1,693**	1,078	**0**	1
Well 27	**1,665**	1,699	**0**	0
Koshekhablskoye field*	**5,169**	5,019	**0**	2

*Includes Well 15 production and Well 5 workover.

In 2018 there were no workovers while resources were focussed on finding a suitable rig to complete a 3 well workover programme to start in 2019. This workover programme will include the work overs of Well 5 and Well 18 which upon completion are expected to deliver a significant increase in production within two years.

The Callovian licence commitment has now been extended from 2019 to 2025.

STRATEGIC REPORT

Operations review

Operations update for Q1 2019

	Production, boepd		
	Q1 2019	2018	2017
Ukraine	5,009	3,677	3,507
Russia	4,873	5,169	5,019
Hungary	25	91	131
Total Group	9,907	8,937	8,657

Following the encouraging initial test rate in IG103 ST the well continues to produce at a gas rate of 8.3 MMcfd [234 Mcmd] and 148 bpd of condensate (1,531 boepd) at a WHP of 1,660 psig. To date (2 April 2019) this well has produced 0.8 Bcf [22 MMcm] of gas. A recent reservoir pressure recorded indicates an in-place volume of 3 Bcf [85 MMcm] which doubles the expected recovery previously quoted of 1 Bcf [28 MMcm].

WM215 has been successfully worked over and with the aid of continuous fresh water injection is now producing at a stable rate of 1.0 MMcfd [27 Mcmd].

The drilling of WM3 has now been completed with the well reaching a TD of 3,570m, with 11m of net pay thickness found in the A8. Due to an over pressured gas zone immediately beneath the salt completing the 7" liner section took longer than anticipated. This over pressured zone (A1) was found to have better reservoir properties and net pay thickness, 7m, than the secondary target, A2, which has a net pay thickness of 3m. It is intended to perforate this interval in WM3, due to the encouraging log response, after the A8 and A2 as it is less likely to be as extensive as the deeper reservoirs.

The 3D seismic survey has been completed over the West Mashivske field ahead of target time, despite some difficulties due to unseasonal weather.

Upon completion of WM3, the SMS rig will move to drill the shallow well, NN81, the last well on its contract. Progress is being made with the finalisation of the contract between PPC and a rig contractor for the main part of the 2019 drilling programme.

In Russia the workover of Well 5 was started on 11 January 2019. To date good progress has been made with the sidetrack completed to a TD depth of 5,204m MD RT. Encouraging gas shows were encountered on prognosis from 5,135m to 5,173m MD RT and log interpretation has indicated a net pay thickness of 21m in a gross interval of 42.3m, fully in line with expectations. The workover is currently suspended due to problems with the drill pipe in use. Thorough mechanical, chemical and instrumental inspections have successfully cleared 3,000m of the current 2 7/8" drill pipe for further use. The damaged sections of drill pipe will be repaired by a certified specialist service company in Tolyatti, where work has started already.

Note about unit convention
This will be the last reported document which will contain gas production volumes in oilfield units (cf for gas). All future reports, RNS's and press releases will only publish produced gas volumes in m3. Oil will continue to be reported as bbls and boe will also continue to be used.

STRATEGIC REPORT

Reserves update

In Ukraine, production from 2018 has been more than offset by increases to reserves. The most significant increase is the result of continuing production from the West Mashivska field in the Elyzavetivske licence.

In Russia, there has been no change to the reserves this year other than depletion due to 2018 production. Currently more than 50% of the Group reserves are accounted for by Russia and with a current commercial cut-off of 2049, relying on long term price and other commercial assumptions, no change to reserves year-on-year is justified.

Total remaining 2P reserves at 31 December 2018

	31-Dec-17	Revisions	Production	31-Dec-18
Total				
Oil (MMbbl)	3.9	(0.4)	(0.3)	**3.2**
Gas (Bcf)	546.7	15.5	(17.8)*	**544.4**
[MMcm]	[15,480.0]	[439.0]	[(504.0)]	**[15,415.0]**
Oil + Gas (MMboe)	95.0	2.2	(3.3)	**93.9**
Ukraine				
Oil (MMbbl)	3.2	(0.4)	(0.3)	**2.5**
Gas (Bcf)	120.6	15.6	(6.4)	**129.8**
[MMcm]	[3,414.0]	[443.0]	[(181.0)]	**[3,676.0]**
Oil + Gas (MMboe)	23.3	2.2	(1.3)	**24.2**
Russia				
Oil (MMbbl)	0.7	0.0	(0.0)	**0.7**
Gas (Bcf)	425.9	(0.1)	(11.2)	**414.6**
[MMcm]	[12,059.0]	[(2.2)]	[(317.0)]	**[11,740.0]**
Oil + Gas (MMboe)	71.7	0.0	(1.9)	**69.8**

* 0.18 Bcf [5.1 MMcm] produced in Hungary.

Field-by-Field 2P reserves at 31 December 2018

MMboe	Dec-17	Revisions	Production	Dec-18
Ukraine				
Ignativske	5.5	0.2	(0.5)	**5.2**
Movchanivske	0.7	(0.1)	(0.1)	**0.5**
Novomykolaivske	0.5	0.4	(0.1)	**0.8**
Rudenkivske	15.0	0.4	(0.1)	**15.2**
Zaplavska	-	-	-	**-**
Sub-total Novomykolaivske complex licences	21.8	0.8	(0.9)	**21.7**
Elyzavetivske	1.6	1.3	(0.5)	**2.5**
Total Ukraine	23.3	2.2	(1.3)	**24.2**
Russia				
Koshekhablskoye	71.7	0.0	(1.9)	**69.8**
Total	95.0	2.2	(3.2)	**93.9**

Note: there are minor differences in the tables above due to rounding effects.

STRATEGIC REPORT
Reserves update

JKX contingent resources

There is no change to the contingent resources in 2018.

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 Novomykolaivske complex 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

LPG plant at the
Sakalova Balka
production facility
in Ukraine.

STRATEGIC REPORT

Performance in 2018

OPERATING RESULTS	Total 2018 $m	Second half 2018 $m	First half 2018 $m	Total 2017 $m
Revenue				
Oil	20.0	10.8	9.2	17.1
Gas	66.4	36.4	30.0	52.8
Liquefied petroleum gas	5.6	3.0	2.6	4.6
Other	0.9	0.3	0.5	0.1
	92.9	50.5	42.4	74.6
Cost of sales				
Exceptional item - provision for production based taxes	(5.1)	(2.2)	(2.9)	(4.4)
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets	-	-	-	5.6
Exceptional item - impairments and well write offs	-	-	-	(7.9)
Exceptional item - write off of appraisal expenditure in Ukraine	-	-	-	(9.4)
Other production based taxes	(21.9)	(12.0)	(9.9)	(16.7)
Depreciation, depletion and amortisation - oil and gas assets	(14.8)	(8.0)	(6.9)	(16.7)
Other operating costs	(20.7)	(10.6)	(10.1)	(18.5)
Total cost of sales	(62.5)	(32.8)	(29.7)	(67.9)
Gross profit	30.3	17.6	12.7	6.7
Administrative expenses				
Exceptional items	-	-	-	(1.5)
Administrative expenses	(13.9)	(7.8)	(6.1)	(16.4)
(Loss)/gain on foreign exchange	(0.7)	1.5	(2.2)	1.2
Profit from operations before exceptional items	20.7	13.4	7.3	7.5
Profit/(loss) from operations after exceptional items	15.7	11.3	4.4	(10.0)

EARNINGS/(LOSS)	Total 2018	Second half 2018	First half 2018	Total 2017
Net profit/(loss) ($m)	15.3	13.4	1.9	(17.7)
Net profit/(loss) before exceptional items ($m)	18.6	14.2	4.4	(0.7)
Basic weighted average number of shares in issue (m)	166.7	166.7	166.7	166.7
Profit/(loss) per share before exceptional item (basic, cents)	11.13	8.52	2.64	(0.42)
Profit/(loss) per share after exceptional item (basic, cents)	9.15	8.04	1.14	(10.59)
Pre-exceptional earnings before interest, tax, depreciation and amortisation ($m)[1]	35.8	21.2	14.3	24.9

COSTS OF PRODUCTION ($/boe)	Total 2018	Second half 2018	First half 2018	Total 2017
Operating costs (excluding exceptional item)	6.4	6.4	6.5	5.9
Depreciation, depletion and amortisation	4.6	4.8	4.4	5.4
Production based taxes	6.8	7.2	6.3	5.4

CASH FLOW	Total 2018	Second half 2018	First half 2018	Total 2017
Cash generated from continuing operations ($m)	37.3	22.0	15.3	14.2
Operating cash flow per share (cents)	22.4	13.2	9.2	8.6

STATEMENT OF FINANCIAL POSITION	At 31 December 2018		At 30 June 2018	At 31 December 2017
Total cash[2] ($m)	19.2		7.5	6.9
Borrowings (excluding derivatives) ($m)	(11.0)		(10.8)	(16.6)
Net cash/(debt)[3] ($m)	8.2		(3.3)	(9.7)
Net cash/(debt) to equity (%)	5.8		(2.4)	(6.7)
Return on average capital employed (%)[4]	8.2		2.7	(7.9)
Increase in property, plant and equipment/ intangible assets ($m)				
Ukraine	11.1	7.0	4.1	12.7
Russia	0.7	0.2	0.5	5.8
Other	-	-	-	0.8
Total	11.8	7.2	4.6	19.3

1 Pre-exceptional earnings before interest, tax, depreciation and amortisation ('EBITDA') is a non-IFRS measure and calculated using profit/(loss) from operations and adding back depletion, depreciation, amortisation and exceptional items. 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. EBITDA is one of the measures provided to the Board in the monthly reporting and used to monitor Group and subsidiaries' performance.

2 Total cash is Cash and cash equivalents less Restricted cash. 31 December 2018 total cash includes only balances relating to continuing operations.

3 Net cash/(debt) is Total cash less Borrowings (excluding derivatives).

4 Return on average capital employed is the annualised profit/(loss) for the period divided by average capital employed.

STRATEGIC REPORT

Financial review

Ben Fraser
Chief Financial Officer

During the year the Group significantly increased its available cash balances from $6.9m to $19.2m while at the same time decreasing its borrowings from $16.6m to $11.0m, therefore moving from a net debt to a net cash position.

Group revenues*

24.5%

	2018 ($m)	2017 ($m)	Change ($m)	% Change
Ukraine	**74.9**	**57.0**	**17.9**	**31.4**
Gas	49.2	35.8	13.4	37.4
Oil	19.3	16.5	2.8	17
Liquefied Petroleum Gas ('LPG')	5.6	4.6	1.0	21.7
Other	0.8	0.1	0.7	>100
Russia	**17.8**	**17.6**	**0.2**	**1.1**
Gas	17.2	17.0	0.2	1.2
Condensate	0.6	0.6	-	-
Other	0.2	-	0.2	N/A
Total	**92.9**	**74.6**	**18.3**	**24.5**

*Note that Hungary as a segment is presented as assets held for sale.

Sales prices

	2018	2017	Change	% Change
Ukraine				
Gas ($/Mcm)	307.8	237.5	70.3	29.6
Oil ($/bbl)	74.0	64.3	9.7	15.1
LPG ($/tonne)	544.0	467.0	77.0	16.5
Russia				
Gas ($/Mcm)	58.3	59.7	(1.4)	(2.3)

Average exchange rates

	2018	2017	Change	% Change
Russia (RUB/$)	62.9	58.3	(4.6)	(7.9)
Ukraine (UAH/$)	27.2	26.6	(0.6)	(2.3)

Results for the year

The profit after tax for the year of $15.3m is the first reported since 2013 and is a marked improvement upon the loss after tax of $17.7m reported for 2017. Results for both years include significant charges reflecting updated interest calculations for the provisions for disputed rental fees for 2010 and 2015 in Ukraine ($5.1m in 2018 and $4.4m in 2017). No other exceptional charges have been reported for 2018, which compares favourably with the significant charges for the unsuccessful Rudenkivske fracturing programme, impairment charges and severance payments reported for 2017.

Total revenue for 2018 is $92.9m, 24.5% higher than the $74.6m reported in 2017. The increase is primarily due to the higher commodity prices in Ukraine, as well as the 3.1% increase in total

Group production from 8,657 boepd in 2017 to 8,937 boepd in 2018. Gas sales prices and netbacks are still significantly higher in Ukraine than in Russia.

Ukraine revenues
The $17.9m increase in total revenues was due to both higher sales prices, as shown in the table, and higher sales volumes.

The average gas sales price in dollar terms was 29.6% higher in 2018 than in 2017. This is in line with international market trends. Total gas sales volumes increased by 5.9% from 150,909 Mcm in 2017 to 159,887 Mcm in 2018, primarily due to the gas production volume having increased 4.9% from 172,939 Mcm in 2017 to 181,482 Mcm in 2018. The increase in production was a result of the ongoing drilling and workover activity in Ukraine. For more detail please refer to the Operations review.

The average oil sales price increased from $64.3/bbl in 2017 to $74.0/bbl in 2018 and total oil sales volumes for the year increased 2.1% from 256,076 barrels in 2017 to 261,420 barrels in 2018. Oil production volume increased 4.5% from 262,334 barrels in 2017 to 274,087 barrels in 2018, with the surplus being taken to inventory.

LPG sales volumes were 10,266 tonnes in 2018 compared to 9,855 tonnes in 2017, with sales prices being higher in 2018 ($544/tonne in 2018 compared to $467/tonne).

A portion of production comes from wells owned by third parties, operated under service agreements with UkrGasVidobuvannya and under rental agreements with NAK Nadra Ukrayini and Ukrnafta. This production is subject to sale in the normal way, with payments being made to the well owners in accordance with the service and rental agreements.

Russia revenues
Russian revenues benefitted from a 3.9% price increase in rouble terms on 1 July 2018 and a year on year increase in production volumes (2018:316,996 Mcm, 2017:307,841 Mcm) but were negatively impacted by the weakening of the rouble as shown in the table (left), leading to an increase of just 1.1% in dollar terms.

Cost of sales
The provision for disputed rental fees, in respect of claims for additional rental fees for the years 2010 and 2015, was increased by $5.1m, to reflect updated interest calculations, in 2018 as set out in Note 18.

Cost of sales before exceptional items for 2018 totalled $57.4m (2017:$51.9m). This includes:

- $21.9m of production taxes, which were $5.2m higher than in 2017 due to the higher production taxes incurred in Ukraine. Production tax expense in Ukraine increased from $14.9m in 2017 to $20.1m in 2018, mainly due to an increase in the average border gas price which is the basis for calculating gas production taxes (UAH8,194 per Mcm in 2018 compared to UAH6,115 per Mcm in 2017). Only $1.8m of the total production taxes relate to Russia (2017: $1.8m) where the mineral extraction tax rate for wells deeper than 5,000m has remained at 328 Roubles/Mcm;
- $20.7m of operating costs, of which $12.1m relates to Ukraine (2017:$9.6m) and $8.6m relates to Russia (2017:$9.9m). The increase in operating costs in Ukraine is mainly due to a $2.0m increase in well service and rental costs (2018:$3.0m, 2017:$1.0m). The decrease in Russia is partly due to the rouble exchange rate; and
- $14.8m of depreciation, depletion and amortisation charge (2017:$15.7m).

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

Administrative expenses
Administrative expenses before exceptional items of $13.9m in 2018 compare favourably to those of $16.4m in 2017. The decrease is mainly due to staff cost reductions resulting from a right sizing exercise carried out during 2018 to ensure that resources are appropriate to the needs of the Group, and a reduction in legal, lobbying and other professional fees incurred. 2018 administrative expenses include $0.5m of professional fees in relation to the forensic investigation of payment of legal expenses in Ukraine, as disclosed in our previous annual report, which are considered non-recurring.

Finance income and costs
Finance costs decreased from $3.2m in 2017 to $2.5m in 2018. This mainly consists of the convertible bond interest, which reduced from $2.8m to $2.0m due to the repayment of principal outstanding in February 2018. Finance costs also include unwinding of discount of provisions for site restoration of $0.4m (2017: $0.3m).

Finance income of $0.9m (2017: $0.3m) comprises income from bank deposits, which has risen in accordance with the increase in funds held.

Taxation
The total tax charge for 2018 is $2.2m (2017: $0.8m credit) comprising a current tax charge of $5.5m (2017: $3.0m) which relates to Ukraine and a deferred tax credit of $3.3m (2017: credit $3.8m). The increase in current tax charge reflects a higher profitability in Ukraine. The deferred tax credit relates to movements in various deferred tax assets and liabilities in Ukraine and Russia.

Discontinued operation
The Hungarian business is presented as a discontinued operation to reflect our decision to dispose of it, as explained in our previous annual report. It covered its costs in 2018, providing a small operational profit. The total profit attributable to it, as presented in the consolidated income statement, largely relates to non-cash items as set out in Note 14. The remaining net assets of $0.5m include deposits held to address future abandonment costs.

During 2018 we withdrew from our non-core Slovakian interests.

Capital Expenditure
While we started the year with only $6.9m unrestricted cash and building liquidity was a clear priority, we also recognise the need to invest for the longer term.

Of the $11.8m capital expenditure incurred during the year (2017:$19.3m), $11.1m relates to Ukraine where we drilled a new well and two sidetracks. Only $0.7m relates to Russia, where investment was minimal while we were securing a suitable rig for the three well workover programme to be performed in 2019.

Cash flows
During the year the Group significantly increased its available cash balances from $6.9m to $19.2m while at the same time decreasing its borrowings from $16.6m to $11.0m, therefore moving from a net debt to a net cash position. This was achieved as a result of strong operating cash flow of $37.3m (2017:$14.2m) from continuing operations, almost all of it generated in Ukraine. Successful completion of the three well workover programme in Russia, improving netbacks by increasing production volumes, will improve its cash contribution to the Group beyond 2019.

STRATEGIC REPORT
Financial review

Use of cash during the year is as shown in the cash bridge below. Capital expenditure cash outflow of $3.5m relating to Russia includes $2.8m to settle creditor balances from prior periods.

Net cash outflow from financing activities in the period mainly relates to the $5.8m payment to the bondholders in February 2018. No dividends were paid to shareholders in the period (2017: nil).

Liquidity outlook
We have considerably improved our liquidity over the last year underpinned by greater operating cash flows.

After a further payment of $6.0m to bond holders in February 2019 the Group remains in a net cash position, with sufficient funds to make the remaining bond payments ($0.4m in August 2019 and $5.8m in February 2020). In addition in December 2018 PPC, our subsidiary in Ukraine, has renewed and increased a 12 month UAH280m ($10.1m) revolving credit line and a UAH50m ($1.8m) overdraft facility with Tascombank, neither of which are currently being used. We are confident that this facility can be renewed again for 2020. As well as our continued focus on cost control, other options available to us to improve our liquidity include the execution of forward sales in Ukraine and deferring capital expenditure if required. We are not burdened by significant field development commitments in the short or long terms.

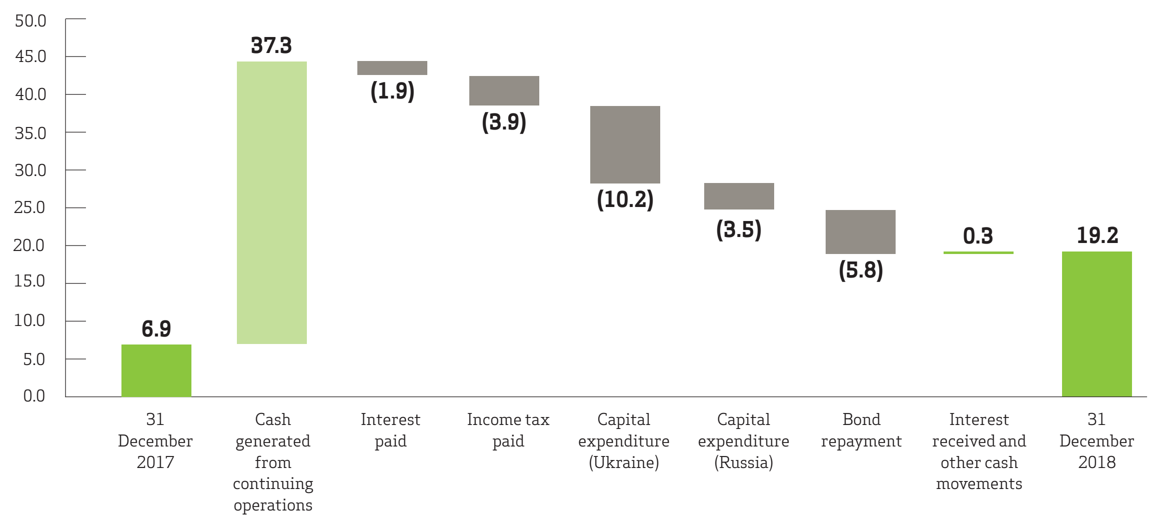
Furthermore, we have improved our understanding of the 2010 and 2015 rental fee claims for which we continue to maintain provisions (see Note 27 to the consolidated financial statements) and are now satisfied that we have the resources to meet these potential liabilities if necessary based on the expected timing of potential payments. In particular, careful consideration has been given to the earliest dates that courts may conclude that PPC may be required to settle each of the various claims in the event that court hearings proceed without undue delay, including assessments with external legal counsel.

The Group's expectation is that a final hearing with respect to the 2010 rental fee claim will take place in 2019 and that final hearings in respect of the 2015 rental fee claims will take place in 2020 and 2021. The $12.4m provision for the 2010 rental fee claim has therefore been reported under current liabilities and the $30.1m provision for the 2015 rental fee claims has been reported under non-current liabilities.

Both our Ukrainian and Russian operations remain cash flow positive, generating sufficient cash to cover the Group's costs and their own investment programmes and the Group's liquidity is forecast to improve through 2019 and beyond. The consolidated financial statements have been prepared on a going concern basis (see Note 2 to the consolidated financial statements).

Ben Fraser
Chief Financial Officer

Cash flows ($m)



STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Our understanding

The Plan, Do, Check, Act approach shows how it has helped us achieve a balance between the systems and behavioural aspects of HSE management. It also treats health and safety management as an integral part of good management.

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.

Our CSR achievements in 2018

- All Injury Frequency Rate (AIFR) of 0.19
- Environmental Incident Frequency Rate (EIFR) of 0.59
- ISO 9001 Quality Management standard maintained
- Maintained our ISO 14001 Environmental standard
- OHSAS 18001 Health and Safety accreditation standard maintained (ISO 45001-The Standard Replacing OHSAS 18001)
- Established and maintained the recording and monitoring process for our Greenhouse Gas reporting requirements
- Prepared and submitted report to the Global Reporting Initiative
- Prepared and submitted Global Reporting Initiative Report on Sustainability.
- Completed enhanced Stakeholder Management procedures
- Updated and reviewed HSECQ Management Systems across the group

Our vision
At JKX we are committed to target key health and safety issues and to manage the core elements of health and safety and ensuring we are doing what we need to do in delivering effective arrangements and applying adequate resources and to 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
As part of managing the health and safety of our business, we have taken control of the risks in the workplace. To do this we have thought about what, in our business, might cause harm to people and decide whether we are taking adequate steps to prevent that harm. 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 towards, people, planet and profit.

Our CSR process is board led
Our Health, Safety, Environment, Community and Quality ('HSECQ') manager reports directly to the JKX Chairman 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 which deliver a high standard of HSECQ management and reporting. Our teams report to the General Director of the local operating company and the Group HSECQ manager.

CSR policies, procedures and standards
We aim to comply with all local laws and regulations and to exceed them 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.

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. We set annual HSECQ targets for all levels within the organisation.

Our performance in 2018

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.

A fatal accident took place in our Ukrainian operations in February 2018 involving an operative falling from height. The Chairman of the Special Investigation Commission engaged technical experts to assist in the analysis of the incident and a full report was provided to the JKX Board of Directors. The recommendations included in this report, including those made by the State Labour Service Commission, were accepted and implemented in full.

During 2018 we achieved an AIFR of 0.19 per 200,000 hours worked. In 2018 we reported 61 incidents, which demonstrates further consolidation in our incident reporting procedures.

Drilling risks

We recognise 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.

Our 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.

Health and safety risk management

We apply ISO 45001 (The Standard Replacing OHSAS 18001) ISO 14001 Environmental and ISO 9001 Quality Management standards.

Consistent hazard assessment processes

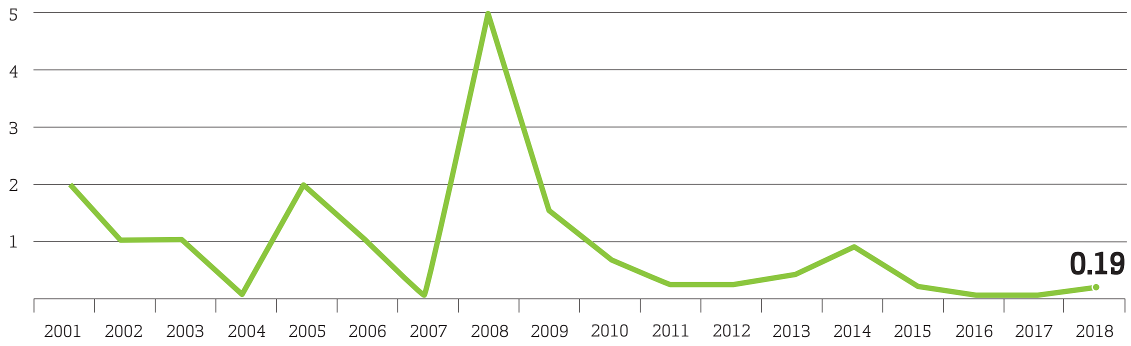
In both Russia and Ukraine, we continued to carry out risk management studies using our proven Hazard and Operability ('HAZOP'), Hazard Identification ('HAZID') and As Low as Reasonably Practical ('ALARP') methodologies.

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.

Health and safety statistics

All Injury Frequency Rate 2018 ('AIFR')



HSECQ Statistical Analysis for 2018

Fatal accident case	1
Lost time injuries	0
Medical treatment/restricted work cases	0
Near miss/loss/hazards/property damage/ unsafe act or conditions	61

2018 JKX and contractors

Days away from work	0	Safety exposure man-hours	1,008,904
Fatal accident cases	1	Fatal accident case frequency rate	0.19
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/hazards/property damage/unsafe act or conditions	76	Near miss/loss/hazards/property damage/ unsafe act or conditions frequency	15.06
Man-hours since last lost time injury	5,775,423	Man-hours since last fatal accident case	974,287

STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Environmental management system

The JKX Environmental Management System is 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 2018 on the annual performance of JKX in conjunction with TruCost has identified reduction measure targets for the 2019 campaign.

Environmental performance in 2018
In 2018, we again made good progress and we were pleased to continue the ongoing work with TruCost. We are committed to providing information to investors about its environmental performance.

Environmental incident frequency rate ('EIFR')
Our EIFR Target for 2018 was not to exceed 0.6 Environmental incidents per 200,000 hours worked; we achieved 0.59. There were two minor incidents during the year, both of which were appropriately addressed.

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. Calculations shall be updated upon the Government release of residual factors for public use. JKX's disclosure is in accordance with this legislation and the latest GHG protocol requirements.

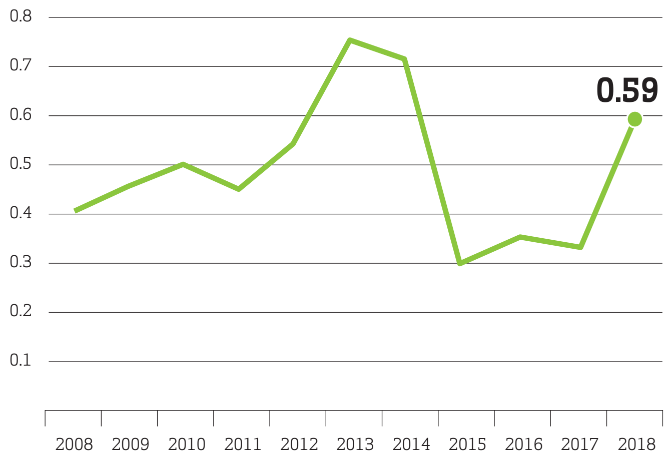
Global reporting initiative ('GRI')
The GRI Reporting Framework is intended to provide a generally accepted framework for reporting on an organisation's economic, environmental, and social performance.

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 2018 some advances were made in our Supply Chain Initiative, and this will continue in 2019 with a more focused approach to procurement and supply.

Outlook
Plans to improve these procedures during 2019 include enhancing our JKX Code of Conduct.

Environmental Incident Frequency Rate ('EIFR')



Mandatory GHG reporting

Data point	Units	Quantity 2018
Scope 1	tonnes CO_2e	234,658
Scope 2 (Location based)	tonnes CO_2e	800
Scope 2 (Market based)	tonnes CO_2e	812
Scope 1 & 2 Intensity (Location based)	tonnes CO_2e /Mboe of production	103

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.

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 2018 amounted to $0.2m 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

We work closely with outside interest groups and maintain an open-door policy to better understand local issues and problems are avoided.

Quality

Complying with ISO 9001 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. The new versions of ISO 9001 as well as OHSAS 18001 & ISO 14001 have been applied.

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 continuous system of internal control and risk management systems and for reviewing their effectiveness.

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.

A risk management process involves the Group Risk Committee and subsidiary Risk Committees in Ukraine and Russia. All the Risk Committees were in place throughout 2018, with the last Group Risk Committee being in December 2018.

Risk Committee
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.

Risk Committee reports to the Audit Committee. 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.

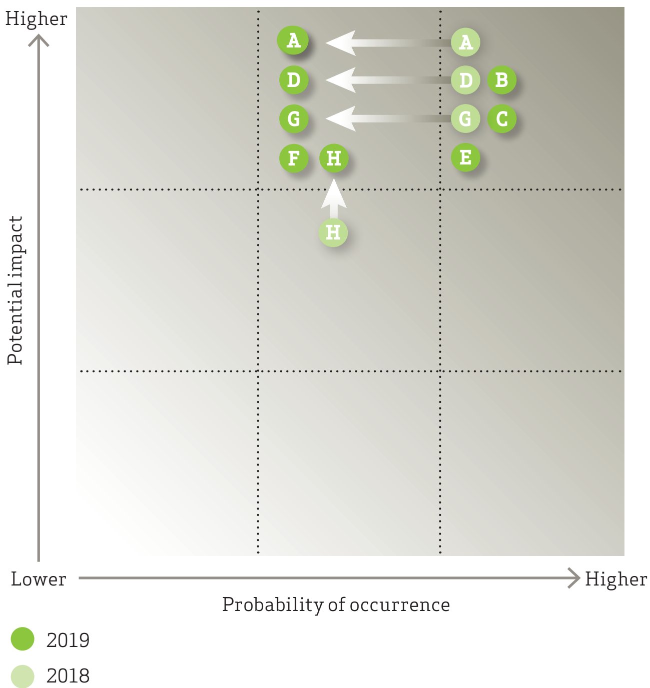
Risk assessment - the consequence and likelihood of each risk materialising is assessed. Risk registers are used to document the risks identified, the level of severity of its impact, and probability of occurrence, ownership and mitigation measures for each risk.

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

The principal risks set out (right)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 2018	Strategic objective impacted	Responsibility	Page
A	Liquidity, funding, and portfolio management	- Operating cash flow - Liquidity	↓	1, 2	CFO	34
B	Geopolitical and fiscal	- Operating cash flow - Production - Liquidity	–	1, 2	The Board	34
C	Reservoir and operational performance	- Production - Cash from operations - EBITDA per boe	–	1, 2	General Directors	36
D	Financial discipline and governance	- Liquidity - Cash from operations	↓	1	CFO	36
E	Health, safety, and environment	- AIPR - LTI - EIFR	–	3	The Board	36
F	Asset integrity	- Production - Liquidity	–	3	General Directors	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

STRATEGIC REPORT

Principal risks and how we manage them

What is the risk	Probability	Impact	Change from 2018
Liquidity, funding, and portfolio management			
Description: As for any other exploration and production company, our fields are prone to natural production decline. 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. Although unrestricted cash on hand at 31 December 2018 is $19.2m compared to $6.9m at 31 December 2017, this risk remains.	MED	HIGH	↓
Geopolitical and fiscal			
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 the 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 rental fees. PPC continues to defend itself in court against action initiated by the tax authorities regarding rental fees for August to December 2010 and for January to December 2015. In addition, in February 2017, the Company was awarded approximately $11.8m in damages plus interest and costs of $0.3m by an international arbitration tribunal pursuant to a claim made against Ukraine under the Energy Charter Treaty. The Group is currently arranging for this award to be recognized in Ukraine.	HIGH	HIGH	–

Responsibility	How do we manage it?	Further information
CFO	Liquidity is accumulated by deferring high-risk investment projects and minimizing costs. Projects are analysed and ranked across the Group and capital is allocated accordingly. All significant investment decisions are subject to Board approval and taken with due consideration to funding availability. These decisions are taken within the context of the longer term field development plans. After a further payment of \$6.0m to bond holders in February 2019 the Group remains in a net cash position, with sufficient funds to make the remaining bond payments ending in February 2020. In addition in December 2018 PPC, our subsidiary in Ukraine, has renewed and increased a 12 month UAH280m (\$10.1m) revolving credit line and a UAH50m (\$1.8m) overdraft facility with Tascombank, neither of which are currently being used. We are confident that this facility can be renewed again for 2020. YGE, our subsidiary in Russia, is considering options for a similar facility. Other liquidity tools include the ability to make forward sales in Ukraine. Furthermore we have improved our understanding of the 2010 and 2015 rental fee claims and ensured that we have the resources to meet these potential liabilities if necessary. In particular, careful consideration has been given to the earliest dates that courts may conclude that PPC may be required to settle any or all of the various claims in the event that court hearings proceed without undue delay. The Group's expectation is that a final hearing with respect to the 2010 rental fee claim will take place in 2019 and that final hearings in respect of the 2015 rental fee claims will take place in 2020 and 2021.	Chairman's statement page 4 Financial review page 24
The Board	The Group's operations and financial position may be adversely affected by interruption, inspections and challenges from local authorities, which could lead to remediation work, time-consuming negotiations and suspension of production licences. The Board continues to receive regular legal advice regarding the cases against PPC in respect of the 2010 claims and 2015 claims, and has invested considerable time in order to understand them fully. In respect of the 2010 rental fee claims and 2015 rental fee claims, provisions of \$12.4m and \$30.1m, respectively, have been recognised in these financial statements to reflect the Company's estimate of the potential liability. Except for this \$42.5m provision, 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. The Company has begun to recognise the international arbitration award in Ukraine and plans to engage with the authorities to reach a mutually beneficial outcome taking in consideration mutual claims. 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, when necessary. 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

What is the risk	Probability	Impact	Change from 2018
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, enhancement interventions may result in lower production, profits and cash flows.	HIGH	HIGH	–
Financial discipline and governance			
Description: The Group has presence in five countries with major operations in Russia, Ukraine, and the United Kingdom. Such complex structure requires complex governance and control procedures to be in place to ensure appropriate level of financial discipline and controls, as well as delegation of authority along the corporate and management structure. From 2015 to 2018 the Group underwent several major Board and management changes, changes of advisors and contractors, as well as 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 maintain an 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.	MED	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. The Group has not assessed Climate Change as being a significant risk to its business in the foreseeable future. We monitor supply and demand forecasts for our products from a variety of sources and Climate Change does not appear as a major cited factor. If political responses to Climate Change actually lead to major reductions in coal – fired European electricity generation, the Group may benefit from substitution by cleaner gas – fired plant. **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
General Directors	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. Production forecasts generated for future development opportunities are risked to take account of geological uncertainty. Operational risks are taken account of by adding a percentage of contingency to the duration and cost of the planned development action. The percentage of contingency added is based on both historical experience and perceived difficulty of the development action.	Operations review page 16
CFO	Since 2017 the current Board has prioritised financial discipline and governance. During 2018 new financial controls have been implemented and corporate governance has been enhanced, including through more frequent and detailed management reporting to the Board of Directors. A Group Policy Manual has been implemented across the group. It is subject to annual review and revision by the Board to ensure that governance and control procedures are sufficient to insure the appropriate level of financial discipline and controls, as well as delegation of authority along the corporate and management structure. All payments are subject to approval by the CFO.	Chairman's statement page 4 Financial review page 24
General Directors	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 Board of Directors. 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.	Corporate social responsibility page 27

STRATEGIC REPORT

Principal risks and how we manage them

What is the risk	Probability	Impact	Change from 2018
Asset integrity			
Description: Our operations depend on maintaining and adhering to licence requirements and related regulations set by government authorities in countries we operate in. **Impact:** Failure to comply with licence obligations and other regulations or requirements may result in our licences 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 UK Bribery Act, UK Listing Rules, UK Corporate Governance Code, UK Listing Rules, 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.	MED	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 in will have a direct effect on the Group's trading results. Gas prices in Ukraine are closely aligned with gas prices in Europe. Since Ukraine stopped purchasing gas from Russia directly, domestic gas prices have been 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 2018 the regulated price to which our sales contract is tied has increased by 3.9% however, prevailing prices remain significantly lower than in Europe due to existing regulations. In Ukraine PPC sells the oil it produces at prices determined by a combination of the global oil market and local market factors. During 2018, the Hryvnia exchange rate remained stable while the Rouble weakened by more than 20%. **Impact:** A period of low oil and/or gas prices could lead to impairments of the Group's oil and gas assets and may impact the Group's ability to support its field development plans and reduce shareholder returns.	MED	HIGH	↑

Responsibility	How do we manage it?	Further information
General Directors	Status of our licences and relevant licence obligations are monitored on a country level. In 2018 the deadline for the Callovian well drilling commitment in Russia, which is the Group's largest single commitment, has been extended until 2025.	Corporate social responsibility page 27 Corporate governance page 44
The Board	The CFO is responsible for compliance and, with the support of the Board, implements compliance-related activities and procedures. Such activities focus on 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 in 2018 we engaged KPMG to conduct a forensic review of procurement of legal services and subsequent payments made to legal advisors in Ukraine in 2017. Recommendations arising from both have been implemented to further strengthen our ABC framework. This included completion of a full Bribery Risk Assessment. 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 27 Corporate governance page 44
CFO	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. 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, the vast majority of gas produced is 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 other sales opportunities 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 Page 14

STRATEGIC REPORT

Principal risks and how we manage them

Long term viability statement

The Directors have assessed the viability of the Group over a three-year period to 31 December 2021, during which it is expected that the final bond payment will be made and any potential liabilities from 2010 and/or 2015 rental fee claims may arise,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** In 2018 we have developed a five year field development plan (medium term), that we are now executing. In addition, we have started to systematically review opportunities for acquisition and new licensing in Ukraine.
- **Russia** Operations, production and cash flow are stable in Russia. Production can be increased in 2019 by a three well workover programme.
- **Hungary** We are in the process of disposing of our six mining plots in Hungary.

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

The 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 25 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 a lesser extent, in Russia. However there remain significant risks associated with operating in the 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 in Rouble and Hryvnia exchange rates, various scenarios for reservoir performance, and delays to additional future revenue. These sensitivities are considered both individually and in unison.

The assessment incorporated the use of mitigating actions available to the business, such as a reduction in capital expenditure and use of external facilities.

Capital and operating costs were based on approved budgets and latest forecasts in the case of 2019 and current development plans in the case of 2020 through to December 2021. In addition, the Directors made enquiries into and considered the Ukrainian and Russian business environments and future expectations regarding country and currency risks that the Group may encounter, as disclosed in the risks above.

Principal risks facing the Group

For the purposes of assessing the Group's viability, the Directors focused on the following principal risks which are critical to the Group's success but which is outside the control of management and could have a significant impact on the business:

- **Commodity prices and FX fluctuations**
  The Group 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.
- **Potential fee claims**
  The Company has persistently defended its position in the Ukrainian courts regarding the rental fee claims for 2010 and 2015 totalling approximately $42.5 million (including interest and penalties, see Note 27 to the consolidated financial statements), the Company will continue to defend its position in the Ukrainian courts in all outstanding cases, the Directors have given careful consideration to the earliest dates that courts may conclude that any or all of the claims may be required to be settled and ensured that the resources are available to meet these liabilities if necessary based on the expected timing of potential payments (see Financial review page 26).

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 32 to 40 of the Annual Report. The Directors have implemented operational and cash management measures, to settle amounts that may become payable in relation to the 2010 and 2015 rental fee claims, if and when they become payable. The Directors believe that the combination of its current cash balances, and continued availability of current facilities, 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.

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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.

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.

Adrian Coates Non Executive Director, Senior Independent Director

Appointed – 8 December 2017

Experience – is the Chairman of Thor Explorations Limited, a TSX-V listed mining exploration and development company with assets in West Africa. He was a Non Executive Director of Petropavlovsk from February to June 2018, 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.

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.

	Appointed	Resigned
Vladimir Rusinov Non Executive Director	8 December 2017	**16 August 2018**
Vladimir Tatarchuk Non Executive Director	28 January 2016	**16 August 2018**

GOVERNANCE

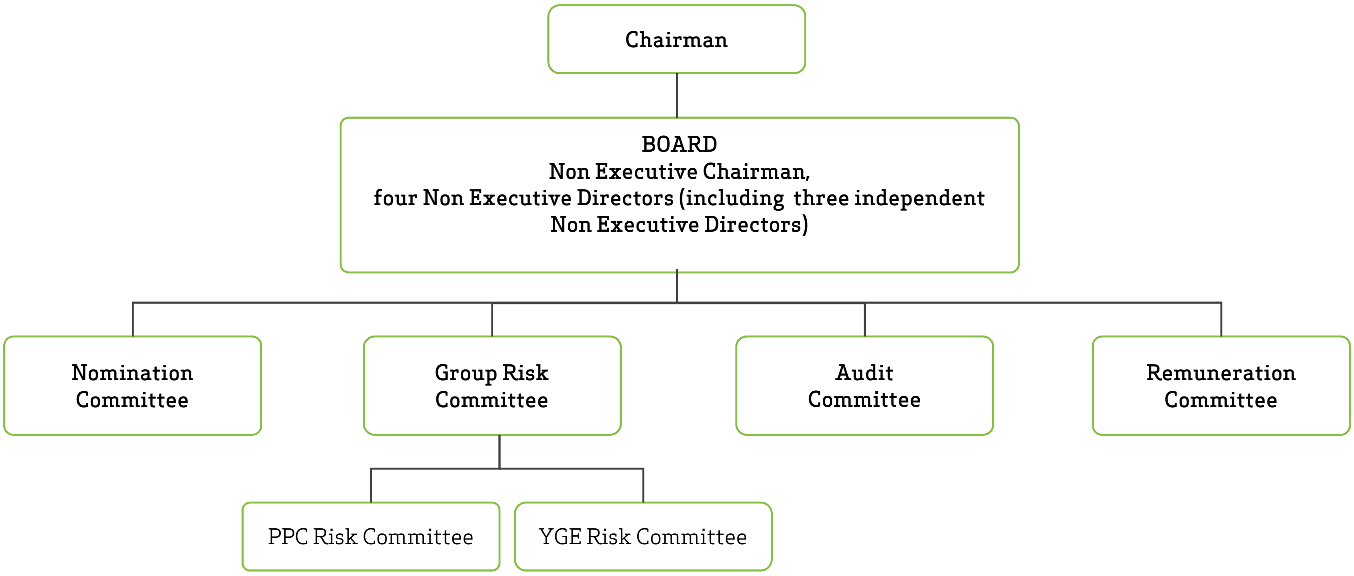
Corporate governance

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 2016 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 2018

On 9 February 2018, following a search by an independent executive search consultant, Christian Bukovics was appointed to the Board as a Non Executive Director and a member of the Remuneration and Nomination Committees.

On 22 March 2018 an EGM was held at which the four independent Directors (including the Chairman, the Senior Independent Director, Andrey Shtyrba and Christian Bukovics), all of whom had been appointed to the Board since the last Annual General Meeting stood down and presented themselves for reappointment by the Shareholders. All were reappointed.

On 25 June 2018 Michael Bakunenko and Vladimir Rusinov (both of whom had been appointed to the Board since the last Annual General Meeting) were reappointed by the Shareholders at the Annual General Meeting.

On 16 August 2018 Vladimir Rusinov and Vladimir Tatarchuk both resigned as Directors following the disposal of Proxima's entire interest in the company to Cascade.

The Group is led by an experienced Board of Directors consisting of a Non Executive Chairman, three independent Non Executive Directors and one Non Executive Director, who 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 Chief Financial Officer and General Directors of PPC and YGE.

How the Board functions

The Board has historically held six scheduled meetings each year, and arranges additional meetings if the need arises. During 2018, there were 6 unscheduled Board meetings (2017: nine), 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 (2017: once). The number of unscheduled Board meetings in 2018 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 monthly performance update each month after the month end. The monthly reports outline all material operational, financial, commercial and strategic developments.

The monthly reports consolidate all financial and operational 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.

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Corporate governance

Committees of the Board in 2018

During 2018 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 during 2018

	Audit Committee	Remuneration Committee	Nomination Committee
Hans Jochum Horn	Member	Member	Chairman
Michael Bakunenko	Member	Member[2]	-
Christian Bukovics	-	Member[4]	Member
Adrian Coates	Chairman	-	Member
Vladimir Rusinov	Member[1]	-	-
Andrey Shtyrba	Member	Chairman	Member
Vladimir Tatarchuk	-	Member[3]	-

1 Resigned 16 August 2018.
2 Appointed on 8 October 2018.
3 Resigned 16 August 2018.
4 Appointed on 9 February 2018.

The roles and activities of each of these committees during 2018 are noted on pages 48, 51 and 61.

Board composition, independence and commitment

Up until the 15 August 2018 the Board comprised 7 individuals:

- The Non Executive Chairman,
- 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%, and
- 3 independent Non Executive Directors (Christian Bukovics, Adrian Coates, Andrey Shtyrba) who were assessed as independent on the basis, inter alia, that the matters set out in Section B.1.1, of the Code did not apply to them.

Following the resignation of Vladimir Rusinov and Vladimir Tatarchuk on 16 August 2018 the Board comprised 5 individuals:

- The Non Executive Chairman,
- 1 Non Executive Director representing the interests of Eclairs, JKX's largest shareholder with a holding of over 27%, and
- 3 independent Non Executive Directors (Christian Bukovics, Adrian Coates, Andrey Shtyrba) who were assessed as independent on the basis, inter alia, that the matters set out in Section B.1.1, of the Code did not apply to them.

It is the Board's view that the current Non Executive Directors have sufficient time to fulfil their commitments to the Company. The Board does however regularly consider 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 company 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

Adrian Coates was appointed as Senior Independent Director ('SID') on 8 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, Chief Financial Officer or where such contact is inappropriate.

2018 Board evaluation process

Following the Board changes in 2017 it was considered appropriate to defer the process of evaluating the performance of all the new Directors and committees in 2018. The Chairman has however conducted one to one meetings with the Directors. During the first quarter of 2019 the Senior Independent Director has reviewed the performance of the Chairman and an internal Board Evaluation has been carried out.

External evaluation

As the Company was outside of the FTSE 350 during 2018 there was no requirement for an externally-facilitated evaluation of the Board at least every three years. The Chairman will consider the relevance of an externally facilitated evaluation in due course.

Development of the Board

All Directors are provided with opportunities for further development and training updates. In addition to the 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.

Board activities

Attendance at meetings

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

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 2018 and individual attendance by Director is shown below:

Board and Committee meeting attendance in 2018

Number of meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
	12	6	5	5

Attendance/Eligibility:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Hans Jochum Horn	12/12	6/6	5/5	5/5
Michael Bakunenko[3]	11/12	6/6	1/1	-
Christian Bukovics[1]	12/12	-	5/5	5/5
Adrian Coates	12/12	6/6	-	5/5
Vladimir Rusinov[2]	8/9	4/4	-	-
Andrey Shtyrba	10/12	5/6	5/5	4/5
Vladimir Tatarchuk	3/9	-	0/3	-

1 Christian Bukowics was appointed as a Director on 9 February 2018.
2 Vladimir Rusinov and Vladimir Tatarchuk resigned as Directors on 16 August 2018.
3 Michael Bakunenko was appointed as a member of the Remuneration Committee on 8 October 2018.

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 2018

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.

- Reports from the General Directors of each of the two major operating units on strategic, and operational matters including political and economic developments,

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- 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 Anti Bribery and Corruption) 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 the Board's updated strategy for the Company reflecting matters such as the deployment of an improved contractor base, a focus on cost control and the execution of low risk, high margin operations;
- managing the Group's liquidity including the payment of principal and interest on the existing Convertible Bond;
- reduction in overhead costs and improved efficiency through the implementation of staff cuts in London, Ukraine and Russia and resolution of historic cost issues those arising from the storage of specialist drilling tubing;
- increased transparency and engagement with shareholders regarding production and operations with a regular reporting schedule.
- Identifying and addressing critical gaps in the Board and 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;
- disposal of non-core Slovakian assets;
- appointment of new statutory auditors;
- overhaul of the capex approval process by ensuring that appropriate screening criteria such as risk, payback period, cash flow impact and return on investment are considered;
- development and implementation of a future strategy, including the five year development plan in Ukraine and the three well work over programme 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 2019 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 22 March 2018. Of the remaining Directors Vladimir Tatarchuk was reappointed at the 2016 Annual General Meeting and Michael Bakunenko and Vladimir Rusinov were appointed to the Board on 8 December 2017. Michael Bakunenko and Vladimir Rusinov stood for re-election at the 2018 Annual General Meeting as they had been appointed to the Board since the last AGM and both were reappointed.

Vladimir Rusinov and Vladimir Tatarchuk resigned as Directors on 16 August 2018.

Although none of the Directors have been appointed since the last AGM and no director has been in place for more than one annual general meeting the Directors have all agreed to stand down and submit themselves to the shareholders for reappointment, in line with the new recommendations of the 2018 UK Corporate Governance Code.

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 Nomination Committee regularly reviews the management structure of the Company, including the absence of a CEO, and seeks ways to minimise any negative impact.

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 2018 Attendance/Eligibility
Hans Jochum Horn (Chairman)	November 2017	present	5/5
Christian Bukovics	February 2018	present	5/5
Adrian Coates	December 2017	present	5/5
Andrey Shtyrba	November 2017	present	4/5

The Committee met 5 times during 2018 (2017: 3).

A new independent Non Executive Director (Christian Bukovics) was appointed in 2018 following a search by an independent search consultant (Drax) that has no other connection with the Group.

Membership and process
Until 8 February 2018 the Nomination Committee comprised Hans Jochum Horn (as Chairman), Adrian Coates and Andrey Shtyrba. On 9 February 2018, Christian Bukovics joined the other independent Non Executive Directors as a member of the Nomination Committee. Throughout 2018 Hans Jochum Horn acted as Chairman of the Committee and the Committee 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 in order 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 56 to 67.

Compliance

Compliance with the UK Corporate Governance Code
The Board believes that, except in relation to the composition of certain Board Committees prior to the appointment of Christian Bukovics as an independent Non Executive Director on February 9th 2018 the Company was fully compliant during 2018 with the provisions set out in the UK Corporate Governance Code.

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.

During the year the Board has strengthened a number of key internal control processes including those relating to approval of expenditure, procurement, anti-bribery and corruption, sponsorship and donations.

The Board has concluded that for the period up until the date of the Annual Report the Company's current procedures, policies and systems are appropriate and suitable to enable the Board to safeguard shareholders' investment and the Company's assets, and comply with FRC 'Risk Management, Internal Control and Related Financial Business Reporting 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 52.

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.

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 Board has reviewed the approach to ensure the most effective allocation of capital across the group as part of a wider consideration of the Company's strategy in accordance with the five year development plan in Ukraine and the three well work over programme in Russia.

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.

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Whistleblowing
The Board reviews the arrangements by which employees and others 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 Internal Audit Manager 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
The Board is committed to frequent and comprehensive communication with all shareholders. The Board is committed to an 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.

Formal presentations, when made, are available to all shareholders to download from the Group's website (www.jkx.co.uk). Less formal processes include contacts with other 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 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 that reflect future expectations including but not limited to those regarding country, commodity price and currency risks that the Group may encounter.

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
5 April 2019

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Audit committee report

Attendance and eligibility

Member	Committee member since	To	Number of meetings in 2018 Attendance/Eligibility
Adrian Coates (as Chairman)	December 2017	present	6/6
Michael Bakunenko	December 2017	present	6/6
Hans Jochum Horn	October 2017	present	6/6
Vladimir Rusinov	December 2017	Resigned 16 August 2018	4/4
Andrey Shtyrba	October 2017	present	5/6

The Audit Committee currently comprises 3 Non Executive Directors, two of whom are independent, and the Non Executive Chairman.

Audit Committee during 2018

Adrian Coates (Chairman), Michael Bakunenko, Hans Jochum Horn and Andrey Shtyrba were the members of the Audit Committee, throughout the year. Vladimir Rusinov was also a member of the Committee until 16 August 2018 on which date he resigned.

The Audit Committee has carried out the requirements under the Disclosure and Transparency Rules 7.1.3R throughout the period that this report covers. Adrian Coates, Andrey Shtyrba 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 or following an appropriate competitive tender recommend the appointment of a new external auditor and to 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 manage 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

The Board has 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 six times during 2018 (2017: five).

The Committee's meetings were attended when considered appropriate by the Chairman of the Committee, by 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, internal audit, 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 2018 (2017: twice) the Committee Chairman met with the external auditors to discuss matters which the auditors and Audit Committee may wish to raise.

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Audit committee report

As there are were no Executive Directors in office during 2018 there was no need to hold any meeting with the auditors at which Executive Directors were not present.

The Committee's activities during 2018

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.

Internal controls and risk

- 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;
- Reviewed the status of implementation of the recommendations arising from an independent expert's review of the effectiveness of the Group's Anti-Bribery and Corruption policies and systems received in 2017;
- Commissioned and received KPMG's review of certain payments made to legal advisers in 2016 and 2017;
- Review of finance, legal, internal audit and compliance staffing; and
- Implementation of enhanced interim controls relating to cost, procurement and payment and ongoing monitoring of their effectiveness.

External auditors

- Retendered for external auditors and appointed BDO LLP to act as external auditors;
- 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;
- 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) the Committee's own Assessment;
- Considered and approved letters of representation issued to the external auditors; and
- Agreement of the external auditors' remuneration for the 2018 statutory accounts.

Accounting, tax and financial reporting

- 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;
- Ongoing analysis of future cash flow and liquidity and implementation of monthly financial update reports;
- Review of Transfer Pricing issues; and
- Review of ongoing tax and other litigation.

Significant issues considered by the Audit Committee

After discussion with management and the external auditors, the Committee determined that the key risks of misstatement in relation to the Group's 2018 financial statements related to:

- the carrying value of oil and gas assets;
- rental fee claims in Ukraine;
- international arbitration award; and
- going concern.

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 2018 and at the conclusion of the audit of these financial statements.

Matters considered	Response and conclusion
The carrying value of 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 2019 Budget which is approved by the Board. In addition, this area is a prime source of audit focus and accordingly our auditors provided detailed reporting to the Committee. Management also brought to the attention of the Committee the sensitivity analyses 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.
Rental fee claims in Ukraine As detailed in Note 27 to the financial statements, PPC continues to defend itself in the local courts against claims initiated by the tax authorities regarding rental fees for August to December 2010 and for January to December 2015. Management has recorded total provisions for the rental fee claims of $42.5m (2017:$37.1m), with the increase in the amount provided of $5.1m reflecting additional potential interest accrued (see Note 18 to the financial statements). In prior years all rental fee claim provisions were classified as current. In 2018 Management has made a more detailed investigation into the mostly likely timing of any potential payments in respect of these rental fee claims and accordingly reclassified the 2015 rental fee claims as non-current.	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 BDO LLP ("BDO") on this matter. Having reviewed these reports and submissions, the Committee was satisfied that total provisions of $42.5m (2017:$37.1m) (including interest and penalties) were required in respect of the rental fee claims and that both the classification of the $12.4m provision for the 2010 rental fee claim as current, and the classification of the $30.1m provision for the 2015 rental fee claims as non-current were appropriate.
International arbitration award Also as detailed in Note 27 to the financial statements, in February 2017 an international arbitration tribunal awarded the Company damages of $11.8m plus interest, and costs of $0.3m, pursuant to a claim made against the Government of Ukraine. While binding under international law, the tribunal ruling still requires recognition and enforcement in the Ukrainian courts. Although this process was commenced in February 2019, management has judged that it is not appropriate to recognise any potential inflow of economic benefits from the arbitration award in the Consolidated statement of financial position until there is further clarity on the process for, and likely success of, enforcing collection.	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 BDO on this matter. Having reviewed these reports and submissions, the Committee has concurred with management's judgment and is satisfied that the disclosures made in Note 27 to the financial statements in respect of the international arbitration award are appropriate.

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Audit committee report

Matters considered	Response and conclusion
Going concern	
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 material uncertainties relevant to the going concern assumption.	The Committee addressed this issue by reviewing cash flow forecasts, together with associated sensitivity analysis, provided by senior management and in particular by examining and challenging the appropriateness of the assumptions used to prepare them. This is also an area of significant audit risk and accordingly the Committee received detailed verbal and written reporting from BDO on this matter. Having reviewed these reports and submissions, the Committee has advised the Board that the Group has adequate resources to continue in operational existence for the foreseeable future, that the going concern basis is the appropriate basis of preparation for the 2018 financial statements (See Note 2 to the financial statements) and that no material uncertainties exist that require disclosure.

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.

The Risk Committee met once in 2018 (2017: once).

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.

Internal Audit

The Internal Audit Manager has direct access to the Chairman of the Audit Committee and undertook a number of significant pieces of work including:

- Assessment of the effectiveness of key aspects of the sales process implemented in PPC, the Ukrainian subsidiary of JKX, including a full scope review of procedures and controls surrounding hydrocarbon sales that included testing of design and operating effectiveness of controls across the entire process.
- A high-level review of procurement processes at YGE.
- Continuous monitoring of the software development process at PPC during implementation of a new ERP system.
- A Bribery Risk Assessment at both PPC and YGE and developed a GAP closure plan to ensure that the bribery risk is properly controlled.
- Preparation of a 3-year Internal Audit plan that was subsequently approved by the Audit Committee.

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. During the year PricewaterhouseCoopers LLP ('PwC') were replaced as the company's auditors by BDO LLP with effect from 18 October 2018 following a competitive tender process, BDO and PWC completed the customary and regulatory handover of the role prior to the Group's year end.

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 precluded the auditor 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.

The Committee approves all non-audit services procured from the auditors. In addition to the statutory audit fee:

i) PwC and member firms charged the Group US$105,000 for audit-related assurance services in 2018 up to the date of their resignation in connection with the 2018 half year review; and

ii) BDO and member firms made no charge to the Group for audit-related assurance services in 2018

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 had not been compromised during their tenure.

Adrian Coates

Chairman of the Audit Committee
5 April 2019

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Directors' remuneration report

Introduction

During 2018 the Company has reviewed remuneration across the Group, adopting a fit-for-purpose approach that ensures that the necessary talent and skills are available at all levels of the company in each of the geographies in which it operates.

More specifically the Remuneration Committee has undertaken a number of significant activities, including the standardisation of senior executive terms, reviewing and updating of KPI's and reward structures for key staff and implementing additional remuneration for technical staff who have skills that are particularly in demand, as further described below.

The Remuneration Committee has a full agenda ensuring that the Director's Remuneration Policy and remuneration structures for senior executives remain in line with market trends and governance development.

Independence

From 1 January 2018 until 9 February 2018 the Remuneration Committee comprised Andrey Shtyrba (as Chairman), Hans Jochum Horn and Vladimir Tatarchuk. On 9 February 2018 Christian Bukovics joined the Company as an independent Non Executive Director and was also appointed to the Committee. On 16 August 2018 Vladimir Tatarchuk resigned as a member of the Committee and on 8 October 2018 Michael Bakunenko was also appointed to the Committee.

Remuneration in 2018

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.

Non Executive Directors' board contractual fees for 2018 remained on the same level as in 2017. The Non Executive directors who were not independent had previously waived their board fees and additionally waived their fees as members of committees with effect from 22 March 2018.

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. The Company did not have Executive Directors in 2018 and accordingly no such awards were granted.

Remuneration for 2019

The revised Director's Remuneration Policy proposed at the 2017 Annual General Meeting was not approved by shareholders and therefore the Directors Remuneration Policy approved at the Annual General Meeting in June 2014 remains 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 2018 (pages 56 to 60)** was unchanged from that approved by shareholders at the June 2014 AGM, and a summary is therefore provided in order to provide context.
- **The Annual Report on Directors' Remuneration (pages 61 to 67) sets** out details of how our remuneration policy has been applied for the year ended 31 December 2018. 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 2018.

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. Although there were no Executive Director's in office during 2018 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.

At present there are no executive directors appointed to the Board as Directors and no executive director remuneration is included in this report.

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 99% 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 2018 is provided in the table below.

Executive Director Remuneration Policy Table[1]

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.

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.

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.
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).

1 These policy details are provided although there were no Executive Director's in office during 2018

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Directors' remuneration report

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 is 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.
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.
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 is 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); and ▪ 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.

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Directors' remuneration report

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, Nomination 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 Directors fee increases are applied in line with the outcome of the annual fee review. Fees for the year commencing 1 January 2018 are set out in the Annual Report on Remuneration. Fee levels will be next reviewed during 2019, with any increase effective 1 January 2020. 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. There were no Executive Directors appointed as Directors in 2018.

Executive Director Service Contract severance payments
There were no Executive Director Service Contract severance payments in 2018.

Payments from existing awards
There were no Executive Directors appointed as Directors in 2018.

The following section provides details of how JKX's remuneration policy was implemented during the financial year ended 31 December 2018. 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 2018 - Attendance/Eligibility
Andrey Shtyrba (Chairman)	11 December 2017	present	5/5
Christian Bukovics	9 February 2018	present	5/5
Michael Bakunenko	8 October 2018	present	1/1
Hans Jochum Horn	11 December 2017	present	5/5
Vladimir Tatarchuk	1 April 2016	16 August 2018	0/3

Christian Bukovics joined the Board as an independent Non Executive Director on the 8 February 2018 and was appointed to the Remuneration Committee on the same date at which point the membership of Committee complied with the Code.

The Committee meets at least twice a year, to assist the Board in determining the remuneration arrangements and contracts of the Directors and senior employees. The Committee met five times during 2018 (2017: 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, except in relation to its membership prior to 8 February 2018.

Attendance at meetings

No Director plays a part in any discussion regarding his own remuneration.

During 2018, 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 Jan 2018	Role of the Committee	Activities during 2018
Andrey Shtyrba (as Chairman) - appointed 11 December 2017 Michael Bakunenko – appointed 8 October 2018 Christian Bukovics – appointed 9 February 2018 Hans Jochum Horn - appointed 11 December 2017 Vladimir Tatarchuk - appointed 1 April 2016, resigned 16 August 2018	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: ▪ Review and approval of performance targets for the 2018/19 Annual Bonus Scheme, 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)

There were no Executive Directors appointed as Directors in 2018.

The table below sets out a single figure for the total remuneration received by each Director for the year ended 31 December 2017. Through 2017, the contract for Tom Reed was stated and settled in US Dollars and the contract for Russell Hoare was stated in US Dollars and settled in its Sterling equivalent. Figures in this report are disclosed in US Dollars (the Group's reporting currency). Following results of the AGM on 30 June 2017, two Executive Directors, Tom Reed and Russell Hoare were removed from the Board of Directors. 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 of 2017 Annual report.

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Directors' remuneration report

$'000	Salary[1] 2017	Benefits[2] 2017	Pension[3] 2017	Total 2017
Executive Directors - removed 30 June 2017				
Tom Reed[1]	325	-	-	325
Russell Hoare[1]	225	4	34	263
	550	4	34	588

1. Salary: amount earned for the year.
2. Benefits: the taxable value of benefits received in the year, including life assurance, income protection and private medical cover.
3. 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 2018 and the prior year.

All Directors' remuneration was rebased to US Dollars from 28 January 2016 (the Group's reporting currency). Through 2018 contracts for Adrian Coates and Christian Bukovics were settled in its Sterling equivalent (2017: contracts for Paul Ostling and Adrian Coates).

	Fees		Total remuneration	
$'000	**2018**	2017	**2018**	2017
Non Executive Directors				
Hans Jochum Horn[1]	**260**	50	**260**	50
Andrey Shtyrba[1]	**142**	25	**142**	25
Adrian Coates[2]	**149**	10	**149**	10
Michael Bakunenko[3]	**2**	1	**2**	1
Christian Bukovics[4]	**113**	-	**113**	-
Former Non Executive Directors				
Vladimir Tatarchuk[7]	**2**	8	**2**	8
Vladimir Rusinov[8]	**2**	4	**2**	4
Paul Ostling[5]	**-**	216	**-**	216
Alan Bigman[6]	**-**	116	**-**	116
Bernie Sucher[6]	**-**	116	**-**	116
	670	546	**670**	546

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 a member of Remuneration committee on 8 October 2018.
4 Appointed 9 February 2018.
5 Appointed 28 January 2016, resigned 24 October 2017.
6 Appointed 1 April 2016; resigned and reappointed 28 June 2016. Resigned 24 October 2017.
7 Appointed 28 January 2016; appointed to Board Committees 1 April 2016. Resigned 16 August 2018.
8 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. Resigned 16 August 2018.

The Non Executive Directors' fees are subject to an overall cap under the Company's Articles of Association. In order to ensure compliance with this cap the Non Executive Directors' waived certain of their fees in December 2018.

Incentive outcomes for the year ended 31 December 2018 (audited)

Annual Bonus Scheme

The Annual Bonus Scheme for 2018 applied to certain senior management including senior staff in Poltava Petroleum Company ('PPC'). The scheme is discretionary and annual awards are not pensionable.

Scheme interests awarded in 2018 (audited)

The Company only operated one long-term incentive plan during 2018 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 or otherwise under the PSP during 2018.

The PSP may continue to be used to award options to other executives within the business as the board sees appropriate.

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

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 2018, the maximum available shares under the Company's 5% and 10% limits was 8.3 million (2017: 7.5 million) and 16.9 million (2017: 16.1 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

There were no Executive Directors who left the business during the year.

Non Executive Director – Exit payments

On 16 August 2018 Vladimir Tatarchuk and Vladimir Rusinov tendered their resignations with immediate effect, and such resignations were accepted by the board. No additional payments were made to them.

Executive Director remuneration for 2018

Base salary

There were no Executive Directors appointed as Directors in 2018.

Pension and benefits

There were no Executive Directors appointed as Directors in 2018.

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
Michael Bakunenko	8 December 2017	3 years	3 months	N/A
Christian Bukovics	9 February 2018	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
Vladimir Tatarchuk	28 January 2016, resigned 16 August 2018	3 years	3 months	Resigned 16 August 2018
Vladimir Rusinov	28 January 2016 removed 30 June 2017, reappointed December 2017	3 years	3 months	30 June 2017, reappointed 8 December 2017, resigned 16 August 2018

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).

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Directors' remuneration report

These fees were reviewed at the 2018 year end and no increase has been awarded from their 2018 level. Non Executive Directors' fees for 2018 and 2019 are as follows:

	2018	2019	% increase from 2018 to 2019
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' fees are however subject to an overall cap under the Company's Articles of Association. In order to ensure compliance with this cap the Non Executive Directors waived certain of their fees in December 2018.

Non Executive Directors cannot participate in any of the Company's share schemes nor are they eligible to join the Company's pension benefit arrangements. Non Executive directors who were not independent waived their fees for committee membership with effect from 23 March 2018, having previously agreed to waive their board membership fees.

Payments to past Directors (audited)

No payments were made to past directors in the year.

Percentage change in CEO remuneration

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

The CEO's remuneration includes base salary, taxable 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 2017 and 2018 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
	2018 $'000	2017 $'000	% change 2017 - 2018	% change 2017 - 2018
Base salary	-	325	(100)%	0%
Taxable benefits	-	-	(100)%	0%
Annual bonus	-	-	(100)%[1]	>100%[1]
Total	-	325	(100)%	>100%

1 The calculations are based on the cash amount of the 2017 and 2018 bonuses paid during April 2018 and January 2019.

There were no Executive Directors appointed as Directors in 2018. The difference shown above is a result of the removal of Tom Reed as Executive Director from the Board of the Company following results of the AGM on 30 June 2017.

Relative importance of spend on pay

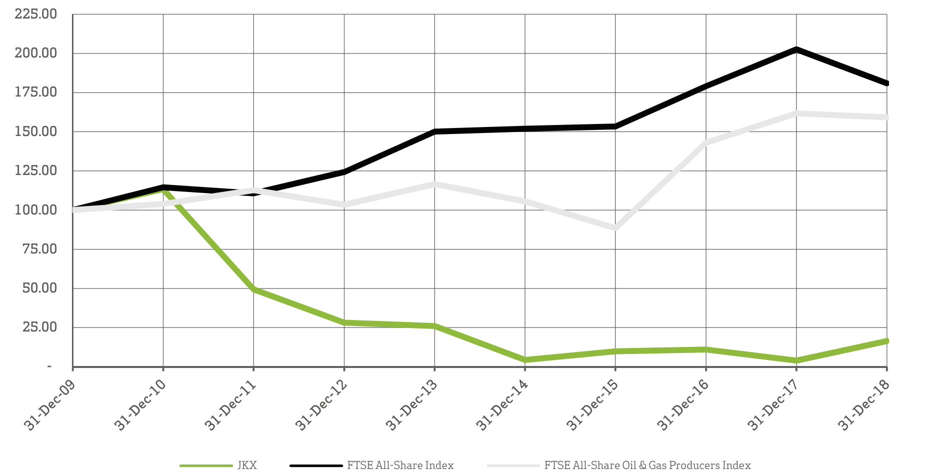
The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2017 and 31 December 2018, along with the percentage change in both.

	2018 $'000	2017 $'000	Year-on-year change
All-employee remuneration	**12,502**	14,104	(11)%
Distributions to shareholders	–	–	–

Review of past performance

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

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



The table below details the Chief Executive's "single figure" remuneration over a 10-year period. An investment of £100 in the Company on 31 December 2008 was worth £16.4 at 31 December 2018 (same investment on 31 December 2008 was worth £4.0 at 31 December 2017).

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	**2018**
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%	**0%**
LTI award rates against maximum opportunity	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0%**

In addition certain severance payments were made to executive directors over the period 2009 - 2017 and disclosed in the relevant Annual Report and Accounts. The most recent of these were payments were to Tom Reed and Russell Hoare and totalled $1,364,000 and were itemised on page 68 of the 2017 Annual Report.

Shareholder voting at the Annual General Meeting

At the Annual General Meeting ('AGM') held on 25 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 %

GOVERNANCE

Directors' remuneration report

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.

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 the 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.

At the AGM held on 25 June 2018, the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	45,702,709	99.55%
Against	206,233	0.45%
Total votes cast (for and against, excluding withheld votes)	45,908,942	100 %
Votes witheld[1]	47,297,856	103%
Total votes (for, against and withheld)	93,206,798	

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.

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. There were no Executive Directors appointed as Directors in 2018.

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 2018, based on that day's closing middle market price of an ordinary share of the Company of 39.50 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 2018 % salary/fee	Requirement met?
Non Executive Directors							
Hans Jochum Horn	200,000[1]						
Andrey Shtyrba	-						
Christian Bukovics	30,000						
Adrian Coates	50,000						
Michael Bakunenko	-						
Non Executive Directors – resigned 16 August 2018							
Vladimir Tatarchuk	-						
Vladimir Rusinov	-						

1 Shares held by Hans Jochum Horn (100,000) and a person closely associated with him (100,000).

Since 31 December 2018, 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
5 April 2019

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 2019 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 (2017: nil). The Group made charitable contributions of $0.2m (2017: $0.9m) 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 13 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 2018, the Company did not purchase in the market any of its own ordinary 10p shares, to be held as treasury shares. At 31 December 2018, 402,771 (2017: 402,771) shares continued to be held as treasury shares representing 0.23% (2017: 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 2018 and the changes made to the Board at that date are set out below:

Name	Appointed	Position
Hans Jochum Horn	24 October 2017	Non Executive Chairman
Michael Bakunenko	8 December 2017	Non Executive Director
Christian Bukovics	9 February 2018	Non Executive Director
Adrian Coates	8 December 2017	Senior Independent Director
Vladimir Rusinov	8 December 2017	Non Executive Director
Andrey Shtyrba	24 October 2017	Non Executive Director
Vladimir Tatarchuk	28 January 2016	Non Executive Director

	Removed/Resigned	
Vladimir Tatarchuk	Resigned 16 August 2018	Non Executive Director
Vladimir Rusinov	Resigned 16 August 2018	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.

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 2018 Ordinary Share Number	31 December 2018 Ordinary Share Number
Hans Jochum Horn[1]	Not Applicable	200,000
Michael Bakunenko[2]	Not Applicable	See Note [2]
Christian Bukovics	Not Applicable	30,000
Adrian Coates	Not Applicable	50,000
Andrey Shtyrba	Not Applicable	Not Applicable

1 Shares held by Hans Jochum Horn (100,000) and a person closely associated with him (100,000).
2 Michael Bakunenko, a nominee for Eclairs Group Limited, is deemed to have a beneficial interest in 47,287,027 ordinary shares.

There were no changes to the shareholdings of the continuing Directors between the end of the financial year and the date of this Annual Report.

Details of Directors' remuneration and share options are shown in the Remuneration Report on pages 61 to 67. 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.

Directors' report – other disclosures

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, was reduced to a nominal value of $16m of which $10.7m remained outstanding at 31 December 2018, see Note 11 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 2018 and at 29 March 2019, 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 2018 Number of shares	31 December 2018 % of total voting rights	29 March 2019 Number of shares	29 March 2019 % of total voting rights
Eclairs Group Limited	47,287,027	27.54%	47,287,027	27.54%
Cascade Investment Fund	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	10,599,447	6.16%	10,601,447	6.16%

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 they have been prepared in accordance with IFRSs as adopted by the European Union 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; 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: and
- prepare a director's report, a strategic report and director's remuneration report which comply with the requirements of the Companies Act 2006.

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 2018. 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 86.

Future developments within the Group

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

Profit

Details of the Company's profit for the year ended 31 December 2018 can be found on page 80.

Capitalised interest

No interest was capitalised in 2018 (2017: nil).

Long term incentive schemes

See pages 59 to 65 of the Directors' Remuneration Report.

Directors' responsibilities

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- 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 annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description of the principal risks and uncertainties that they face.
- 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

Julian Hicks
Company Secretary
5 April 2019

Independent auditors' report

to the members of JKX Oil & Gas plc

Report on the audit of the group financial statements

Qualified opinion

We have audited the financial statements of JKX Oil & Gas Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of cash flows, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for qualified opinion in respect of the Group financial statements – comparative amounts for the year ended 31 December 2017

As discussed in Note 2 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 $1m. The predecessor auditor was not able to obtain sufficient, appropriate audit evidence to conclude on whether the payments made to the advisers were for a proper purpose and were appropriately classified in the consolidated income statement for the year ended 31 December 2017.

The auditor's opinion on the financial statements for that year was qualified in this respect. We also have been unable to obtain sufficient appropriate evidence in respect of this prior year matter and, as a result, our audit opinion is qualified in respect of this limitation on the scope of the audit in respect of the comparative amounts - shown in the consolidated income statement.

We have performed specific procedures in respect of payments to legal advisers to obtain sufficient appropriate audit evidence in respect of amounts recorded in the year ended 31 December 2018, in the context of our opinion on the financial statements as a whole.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 32 to 40 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 40 in 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 directors' statement set out on page 50 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 to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 40 in 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) that we identified, 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 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.

Key Audit Matter	How the matter was addressed in our audit
Carrying value of oil and gas assets (see Note 5)	
Management and the Directors are required to assess whether there are potential indicators of impairment of the Group's oil and gas assets at each reporting date and, if potential indicators of impairment are identified, management are required to perform a full assessment of the recoverable value of the oil and gas assets in accordance with the requirements of the relevant accounting standard. Management identified an impairment indicator in respect of each of the three cash generating units in the Ukraine and Russia as the Company's market capitalisation exceeds its net assets and performed an impairment test. Based on that impairment test management concluded that no impairment was required. The assessment of the recoverable value of the oil and gas assets required judgments and estimates by management and the Board regarding the inputs applied in the models including future oil and gas prices, production and reserves, operating and development costs and discount rates. The carrying value of the Group's oil and gas assets were therefore considered to be a key audit matter.	We obtained and examined management's impairment indicator paper and agreed with their conclusion that a potential indicator of impairment was present, as detailed in note 5. Accordingly, we obtained management's impairment test assessments. We assessed the appropriateness of Management's determination of each cash generating unit (CGU) in order to determine if the conclusions were in line with the relevant accounting standard. We obtained management's discounted cash flow models and performed data integrity and mechanical checks on the models using our proprietary tool. We determined whether the basis of preparation of the models were in line with the applicable accounting standard, our expectations and valuation methodology. We compared the actual performance of the CGUs during 2018 to budgets for the period in order to assess the quality of management's forecasting. We critically challenged the NPV model, focussing on the appropriateness of estimates with reference to empirical data and external evidence with specific emphasis on the following assumptions: oil and gas prices, foreign exchange rates, production levels, operating and development costs and discount rates. We compared forecast oil and gas prices in Ukraine to current pricing, empirical data and market forecasts. In Russia, where prices are regulated, we compared forecasts to current contracted prices and market inflation data. We assessed the consistency of production profiles and capital expenditure forecasts against the Group's Field Development Plans and approved budgets and met with operational Management to inform our assessment and understanding of these plans and budgets. We compared the 2P reserves included in the models to Reserve Statements prepared by the Group's internal reserve engineer and performed procedures to assess both their independence and competence. We met with the internal reserve engineers and challenged key assumptions, risk factors and the basis of changes to 2P reserves. We reviewed Management's sensitivity analysis and performed our own sensitivity analysis on key inputs to assess the impact of reasonably foreseeable changes in assumptions. We involved our valuations specialists to review the valuation methodology and support our assessment of the discount rates applied.

Independent auditors' report

to the members of JKX Oil & Gas plc

Key Audit Matter	How the matter was addressed in our audit
	We read the key licence agreements and confirmed that the Group holds valid licences and in order to gain an understanding of the key licence conditions. We considered management's judgment that licences would be capable of being extended beyond 2024 and 2026 including assessment of the legislative process, the forecast economic value of the assets beyond the expiry date and risks and uncertainties within the operating environments. We reviewed the disclosures in the financial statements regarding key assumptions and sensitivity of the carrying value to reasonable changes in such assumptions to ensure they were in accordance with the requirements of the relevant accounting standard.

Our findings

We found management's conclusion that no impairment charge was required in respect of the CGU's in 2018 to be supported by the underlying models. We found the judgments and estimates applied by management in preparing the forecasts to be supportable, although the recoverable value remains sensitive to changes in key inputs including oil and gas prices, foreign exchange rates and discount rates.

We found the disclosures in note 5 to be appropriate.

Key Audit Matter	How the matter was addressed in our audit
Rental fee claims in the Ukraine (Notes 18 and 27) The assessment of the provisioning for the 2010 and 2015 Rental fee claims requires significant judgement and estimation by management including both the value of the provision and its presentation within the financial statements. Management have recorded a provision of $42.5m with the movement in the year primarily reflecting additional potential interest accrued of $5.1m. Separately, the Group was awarded $11.8m plus interest and costs at international arbitration in relation to claims brought by the Group against the Ukraine. The Group recently commenced the process to have the award registered in the Ukraine and ultimate enforcement of the award. The assessment of whether the award meets asset recognition criteria at year end under relevant accounting standards requires judgment given the operating environment. The legislation behind the Rental fee claims is complex in nature and the claims have been, and continue to be, subject to court proceedings which are at various stages of progression. When taken together with the developing nature of the Ukrainian tax system and the challenging legal and political regime, to which the Group are subject, this area is considered to be a key audit matter.	We held focused meetings with management, internal and external legal counsel in order to obtain an understanding of the background to each of the Rental claims, the significant developments in the year and the impact of the wider legislative environment in the Ukraine on the overall assessment of the claims. We read key correspondence in the year between the Group, its external legal advisers and the tax and legal authorities for indications of additional claims or factors which may indicate management's conclusions are inappropriate. We inspected a number of critical documents such as the High Court arbitration rulings and most recent court rulings in the Ukraine. We performed a recalculation of the movement in the Rental claim provision. We compared the base claim amounts to the original claim documents and assessed the compliance of the fines and penalties with local legislation. We specifically considered and challenged any change to the basis of the calculations from prior year and assessed the calculations for consistency with relevant Ukrainian legislation in conjunction with our own legal and tax specialists. We obtained legal letters from the Group's external legal advisor in order to obtain confirmation of whether as Management's expert they were aware of any additional areas of contention the tax authorities may raise. We critically challenged management's overall assessment of each element of the claims, considering other information

Key Audit Matter	How the matter was addressed in our audit
	obtained during the course of the audit, the claim history and developments over recent periods and assessed whether judgments and estimates associated with the claims were supportable and appropriate. We obtained management's analysis of the estimated timing of any payments, discussed further under 'Going Concern' and agreed the presentational split between current and non-current provision was consistent with this analysis. In respect of the arbitration award, we reviewed documents associated with the High Court arbitration award and confirmed the existence and quantum of the award. We made inquiries of Management, internal and external legal counsel regarding the legal process required for registration of the claim in Ukraine. We critically assessed Management's judgments regarding the probability of ultimate recovery and associated financial reporting treatment. We specifically considered factors such as the local legislative environment, history of awards being successfully enforced and other relevant facts and circumstances. We discussed the process with legal counsel and the Board. We reviewed the disclosures in the financial statements. In particular, we focused on ensuring that the disclosures are clear, transparent and understandable notwithstanding the complex nature of the matters.

Our findings

We found management's conclusion that it remains appropriate to record a provision in respect of the 2010 Rental fee claim to be appropriate given the uncertainties associated with the remaining court process. We found management's judgment that a provision remained appropriate in respect of the 2015 Rental fee claims to be appropriate recognising the uncertainty associated with the court process. We found the value of the provision to be appropriate and that the underlying judgments in determining the quantum to be acceptable.

We found the presentation of the provisions between current and non-current classifications in the statement of financial position to be appropriate and consistent with the Board's assessment of the most likely timing of any required payments.

We found the disclosures in note 18 and 27 to be appropriate.

Key Audit Matter	How the matter was addressed in our audit
Going Concern (Note 2)	
The Board are required to make an assessment of the Group's ability to continue as a going concern for a period of at least twelve months from the date of signing of the financial statements and, where the Group is considered to be a going concern, disclose any material uncertainties that exist in reaching that conclusion. As set out in note 2 the Board concluded that the going concern assumption is appropriate and that no material uncertainties exist which require disclosure. Given the estimates and judgments required by management and the Board in preparing forecast cash flows, including factors such as oil and gas prices, production, the timing and quantum of potential 2010 and 2015 Rental fee payments in the period to June 2020 and the availability of sufficient and	We obtained management's going concern assessment paper and supporting cash flows and performed a detailed review of the cash flow forecast, challenging the key operating assumptions based on 2018 and 2019 actual results and external data, where possible. We confirmed the integrity of the forecast models and assessed their consistency with approved budgets and Field Development Plans, as applicable. We confirmed that the forecasts did not include any receipts associated with the arbitration award detailed in 'Rental fee claims in Ukraine' above. We critically assessed management's judgments regarding the quantum and timing of rental fee payments. In doing so, we made inquiries of internal and external legal counsel and

Independent auditors' report

to the members of JKX Oil & Gas plc

Key Audit Matter	How the matter was addressed in our audit
appropriate lending facilities, this area represented a key audit matter.	involved our own Ukrainian legal specialists to assess the status of the claims, scenarios for the remaining legal process and risks of acceleration in the timing of potential payments, as well as considering the impact of the wider Ukrainian political and legislative environment on the Group's operations. We reviewed Management's sensitivity analysis and performed our own sensitivities on pricing, foreign exchange rates, specific production delays and possible acceleration of certain Rental fee payments to consider available headroom under reasonably possible scenarios. We assessed the validity of any mitigating factors identified by Management. We documented the terms of all facilities in place and confirmed the consistency of the forecasts with the facilities. We assessed the risk of any potential withdrawal of facilities or default events. In particular, we considered management's judgment that the undrawn Tascom facilities (note 2) would reasonably be expected to remain available beyond their current maturity in December 2019. In doing so, we discussed this assumption with the Audit Committee, reviewed the most recent renewal and increase to the facility, security package and considered the forecast cash flows and concluded that this judgment was reasonable. We reviewed the adequacy and completeness of disclosures in the financial statements in respect of going concern.

Our findings
Please refer to the 'Conclusions relating to principal risks, going concern and viability statement' section.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

	Group
Materiality	$1,000,000
Basis for determining materiality	c0.5% of total assets

	Group
Performance materiality	$750,000
Basis for performance materiality	75% of Group materiality

	Company
Materiality	$777,000
Basis for determining materiality	c0.5% of total assets

	Company
Performance materiality	$500,000
Basis for performance materiality	65% of Company materiality

We considered the activities of the Group and previous period benchmarks. Due to the lack of consistent profitability and given a significant portion of the Group's value is attributed to the oil and gas assets, we believe an asset based materiality is the most appropriate.

Whilst materiality for the financial statements as a whole was $1,000,000, each significant component of the Group was audited to a lower performance materiality ranging from $500,000 to $550,000.

Performance materiality has been set at 75% of materiality, which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit. Performance materiality is applied at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We agreed with the Audit Committee that we would report to them all individual audit differences identified during the course of our audit in excess of $20,000. We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

In setting our Group audit strategy we obtain an understanding of the Group, its environment and assessed the risks of material misstatement in the financial statements at the Group as a whole.

In setting the audit strategy we considered our approach in respect of the ability of the audit to detect irregularities, 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 a fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

We considered the laws and regulations of the Ukraine, Russia and the UK to be of significance in the context of the Group audit. As part of our Group audit strategy direction was provided to the auditors of the significant components to ensure an assessment was performed on the extent of the components compliance with the relevant local and regulatory framework. As part of our Group audit work we reviewed this work and held meetings with relevant internal Management and external third parties to form our own opinion on the extent of Group wide compliance. In addition our tests included, but were not limited to agreement of the Financial Statement disclosures to underlying supporting documentation, performing substantive testing on accounts balances which were considered to be at a greater risk of susceptibility to fraud and reviewed correspondence with regulators in so far as the correspondence related to the Financial Statements. 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.

The Group's operations principally comprise exploration, development and production assets split across two primary geographical locations being Ukraine and Russia. We assessed there to be two significant components (Ukraine and Russia) which were both subject to a full scope audit. Together with the parent company (also considered a significant component) and its group consolidation, which was also subject to a full scope audit, these represent the significant components of the Group.

The three significant components subject to full scope audit procedures represent the principal business units and account for 98% of the Group's revenue and 98% of the Group's total assets.

The audits of the Ukrainian and Russian components were performed in the Ukraine and Russia, respectively. The audits of the parent company and the Group consolidation were performed in the United Kingdom. All of the audits were conducted by BDO LLP and BDO network member firms.

All BDO member firms performed the full scope audit of the significant components in the Ukraine and Russia, under the direction and supervision of BDO LLP as Group auditor.

As part of our audit strategy, the Group Audit Partner or a Key Audit Partner and senior members of the Group audit team visited both of the Group's key oil and gas operations during the year and met with management and the component auditors in the Ukraine and Russia during the planning and execution phases of the audit. These teams from BDO UK performed a review of the component audit files in the Ukraine and Russia and held meetings with the component audit teams during the planning and completion phases of their audits.

The Group audit team was actively involved in the direction of the audits performed by the component auditors along with the consideration of findings and determination of conclusions drawn. We performed additional procedures in respect of certain of the significant risk areas that represented Key Audit Matters in addition to the procedures performed by the component auditor.

The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures.

Independent auditors' report

to the members of JKX Oil & Gas plc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 71 the statement given by the directors that they consider 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's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 52 describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 49 the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

In respect solely of the limitation of scope in respect of the comparative information relating to payments to legal advisers in Ukraine in 2017, 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.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 70, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board of directors on 13 October 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. This is the first year of our engagement as auditor.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Ryan Ferguson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London

5 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

GROUP FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December 2018

	Note	2018 $000	2017[1] $000
Revenue	4	92,873	74,631
Cost of sales			
Exceptional item – provision for production based taxes	18	(5,055)	(4,357)
Exceptional item – reversal of provision for impairment of Ukrainian oil and gas assets	5	-	5,636
Exceptional item – provision for impairment of Slovakia	5	-	(7,881)
Exceptional item – write off of appraisal expenditure in Ukraine	5	-	(9,391)
Other production based taxes	20	(21,857)	(16,715)
Other cost of sales	20	(35,629)	(35,219)
Total cost of sales	20	(62,541)	(67,927)
Gross profit		30,332	6,704
Exceptional items	19	-	(1,513)
Other administrative expenses		(13,945)	(16,410)
Total administrative expenses		(13,945)	(17,923)
(Loss)/gain on foreign exchange		(711)	1,179
Profit from operations before exceptional items		20,731	7,466
Profit/(loss) from operations after exceptional items		15,676	(10,040)
Finance income	21	908	348
Finance costs	22	(2,510)	(3,164)
Fair value movement on derivative liability	12	(59)	(3)
Profit/(loss) before tax		14,015	(12,859)
Taxation – current	27	(5,478)	(2,964)
Taxation – deferred			
- before the exceptional items	27	1,472	(356)
- on the exceptional items	27	1,761	4,113
Total taxation	27	(2,245)	793
Profit/(loss) from continuing operations (attributable to equity holders of the parent company)		11,770	(12,066)
Profit/(loss) from discontinued operation (attributable to equity holders of the parent company), net of tax	14	3,487	(5,597)
Profit/(loss) for the year attributable to equity shareholders of the parent company		15,257	(17,663)

1 Prior year numbers were restated as a result of application of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" to the Group's operations in Hungary. Please refer to Note 14 for details.

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 86 to 125

	Note	2018 $000	2017* $000
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the parent company:			
Basic profit/(loss) per 10p ordinary share (in cents)			
-after exceptional items	29	7.06	(7.24)
-before exceptional items	29	9.04	0.79
Diluted profit/(loss) per 10p ordinary share (in cents)			
-after exceptional items	29	6.67	(7.24)
-before exceptional items	29	8.54	0.73
Earnings per share for profit/(loss) from discontinued operations attributable to the ordinary equity holders of the parent company:			
Basic profit/(loss) per 10p ordinary share (in cents)			
-after exceptional items	29	2.09	(3.36)
-before exceptional items	29	2.09	(1.22)
Diluted profit/(loss) per 10p ordinary share (in cents)			
-after exceptional items	29	1.98	(3.36)
-before exceptional items	29	1.98	(1.22)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the parent company:			
Basic profit/(loss) per 10p ordinary share (in cents)			
-after exceptional items	29	9.15	(10.59)
-before exceptional items	29	11.13	(0.42)
Diluted profit/(loss) per 10p ordinary share (in cents)			
-after exceptional items	29	8.65	(10.59)
-before exceptional items	29	10.51	(0.42)

* Comparative earnings per share have been amended to provide a consistent basis of measurement with 2018. Refer to Note 29 for details.

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 86 to 125

GROUP FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	2018 $000	2017[1] $000
Profit/(loss) for the year	**15,257**	(17,663)
Other comprehensive income to be reclassified to profit or loss in subsequent periods when specific conditions are met		
Currency translation differences	**(19,475)**	7,118
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Remeasurements of post-employment benefit obligations	**(22)**	(333)
Other comprehensive income for the year, net of tax	**(19,497)**	6,785
Total comprehensive income for the year attributable to equity shareholders of the parent company	**(4,240)**	(10,878)
Continuing operations	**(7,587)**	(5,281)
Discontinued operations	**3,347**	(5,597)

1 Prior year numbers were restated as a result of application of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" to Group's operations in Hungary. Please refer to Note 14 for details.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 86 to 125

GROUP FINANCIAL STATEMENTS

Consolidated statement of financial position

As at 31 December 2018

	Note	2018 $000	2017* $000
ASSETS			
Non-current assets			
Property, plant and equipment	5(a)	173,474	194,031
Deferred tax assets	28	10,419	11,293
		183,893	205,324
Current assets			
Inventories	7	5,990	5,824
Trade and other receivables	8	5,111	4,969
Restricted cash	9	-	497
Cash and cash equivalents	9	19,182	6,929
		30,283	18,219
Assets classified as held for sale	14	1,237	-
Total current assets		31,520	18,219
Total assets		215,413	223,543
LIABILITIES			
Current liabilities			
Current tax liabilities		(2,214)	(645)
Trade and other payables	10	(10,782)	(11,878)
Borrowings	11	(5,962)	(7,630)
Provisions	18	(12,645)	(37,269)
		(31,603)	(57,422)
Liabilities of disposal group classified as held for sale	14	(775)	-
Total current liabilities		(32,378)	(57,422)
Non-current liabilities			
Provisions	18	(35,673)	(5,341)
Borrowings	11	(5,041)	(9,003)
Derivatives	12	(62)	(3)
Defined pension benefit plan		(577)	(490)
Deferred tax liabilities	28	-	(5,375)
		(41,353)	(20,212)
Total liabilities		(73,731)	(77,634)
Net assets		**141,682**	**145,909**
EQUITY			
Share capital	16	26,666	26,666
Share premium		97,476	97,476
Other reserves	17	(172,623)	(153,126)
Retained earnings		190,163	174,893
Total equity		**141,682**	**145,909**

* Comparative amounts in respect of deferred tax assets, liabilities, non current other receivables and other payables have been reclassified for comparability with 2018. Please refer to Note 2.

These financial statements on pages 80 to 125 were approved by the Board of Directors on 5 April 2019 and signed on its behalf by:

Hans Jochum Horn Chairman

Ben Fraser Chief Financial Officer

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 86 to 125

GROUP FINANCIAL STATEMENTS

Consolidated statement of changes in equity

For the year ended 31 December 2018

	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 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**
At 1 January 2018	**26,666**	**97,476**	**174,893**	**(153,126)**	**145,909**
Profit for the year	-	-	15,257	-	15,257
Exchange differences arising on translation of overseas operations	-	-	-	(19,475)	(19,475)
Remeasurement of post-employment benefit obligations	-	-	-	(22)	(22)
Total comprehensive loss attributable to equity shareholders of the parent	-	-	15,257	(19,497)	(4,240)
Transactions with equity shareholders of the parent					
Share-based payment charge	-	-	13	-	13
Total transactions with equity shareholders of the parent	-	-	13	-	13
At 31 December 2018	**26,666**	**97,476**	**190,163**	**(172,623)**	**141,682**

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.

Other reserves – please refer to the Note 17 for the details.

GROUP FINANCIAL STATEMENTS

Consolidated statement of cash flows

For the year ended 31 December 2018

	Note	2018 $000	2017 $000
Cash flows from operating activities			
Cash generated from continuing operations	31	37,281	14,182
Cash (used)/generated from discontinued operations	14	(158)	1,541
Bank fees paid		(69)	-
Interest paid		(1,870)	(1,760)
Income tax paid		(3,896)	(2,933)
Net cash generated from operating activities		31,288	11,030
Cash flows from investing activities			
Interest received		908	348
Dividend received		-	114
Proceeds from sale of property, plant and equipment		3	291
Purchase of intangible assets		-	(9,581)
Purchase of property, plant and equipment		(13,688)	(7,131)
Net cash used in investing activities		(12,777)	(15,959)
Cash flows from financing activities			
Restricted cash		286	(296)
Repayment of borrowings		(5,760)	(1,920)
Net cash used in financing activities		(5,474)	(2,216)
Increase/(decrease) in cash and cash equivalents in the year		13,037	(7,145)
Cash and cash equivalents at 1 January		6,929	14,067
Effect of exchange rates on cash and cash equivalents		(511)	7
Cash and cash equivalents at 31 December		19,455	6,929
Cash and cash equivalents in continuing operations at the end of the year	9	19,182	6,516
Cash and cash equivalents in discontinued operations at the end of the year	14	273	413

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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 pages 4 to 5, an investigation into the procurement of legal services in Ukraine, and subsequent payments made to legal advisers, was commissioned by the Audit Committee in Q1 2018 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 in 2017, 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 has reviewed legal costs incurred in 2018 and is satisfied as to the nature of such costs.

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.

Comparative amounts in respect of deferred tax assets, liabilities, non-current other receivables and other payables have been reclassfied for comparability with 2018 in accordance with IFRS. The reclassifications had no impact on net assets or the loss for the period.

Comparatives

- In the 2017 Annual report deferred tax assets of \$20.8m and liabilities of \$14.9m were presented gross, whereas in the 2018 Annual report the 2017 deferred tax assets of \$11.3m and liabilities of \$5.4m are presented net (please refer to Note 28 for details). Deferred tax assets and liabilities are offset where 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.
- In the 2017 Annual report defined pension benefit plan liabilities of \$0.5m were included in current trade and other payables, whereas in the 2018 Annual report they are presented separately under non-current liabilities.
- Non-current other receivables of \$3.1m and payables of \$3.1m consisting of VAT were presented gross in the 2017 Annual report, whereas in the 2018 Annual report they are presented net reflecting that the amounts arise in the same taxable entity and are settled on a net basis.

Going concern

Background to the Group's performance and funding, including significant developments over the past year, is provided in the Financial Review. The Directors have reviewed the Group's forecast cash flows for the period to June 2020. Capital and operating costs are based on approved budgets and latest forecasts in the case of 2019 and current development plans in the case of 2020. The forecast cash flows reviewed include scenarios where potential liabilities arise in relation to the rental fee claims in Ukraine (see Note 27 to the consolidated financial statements) including assessments of the timing of such potential payments undertaken following detailed analysis of Ukrainian legislation and the status of each claim with internal and external legal and tax experts. In addition the Directors have considered further scenarios that reflect future expectations regarding country, commodity price and currency risks that the Group may encounter. None of the scenarios have recognised any possible future benefit that may result from the arbitration award (see Note 27 to the consolidated financial statements). 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 the settlement of any successful rental fee claims arising in the forecast period, mean that the Group currently has adequate cash and other available resources to meet its liabilities and commitments as they fall due across the forecast period. One key means of such financing is the Tascombank loan of UAH280m (\$10.1m) and overdraft facility of UAH50m (\$1.8m) that was renewed and increased in December 2018 and that the Directors are confident will continue to be available throughout the forecast period beyond its current maturity date of December 2019 given operating cash flows, the recent renewal and increase and the security package available. Having considered the forecasts and reasonable sensitivity scenarios the Board considers it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

Adoption of new and revised standards

New standards, interpretations and amendments effective from 1 January 2018

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 European Union ("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 2017, except for the following:

(a) IFRS 2 Share Based Payments (Amendment – Classification and Measurement of Share-Based Payment Transactions)

(b) Annual Improvements to IFRSs 2014 – 2016 Cycle (IFRS 1 First-time Adoption of IFRS, IFRS 12 Disclosures of interest in Other Entities and IAS 28 Investments in Associates and Joint Ventures)

(c) IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

(d) IFRS 9 'Financial instruments'

(e) IFRS 15 'Revenue from contracts with customers'

The application of (a) to (c) has had no impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

There were no retrospective adjustments as a result of adopting the new standards (d) and (e) listed below. The Group amended accounting policies applied from 1 January 2018 are disclosed in Note 3 under 'Significant accounting policies'.

IFRS 15 'Revenue from contracts with customers'
The IASB has issued a new standard for the recognition of revenue. This replaced 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.

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 there was no impact from the adoption of the new standard on 1 January 2018.

IFRS 9 'Financial instruments'
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

Those to be measured at amortised cost
Trade and intergroup receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

IFRS 9 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model in IAS 39 and applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, intergroup receivables, lease receivables, loan commitments and certain financial guarantee contracts. Under the IFRS 9 'expected credit loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. It is therefore appropriate that the Group's policy for recognition of trade and other receivables is amended.

Based on the review of the historic occurrence of credit losses, consideration of prospective factors and given the short-term nature of trade and other receivables and the Group's active management of credit risk, the Group did not identify any credit losses requiring provision except for specific items in Note 8. The outlook for the oil and gas industry is not expected to result in a significant change in the Group's exposure to credit losses.

Those to be measured subsequently at fair value (either through OCI, or through profit or loss)
Investments in unquoted equity instruments were previously measured at cost less impairment as allowed by IAS 39. As of 1 January 2018 investments in equity instruments were reclassified to financial assets at fair value through other comprehensive income. The Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. There was no impact of reclassification on the carrying value of its unlisted investment. Please refer to Note 6 for details.

Financial liabilities
Financial liabilities held by the Group comprise 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 there was 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 immaterial and hence there is no impact on adoption of IFRS 9 on 1 January 2018.

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New standards, interpretations and amendments not yet effective

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 2018 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
IFRIC 23 'Uncertainty over Income Tax Positions'	01-Jan-19
IFRS 16 'Leases'	01-Jan-19

Effective as of 1 January 2019, IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. There will be no impact on adoption of IFRIC 23 on 1 January 2019, as detailed disclosures on judgements and estimates used in calculation of taxation as well as rental fees and deferred tax assets are included in accounting policies under 'critical accounting estimates, assumptions and judgements' and Notes 27 and 28.

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and lease liabilities for all material leases. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Group's well service and rental arrangements in Ukraine for oil and gas extraction activities are outside of the scope of IFRS 16.

The Group's accounting policy under IFRS 16 will be as follows: at inception of a contract, the Group will assess whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group will recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset will be initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets will be depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term will include periods covered by an option to extend if the Group is reasonably certain to exercise that option. Lease terms range from two to three years for offices. Service agreements for equipment on the working sites are not considered leases. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability will be initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group will use its incremental borrowing rate as the discount rate. The lease liability will be measured at amortized cost using the effective interest method. It will be remeasured when there will be a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment will be made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group will elect to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

The lease payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term.

The Group is planning to adopt IFRS 16 from 1 January 2019 using the modified retrospective approach and accordingly the information presented for 2018 is not going to be restated. It would remain as previously reported under IAS 17 and related interpretations. On initial application, the Group will elect to record right-of-use assets based on the corresponding lease liability. A right-of-use assets and lease obligations of $0.8m will be recorded as of 1 January 2019, with no net impact on retained earnings. When measuring lease liabilities, the Group will discount lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 17%.

The Group has not elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Group will apply the definition of a lease under IFRS 16 to all existing contracts.

The following table reconciles the Group's operating lease obligations at 31 December 2018, as disclosed in the Group's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at 1 January 2019.

	$
Operating lease commitments at 31 December 2018	1.8
Discounted using the incremental borrowing rate at 1 January 2018	0.8
Affect of discounting	0.2
Recognition exemption for short-term leases	0.2
Assets that do not meet definition of a lease	0.1
Impairment provision to be recognised on one of the properties	0.4

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.

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 2018 were $1:£0.78 (2017: $1:£0.74), $1: 27.69 Hryvnia (2017: $1: 28.07 Hryvnia), $1: 69.47 Roubles (2017: $1: 57.60 Roubles), $1: 280.31 Hungarian Forint (2017: $1: 258.63 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

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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 including production plants and capital spares 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.

For assets under construction depreciation begins when the assets are available for use and continues until the assets are derecognised, even if it is idle.

The calculation of the 'unit of production' depreciation takes account of estimated future development costs. The 'unit of production' rate is set at the beginning of each accounting period. Changes in reserves and cost estimates are recognised prospectively applied from the date of the Board approval of revised field development plans.

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.

Non-current assets held for sale and discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

Assets that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. An asset classified as held for sale is not depreciated.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, and financial assets within the scope of IFRS 9, which are specifically exempt from this requirement.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

Any gain or loss from disposal, together with the results of these operations until the date of disposal, is reported separately as discontinued operations. The financial information of discontinued operations is excluded from the respective captions in the Consolidated financial statements and related notes for all periods presented. Comparatives in the statement of financial position are not represented when a non-current asset or disposal group is classified as held for sale. Comparatives are represented for presentation of discontinued operations in the Statement of cash flow and Statement of comprehensive income. Further information on discontinued operations and non-current assets held for sale can be found in note 14 "Discontinued operations and assets classified as held for sale".

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. A cash-generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

If any such indication of impairment exists the Group makes an estimate of its recoverable amount.

The recoverable amount is the higher of fair value less costs of disposal and value in use. Where the carrying amount of an individual asset or a cash-generating unit exceeds its recoverable amount, the asset/cash-generating unit is considered impaired and is written down to its recoverable amount. Fair value less costs of disposal is determined by discounting the post-tax cash flows expected to be generated by the cash-generating unit, net of associated selling costs, and takes into account assumptions market participants would use in estimating fair value. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the asset/cash-generating unit and are discounted to their present value that reflects the current market indicators.

Where an impairment loss subsequently reverses, the carrying amount of the asset/cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

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.

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.

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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 their transaction price in accordance with IFRS 9 and are subsequently measured at amortised cost. The Group applies the simplified approach to providing for expected credit losses (ECL) prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Expected credit losses are assessed on a forward looking basis. The loss allowance is measured at initial recognition and throughout its life at an amount equal to lifetime ECL. 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. Please refer to Note 9 'Cash and cash equivalents' for further details.

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 an equity-settled, share-based compensation plan, under which the Company receives services from Senior Management as consideration for equity instruments (options) of the group. The fair value of the services received from Senior Management in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, the Company's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares or shares held by the JKX Employee Benefit Trust. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the change will be treated as a cash-settled transaction.

The rules regarding the scheme are described in the Remuneration Report on pages 56 and 67 and in Note 26 on share based payments.

Bonus scheme

The Group operates a bonus scheme for its employees. 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

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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. Discount rates are based on governmental bonds which will be redeemed around the end of field life. 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. Where amounts provided for attract interest reflecting the appropriate time value of money no discounting is applicable. The amounts provided are based on the Group's best estimate of the likely committed outflow.

Revenue recognition

Revenue from contracts with customers is recognized when or as the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, LPG, condensate, and other items sold by the Group usually coincides with title passing to the customer and the customer taking physical possession. The Group principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not material.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax ("VAT") and other sales taxes or duty. Production based taxes are not included in revenue, they are paid on production and recorded within cost of sales.

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 in retained earnings.

Repurchased JKX Oil & Gas plc shares are classified as treasury shares in shareholders' equity and are presented in the retained earnings. 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 which may give 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. Exceptional items are disclosed separately on the face of the income statement.

Critical accounting estimates, assumptions and judgements

The Group makes estimates, assumptions and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates, assumptions and judgements 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 (a))

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, (v). In cases where impairment tests demonstrate headroom, reversals of impairment charges are not recognised in the Group income statement if the existence of the headroom is sensitive to pricing, production or discount rates.

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 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. The recoverability of intangible exploration assets is assessed by comparing the carrying value to estimates of the present value of projects where indicators of impairment have been identified on an asset. 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 based on the approved field development plans.

d) Taxation including rental fees and deferred tax assets (Notes 27 and 28)
Tax provisions are recognised when it is considered probable that there will be a future outflow of funds to the tax authorities. In this case, provision is made for the amount that is expected to be settled. The provision is updated at each reporting date by management by interpretation and application of known local tax laws with the assistance of established legal, tax and accounting advisors. These interpretations can change over time depending on precedent set and circumstances in addition new laws can come into effect which can conflict with others and, therefore, are subject to varying interpretations and changes which may be applied retrospectively. A change in estimate of the likelihood of a future outflow or in the expected amount to be settled would result in a charge or credit to income in the period in which the change occurs.

Tax provisions are based on enacted or substantively enacted laws. To the extent that these change there would be a charge or credit to income both in the period of charge, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised that can result in a charge or credit in the period in which the change occurs.

e) Provisions for decommissioning costs (Note 18)
Estimates of the cost of future decommissioning and restoration of production facilities are based on current legal and constructive requirements, technology and price levels, while estimates of when decommissioning will occur depend on assumptions made regarding the economic life of fields which in turn depend on such factors as oil and gas prices, decommissioning costs, discount rates and inflation rates. The management reviewed the estimation process and the basis for the principal assumptions underlying the cost estimates, noting in particular the reasons for any major changes in estimates as compared with the previous year. The Group was satisfied that the approach applied was fair and reasonable. The Group was also satisfied that the discount and inflation rates used to calculate the provision were appropriate. The discount rates were based on government bonds issued in the respective countries.

f) Judgement used in the fair value of unlisted investments (Note 6)
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The objective of a fair value measurement is to estimate the price at which an orderly transaction would take place between market participants under the market conditions that exist at the measurement date. IFRS 13 requires that valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. The Group has used a market approach to estimate fair value of the unlisted investments. The Group used its judgements to (i) select a valuation method, (ii) make assumptions that are based on market conditions existing at the end of the reporting period, (iii) determine the point in a range of values that is 'most representative of a fair value', (iv) determine discounts applied to the fair value.

g) Enforcement of arbitration award (Note 27)
No asset has been recognised in respect of the arbitration award due to the uncertainty inherent in the process for, and likely success of, enforcing collection.

h) Exceptional items (Notes 5, 18 and 27)
Judgment is required when determining whether items meet the definition of 'exceptional' under the Group's accounting policy. Impairments and reversals of impairments reflecting specific circumstances including strategic re-focusing of the business, changes arising due to unusual market conditions or geopolitical factors are considered to qualify as exceptional items.

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Provisions for August to December 2010 and January to December 2015 rental fee claims have been included in 'exceptional items' due to their material, specific and unusual nature and the Board considered that it was appropriate to highlight these items to users of the financial statements. In particular, the issues are considered to represent isolated historical disputes that will not recur having related to specific circumstances and discrete periods of time with production based taxes currently paid at standard Ukrainian government rates. Whilst the Board is cognisant that items should not be disclosed as exceptional when they recur, in this instance the Board considered items to be exceptional, because the two underlying claims are not anticipated to recur and the additional charges refer to accrual of interest and penalties of the original claims.

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 (2017: four) reportable operating segments which are based on the internal reports provided to the Chief Operating Decision Maker ('CODM'). Ukraine and Russia segments are involved with production and exploration; the 'Rest of World' are involved in exploration, development and production and the UK is the home of the head office and purchases material, capital assets and services on behalf of other segments.

The Group derives revenue from the transfer of goods at a point in time. The Group is only engaged in one business of upstream oil and gas exploration and production, therefore all information is being presented for geographical segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

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.

2018	UK $000	Ukraine $000	Russia $000	Rest of World[1] $000	Sub Total $000	Eliminations $000	Total $000
External revenue							
Revenue by location of asset:							
– Oil	-	19,341	679	-	20,020	-	20,020
– Gas	-	49,221	17,155	-	66,376	-	66,376
– Liquefied petroleum gas	-	5,579	-	-	5,579	-	5,579
– Other	112	781	5	-	898	-	898
	112	74,922	17,839	-	92,873	-	92,873
Inter segment revenue:							
– Management services/other	3,523	-	-	-	3,523	(3,523)	-
	3,523	-	-	-	3,523	(3,523)	-
Total revenue	3,635	74,922	17,839	-	96,396	(3,523)	92,873
Profit/(loss) before tax:							
Profit/(loss) from operations	(6,106)	20,979	(104)	(817)	13,952	1,724	15,676
Finance income					908	-	908
Finance cost					(2,510)	-	(2,510)
Fair value movement on derivative liability					(59)	-	(59)
					12,291	1,724	14,015
Assets							
Property, plant and equipment	211	91,836	80,693	734	173,474	-	173,474
Deferred tax	-	966	9,453	-	10,419	-	10,419
Inventories	-	2,851	3,139	-	5,990	-	5,990
Trade and other receivables	736	2,502	1,864	9	5,111	-	5,111
Cash and cash equivalents	13,344	3,493	2,265	80	19,182	-	19,182
Total assets[1]	14,291	101,648	97,414	823	214,176	-	214,176
Total liabilities[1]	(12,580)	(56,857)	(3,481)	(38)	(72,956)	-	(72,956)
Non cash expense (other than depreciation and impairment)	-	673	80	6	759	-	759
Exceptional item – production based taxes	-	5,055	-	-	5,055	-	5,055
Increase in property, plant and equipment and intangible assets	-	11,011	742	-	11,753	-	11,753
Depreciation, depletion and amortisation	58	9,210	5,887	-	15,155	-	15,155

1 Total assets and liabilities exclude assets and liabilities of the Hungarian disposal group classified as held for sale. Please refer to Note 14 for details.

Major customers	2018 $000	2017 $000
Ukraine	18,131	-
Russia	16,911	16,964

There are two customers, one in Ukraine and one in Russia, that exceed 10% of the Group's total revenues (2017: one in Russia).

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2017	UK $000	Ukraine $000	Russia $000	Rest of World[1] $000	Sub Total $000	Eliminations $000	Total $000
External revenue							
Revenue by location of asset:							
– Oil	-	16,458	636	-	17,094	-	17,094
– Gas	-	35,835	16,998	-	52,833	-	52,833
– Liquefied petroleum gas	-	4,607	-	-	4,607	-	4,607
– Management services/other	33	50	14	-	97	-	97
	33	56,950	17,648	-	74,631	-	74,631
Inter segment revenue:							
– Management services/other	11,020	-	-	-	11,020	(11,020)	-
	11,020	-	-	-	11,020	(11,020)	-
Total revenue	11,053	56,950	17,648	-	85,651	(11,020)	74,631
Loss before tax:							
(Loss)/profit from operations	(1,911)	3,733	(2,692)	(9,067)	(9,937)	(103)	(10,040)
Finance income					348	-	348
Finance cost					(3,164)	-	(3,164)
Fair value movement on derivative liability					(3)	-	(3)
					(12,756)	(103)	(12,859)
Assets							
Property, plant and equipment	268	90,024	102,961	778	194,031	-	194,031
Intangible assets	-	-	-	-	-	-	-
Deferred tax	-	-	11,293	-	11,293	-	11,293
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	97,190	120,143	2,339	223,543	-	223,543
Total liabilities	(18,227)	(49,196)	(6,177)	(4,034)	(77,634)	-	(77,634)
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 in Slovakia	-	-	-	7,881	7,881	-	7,881
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

1 Assets and liabilities include Hungary at 31 December 2017 within 'Rest of the World'. The loss before tax excludes the loss of the Hungarian disposal group classified as held for sale in 2018 with the comparative results of the disposal group reclassified to discontinued operations. Please refer to Note 14 for details.

5. Property, plant and equipment and Intangible assets

5.(a) Property, plant and equipment

2018	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	567,195	230,149	37,442	18,257	853,043
Additions during the year	10,899	602	-	252	11,753
Foreign exchange	-	(39,325)	-	(292)	(39,617)
Disposal of property, plant and equipment	-	(112)	-	(462)	(574)
Reclassified to assets held for sale	-	-	(37,442)	-	(37,442)
At 31 December	578,094	191,314	-	17,755	787,163
Accumulated depreciation, depletion and amortisation and provision for impairment					
At 1 January	477,171	127,188	37,442	17,211	659,012
Depreciation on disposals of property, plant and equipment	-	(112)	-	(459)	(571)
Foreign exchange	-	(22,212)	-	(253)	(22,465)
Depreciation charge for the year	9,087	5,757	-	311	15,155
Reclassified to assets held for sale	-	-	(37,442)	-	(37,442)
At 31 December	486,258	110,621	-	16,810	613,689
Carrying amount					
At 1 January	90,024	102,961	-	1,046	194,031
At 31 December	91,836	80,693	-	945	173,474

Oil and gas fields in Ukraine and Russia include $1.0m and nil respectively relating to items under construction (2017: $2.6m and $4.8m).

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2017	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	564,023	213,181	36,971	18,296	832,471
Additions during the year	3,172	5,756	471	344	9,743
Foreign exchange	-	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	-	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

Exceptional item – provision for impairment of oil and gas assets
During 2017 and 2018 impairment test triggers were identified in respect of our oil and gas assets with impairments and reversals of impairments recorded in 2017. Full impairment disclosures for each of the impairment tests are made in the Note 5 (c).

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

2018	Ukraine $000	Hungary $000	Rest of World $000	Total $000
Group				
Cost:				
At 1 January	1,308	814	14,236	16,358
Reclassified to assets held for sale	-	(814)	-	(814)
Disposal of assets written off	(1,308)	-	(14,236)	(15,544)
At 31 December	-	-	-	-
Provision against oil and gas assets				
At 1 January	1,308	814	14,236	16,358
Reclassified to assets held for sale	-	(814)	-	(814)
Disposal of assets written off	(1,308)	-	(14,236)	(15,544)
At 31 December	-	-	-	-
Carrying amount				
At 1 January	-	-	-	-
At 31 December	-	-	-	-

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)
Foreign exchange	-	-	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	-	-	-	-

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 and Russian assets due to the carrying amount of the Group net assets exceeding the Company's market capitalisation.

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

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expenditure that a market participant would consider likely to enhance the productive capacity of an asset and optimise future cash flows. Consequently, the Group determines recoverable amount based on FVLCD using a Discounted Cash Flow ('DCF') methodology.

The DCF was derived by estimating discounted after tax cash flows for each CGU based on estimates that a typical market participant would use in valuing such assets.

The impairment tests compared the recoverable amount of the respective CGUs noted below to the respective carrying values of their associated assets. The estimates of FVLCD meet the definition of level three fair value measurements as they are determined from unobservable inputs.

Impairment test for the Ukrainian oil and gas assets

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 21.7 MMboe and 2.5 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 2035). The economic life of the Elyzavetivske field is currently expected to be around 2029 as per management's current expectation.
- 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 2019 is based on current and forecast gas prices realised by our Ukrainian subsidiary. 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 19.1%. 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 ($105.5m) exceeds its carrying amount ($83.0m) by $22.5m and therefore NNC's oil and gas assets were not impaired.
- Elyzavetivske's recoverable amount (including the West Mashivska extension) ($14.6m) exceeds its carrying amount ($8.0m) by $6.6m, and therefore the CGU's oil and gas assets were not impaired.

Elyzavetivske impairment reversal in 2017

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 was recognised in 2017.

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, future capital expenditure and post-tax discount rates, all other inputs remaining equal, would be as follows:

		NNC Increase/(decrease) in headroom of $22.5m for NNC CGU $m	**Elyzavetivske** Increase/(decrease) in headroom of $6.6m for Elyzavetivske CGU $m
Impact if gas and oil prices:	increased by 20%	44.5	6.8
	reduced by 20%	(44.5)	(6.9)
Impact if gas and oil production volumes:	increased by 10%	27.4	3.7
	decreased by 10%	(27.4)	(3.6)
Impact if future capital expenditure:	increased by 20%	(18.7)	(1.2)
	decreased by 20%	18.7	1.2
Impact if post-tax discount rate:	increased by 2 percentage points to 21.1%	(10.7)	(0.6)
	decreased by 2 percentage points to 17.1%	12.4	0.7

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.

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 69.8 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 2049). 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 2019 and annually thereafter, the gas prices have been increased by 4.0% through to 2026 based on historical experience.
- Capital and operating costs: these were based on current operating and capital costs in Russia, project estimates provided by third parties and supported by estimates from our own specialists, where necessary.
- Post tax nominal Rouble discount rate of 13.6%. 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 ($104.7m) exceeds it carrying amount ($80.6m) by $24.1m 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.

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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 $24.1m for Yuzhgazenergie CGU $m
Impact of Adygean gas price:	growth rates increased by 10% annually	7.5
	growth rates reduced by 10% annually	(7.4)
Impact of production volumes:	Increased by 10%	22.7
	Decreased by 10%	(22.7)
Impact of future capital expenditure:	Increased by 20%	(8.8)
	Decreased by 20%	8.8
Impact of post-tax discount rate:	Increased by 1 percentage point to 14.6%	(8.0)
	Decreased by 1 percentage point to 12.6%	9.0

Impairment test for Hungarian oil and gas assets in 2017

As a result of impairment testing of Hungarian oil and gas assets, the carrying amount exceeded the CGU's recoverable amount of nil by $2.8m and therefore the 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 in 2017 – 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 was $9.4m.

Impairment of Hungarian exploration and evaluation expenditure in 2017

The Tiszavasvári-IV Mining Plot contains the Tiszavasvári-6 discovery well ('TZ-6'), which, due to the early stage of appraisal, was 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 was no clear indication that FVLCD was greater than zero and the assets were impaired in full by $0.8m.

Impairment of Slovakian exploration and evaluation expenditure in 2017

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

6. Investments

Group unquoted equity investments comprise a 10% holding of the ordinary share capital of PJSC of "Mining Company Ukrnaftoburinnya" ("UNB"), a Ukrainian oil and gas company, and a 1.43% holding of the ordinary share capital of Linx Telecommunications Holding B.V. ("Linx"), a Netherlands telecommunications company. These investments were previously measured at cost as allowed by IAS 39 (paragraph 46 (c)) and were fully impaired at 31 December 2017 and had been for several years.

As of 1 January 2018 Group's investments in equity instruments were reclassified to financial assets at fair value through other comprehensive income in accordance with the provisions of IFRS 9. The Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

At 31 December 2018 the carrying value of UNB remained fully impaired following assessment by the Board considering relevant available information and valuation techniques, reflecting:

- the lack of liquidity in the shares of UNB and considerations regarding the nature of markets for such an investment;
- the absence of any history of dividends or other returns on the investment since acquisition in 2006 and the significant uncertainty regarding future returns;
- the absence of regular formal communication with UNB or potential buyers; and
- the level of uncertainty regarding any market valuation method based on quoted Ukrainian oil and gas companies given key differences in the respective businesses and corporate structures;

- the limited number of quoted Ukrainian oil and gas companies that can be used for the market valuation approach, defined in IFRS 13.

At 31 December 2018 the carrying value of Linx remained fully impaired following assessment by the Board considering relevant available information and valuation techniques, reflecting:

- the lack of liquidity in the shares of Linx and considerations regarding the nature of markets for such an investment;
- the absence of dividends or other returns on its investment since the investment acquisition in 2002 (apart from a one-off dividend received during 2017 of $0.1m due to reorganisation of Linx).
- the absence of formal communication with any potential buyers; and
- the level of uncertainty regarding any market valuation method based on the limited number of quoted Netherlands telecommunication companies and key differences in the respective businesses.

7. Inventories

	2018 $000	2017 $000
Warehouse inventory and materials	3,911	4,441
Oil and gas inventory	2,079	1,383
	5,990	5,824

During the year there were no obsolete inventories written off to profit and loss (2017: $0.6m were written off to profit and loss under 'cost of sales' at Poltava Petroleum Company ('PPC'), our wholly owned subsidiary in Ukraine).

8. Trade and other receivables

	2018 $000	2017 $000
Trade receivables	2,085	3,348
Less: ECLs	(559)	(505)
Trade receivables – net	1,526	2,843
Other receivables	279	508
VAT receivable	384	469
Prepayments	2,922	1,149
	5,111	4,969

As of 31 December 2018, trade and other receivables of $0.6m (2017: $0.5m) were past due and full expected credit loss ("ECL") provision was recognized with the asset considered credit impaired. The amount of the provision was $0.6m (2017: $0.5m). This receivable relates to a single gas customer, which is more than two years past due. Legal proceedings were initiated in Q4 of 2016 and finished in Q3 of 2018 in favour of the Company. The Company is seeking collection of the amount outstanding, but significant uncertainty remains over the collection.

As of 31 December 2018, trade and other receivables of $1.8m (2017: $3.4m) were current and not impaired. There is no difference between the carrying value of trade and other receivables and their fair value.

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

	2018 $000	2017 $000
US Dollar	42	137
Sterling	-	17
Euros	1	487
Hungarian Forints	-	44
Ukrainian Hryvnia	15	776
Russian Roubles	1,747	1,890
	1,805	3,351

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9. Cash and cash equivalents

	2018 $000	2017 $000
Cash	16,939	4,958
Short term deposits	2,243	1,971
Cash and cash equivalents	19,182	6,929
Restricted cash	-	497
Total	19,182	7,426

Short term deposits held comprised amounts held on deposit, but were readily convertible to cash.

Restricted cash

At 31 December 2018 restricted cash does not include restricted cash held in Hungary, it is included under "assets held for sale" in the Statement of financial position. Included in Restricted cash in 2017 is $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 related to funds received by the Trustees of the JKX Death in Services scheme, it was paid out to the beneficiaries in December 2018.

10. Trade and other payables

	2018 $000	2017 $000
Trade payables	873	2,828
Other payables	3	278
Contract liabilities	3,273	1,931
Other taxes and social security costs	2,196	2,166
VAT payable	1,327	1,121
Accruals	3,110	3,554
	10,782	11,878

11. Borrowings

	2018 $000	2017 $000
Current		
Convertible bonds due 2020	5,962	7,630
Term-loans repayable within one year	5,962	**7,630**
Non-Current		
Convertible bonds due 2020	5,041	9,003
Term-loans repayable after more than one year	5,041	**9,003**

Convertible bonds due 2020

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 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 in respect of prior accretion amounts of $1.9m (12.0% of the principal amount of the Bonds) and interest payment of $1.8m. 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 the final accretion payment of $0.5m (3.0% of the principal amount of the Bonds) and interest of $1.1m. On 19 February 2019 the Company made a payment of the second instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with $0.7m interest payment in accordance with the terms and conditions of the Bond.

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. 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 was 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 is 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 immaterial and hence there was 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.

Credit facility

On 11 December 2018, PPC, our subsidiary in Ukraine, renewed a 12 month revolving credit line from Tascombank for UAH280m (originally secured 15 December 2017 for UAH150 m). At 31 December 2018 the total short-term line of credit amounted to $10.1m at an exchange rate of $1: 27.69 (2017: $5.3m at an exchange rate of $1: 28.07 Hryvnia). The amount outstanding at 31 December 2018 was nil (2017: nil), so the undrawn portion totaled $10.1m (2017: $5.3m). The facility will be available through 14 December 2019 (2017: 14 December 2018) subject to planned renewal if required. In addition PPC holds a UAH50m ($1.8m) overdraft facility which remains undrawn and is due for renewal in December 2019.

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 $3.3m at 31 December 2018 (2017: $3.2m) will require a corporate guarantee from JKX Oil & Gas Plc. The corporate guarantee provided by the JKX Oil & Gas plc in respect of the credit facility with Tascombank is considered to be an insurance contract under the provisions of IFRS 4;
- assets with a market value of UAH460m, equivalent to $16.6m at 31 December 2018 (2017: UAH355m, equivalent to $12.6m at 31 December 2017) have been identified for use as a collateral, collateral is to be provided only on a 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. Last date of repayment for the last part of amount borrowed is 14.12.2019.

The credit facility of $10.1m (2017: $5.3m) includes two financial covenants. If the covenants are not met an additional interest of 2% applies to the facility but failure to meet covenants does not represent an event of default:

- 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 2019 and during the period of the credit facility agreement, PPC is to maintain the ratio between financial (interest) debt and EBITDA (adjusted to the annual value) at no more than 3.0.

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12. Derivatives

	2018 $000	2017 $000
Current derivative financial instruments		
At the beginning of the year	-	1,341
Reclassification to/from non-current derivative financial instruments	-	(1,341)
At the end of the year	-	-
Non-current derivative financial instruments		
At the beginning of the year	3	-
Reclassification from/to current derivative financial instruments	-	1,341
Full/partial settlement of derivative liability	-	(1,341)
Fair value loss movement during the year	59	3
At the end of the year	62	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

On 3 January 2017, this put option was cancelled as part of the Bond restructuring as detailed in Note 11.

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.

13. 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 2018 $000	Fair Value 2018 $000	Book Value 2017 $000	Fair Value 2017 $000
Financial assets				
Cash and cash equivalents and restricted cash (Note 9) – classified at amortised cost	19,182	19,182	7,426	7,426
Trade receivables (Note 8) – classified at amortised cost	1,526	1,526	2,843	2,843
Other receivables (Note 8) – classified at amortised cost	279	279	508	508
Financial liabilities				
Trade payables (Note 10) - carried at amortised cost	873	873	2,828	2,828
Other payables (Note 10) - carried at amortised cost	3	3	278	278
Accruals (Note 10) - carried at amortised cost	2,468	2,468	2,262	2,262

Borrowings – convertible bonds due 2020 (Note 11) - carried at amortised cost (current)	**5,962**	**5,962**	7,630	6,486
Borrowings – convertible bonds due 2020 (Note 11) - carried at amortised cost (non-current)	**5,041**	**5,041**	9,003	7,653
Derivatives – fair value through profit or loss (Note 12)	**62**	**62**	3	3

Financial liabilities measured at amortised cost are carried at $14.3m (2017: $22.0m). The Group's borrowings at 31 December 2018 relate entirely to the convertible bonds due 2020.

Fair value hierarchy

Derivatives

At the year end the Group's derivative financial instrument related to embedded derivative within the convertible bonds due 2020 (Note 12). 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 2018 were:

- underlying share price of: £0.395 (2017: £0.11);
- £/US$ spot rate of 1.2754 (2017: £1/$1.3513);
- historic volatility of 54.03% (2017: 56.29%);
- risk free rate based on the maturity which is 1.14 year US Treasury rate of 2.578% and 0.14 year US Treasury rate of 2.444% (continuously compounded). At 31 December 2017 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).

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 $0.1m and decrease in the fair value loss of $0.02m, respectively (2017: 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), 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 2018 was $21.0m (2017: $10.8m).

Capital management – Group

The Directors determine the appropriate capital structure of the Group specifically, how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's business strategy.

The Group's policy as to the level of equity capital and reserves is to ensure that it maintains a strong financial position and low gearing ratio which provides financial flexibility to continue as a going concern and to maximise shareholder value. The capital structure of the Group consists of shareholders' equity together with net debt. The Group's funding requirements are met through a combination of debt, equity and operational cash flow.

Net cash

Net cash/(debt) comprises: borrowings disclosed in Note 11 and total cash in Note 9 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:

	2018 $000	2017 $000
Convertible bonds due 2020 (current and non-current, Note 11)	**(11,003)**	(16,633)
Total cash (Note 9)	**19,182**	6,929
Net cash/(debt)	**8,179**	(9,704)
Total shareholders' equity	**141,682**	145,909

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

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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. On 3 January 2017 this indebtedness covenant was cancelled as part of the Bond restructuring as detailed in Note 11.

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 these consolidated financial statements 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 2018	**Within 3 months $000**	**3 months - 1year $000**	**1-2 years $000**
Maturity of financial liabilities			
Trade payables (Note 10)	873	-	-
Other payables (Note 10)	3	-	-
Accruals (Note 10)	2,468	-	-
Borrowings – Convertible bonds due 2020	6,030	381	5,821

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 10)	2,828	-	-	-
Other payables (Note 10)	278	-	-	-
Accruals (Note 10)	2,262	-	-	-
Borrowings – Convertible bonds due 2020	6,880	750	6,411	5,821

Interest rate risk profile of financial assets and liabilities - Group

Fixed rate interest is charged on the Group's convertible bond (see Note 11). 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	2018 Within 1 Year $000	2017 Within 1 Year $000
Floating rate		
Short term deposits (Note 9)	2,243	1,971
Other receivables (Note 8)	279	508
Other payables (Note 10)	3	278

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 profit (2017: loss) after tax and net assets for the year ended 31 December 2018 would increase/decrease by $16,000 (2017: $28,150). 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:

	2018 $000	2017 $000
US Dollar	-	1
Sterling	(1,223)	(451)
Euros	371	464
Hungarian Forints[1]	-	130
Ukrainian Hryvnia	4,583	1,263
Bulgarian Leva	33	50
Russian Roubles	3,732	6
Canadian Dollar	6	1
Total net	7,502	1,464

[1] Foreign currency exposures do not include Hungarian Forints, as Hungary is included under "assets held for sale" in the Statement of financial position.

Foreign currency sensitivity - Group

The Group is mainly exposed to the currency fluctuations of Ukraine (Hryvnia), Russia (Rouble) and UK (Sterling). The sensitivity analysis principally arises on money market deposits and working capital items held at the reporting date.

The following table details the Group's sensitivity to a 10 per cent (2017: 5 per cent) increase and decrease in the US Dollar against Sterling and against Hryvnia and Rouble, all other variables were held constant. Due to the historically significant foreign currency fluctuation in the UK, Ukraine and Russia 10 per cent has been used to calculate sensitivity for Sterling, Hryvnia and Rouble. 10 per cent (2017: 5 per cent) is the sensitivity rate that best represents management's assessment of the possible change in the foreign exchange rates affecting the Group. A positive number below indicates an increase in profit and equity when the US Dollar weakens against the relevant currency. For a strengthening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Hryvnia 2018 $000	Hryvnia 2017 $000	Rouble 2018 $000	Rouble 2017 $000	Sterling 2018 $000	Sterling 2017 $000
Profit/(loss) for the year and Equity						
10 per cent strengthening of the US Dollar/ (2017: 5 per cent)	458	(60)	373	-	(122)	21
10 per cent weakening of the US Dollar/(2017: 5 per cent)	(458)	60	(373)	-	122	(21)

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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 2018 as there is no impact on any outstanding amounts.

14. Discontinued operations and assets classified as held for sale

In early February 2018 the Group announced its intention to exit its oil and gas operations in Hungary and initiated an active programme to locate a buyer for its subsidiary JKX Hungary BV which 100% owns Riverside Energy Kft, based in Hungary. Preparation of marketing materials and a target investor list were complete in Q1 2018, and the marketing process was commenced in Q2 2018. It is anticipated that binding bids are received in the first half of 2019 and sale is highly probable within the next 12 months.

The associated assets and liabilities are consequently presented as held for sale in the financial statements at 31 December 2018. Prior to the reclassification assets were measured at the lower of carrying amount and fair value less costs to sell.

The financial performance and cash flow information presented are for periods ended 31 December 2018 and 31 December 2017.

	31 December 2018 $000	31 December 2017 $000
Revenue	1,645	1,804
Cost of sales		
Exceptional item – provision for impairment of Hungary	-	(3,569)
Royalties	(75)	(241)
Other cost of sales	(356)	(1,428)
Total cost of sales	(431)	(5,238)
Administrative expenses	20	2
(Loss)/gain on foreign exchange	(304)	244
Profit/(loss) from operations and before tax	930	(3,188)
Taxation – current	(7)	-
Taxation – deferred	2,564	(2,409)
Total taxation	2,557	(2,409)
Profit/(loss) for the year	3,487	(5,597)

Net cash (outflow)/inflow from operating activities	(158)	1,541
Net cash used in financing activities	-	(27)
Net cash outflow from investing activities	-	(1,572)
Effect of exchange rates on cash and cash equivalents	17	25
Net cash used by the subsidiary	(141)	(33)

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2018.

Assets and liabilities of disposal group classified as held for sale	31 December 2018 $000
Assets classified as held for sale	
Trade and other receivables	753
Cash	273
Restricted cash	211
Total assets of disposal group held for sale	1,237

Liabilities of the disposal group classified as held for sale	
Deferred tax liability	-
Trade and other payables	(322)
Abandonment provision	(453)
Total liabilities of disposal group held for sale	(775)
Net assets	462

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 retained earnings.

None of these shares were used in 2018 (2017: nil) to settle share options, therefore at the year end JKX Employee Benefit Trust held 5,000,000 shares in JKX Oil & Gas plc (2017: 5,000,000).

16. Share capital

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

	2018 Number	2018 £000	2018 $000	2017 Number	2017 £000	2017 $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 2018 (2017: none) and no treasury shares were used in 2018 (2017: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2018 the market value of the treasury shares held was $0.2m (2017: $0.1m).

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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 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)
At 1 January 2018	30,680	587	(184,060)	(333)	(153,126)
Exchange differences arising on translation of overseas operations	-	-	(19,475)	-	(19,475)
Remeasurement of post-employment benefit obligations	-	-	-	(22)	(22)
At 31 December 2018	30,680	587	(203,535)	(355)	(172,623)

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 2018, the Russian Rouble ('RR') weakened by approximately 21% (2017: strengthened by 5%) from RR57.60/$ to RR69.47/$ (2017: strengthened from RR60.66/$ to RR57.60/$). A significant portion of the currency translation differences of US$19.4m (2017: US$7.1m) 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 remeasurement of liability for 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 enrol 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 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 2018	204	37,065	37,269
Foreign currency translation	4	385	389
Amount utilised in the year	(274)	-	(274)
Amount provided in the year	280	5,055	5,335
Reclassification to non-current provisions	-	(30,074)	(30,074)
At 31 December 2018	214	12,431	12,645

Non-current provisions	Production based taxes[1] $000	Total $000
At 1 January 2018	-	-
Reclassification from current provisions	30,074	30,074
At 31 December 2018	30,074	30,074

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. $5.1m (2017: $4.4m) was recognised as a charge in the 2018 Consolidated income statement and relates to interest accrued during 2018, of which $1.0m (2017: $1.1m) relates to August to December 2010 liability and $4.1m (2017: $3.3m) to January to December 2015. Both claims are being contested in the Ukrainian courts (see Note 27). The amount is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the 2018 year end rate of UAH27.69/$ (2017: UAH 28.07/$). The provision for rental fee claims at 31 December 2018 includes estimated interest and penalties. Judgement is applied regarding application of relevant legislation to determine estimates of the interest and penalties, together with aspects of the underlying claims which are considered overstated based on the legislation on which the claims are based, should this legislation be applied, notwithstanding that the Group disputes the claims in their entirety. The Board believes that the claims are without merit under Ukrainian law and the Company will continue to contest them vigorously. Whilst provisions are held by the Group, additional contingent liabilities exist in respect of the rental fee claims given the judgments required in forming the provisions and alternative potential outcomes.

2 2018 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% (2017: 6.5%). The remaining life of the leases at 31 December 2018 was 3 years (2017: 4 years).

Provisions relating to the 2015 rental fee claims of $30.1m were reclassified from current provisions to non-current provisions in 2018. Management, together with its legal advisors, has done a thorough review of the expected hearings and possible appeals of the 2015 rental fee claim cases. It is the opinion of management that even if the Company is not able to defend its position successfully in court, no payments related to these cases will fall due before 2020 at the earliest.

Non-current provisions Provision on decommissioning	Ukraine $000	Russia $000	Hungary $000	Total $000
Provision for site restoration				
At 1 January 2018	2,574	2,142	625	5,341
Foreign exchange adjustment	-	(390)	-	(390)
Revision in estimates	831	-	-	831
Unwinding of discount (Note 22)	176	266	-	442
Transfer of assets held for sale	-	-	(625)	(625)
At 31 December 2018	3,581	2,018	-	5,599

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 2035 (2017: 2034). The Russia provision results from the decommissioning of 15 wells (2017:12) and removal of plant as required by the licence obligation and is due to start from 2050 (2017: 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:

	2018 $000	2017 $000
Exceptional item – onerous lease provision (1)	-	(55)
Exceptional item – remuneration and severance costs (2)	-	(1,364)
Exceptional item – legal costs (3)	-	(94)
	-	(1,513)

1 See Note 18 for details. During 2018 the onerous lease provision was not included under exceptional items, as it was considered to be recurring and immaterial.
2 $1.4 million of severance costs paid to two Executive Directors removed from the Board of Directors at the AGM on 30 June 2017.
3 $0.1 million of professional advisory fees incurred in relation to the removal of two Executive Directors from the Board of Directors in 2017.

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20. Cost of sales

	2018 $000	2017 $000
Operating costs	20,897	18,463
Depreciation, depletion and amortisation	14,732	16,756
Other production based taxes	21,857	16,715
	57,486	51,934
Exceptional item – production based taxes (Note 18)	5,055	4,357
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets (Note 5)	-	(5,636)
Exceptional item – provision for impairment of Slovakia (Note 5)	-	7,881
Exceptional item – write off of appraisal expenditure in Ukraine (Note 5)	-	9,391
	62,541	67,927

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2018 was $0.9m (2017: $2.0m).

21. Finance income

	2018 $000	2017 $000
Interest income on deposits	908	348
	908	348

22. Finance costs

	2018 $000	2017 $000
Borrowing costs	2,068	2,838
Unwinding of discount on site restoration (Note 18)	442	326
	2,510	3,164

23. Profit/(loss) from operations – analysis of costs by nature

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

	2018 $000	2017 $000
Depreciation – other assets (Note 5. (a))	311	672
Depreciation, depletion and amortisation – oil and gas assets (Note 5. (a))	14,732	16,756
Staff costs (net of $0.5m (2017: $0.2m) capitalised, Note 25)	12,452	14,368
Foreign exchange (loss)/gain	(711)	1,179
Operating lease payments		
- property lease rentals	719	817
- plant and equipment	9	13

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

	2018 $000 BDO fees	2018 $000 PWC fees	2017 $000 PWC fees
Audit of the parent company and consolidated financial statements	205	-	288
Fees payable to company's auditors for other services:			
- Audit of the Company's subsidiaries	167	-	198
- Audit related assurance services	-	105	101
- Other non-audit services	2	2	41
	374	107	628

Non-audit services in 2018 include $2 thousand of tax advisory services provided by BDO Unicon Moscow. The tax advisory services fee relates to reporting periods prior to BDO LLP's appointment as the Group auditor and was discontinued upon their appointment.

24. Obligations under leases

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

	2018 $000	2017 $000
Within one year	420	428
In the second to fifth years inclusive	586	932
	1,006	1,360

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

25. Staff costs

	2018 $000	2017 $000
Wages and salaries	12,502	14,145
UK social security costs	257	300
Other pension costs	205	210
Share based payments (equity-settled) (Note 26)	13	(46)
	12,977	14,609

Staff costs are shown gross and $0.5m (2017: $0.2m) was capitalised, representing time spent on exploration and development activities.

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

	2018 Number	2017 Number
Management/operational	487	448
Administration support	88	79
	575	527

There are no Directors on service contracts included within management/operational (2017: nil). Further details of the Directors and their remuneration are included on pages 56 to 67 which form part of these financial statements.

26. Share-based payments

According to the 2010 Performance Share Plan (PSP) 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's performance over a period of at least three years. No consideration is required to be paid for the grant or exercise of an Option. Vesting of the options is dependent upon certain criteria, including comparison of the Group's TSR against the FTSE Fledgling index and the All-Share Oil & Gas Producers index.

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Options lapse when certain criteria are not met and may be forfeited when employees cease to be employed by the Group. The plan rules are described in the Directors' Remuneration Report. All share-based payments are equity settled.

At 31 December 2018, there were outstanding options under the PSP, exercisable during the years 2019 to 2026 (2017: 2018 to 2026), to acquire 256,150 (2017: 1,059,650) shares of the Company at nil cost per share (2017: nil cost per share). The vesting period for 256,150(2017: 1,059,650) 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.

	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Outstanding as at 1 January	1,059,650	0.00p	2,168,450	22.78p
Lapsed/forfeited during the year	(803,500)	0.00p	(1,108,800)	44.55p
Outstanding at 31 December	151,250	0.00p	1,059,650	0.00p
Exercisable at 31 December	104,900	0.00p	-	-

For the share options outstanding as at 31 December 2018, the weighted average remaining contractual life is 7.0 years (2017: 8.0 years). Weighted average exercise prices ('WAEP') of options outstanding at 31 December 2018 is nil (2017: nil).

During the year no share options were granted in accordance with the PSP (2017: nil).

27. Taxation

Analysis of tax on loss	2018 $000	2017 $000
Current tax		
UK - current tax	-	-
Overseas - current year	5,478	2,964
Current tax expense	5,478	2,964
Deferred tax		
Overseas – prior year	-	-
Overseas - current year	(3,233)	(3,757)
Deferred tax benefit	(3,233)	(3,757)
Income tax expense/ (benefit)	2,245	(793)

Factors that affect the total tax charge

The total tax charge for the year of $2.2m (2017: $0.8m credit) is lower (2017: higher) than the average rate of UK corporation tax of 19.00% (2017: 19.25%). The differences are explained below:

Total tax reconciliation	2018 $000	2017 $000
Profit / (Loss) before tax	14,015	(12,859)
Tax calculated at 19.00% (2017: 19.25%)	2,663	(2,475)
Recognition of previously unrecognised tax losses	(1,332)	2,709
Permanent foreign exchange differences	-	913
Effect of tax rates in foreign jurisdictions	205	354
Rental fee provision	(724)	(3,280)
Other non-deductible expenses	1,149	2,642
Other	284	(70)
Total tax charge/(credit)	2,245	(793)

The total tax charge for the year was $2.2m (2017: $0.8m credit) comprising a current tax charge of $5.5m (2017: $3.0m) in respect of Ukraine, a deferred tax charge before exceptional items of $1.5m (2017: credit of $0.4m) and a deferred tax credit of $1.8m in respect of exceptional items (2017: credit of $4.1m). The increase in current tax charge reflects a higher profitability in Ukraine. In Ukraine, the corporate tax rate for 2017 was 18% and remains at this level in 2018.

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. The Company's profits for this accounting year are taxed at an effective rate of 19.00%.

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.

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 Rental Fees 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.

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 until the new law on Rental Fees was enacted in 2011.

Rental Fees paid since 2011

In 2011 a new law was 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 did not find in favour of the Company in respect of the 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.

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On 21 February 2019 application was filed for the recognition and enforcement of the arbitration award. No recognition will be made in the financial statements of any possible future benefit that may result from this award until there is further clarity on the process for, and likely success of, enforcing collection.

Rental Fee demands

The Group currently has two claims (2017: 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 (2017: 2010), which in total amount to approximately $42.5 million (2017: $37.1 million) (including interest and penalties), as detailed below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the year end rate of $1:UAH27.69 (2017: $1: UAH 28.07).

- August – December 2010: approximately $12.4 million (2017: $11.3 million) (including $8.0 million (2017: $7.0 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. In July 2017 the Poltava Joint State Tax Inspectorate ("PJSTI") filed a cassation complaint against the previous court judgements of lower courts in PPC's favour. This cassation hearing at the Supreme Court of Ukraine is expected in mid-2019. Whilst PPC has been successful in the April, June and July 2017 court hearings, the Board considers it appropriate to maintain a provision notwithstanding that PPC disputes the claim basis, given assessment of all relevant facts and circumstances.
- January – December 2015: approximately $30.1 million (2017: $25.8 million) (including $17.9 million (2017: $13.7 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 the series of claims for the difference between 28% and 55%. The 2015 Rental Fee claims are being contested in eight separate cases. The first of these was subject to ruling by the Poltava Circuit Administrative Court (PCAC) in December 2018. While the PCAC ruled that the disputed tax notification decisions in this case were illegal and cancelled them, meaning that PPC won the case on merits, it should be noted that the PJSTI has appealed the judgment. Three other cases are now being considered by the PCAC, and four others are still suspended in connection with the finalisation of the international arbitration. It is expected that hearings in respect of the majority of these claims will be held in the remainder of 2019 and 2020.

Following the tribunal's dismissal of the Company's claim for overpayment of Rental Fees, an exceptional charge of $5.1 million has been charged to the Consolidated income statement in the year (2017: $4.4 million) relating to interest accrued on the August – December 2010 and January – December 2015 claims (see Note 18).

28. Deferred tax

	Assets		Liability		Net	
	2018 $000	2017 $000	**2018 $000**	2017 $000	**2018 $000**	2017 $000
Continuing operations						
Ukraine	**9,193**	7,248	**(8,227)**	(10,059)	**966**	(2,811)
Russia	**11,130**	11,293	**(1,677)**	-	**9,453**	11,293
Discontinued operations						
Hungary (Note 14 Discontinued operations and assets classified as held for sale)	**-**	343	**-**	(2,907)	**-**	(2,564)
Deferred tax asset					**10,419**	11,293
Deferred tax liability					**-**	(5,375)

Refer to Note 2 for details of reclassifications between deferred tax assets and liabilities affecting the comparative information. At 31 December 2017 a deferred tax liability was held in Hungary related to intercompany funding structures. Following restructuring in 2018 ahead of the proposed sale of the business the deferred tax liability no longer applies.

The balance comprises temporary differences attributable to:

	Assets		Liability		Net	
	2018 $000	2017 $000	2018 $000	2017 $000	2018 $000	2017 $000
Property, plant and equipment	-	-	(9,635)	(9,941)	(9,635)	(9,941)
Inventory	1,206	1,215	-	-	1,206	1,215
Provision for disputed rental fees	7,038	5,277	-	-	7,038	5,277
Provision for site restoration	1,058	925	-	-	1,058	925
Tax losses	10,721	10,858	-	-	10,721	10,858
Other	300	584	(269)	(3,000)	31	(2,416)
Deferred tax asset /(liability)recognised	20,323	18,859	(9,904)	(12,941)	10,419	5,918

	1 January 2018 $000	(Charged)/credited exchange differences $000	to profit or loss $000	classified as discontinued operation and credited to income statement $000	31 December 2018 $000
Deferred tax liabilities					
Property, plant and equipment	(9,941)	-	306	-	(9,635)
Other	(3,000)	-	167	2,564	(269)
Deferred tax assets					
Inventory	1,215	-	(9)	-	1,206
Provision for disputed rental fees	5,277	-	1,761	-	7,038
Provision for site restoration	925	(75)	208	-	1,058
Tax losses	10,858	(1,221)	1,084	-	10,721
Other	584	-	(284)	-	300
Net deferred tax	5,918	(1,296)	3,233	2,564	10,419

	1 January 2017 $000	(Charged)/credited exchange differences $000	to profit or loss * $000	31 December 2017 $000
Deferred tax liabilities				
Property, plant and equipment	(8,281)	146	(1,806)	(9,941)
Other	(3,411)	-	411	(3,000)
Deferred tax assets				
Inventory	1,013	-	202	1,215
Provision for disputed rental fees	1,170	-	4,107	5,277
Provision for site restoration	895	-	30	925
Tax losses	10,743	121	(6)	10,858
Other	2,058	116	(1,590)	584
Net deferred tax	4,187	383	1,348	5,918

*Out of charge of $1.3m, $2.4m (charge) relates to discontinued operation (refer to Note 14) and $3.8m (credit) – to continuing operation

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The deferred tax assets include an amount of $10.7m (2017: $10.9m) which relates to carried forward tax losses of our Russian subsidiary. The Group concluded that the deferred tax assets will be recoverable using the estimated future income based on the approved business plans and budgets for the subsidiary notwithstanding historic losses. The subsidiary is expected to generate taxable income from 2019 onwards.

Unprovided deferred taxation	2018 $000	2017 $000
Tax losses	(35,439)	(51,939)
Property, plant and equipment	-	(3,641)
Other temporary differences	-	(27)
	(35,439)	(55,607)

There is no expiry date on the remaining losses as 31 December 2018. The UK corporation tax main rate will be at 19% for the next year and starting from 1 April 2020 will be reduced to 17%. The impact of the rate reduction is not expected to have a material impact.

29. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the parent is based on the weighted average number of shares in issue during the year of 166,723,145(2017: 166,723,145), including shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares of 5,402,771 (2017: 5,402,771), and the profit for the relevant year. The loss and diluted loss per share as previously presented in the 2017 Annual report was calculated based on a weighted average number of shares of 172,125,916. The comparatives have been revised to reflect the weighted average number of shares shown below to include the treasury shares and treasury shares held in the EBT.

Profit before exceptional items in 2018 of $18,550,956 (2017 loss: $701,204) is calculated from the 2018 profit of $15,257,404 (2017: $17,662,920 loss) and adding back exceptional items of $3,293,552 (2017: $21,074,348) less the related deferred tax on the exceptional items of $1,761,000 (2017: $4,112,632).

The diluted earnings per share for the year is based on 176,455,391 (2017: 166,723,145) ordinary shares calculated as follows:

	2018 $000	2017 $000
Profit/(loss)		
Profit/(loss) for the purpose of basic and diluted earnings per share (profit/(loss) for the year attributable to the owners of the parent):		
After exceptional item	15,257	(17,663)
Before exceptional item	18,551	(701)

Number of shares	2018	2017
Basic weighted average number of shares	172,125,916	172,125,916
Treasury shares	(402,771)	(402,771)
Treasury shares held in Employee Benefit Trust	(5,000,000)	(5,000,000)
Weighted average number of shares	166,723,145	166,723,145
Dilutive potential ordinary shares:		
Share options	256,150	-
Convertible bonds 2020	9,476,096	-
Weighted average number of shares for diluted earnings per share	176,455,391	166,723,145

The effects of dilutive potential have been included when calculating dilutive earnings per share for the year ended 31 December 2018 (31 December 2017 loss per share, hence antidilutive). 9,476,096 (31 December 2017: 13,266,244) potentially dilutive ordinary shares associated with the convertible bonds have been included as they are dilutive at 31 December 2018 (31 December 2017: antidilutive, hence excluded).

There were 256,150(2017: 1,059,650) outstanding share options at 31 December 2018, of which 256,150 (2017: nil) had a potentially dilutive effect. All of the Group's equity derivatives were dilutive for the year ended 31 December 2018 (31 December 2017: antidilutive, hence excluded).

30. Dividends

No interim dividend was paid for 2018 (2017: nil). In respect of the full year 2018, the directors do not propose a final dividend (2017: no final dividend paid).

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

	2018 $000	2017 $000
Profit/(loss) from operations (continuing operations)	15,676	(10,040)
Profit/(loss) from operations (discontinued operations)	930	(3,188)
Depreciation, depletion and amortisation	15,155	17,428
Loss on disposal of fixed assets	-	557
Exceptional item - reversal of provision for impairment of Ukrainian oil and gas assets	-	(5,636)
Exceptional item - provision for impairment of Hungary (Note 14) and Slovakia	-	11,450
Exceptional item – write off of appraisal expenditure in Ukraine	-	9,391
Exceptional item – increase in provision for production based taxes, including forex	5,441	3,144
Increase in provisions – onerous lease provision, including forex	284	83
Abandonment provision write-off	(172)	-
Share-based payment charge/(credit)	13	(46)
Cash generated from operations before changes in working capital	37,327	23,143
Increase in operating trade and other receivables	(1,288)	(1,179)
Increase/(decrease) in operating trade and other payables	1,250	(4,897)
Increase in inventories	(166)	(1,344)
Net cash generated from continuing operations	37,281	14,182
Net cash (used)/generated in discontinued operations (Note 14)	(158)	1,541

Changes in liabilities from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Borrowings $000
At 1 January 2018	16,633
Cash flows	
- Payment of principal	(5,280)
- Payment of interest	(1,870)
- Accretion payment	(480)
Non-cash flows	
- Interest accruing in the period	2,000
At 31 December 2018	11,003

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	Borrowings $000
At 1 January 2017	16,795
Cash flows	
- Payment of interest	(1,760)
- Accretion payment	(1,920)
- Net impact of Bond restructuring costs	680
Non-cash flows	
- Interest accruing in the period	2,838
At 31 December 2017	16,633

32. Capital commitments

Under the work programs for the Group's exploration and development licences the Group had committed $4.4m to future capital expenditure on drilling rigs and facilities at 31 December 2018 (2017: nil).

33. Related party transactions

Key management compensation

Key management personnel are considered to comprise only the Directors. The remuneration of Directors during the year was as follows:

	2018 $000	2017 $000
Short-term employee benefits	670	2,579
Post-employment benefits	-	43
Share-based payments charge/(credit)	13	(46)
	683	2,576

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 56 to 67 and in the Directors Report on pages 68 to 71.

There were five Non Executive Directors at 31 December 2018 following resignations of Vladimir Tatarchuk and Vladimir Rusinov on 16 August 2018. There were no Executive Directors appointed as Directors in 2018. No bonus was awarded to the Board for 2018 (2017: nil).

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).

Transactions with related parties

The transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

PJSC "Mining Company Ukrnaftoburinnya" ("UNB"), a Ukrainian oil and gas company in which Group holds a 10% of the ordinary share capital was considered a related party at 31 December 2018. One of the Group's Non Executive Directors, Michael Bakunenko, a member of Audit and Remuneration Committees, is also a Chairman of the Board of UNB.

The following transactions were carried out with UNB:

	2018 $000	2017 $000
Gas sales	662	1,054

	2018 $000	2017 $000
Oil purchase	240	32

Gas and oil are sold and purchased on normal commercial terms and conditions.

Vladimir Tatarchuk and Vladimir Rusinov were appointed to the Board on 28 January 2016 and had a beneficial interest in Convertible Bonds with principal amount of $3.4m (interest and accretion amount of $0.8m) at 31 December 2017, which are held by Proxima (see Notes 11 and 12).

In February 2018, the following redemptions were made in relation to Proxima's bond holding and in accordance with the terms and conditions of the restructured Bonds (see Note 11):

- $1.1m in respect of first instalment of the principal;
- $0.1m in respect of prior accretion amounts (2017: $0.4m);
- $0.2m Bond interest payment (2017: $0.4m).

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. On 16 August 2018 Vladimir Tatarchuk and Vladimir Rusinov tendered their resignations with immediate effect, and such resignations were accepted by the board. They ceased to be related parties as of this date.

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. Exemption from mandatory audit in section 479A of the act is available for qualifying subsidiaries that fulfil a set of conditions. 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

On 19 February 2019 the Company made a payment of the second instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with $0.7m interest payment in accordance with the terms and conditions of the Bond.

On 21 February 2019 application was filed for the recognition and enforcement of the arbitration award. No recognition will be made in the financial statements of any possible future benefit that may result from this award until there is further clarity on the process for, and likely success of, enforcing collection.

COMPANY FINANCIAL STATEMENTS

Company statement of financial position

As at 31 December 2018

	Note	2018 $000	2017 $000
Assets			
Non-current assets			
Investments	B	21,424	21,424
Other receivables	C	104,700	152,133
		126,124	173,557
Current assets			
Trade and other receivables	C	631	351
Cash and cash equivalents	E	13,272	1,320
		13,903	1,671
Total assets		140,027	175,228
Liabilities			
Current liabilities			
Trade and other payables	F	(81,301)	(104,508)
		(81,301)	(104,508)
Non-current liabilities			
Derivatives	F	(62)	(3)
Total liabilities		(81,363)	(104,511)
Net Assets		58,664	70,717
Equity			
Called up share capital	G	26,666	26,666
Share premium account		97,476	97,476
Other reserves	G	(503)	(503)
Retained earnings		(64,975)	(52,922)
Total equity		58,664	70,717

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 $12.1m (2017: $86.0m).

These financial statements on pages 126 to 135 were approved by the Board of Directors on 5 April 2019 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 2018

	Share capital $000	Share premium $000	Accumulated deficit $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

	Share capital $000	**Share premium $000**	**Accumulated deficit $000**	**Other reserves $000**	**Total equity $000**
At 1 January 2018	26,666	97,476	(52,922)	(503)	70,717
Loss for the financial year	-	-	(12,066)	-	(12,066)
Total comprehensive loss for the year	-	-	(12,066)	-	(12,066)
Share option charge	-	-	13	-	13
Total transactions with equity shareholders	-	-	13	-	13
At 31 December 2018	26,666	97,476	(64,975)	(503)	58,664

COMPANY FINANCIAL STATEMENTS

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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 68 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

Background to the Group's performance and funding, including significant developments over the past year, is provided in the Financial Review. The Directors have reviewed the Group's forecast cash flows for the period to June 2020. Capital and operating costs are based on approved budgets and latest forecasts in the case of 2019 and current development plans in the case of 2020. The forecast cash flows reviewed include scenarios where potential liabilities arise in relation to the rental fee claims in Ukraine (see Note 27 to the consolidated financial statements) including assessments of the timing of such potential payments undertaken following detailed analysis of Ukrainian legislation and the status of each claim with internal and external legal and tax experts. In addition the Directors have considered further scenarios that reflect future expectations regarding country, commodity price and currency risks that the Group may encounter. None of the scenarios have recognised any possible future benefit that may result from the arbitration award (see Note 27 to the consolidated financial statements). 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 the settlement of any successful rental fee claims arising in the forecast period, mean that the Group currently has adequate cash and other available resources to meet its liabilities and commitments as they fall due across the forecast period. One key means of such financing is the Tascombank loan of UAH280m ($10.1m) and overdraft facility of UAH50m ($1.8m) that was renewed and increased in December 2018 and that the Directors are confident will continue to be available throughout the forecast period beyond its current maturity date of December 2019 given operating cash flows, the recent renewal and increase and the security package available. Having considered the forecasts and reasonable sensitivity scenarios the Board considers it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

Adoption of new and revised standards

IFRS 9 is effective for the year ended 31 December 2018. 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
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 2018 was $1/£0.78 (2017: $1/£0.74).

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 129ealized129d as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions; (for example, the Company's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares or shares held by the JKX Employee Benefit Trust. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the change will be treated as a cash-settled transaction.

The rules regarding the scheme are described in the Remuneration Report on pages 59 to 65 and in Note H on share based payments.

Share capital and treasury shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from share premium, net of any tax effects.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised in retained earnings.

Repurchased JKX Oil & Gas plc shares are classified as treasury shares in shareholders' equity and are presented in the retained earnings. 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 2013 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.

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 9 – 'Financial Instruments'.

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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.

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. The value of the derivative is 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 is derived from inputs that are not from observable market data it is grouped into level 3 within the fair value measurement hierarchy.

Other receivables
Other receivables include intercompany receivables which are initially recorded at their transaction price in accordance with IFRS 9 and are subsequently measured at amortised cost, reduced by any provision for impairment. IFRS 9 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model in IAS 39. Under the IFRS 9 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognised. Expected credit losses are assessed on a forward looking basis. The loss allowance is measured at initial recognition and throughout its life at an amount equal to lifetime ECL. 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 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.

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 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 130when 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 recognised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates and laws substantively enacted by the reporting date. Deferred tax assets and liabilities are offset when there exists a legal and enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

B. Investments

The net book value of unlisted fixed asset investments comprises:

	2018 $000	2017 $000
Cost		
At 1 January	21,424	21,424
Additions	-	-
At 31 December	21,424	21,424
Equity investment in subsidiaries		
At 31 December	21,424	21,424

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 11 to the consolidated financial statements).

During 2016, Company further invested in its subsidiary, JP Kenny Exploration & Production Limited.

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Notes to the Company financial statements

At 31 December 2018, 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 [7]	Oil & gas services	100.00	Ukraine
Baltic Energy Trading Ltd* [4]	Oil & gas exploration and production	100.00	UK
Catering-Yug LLC[3]	Oil & gas services	100.00	Russia
Eastern Ukrainian Pipeline Ltd [7]	Oil & gas services	100.00	Ukraine
EuroDril Limited[4]	Oil & gas exploration, production and services	100.00	UK
JKX Bulgaria Limited* [4]	Oil & gas exploration and production	100.00	UK
JKX Bulkan BG EAD [9]	Oil & gas exploration and production	100.00	Bulgaria
JKX Carpathian BV [1]	Oil & gas exploration and production	100.00	Netherlands
JKX Georgia Ltd*[4]	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 [8]	Oil & gas exploration and production	100.00	Cyprus
JKX (Nederland) B.V. [1]	Finance and Holding	100.00	Netherlands
JKX Oil & Gas (Jersey) Limited* [5]	Finance	100.00	Jersey
JKX Ondava BV [1]	Oil & gas exploration and production	100.00	Netherlands
JKX Services Limited*[4]	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* [4]	Oil & gas exploration, production and services	100.00	UK
JP Kenny Exploration & Production Limited* [4]	Finance and Holding	100.00	UK
Kharkiv Investment Company [7]	Holding	100.00	Ukraine
Page Gas Ltd* [4]	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 [10]	Oil & gas exploration, production and services	100.00	Hungary
Trans-European Energy Services Limited* [4]	Oil & gas exploration, production and services	100.00	UK
Yuzhgazenergie LLC [6]	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.
2 124 Yevropeiska street, office 77, Poltava, Ukraine, 36002.
3 177-a Pervomaiskaya Str., Maikop, Adygea Republic, 385000, Russia.
4 6 Cavendish Square, London, W1G 0PD, England.
5 47 Esplanade, St Helier, JE1 0BD, Jersey.
6 400m from Shovgenovsk-Koshekhabl motor road, a. Koshekhabl, Koshekhablsky District, Republic of Adygea, 385400, Russia.
7 Production site of JV PPC, Sokolova Balka, Novosanjary district, Poltava region, 39352, Ukraine.
8 1st Floor, 22 Stasicratous Olga Court, Nicosia, Cyprus.
9 45/A Bulgaria Boulevard, Sofia, 1404, Bulgaria.
10 VI. Floor, Vaci ut 33, Budapest, 1134, Hungary.

a The Group also holds a 62% investment in Schevchenko farm in Ukraine. The investment was not included in the "subsidiary undertakings" list above and does not need to be consolidated as the Group does not have any control over the entity. The Group is not exposed to any rights to variable returns from its involvement with the farm and does not have any ability to affect the farm's returns through its holding in the Farm's Charter Capital. The interest was purchased to protect access required for oil and gas activities, originally recorded at immaterial cost and subsequently impaired as part of the NNC cash generating unit in prior years.

In the opinion of the Directors the carrying value of the investments is supported by their underlying net assets of the Group's CGU's.

C. Other receivables

	2018 $000	2017 $000
Current		
Prepayments	285	182
VAT receivable	346	169
	631	351

	2018 $000	2017 $000
Non-current		
Amounts owed by group undertakings	104,700	152,133

$104.7m (2017: $152.1m) owed by subsidiary undertakings bears no interest and is due on demand. They were classified as non-current to reflect estimated timing of recovery.

In accordance with IFRS 9 5.5 'Recognition of expected credit losses', the Company recorded an expected credit loss in relation to the intercompany loans of $35.7m (recognised in 2017: $84.7m IAS 39 provision) as at 31 December 2018. Movement, mainly comprising cash receipts, amounted to $11.7m.

The Company expects that the carrying value of the intercompany loan receivable may not be fully recoverable as the subsidiaries may not generate sufficient future profits to settle the amounts owing and accordingly, these amounts have been impaired. Amongst other things, the Company's expected credit loss model used information generated by the expected credit losses model of its subsidiary undertakings to give an indication of the expected trading cash flows to be generated during the loan recovery period. That model includes relevant and reliable internal and external forward-looking information, incorporating economic forecasts about gas and oil prices and inflation. Discounting over the recovery period had no effect as an effective interest rate is 0% given the loans are on demand.

D. Taxation

Unprovided deferred tax	2018 $000	2017 $000
Tax losses	5,820	5,838
Property, plant and equipment differences	-	5
Other temporary differences	-	(8)
	5,820	5,835

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

	2018 $000	2017 $000
Cash and cash equivalents	13,272	1,320
Total	13,272	1,320

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Notes to the Company financial statements

F. Trade and other payables

	2018 $000	2017 $000
Current		
Amounts owed to group undertakings	80,598	103,767
Trade payables	527	584
Accruals and deferred income	176	157
	81,301	104,508
Non-current		
Derivatives	62	3

Maturity of financial liabilities

31 December 2018	In 1 year or less, or on demand $000	2-5 years $000
Maturity of financial liabilities		
Amounts owed to group undertakings	80,598	-
Trade payables	527	-
Accruals	176	-
Derivatives	-	62

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

Non-current derivative financial instruments

Please refer to Group Consolidated financial statements for the full disclosure on Non-current financial instruments in Note 11 and 12.

G. Called up share capital and other reserves

Share capital, denominated in Sterling, was as follows:

	2018 Number	2018 £000	2018 $000	2017 Number	2017 £000	2017 $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 2018 (2017: none). There were no treasury shares used in 2018 (2017: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2018 the market value of the treasury shares held was $0.2m (2017: $0.1m).

Other reserves

	Capital Redemption Reserve $000	Foreign Currency Translation reserve $000	Total $000
At 1 January 2018 and 31 December 2018	587	(1,090)	(503)

Capital redemption reserve relates to the buyback of shares in 2002, there have been no additional share buy-backs since this time.

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

Please refer to Group Consolidated financial statements for the full disclosure on share-based payments in Note 26.

Bonus scheme

The full details of the bonus performance criteria for senior employees and the bonus earned is explained in the Remuneration Report on pages 56 to 67.

I. Auditors' remuneration

	2018 $000	2017 $000
Audit services		
Fees payable to the Company's auditors for the audit of the parent company	30	42

J. Directors' remuneration

The remuneration of the Directors is disclosed in the audited section of the Remuneration Report on pages 56 to 67, which form part of these financial statements.

K. Dividends

No interim dividend was paid for 2018 (2017: nil). In respect of the full year 2018, the directors do not propose a final dividend (2017: 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:

	2018 $000	2017 $000
Within one year	313	332
In the second to fifth years inclusive	575	932
	888	1,264

M. Employees

There were no employees of the Company during the year (2017: 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
boe	Barrel of oil equivalent
boepd	Barrel of oil equivalent per day
bopd	Barrel of oil per day
GPF	Gas Processing Facility
HHN	HHE North Kft
Hryvnia	The lawful currency of Ukraine
HSECQ	Health, Safety, Environment, Community and Quality
KPI	Key Performance Indicator
LIBOR	London InterBank Offered Rate
LPG	Liquefied Petroleum Gas
LTI	Lost Time Injuries
Mbbl	Thousand barrels
Mboe	Thousand barrels of oil equivalent
Mcf	Thousand cubic feet
Mcm	Thousand cubic metres
MMcfd	Million cubic feet per day
MMbbl	Million barrels
MMboe	Million barrels of oil equivalent
MMcm	Million cubic metres
PPC	Poltava Petroleum Company
Roubles	The lawful currency of Russia
RR	Russian Roubles
sq. km	Square kilometre
TD	Total depth
$	United States Dollars
UAH	Ukrainian Hryvnia
US	United States
VAT	Value Added Tax
YGE	Yuzhgazenergie LLC

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

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