JKX Oil & Gas plc

2019

Annual Report

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STRATEGIC REPORT

How we performed this year

Update:

2019 was another year of achievement for JKX. Strong production results allowed us to again report healthy profit and cash flow generation despite the much weaker gas sales prices in Ukraine. We continued our field development in Ukraine and completed our workover programme in Russia. The Group is now debt free.

Revenue

$101.7m

2018: $92.9m

Profit from operations before exceptional items*

$23.1m

2018: $20.7m

Profit for the year

$22.2m

2018: $15.3m

Cash generated from continuing operations

$41.4m

2018: $37.3m

Cash flow used in investing activities

$26.5m

2018: $12.8m

Total year-end cash

$20.6m

2018: $19.2m

Outlook:

- Assets continue to generate positive cash flow despite recent oil and gas market turbulence.
- In Ukraine we are continuing our field development activities while also monitoring new opportunities.
- We expect final decisions on most of the outstanding tax claims in 2020 and 2021.

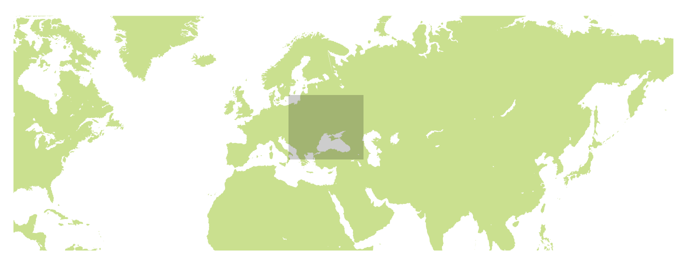
*See page 23 for exceptional items.

STRATEGIC REPORT

Our business

What we do

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



Where we operate

MOSCOW

Russia

KIEV

Ukraine

POLTAVA

Elyzavetivske

Novomykolaivske Complex

Koshekhablskoye

MAIKOP

Black Sea

Caspian Sea

Group statistics

	Ukraine	Russia	**Group***
Licences			
	1. Ignativske	1. Koshekhablskoye	**13 licences**
	2. Elyzavetivske		
	3. Rudenkivske		
	4. Novomykolaivske		
	5. Movchanivske		
	6. Zaplavska		
Total licence area, sq. km	405	33	**638**
Stage			
	Exploration Appraisal Development Production	Appraisal Development Production	**Exploration** **Appraisal** **Development** **Production**
Production			
2019 Gas production, Mcmd	769	867	**1,637**
2019 Oil production, bopd	1,058	59	**1,118**
2019 total production, boepd	5,584	5,158	**10,748**
Reserves			
2P reserves, MMboe	23.4	61.0	**84.4**
3P reserves, MMboe	36.6	103.7	**140.3**
2C resources, MMboe	66.9	39.1	**106**
Staff	363	203	**574**

*Includes Hungary.

STRATEGIC REPORT
Chairman's statement

I am pleased to be writing to you for the first time as Chairman of your Company, following my appointment in September 2019.

Before discussing the outcome of the 2019 financial year I would like to recognise the challenges that we are currently facing as a result of the Covid-19 pandemic impacting the countries in which we operate. I am pleased that we have been able to take proactive measures to protect our staff, contractors, suppliers and the communities in which we operate as well as increasing the resilience of our business. Further details of our response are set out in the risk section of this report. My thoughts are with all those impacted in this difficult time.

Turning then to the Group's financial performance in 2019, as our newly appointed Chief Executive Officer, Victor Gladun, remarks in his own report the results for the full 2019 year show it to have been another successful year. There has been positive progress in many key areas including operations (production volumes increased by 20% over 2018), finance (profitability increased by over 10% compared to 2018) and portfolio rationalisation. As a consequence the Company's financial position has been further strengthened and it is now debt free, having benefitted from both improved cost control and increased production volumes and is reporting its second consecutive year of profit.

The Board continues to focus on the key areas identified in 2018 and 2019 that will be fundamental to the Company's future success:

- 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 and keeping tight control over cost; and
- Resolving outstanding tax issues.

The new Board, appointed following the 2019 Annual General Meeting, consists of a diverse selection of experienced oil and gas industry professionals expert in the Group's key focus areas. This new team has taken the months following its appointment to review the company's business, to engage with its staff and to visit its operations in Russia and Ukraine. We have been impressed by the quality and commitment exhibited, traits that will be key to your company's future successes.

Outlook

The Board and management will continue to devote their full attention to our core assets. In addition the Board will actively review material opportunities in our key focus areas where we can leverage our excellent financial and operational performance in order to obtain access to interesting prospects.

As part of this strategy we have already disposed of the Group's Hungarian assets that were considered to be a distraction from the company's core areas of expertise.

Clearly recent developments in the commodities' markets are a significant and growing challenge, not just to those involved in the upstream sector, but to all involved in international business. Additionally, while our assets are robust and strongly cash generative, the situation regarding Covid-19 and its potential impact on the global economy and our operations remains uncertain and is rapidly changing. We continue to monitor the impact of these developments on our industry, our operations and - most importantly - our staff and contractors.

During 2020 the Board will seek to foster an active and open communication with all our shareholders in order to explain its strategy and to discuss any concerns that they may have in order to ensure that all decisions are taken in the best interests of the Company as a whole.

People

I am happy to report that our HSE performance in 2019 has been excellent, with no significant incidents recorded.

I also take this opportunity to welcome the appointment of Victor Gladun as CEO and more recently Dmitriy Poddubnyy as CFO. With their experience of successfully managing our major operating subsidiary and the Group more generally I am sure that they will bring renewed focus to the senior executive team. I would like to thank JKX's staff for ensuring continuity and smooth operations and in particular our outgoing CFO, Ben Fraser, for his commitment and hard work over the last three years.

Whilst significant challenges remain, such as the new reality of lower gas prices, international disruption driven by health concerns, technical difficulties in the field and the historical tax cases (where we have had a number of successes this year) I remain optimistic about the Company, whilst being realistic about the challenges that it continues to face.

Charles Valceschini
Chairman

STRATEGIC REPORT

Chief Executive's statement

2019 was another year of achievement for JKX. Despite the collapse in commodity prices our strong production results allowed us to report healthy profit and cash flow for the second year in a row. The Group is now debt free.

Before discussing our performance in the 2019 financial year I would like to recognise the steps that are being taken by all our staff to keep their colleagues safe and the business running despite the challenges presented by the current Covid-19 pandemic. We have implemented a range of pre-emptive measures, further discussed in the risk section of this report, in recognition of the fact that our people remain our greatest asset and their continuing health our priority.

Our performance

Strong production performance has enabled us to deliver positive financial performance despite the significantly lower gas price that we have experienced in our Ukrainian market where pricing is unregulated and follows international trends. Our Group revenue has exceeded $100m for the first time since 2014 (2019: $102m, 2018: $93m) and our operational profit before exceptional items is up by over 10% year on year (2019: $23.1m, 2018: $20.7m).

Our operations

In both Ukraine and Russia we have kept our focus on operational risk management developing existing fields step by step with proven, low risk technology. Overall our fields have delivered a 20% year on year increase in Group annual production (2019: 10,748 boepd, 2018: 8,937 boepd).

This increase was underpinned by a more than 50% increase in annual production in Ukraine (2019: 5,584 boepd, 2018: 3,677 boepd) where we continue to enjoy the results of the field development plan we have been executing since late 2018. In 2019 our Ukrainian subsidiary drilled 4 new wells and completed 19 workovers as well as completing a 3D seismic survey in West Mashivska. The continuous use of the same low cost rig sourced from a local contractor for most of the drilling has meant that we have enjoyed improvements in operational performance, and the securing of a second rig with greater capacity allowed us to begin more technically challenging drilling in Rudenkivske in the third quarter of 2019.

Meanwhile in Russia we have managed to maintain production at previous levels (2019: 5,158 boepd, 2018: 5,169 boepd) while at the same time completing the successful workover of two wells using a contracted rig selected by tender in 2018. The addition of these two wells to the producing well stock more than offset the production lost due to the continuing decline of Well 20.

I am pleased to report that in early March 2020 we have agreed a sale of our Hungarian business, which was non-producing, for expected consideration of approximately $2.9m, and that we expect this disposal to be finalised shortly.

Our financial stability
The Group's financial strength has been improved by both the paying down of long term debt and by the reduction in the level of provisions maintained for the outstanding legal cases.

Thanks to the cash generated by our operations we have in February 2019 and February 2020 made the final payments to our bondholders (capital repaid 2019: $5.4m, capital repaid 2020: $5.4m). The Group is now debt free for the first time in ten years.

We have continued our efforts to resolve the long outstanding tax issues that the company has faced and I am pleased to report that four of the eight cases relating to claims for underpayment of rental fees for 2015 made against our Ukrainian subsidiary PPC have now been closed in our favour. This has allowed us to reverse the provisions in our accounts for these four cases. We are continuing to defend our position in the courts in relation to the remaining 2015 rental fee claims and are still awaiting a final ruling from the Supreme Court in relation to a claim for disputed rental fees for 2010.

During 2019 we successfully filed an application for recognition in the Ukrainian courts of an award made to JKX of approximately $12.1m made by the Hague international tribunal and in 2020 we continue to carry out the appropriate procedures for the collection of this award.

Managing our risks
The maintenance of an adequate internal control framework and appropriate risk management are essential to our success. Policies and procedures that have been implemented across the Group are subject to annual review to ensure that they remain appropriate and fit for purpose.

Geological and operational risks are intrinsic to our business. We seek to maintain and improve our internal expertise and supplement this with the use of appropriate contractors and specialists to mitigate these risks. In 2019 we enjoyed predominantly positive results from our new wells and workovers but we know that this cannot be taken for granted and we continue to take a measured approach using proven, low risk technology and diversifying our geological risk across different targets.

During 2019 we have, of course, seen a significant fall in the gas price in Ukraine, in line with the rest of Europe, and at the time of writing there is considerable turbulence in the financial and commodities' markets. We have to remain focussed on control of operational and administrative costs and, as we continue development of our fields in Ukraine, we perform regular economic analysis of our planned capital projects to ensure that profitability is central to our decision making.

In recent weeks we have also seen the escalation of the Covid-19 pandemic globally. Whilst our operations have to date seen little impact we are focused on implementing measures to ensure the safety of our people and contractors and prepare the business to face potential challenges that may emerge. Further details are set out in section 'Principle risks and how we manage them' on pages 30-39.

Outlook
The well workover programme in Russia has been successfully completed meaning that our operations there, with increased profitability and free from further workover capex requirements in the short term, can contribute more positive cash flow to the Group. In addition to this, the agreement of the disposal of the Hungarian assets has allowed management to focus in 2020 on Ukraine where we are engaged in both further development of our existing assets and monitoring of new opportunities.

While I recognise the challenges we face, including the emerging challenges that Covid-19 may present against a backdrop of uncertainty in the oil and gas markets, I take confidence from the talents and continued dedication of our staff and our improved financial strength. I am optimistic about the ability of the Company to prosper and would like to assure all shareholders that the Board and management remain committed to continuing to deliver production growth combined with positive financial results.

Victor Gladun
Director
Chief Executive Officer

STRATEGIC REPORT

Market overview - Ukraine

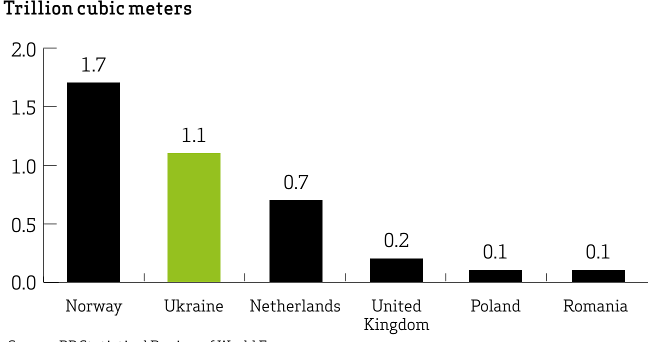
Why are we here?

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.

Reserves
Ukraine holds 1.1 trillion cubic metres (37 trillion cubic feet) of proven gas reserves - the second largest proven reserves in Europe. JKX's expertise in this market, gained through more than 25 years of successful business in the Ukraine, leaves us well placed to take advantage of the emerging investment opportunities. The company is considering the acquisition of new licences.

Total proven gas reserves in Europe



Source: BP Statistical Review of World Energy

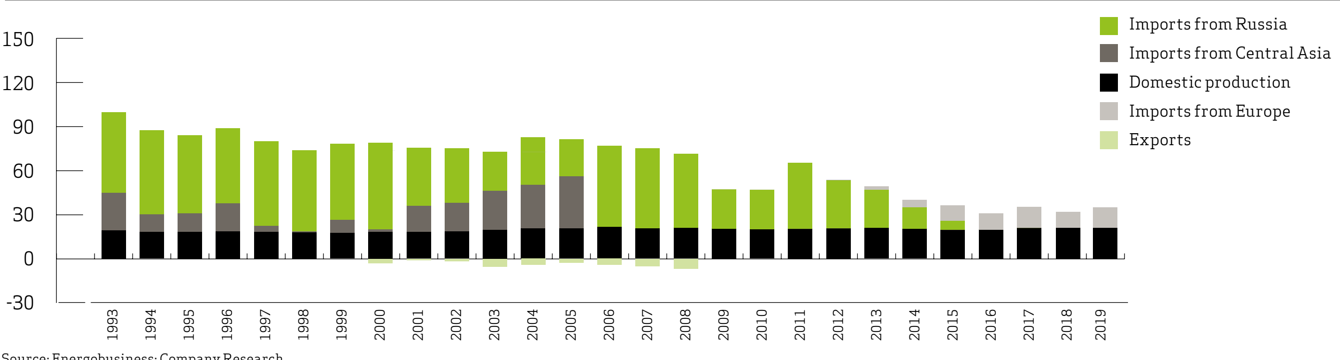
Regulatory and investment climate
Applicable rental fees for new wells are 12% for those less than 5,000 metres and 6% for those deeper than 5,000 metres.

The investment climate in Ukraine's gas production sector is favourable. The government has announced an "Open Door Policy for Investors". The State Geologic and Subsoil Survey of Ukraine is focussed on making processes more efficient, treating all subsoil users fairly and attracting new investment into the sector.

Access to geologic data has been improved. A transparent process for electronic auctioning of oil and gas field licences is in place and there is the opportunity to invest in Production Sharing Agreements (PSA). In 2019, 19 licences were sold via electronic auction and 9 PSA tenders were concluded and similar opportunities are available in 2020.

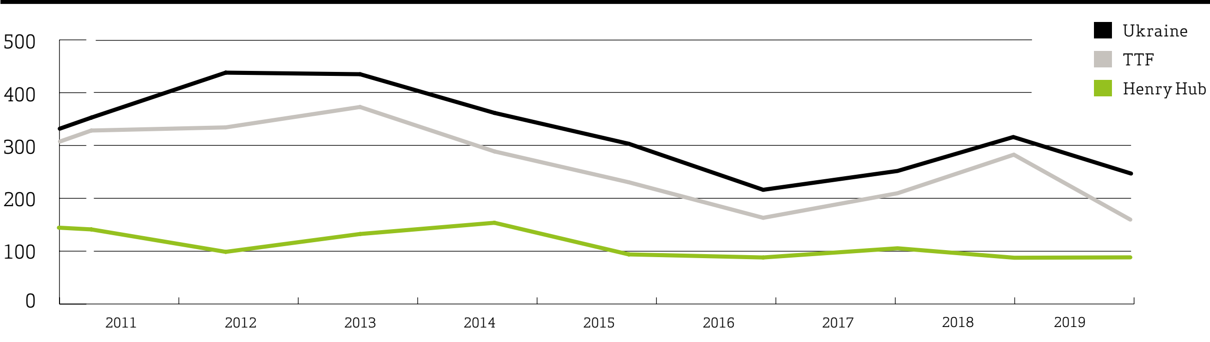
Ukraine has completed "unbundling" the national oil & gas company Naftogaz, which is an important step towards further transparency and liberalization of the gas market. Under the new transit agreement concluded between Ukraine and Russia, gas transmission entry tariffs are not expected to increase for domestic gas producers.

Ukraine's gas balance 1991-2019 (bcm)



Source: Energobusiness; Company Research.

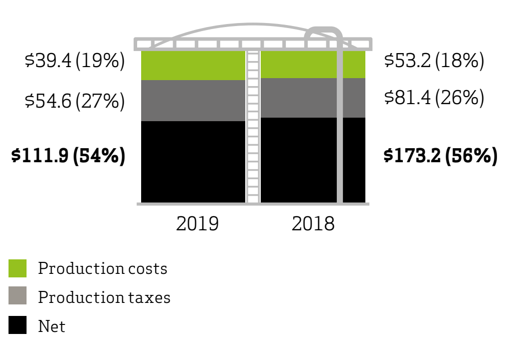
Ukraine's gas price premium ($/Mcm)



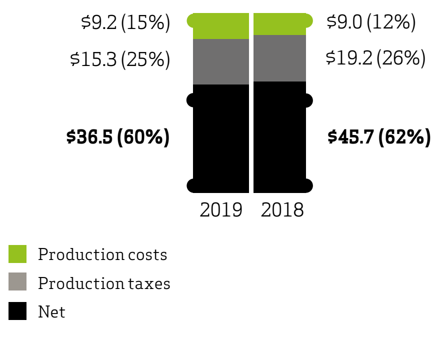
Source: Company Research.

Netback

Netback analysis of gas sales (at $206.0/Mcm in 2019 and $307.8/Mcm in 2018)



Netback analysis of oil sales (at $61.0/bbl in 2019 and $74.0/bbl in 2018)



Principal risks associated with our business in Ukraine (detail on pages 30-39)

- 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 license and GPF, which are 45km from our Novomykolaivske Complex, began commercial production in 2014. The field currently produces from ten wells.

Ukrainian reserves
At the end of 2019, our 2P reserves in Ukraine comprised 3,061 MMcm of gas and 2.1 MMbbl of oil (total 23.4 MMboe including 3.2 MMboe of LPG).

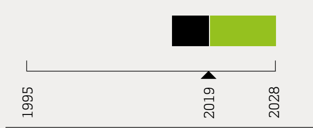
Project life cycle

Novomykolaivske Complex

25 years
of commercial production to date

Elyzavetivske field

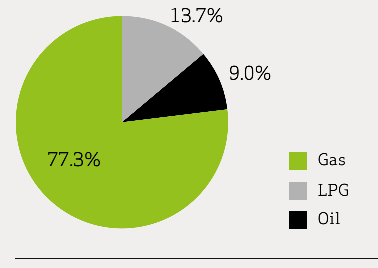
6 years
of commercial production to date



Reserves

Reserves split

77.3% 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. According to the latest forecast by the Russian Ministry of Economic Development, gas prices are expected to continue rising steadily in the next 5 years. We remain committed to increasing 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 than 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.

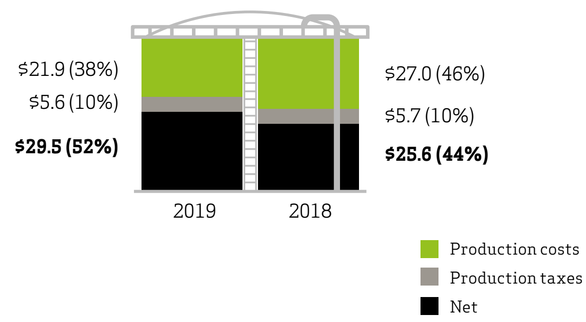
Notwithstanding our access to some of the highest regional gas prices in Russia, we continue to seek opportunities to increase gas sales margins, particularly by direct gas sales to end users. In the longer term we remain extremely well placed for any liberalisation of the gas market in Russia.

Regulated gas pricing by region (RUB/Mcm)

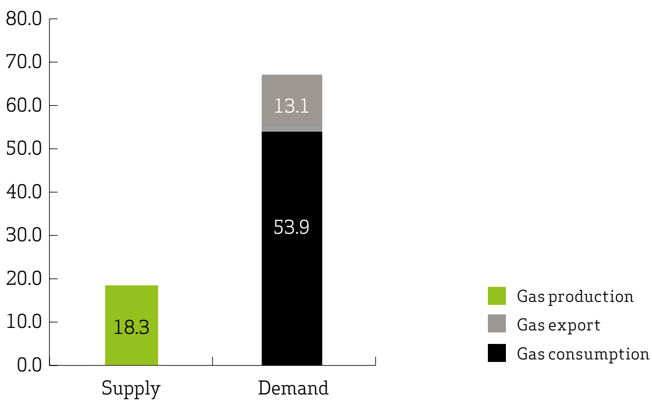
Region	Residential price	Industrial price
YaNAO	2609	2610
KhMAO	3049	3071
Chelyabinsk	3651	4059
Samara	3702	4272
Moscow	3807	4760
Adygeya	**3858**	**4859**

Netback

Netback analysis of gas sales (at $57.0/Mcm in 2019 and $58.3/Mcm in 2018)



Southern Russia gas supply and demand (Bcm)



Source: Company Research.

JKX's assets in Russia

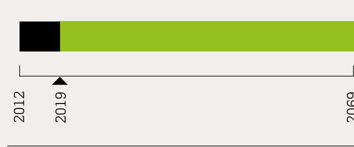
Koshekhablskoye field
Koshekhablskoye gas field is located in the Republic of Adygea, southern Russia where gas resource is scarce, and there are high transportation costs from Russia's main gas production area in the far north, some 4,000 km away.

Russian reserves
At the end of 2019, our 2P reserves in Russia comprised of 10,246 MMcm of gas and 0.7 MMbbl of oil (total 61.0 MMboe).

Koshekhablskoye project life cycle

Total project life cycle

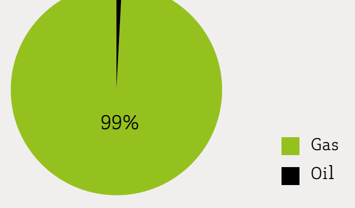
7 years
of commercial production to date



Reserves

Reserves split

99% gas



Principal risks associated with our business in Russia (detail on pages 30-39)

Geopolitical and fiscal risks

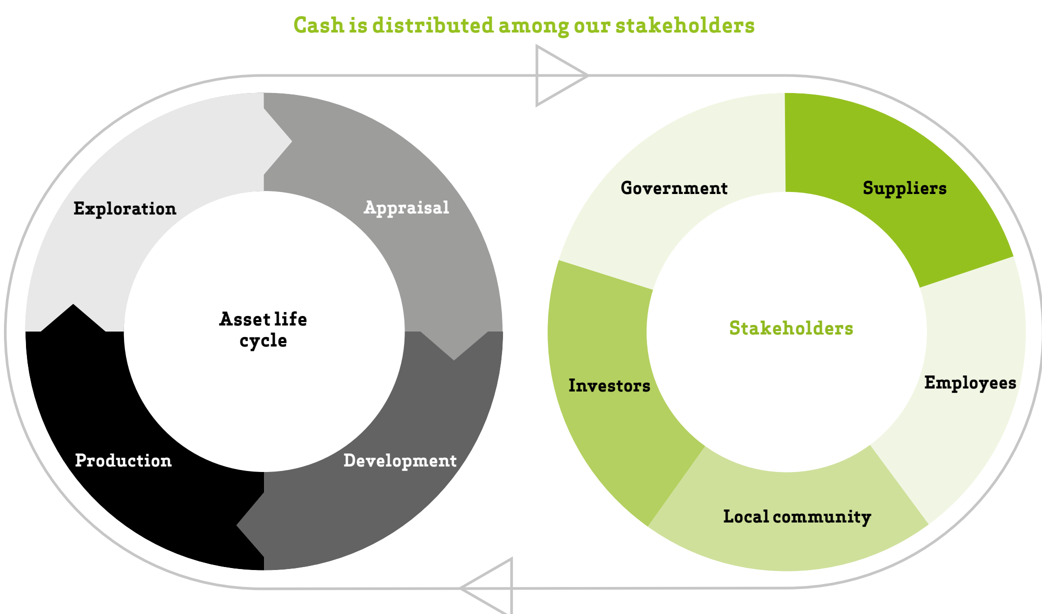
Reservoir and operational performance

STRATEGIC REPORT

Our business model

We strive to create value for 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 Ukraine and Russia.
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 the 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, and aim to realize attractive return on investments while adhering to our commitments.

STRATEGIC REPORT

2020 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 maintaining 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

2020 Strategic priorities

Strategic priority

1 Financial and operational stability

Key targets 2020

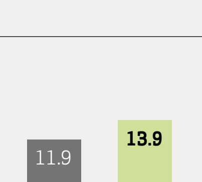
- Growing our liquidity reserve through maximizing the cash flow and access to external funding
- Maintaining strong and stable governance
- Focus on low-risk investments and use of proven technologies
- Resolution of most of the outstanding rental fee claim cases

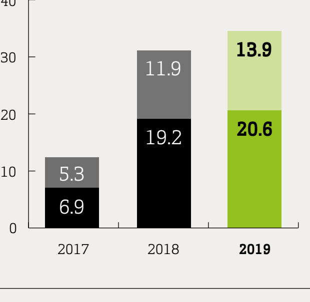
Performance to date

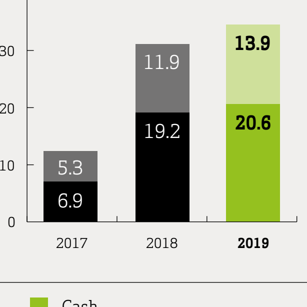
Operating cash flow from continuing operations, $million

50
40
30
20
10
0
14.2
37.3
41.4
2017
2018
2019

Liquidity (cash and available facilities), $million







Cash
Facilities

Associated principal risks

(detail on pages 30 to 39)

Risk	
Liquidity, funding, and portfolio management	A
Financial discipline and governance	D

Strategic priority

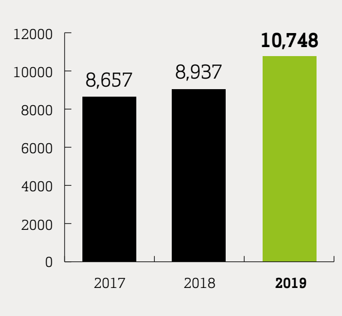
2 Profitable production growth

Key targets 2020

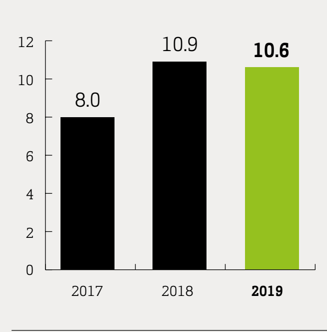
- Continue implementing five year development plan in Ukraine
- Maintain production and positive cash flow generation
- Review other growth opportunities in Ukraine

Performance to date

Production volumes, boepd



EBITDA $per boe



EBITDA is defined on page 21

Associated principal risks

(detail on page 30 to 39)

Risk	
Geopolitical and fiscal risks	B
Reservoir and operational performance	C
Commodity prices and FX fluctuation	H

Strategic priority

Operating safely and responsibly

Key targets 2020

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

Performance to date

	2017	2018	2019
Fatalities	0	1	0
All Injury Frequency Rate ('AIFR')	0	0.19	0
Lost Time Injury ('LTI') cases	0	0	0
Environmental Incident Frequency Rate ('EIFR')	0.32	0.59	0.07

Associated principal risks

(detail on page 30 to 39)

Health, Safety, and Environment

Major breach of business, ethical, or compliance standards

STRATEGIC REPORT

Operations review

Group production

In 2019 group average production was 10,748 boepd (2018: 8,937 boepd), an overall increase in production of 20%. The increase in production year-on-year was a result of the ongoing drilling and workover programme in Ukraine.

Group production

	boepd		Workovers*		Sidetracks		New wells	
Cash generating unit	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Novomykolaivske complex	**4,127**	2,414	**17**	18	**0**	2	**2**	0
Elyzavetivske licence	**1,457**	1,263	**2**	2	**0**	0	**2**	1
Total Ukraine	**5,584**	3,677	**19**	20	**0**	2	**4**	1
Russia	**5,158**	5,169	**2**	0	**0**	0	**0**	0
Hungary	**6**	91	**0**	0	**0**	0	**0**	0
Total Group	**10,748**	8,937	**21**	20	**0**	2	**4**	1

*Includes abandonments.

Gas and oil production increased year-on-year in both cash generating units in Ukraine and stayed flat in Russia.

	Gas, Mcmd		Oil, bopd		boepd	
Cash generating unit	**2019**	2018	**2019**	2018	**2019**	2018
Novomykolaivske complex	**527**	286	**1,025**	731	**4,127**	2,414
Elyzavetivske licence	**242**	211	**33**	20	**1,457**	1,263
Total Ukraine	**769**	497	**1,058**	751	**5,584**	3,677
Russia	**867**	868	**59**	58	**5,158**	5,169
Hungary	**1**	14	**1**	7	**6**	91
Total Group	**1,637**	1,379	**1,118**	816	**10,748**	8,937

Ukraine

Novomykolaivske complex production and operations

	boepd		Workovers		Sidetracks		New wells	
Field name	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Ignativske	**3,069**	1,395	**7**	6	**0**	1	**1**	0
Molchanivske	**355**	346	**5**	2	**0**	1	**0**	0
Novomykolaivske	**398**	286	**1**	2	**0**	0	**1**	0
Rudenkivske	**305**	387	**4**	8	**0**	0	**0**	0
Novomykolaivske complex	**4,127**	2,414	**17**	18	**0**	2	**2**	0

The increase in Novomykolaivske complex production year-on-year was mostly attributed to production from the IG103 sidetrack drilled at the end of 2018 and a new well, IG142, drilled in 2019 in the Ignativske field. The increase in oil production in the Novmykolaivske complex was mostly attributed to a new well, NN81, drilled in the Novomykolaiske field.

Outlook
Following the success of IG103 sidetrack and IG142 in the Devonian reservoir of the Ignativske field there are follow-up wells planned to this reservoir in 2020. One of these is a new well, IG143, which is targeting a separate fault block to the west of IG103 ST.

Following the success of NN81 in 2019 finding a new oil reservoir in the V16 there are follow-up wells planned to target the V16 both in the Ignativske and Novomykolaivske licenses.

In Rudenkivske, the completion of R101 sidetrack is on-going and is expected to be completed in April 2020. Meanwhile a subsurface study is being carried out by an external contractor in order to refine the field development plan for the Devonian in Rudenkivkse. Once this study is complete in Q2 2020 the results will be used to plan a well to the Devonian in Rudenkivske.

Elyzavetivske licence production and operations

	boepd		Workovers		New wells	
Field name	**2019**	2018	**2019**	2018	**2019**	2018
Elyzavetivske	**996**	1,177	**0**	1	**0**	1
West Mashivska	**462**	86	**2**	1	**2**	0
Elyzavetivske Licence	**1,458**	1,263	**2**	2	**2**	1

The increase in production from the Elyzavetivske license was mainly the result of the successful completion of the first new well in the West Mashivske field, WM3 which is producing from the A8 reservoir. A second well in the West Mashivske field was also completed and is producing from the G8 reservoir.

Outlook
In 2020 methods of increasing production from the G8 in WM4 will be investigated. Compression is also being investigated for the Elizavetivske plant which would benefit both the wells in the Elizavetivske and West Mashivske fields.

Further subsurface work will be carried out in order to determine whether there are any opportunities for further drilling in the West Mashivske field.

Russia

Koshekhablskoye licence production and operations

	boepd		Workovers	
Well name	**2019**	2018	**2019**	2018
Well 5	**263**	0	**1**	0
Well 18	**78**	0	**1**	0
Well 20	**1,353**	1,733	**0**	0
Well 25	**1,735**	1,693	**0**	0
Well 27	**1,672**	1,665	**0**	0
Koshekhablskoye field*	**5,158**	5,169	**2**	0

*Includes Well 15 production.

In 2019 both Well 5 and Well 18 were successfully worked over and sidetracked. Well 5 production was significantly less than expected whereas production from Well 18 met expectations after only one acid job. The rig has since been demobilised.

STRATEGIC REPORT

Reserves update

JKX was audited by RPS Energy Consultants Ltd. ("RPS") in accordance with the SPE Petroleum Resources Management System ("PRMS") 2018 for the 2019 annual report, effective date 31st December 2019.

The tables below give the 2P Reserves reported by RPS as a result of the audit. The most significant change is in Russia and is due to the lower than expected production rate of Well 5. LPG has been included this year for the first time due to a change of reference point.

The methodology followed for the audit was to estimate Hydrocarbons Initially in Place (HIIP) only for reservoirs with significant future development plans. For the remainder of the fields where there was no significant future development planned, Reserves were estimated using decline curve analysis.

The evaluation of Hungary was not included in the RPS audit. The year-end 2018 reserves were updated internally. JKX working interest for all licenses in Ukraine and Russia is 100%.

Total remaining 2P reserves at 31 December 2019

	31-Dec-18	Revisions	Production	31-Dec-19
Total				
Oil (MMbbl)	3.2	0.0	(0.4)	**2.8**
Gas (MMcm)	15,415	(1,510)	(597)*	**13,308**
LPG (MMbbl)	-	3.2	-	**3.2**
Oil + Gas + LPG (MMboe)	93.9	(5.7)	(3.9)	**84.4**
Ukraine				
Oil (MMbbl)	2.5	0.0	(0.4)	**2.1**
Gas MMcm	3,676	(334)	(281)	**3,061**
LPG (MMbbl)	-	3.2	-	**3.2**
Oil + Gas + LPG (MMboe)	24.2	1.2	(2.0)	**23.4**
Russia				
Oil (MMbbl)	0.7	0.0	(0.0)	**0.7**
Gas (MMcm)	11,740	(1,177)	(316)	**10,247**
Oil + Gas (MMboe)	69.8	(6.9)	(1.9)	**61.0**

*0.4 MMcm produced in Hungary. Note there are minor difference in the tables due to rounding effects.

Field-by-Field 2P reserves at 31 December 2019

MMboe	Dec-18	Revisions	Production	Dec-19
Ukraine				
Ignativske	5.2	(0.5)	(1.1)	**3.6**
Movchanivske	0.5	0.2	(0.1)	**0.6**
Novomykolaivske	0.8	0.3	(0.1)	**0.9**
Rudenkivske	15.2	(1.7)	(0.1)	**13.4**
Zaplavska LPG Novomykolaivske complex	-	3.2	-	**3.2**
Sub-total Novomykolaivske complex licences	21.7	1.5	(1.5)	**21.7**
Elyzavetivske	2.5	(0.3)	(0.5)	**1.7**
Total Ukraine	24.2	1.2	(2.0)	**23.4**
Russia				
Koshekhablskoye	69.8	(6.9)	(1.9)	**61.0**
Total	93.9	(5.7)	(3.9)	**84.4**

Reserves reported gross of royalties and includes fuel gas (Novomykolaivske -1.8 MMboe (298 MMcm), Elyzavetivske - 0.1 MMboe (17 MMcm) and Koshekhabslskoye - 2.5 MMboe (425 MMcm))

JKX contingent resources

RPS estimated contingent resources for the reservoirs and fields listed below.

			MMboe	
Field	Reservoir	1C (low)	2C (best)	3C (high)
Ignativske	V16	0.0	0.3	1.3
Movchanivske	Mol Main Devonian	0.0	0.0	0.6
Novomykolaivske	V15	0.2	0.3	0.5
	V16	0.0	0.1	0.6
Rudenkivske	Visean sands	0.2	4.1	15.3
	Tournaisian Clastics	11.8	26.2	49.9
	Devonian Clastics	17.1	32.6	60.5
West Mashivska	A1+A2	0.1	0.3	0.5
	A8	0.5	1.0	2.0
	G8	0.9	2.0	3.7
Koshekhablskoye	Oxfordian	6.3	4.5	0.0
	Callovian I-IV	12.9	28.5	54.5
	Callovian V-VI	2.8	6.2	11.8

STRATEGIC REPORT

Performance in 2019

OPERATING RESULTS	Total 2019 $m	Second half 2019 $m	First half 2019 $m	Total 2018 $m
Revenue				
Oil	25	15.2	9.8	20.0
Gas	69	36.5	32.5	66.4
Liquefied petroleum gas	6.6	3.7	2.9	5.6
Other	1.1	1.0	0.1	0.9
	101.7	56.4	45.3	92.9
Cost of sales				
Exceptional item – production based taxes	8.4	10.7	(2.3)	(5.1)
Other production based taxes	(23.5)	(10.8)	(12.7)	(21.9)
Depreciation, depletion and amortisation - oil and gas assets	(18.5)	(9.6)	(8.9)	(14.8)
Other cost of sales	(22.8)	(13.9)	(8.9)	(20.7)
Total cost of sales	(56.4)	(23.6)	(32.8)	(62.5)
Gross profit	45.4	32.8	12.5	30.3
Administrative expenses	(13.2)	(7.5)	(5.7)	(13.9)
(Loss)/gain on foreign exchange	(0.6)	(0.3)	(0.3)	(0.7)
Profit from operations before exceptional items	23.1	14.2	8.9	20.7
Profit from operations after exceptional items	31.6	25.0	6.6	15.7

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

EARNINGS	Total 2019	Second half 2019	First half 2019	Total 2018
Profit before tax	30.4	24.4	6.0	14.0
Net Profit ($m)	22.2	20.0	2.2	15.3
Net profit before exceptional items ($m)	13.2	9.4	3.8	18.6
Basic weighted average number of shares in issue (m)	168.1	169.5	166.7	166.7
Profit per share after exceptional item (basic, cents)	7.88	6.56	1.32	11.13
Pre-exceptional earnings before interest, tax, depreciation and amortisation ($m)[1]	42.3	24.1	18.2	35.5

COSTS OF PRODUCTION ($/boe)	Total 2019	Second half 2019	First half 2019	Total 2018
Operating costs (excluding exceptional item)	5.8	6.7	5.9	6.4
Depreciation, depletion and amortisation	4.8	4.7	4.9	4.6
Production based taxes	6.0	5.2	6.9	6.8

CASH FLOW	Total 2019	Second half 2019	First half 2019	Total 2018
Cash generated from continuing operations ($m)	41.4	29.2	12.2	37.3
Operating cash flow per share (cents)	24.6	17.3	7.3	22.4

STATEMENT OF FINANCIAL POSITION	At 31 December 2019		At 30 June 2019	At 31 December 2018
Total cash[2] ($m)	20.6		10.6	19.2
Borrowings (excluding derivatives) ($m)	(5.7)		(5.6)	(11.0)
Net cash/(debt)[3] ($m)	14.9		5	8.2
Net cash/(debt) to equity (%)	8.0		3.2	5.8
Return on average capital employed (%)[4]	14.4		2.9	8.2
Increase in property, plant and equipment/ intangible assets ($m)				
Ukraine	20.5	12.7	7.8	11.1
Russia	8.9	5.9	3	0.7
Total	29.4	18.6	10.8	11.8

1 Earnings before interest, tax, profit and amortisation ('EBITDA') is a non-IFRS measure and calculated using profit from operations adding back depletion, depreciation, amortisation. EBITDA is an indicator of the Group's ability to generate operating cash flow that can fund its working capital needs, service debt obligations and fund capital expenditures.

2 Total cash is cash and cash equivalents from continuing operations.

3 Net debt is total cash less borrowings (excluding derivatives).

4 Return on average capital employed is the annualised profit for the period divided by average capital employed.

STRATEGIC REPORT

Financial review

Ben Fraser
Chief Financial Officer

2019's strong operating cash flows have allowed us to pay off our outstanding bonds in February 2020, thus making us debt free - a very important milestone for us as we continue to work to improve the Group's balance sheet.

Group revenues*

9.5%

	2019 ($m)	2018 ($m)	Change ($m)	% Change
Ukraine	**84.3**	**74.9**	**9.4**	**12.6%**
Gas	52.3	49.2	3.1	6.3%
Oil	24.3	19.3	5	25.9%
Liquefied Petroleum Gas ('LPG')	6.6	5.6	1.0	17.9%
Other	1.1	0.8	0.3	37.5%
Russia	**17.4**	**17.8**	**(0.4)**	**(2.2%)**
Gas	16.7	17.2	(0.5)	(2.9%)
Condensate	0.7	0.6	0.1	6.7%
Other	-	0.2	(0.2)	N/A
Total	**101.7**	**92.9**	**8.8**	**9.5%**

*note this excludes Hungary that is presented as a discontinued operation in the financial statements.

Sales prices

	2019	2018	Change	% Change
Ukraine				
Gas ($/Mcm)	**206**	308	(102)	(33%)
Oil ($/bbl)	**61**	74	(13)	(18%)
LPG ($/tonne)	**449**	544	(95)	(17%)
Russia				
Gas ($/Mcm)	**57**	58	(1)	(2%)

Average exchange rates

	2019	2018	Change	% Change
Russia (RUB/$)	**64.6**	62.9	(1.7)	(2.7)
Ukraine (UAH/$)	**25.8**	27.2	1.4	5.1

Results for the year

2019 was another profitable year for the Group. We are pleased to report profit before tax of $30.4m which compares favourably to the profit $14.0m reported for 2018. Results for both years include net movements in respect of provisions for disputed rental fees for 2010 and 2015 in Ukraine (credit of $8.4m in 2019 and charge of $5.1m in 2018).

Total revenue for 2019 is $101.7m, 9.5% higher than the $92.9m reported in 2018 and above $100m for the first time since 2014. This was achieved despite the 33% lower gas sales prices in Ukraine thanks to the increase in total average daily Group production from 8,937 boepd in 2018 to 10,748 boepd in 2019.

We generated significant EBITDA at the same time as continuing to make substantial investment in the fields in Ukraine and Russia.

2019's strong operating cash flows have allowed us to pay off our outstanding bonds in February 2020, thus making us debt free - a very important milestone for us as we continue to work to improve the Group's balance sheet.

Ukraine revenues
The $9.4m increase in total revenues was due to higher sales volumes offset by lower sales prices, as shown in the table.

The average gas sales price in dollar terms was 33.1% lower in 2019 than in 2018. This is in line with international market trends. Total gas sales volumes increased by 58% from 159,887 Mcm in 2018 to 257,030 Mcm in 2019, primarily due to the gas production volume having increased 54.9% from 181,482 Mcm in 2018 to 280,673 Mcm in 2019. The increase in production was a result of the on-going drilling and workover activity started in 2018 and continued throughout 2019. For more detail please refer to the Regional operations' update.

The average oil sales price decreased from $74/bbl in 2018 to $61/bbl in 2019 and total oil sales volumes for the year increased 46.2% from 261,420 barrels in 2018 to 382,200 barrels in 2019. Oil production volume increased 36.3% from 274,087 barrels in 2018 to 373,616 barrels in 2019.

LPG sales volumes were 10,294 tonnes in 2018 compared to 13,636 tonnes in 2019, with sales prices being lower in 2019 ($449/tonne in 2019 compared to $544/tonne in 2018).

Inventory held at 31 December 2019 (14 million cubic metres of gas and 27 thousand barrels of oil) had an estimated sales value of $4.1m using average sales prices for December 2019.

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
Total revenues in Russia were flat year-on-year as gas volumes were maintained at similar levels (2019: 314,446 Mcm, 2018:316,996 Mcm) despite the intensive workover programme. The benefit of the 1.4% increase in the average rouble gas sales price on 1 July 2019 was offset by the slightly weaker Rouble in 2019.

Cost of sales
Exceptional items relate to provisions for disputed rental fees. A release of $14.4m of provisions due to the closure of some of the 2015 rental fee claims in favour of our subsidiary was offset by an additional charge of $6.0m reflecting updated interest calculations in relation to the rental fee claims still provided for as set out in Note 18.

Cost of sales before exceptional items for 2019 totalled $64.8m (2018:$57.5m), including:

- $23.5m of production taxes, which were $1.7m higher than in 2018 due to the higher production taxes incurred in Ukraine (2019:$21.8m, 2018:$20.1m) where we had higher volumes. Only $1.8m of the total production taxes relate to Russia (2018: $1.8m) where the mineral extraction tax rate for wells deeper than 5,000m has remained at 340 Roubles/Mcm.
- $22.9m of operating costs, of which $14.7m relates to Ukraine (2018:$12.1m) and $7.0m relates to Russia (2018:$8.6m) and $0.6m relates to central costs. The increase in operating costs in Ukraine is mainly due to the introduction of the gas capacity fee (2019:$1.4m, 2018:nil) and the overall increase in field activity.
- $18.4m of depreciation, depletion and amortisation charge (2018:$14.7m) which is larger due to the higher production volumes and the recent higher levels of capital expenditure. Analysis showing production costs, production taxes and netbacks for both our Ukrainian and Russian operations is shown on pages 9 and10.

Administrative expenses
Administrative expenses were $13.2m in 2019, comparing favourably to those of $13.9m in 2018. The decrease is mainly due to staff cost reductions resulting from a right-sizing exercise carried out during 2018 and lower legal and professional fees. In the Company's London office we exited the long-term lease of one of the office floors in May 2019 and closed a data centre.

Finance income and costs
Finance costs decreased from $2.5m in 2018 to $2.1m in 2019. This mainly consists of the bond interest which reduced from $2.1m to $1.4m due to the repayment of principal outstanding in February 2019. Finance costs also includes unwinding of discount of provisions for site restoration of $0.6m (2018: $0.4m).

Finance income of $0.9m (2018: $0.9m) comprises income from bank deposits.

Taxation
The total tax charge for 2019 is $10.2m (2018: $2.2m) comprising a current tax charge of $6.6m (2018: $5.5m) which relates to Ukraine and a deferred tax charge of $3.6m (2018: credit $3.2m). The increase in current tax charge reflects a higher profitability in Ukraine. The deferred tax relates to movements in various deferred tax assets and liabilities in Ukraine and Russia as set out in Note 25 to the financial statements.

Discontinued operation
The discontinued operation is the Hungarian business. The related gain reported reflects both the running costs incurred during 2019 and the part reversal of a previous impairment charge following the sale of the business currently expected to be valued at approximately $2.9m that was agreed in March 2020.

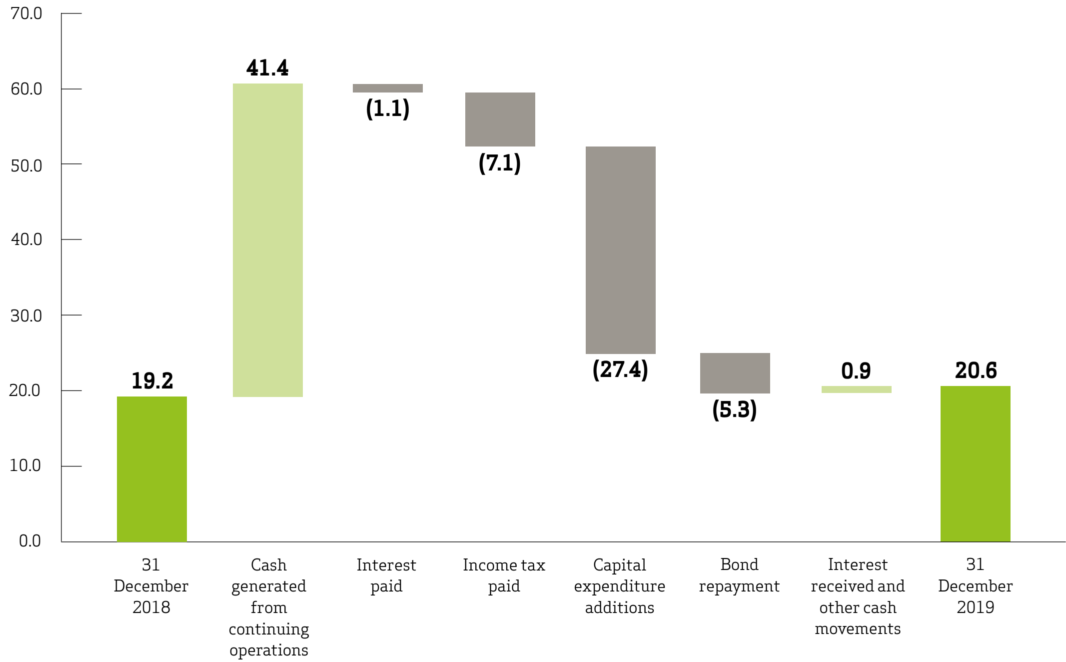
Capital Expenditure
We continue to balance the need to improve liquidity while also recognising the need for long-term investment. Of the $28.8m oil and gas capital expenditure incurred during the year (2018:$11.3m), $19.9m relates to Ukraine where field development continued as planned. $8.9m relates to Russia, where the well workover programme was completed.

Cash flows
During the year the Group's available cash balances in continuing operations remained approximately at the same level ($20.6m at 31 December 2019 compared to $19.2m at 31 December 2018) while at the same time decreasing its borrowings from $11.0m to $5.7m and investing significant capital expenditure in our operations in 2019. This was achieved as a result of strong operating cash flow of $41.4m (2018:$37.3m) from continuing operations, almost all of it generated in Ukraine. Use of cash during the year is as shown in the cash bridge on the next page. Net cash outflow from financing activities in the period mainly relates to the $5.3m payment to the bondholders in February 2019. No dividends were paid to shareholders in the period (2018: nil).

STRATEGIC REPORT

Financial review

Cash flows ($m)



Liquidity outlook

After a final payment of $5.8m to bond holders in February 2020 the Group is now debt free. Our subsidiary in Ukraine still has a 24 month UAH280m ($11.8m) revolving credit line and a UAH50m ($2.1m) overdraft facility with Tascombank, neither of which are currently being used and can be drawn down subject to credit approvals by the bank. Both facilities have been renewed until December 2021 and can be drawn down subject to credit approvals by the bank. In addition to 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 term.

We continue to maintain provisions in respect of 2010 and 2015 rental fee claims ($15.9m and $25.4m respectively). While we still wait for 2010 case resolution, there has been progress with some of the 2015 cases with four having been closed in our favour. The provision has been adjusted accordingly with a $14.4m release offsetting the increase in provision due to interest calculation (see Note 18 to the consolidated financial statements for detail). The Group's expectation is that a final hearing with respect to the 2010 rental fee claim will take place in 2020 and the full provision for it has therefore been reported under current liabilities. It is expected that the final hearings in respect of the remaining 2015 rental fee claims will take place in 2021. The $25.4m provision for the 2015 rental fee claims therefore has been reported under non-current liabilities.

The international arbitration award, directing the State of Ukraine to pay $11.8m plus interest and $0.3m costs to JKX as described in the 2018 Annual Report, has now been successfully legally recognised in Ukraine and JKX has filed for collection. No possible future benefit that may result from this award will be reflected in the accounts until there is further clarity on the process for, and likely success of, enforcing collection.

Both our Ukrainian and Russian operations remain cash flow positive, generating sufficient cash to cover the Group's costs and investment programmes and, provided we do not encounter extended periods of severe operational disruption as a result of Covid-19, the Group's cash flows are forecast to be sufficient to meet potential rental fees should they arise without the need to access the conditional Tascom facilities or pursue other options to maintain liquidity. Thanks to the successful completion of its workover programme in 2019, our Russian subsidiary is now well placed to contribute increased cash flows to Group.

The consolidated financial statements have been prepared on a going concern basis (see Note 2 to the consolidated financial statements) which highlights a material uncertainty over going concern as a result of Covid-19. However, whilst the impact of the pandemic is uncertain, as it is for almost every business, for the first time in several years the group has a suitably stable financial position from which to better manage challenges that may arise and also then take advantage of opportunities in our key markets.

Ben Fraser
Chief Financial Officer

STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Health and safety performance

Before reporting on our health and safety performance in 2019 financial we take this opportunity to acknowledge the challenge of the global Covid-19 pandemic. The Group has already implemented a range of pre-emptive measures, further discussed in the risk section of this report, in recognition of the fact that our people remain our greatest asset and their continuing health our priority. We recognise the steps that are being taken by all our staff, contractors and suppliers to keep their colleagues and communities safe and the business running despite the challenges they are facing.

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 2019
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.

During 2019 we achieved an AIFR Zero (0) per 200,000 hours worked. In 2019 we reported 68 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;
- 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.

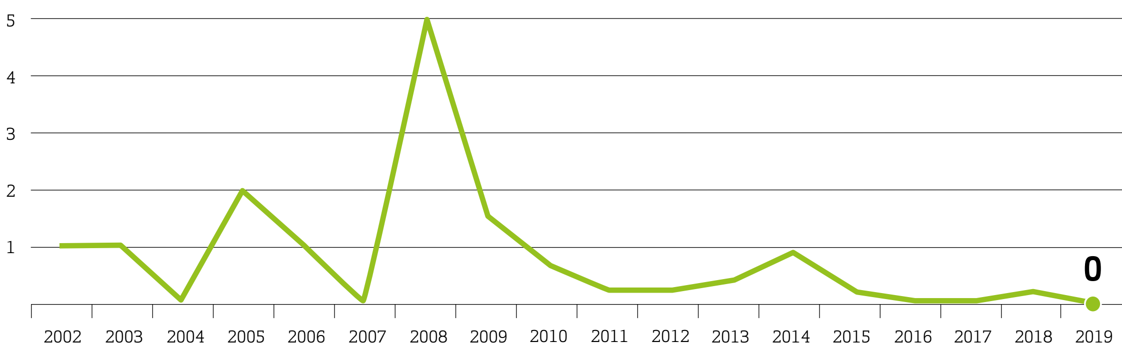
Health and safety training
Each location has an H&S training budget which includes legally required training from the host country H&S regulations. Additional training is provided according to operational requirements.

STRATEGIC REPORT

Corporate social responsibility ('CSR') review

Health and safety statistics

All Injury Frequency Rate 2019 ('AIFR')



HSECQ Statistical Analysis for 2019

Fatal accident case	0
Lost time injuries	0
Medical treatment/restricted work cases	0
Near miss/loss/hazards/property damage/ unsafe act or conditions	68

2019 JKX and contractors

Days away from work	0	Safety exposure man-hours	2,734,193
Fatal accident cases	0	Fatal accident case frequency rate	0
Lost time injury cases	0	Lost time injuries frequency rate	0
Medical treatment/restricted work cases	0	Medical treatment/restricted work cases frequency rate	0
Near miss/loss/hazards/property damage/unsafe act or conditions	68	Near miss/loss/hazards/property damage/ unsafe act or conditions frequency	4.97
Environmental incidents	1	Environmental incidents frequency rate	0.07
Man-hours since last lost time injury	7,553,810	Man-hours since last fatal accident case	2,873,164

Environmental management system

The JKX Environmental Management System is a comprehensive, systematic, planned an documented management process.

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

Environmental performance in 2019
In 2019, we again made good progress and we are committed to providing information to investors about its environmental performance.

Environmental incident frequency rate ('EIFR')
Our EIFR Target for 2019 was not to exceed 0.6 Environmental incidents per 200,000 hours worked; we achieved 0.07.

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 the 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.

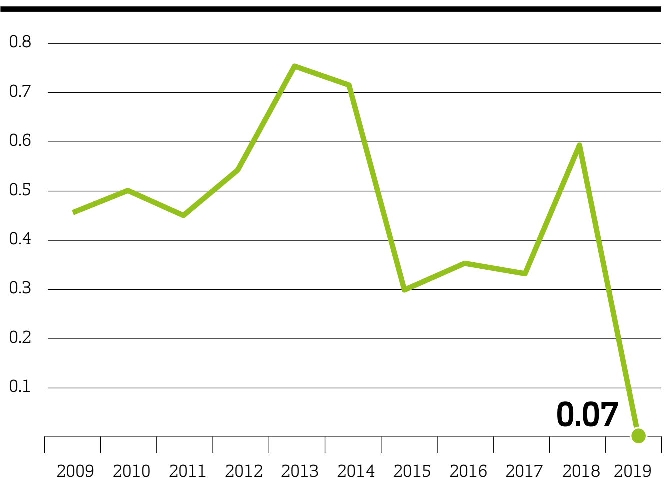
Since market-based emission factors are not available to any of JKX's Russia and Ukraine locations, residual emission factors are only adopted for offices in the UK, and average grid emission factors are adopted for locations in Russia and Ukraine. Calculations shall be updated upon the Government release of residual factors for public use. JKX's disclosure is in accordance with this legislation and the latest GHG protocol requirements.

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 2019 some advances were made in our Supply Chain Initiative, and this will continue in 2020 with a more focused approach to procurement and supply.

Outlook
Plans to improve these procedures during 2020 include enhancing our JKX Code of Conduct.

Environmental Incident Frequency Rate ('EIFR')



Mandatory GHG reporting

Data point	Units	Quantity 2019
Scope 1	tonnes CO_2e	281,590
Scope 2 (Location based)	tonnes CO_2e	960
Scope 2 (Market based)	tonnes CO_2e	975
Scope 1 & 2 Intensity (Location based)	tonnes CO_2e /Mboe of production	124

STRATEGIC REPORT

Corporate social responsibility ('CSR') review

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.

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 2019 amounted to $279,000 across the group. Subject to management approval, staff may be given additional time off in order to join in certain charity-related activities. A detailed list of donations is available on request.

Quality

Applying ISO 9001 requirements ensures that the quality management systems that JKX has adopted work to improve the efficiency of the business. The new versions of ISO 9001 as well as OHSAS 18001 & ISO 14001 have been applied.

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.

Our stakeholder engagement

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

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 mis-statement 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 2019, with the last Group Risk Committee being in December 2019.

Risk Committee
The purpose of the Group Risk Committee is to assist the Board in the operation and implementation of the risk management process, and to provide a source of assurance to the Audit Committee that the process is operating effectively. This approach aims to actively manage risk in a transparent and accountable way.

The Risk Committee reports to the 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.

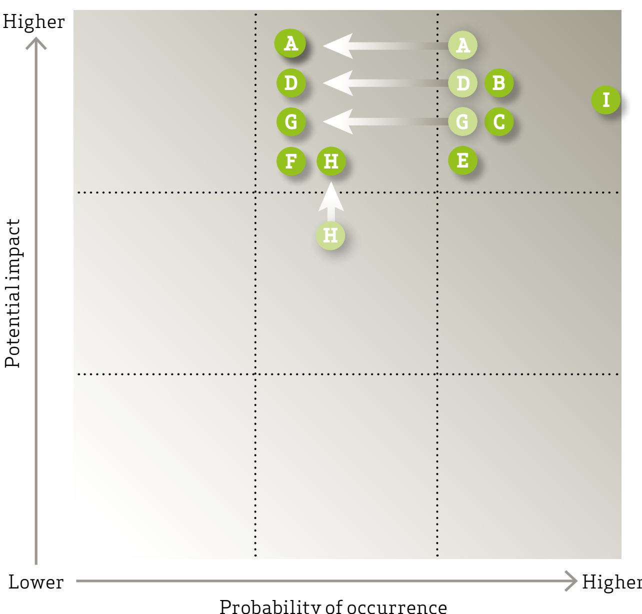
Risk assessment - the consequence and likelihood of each risk materialising is assessed. Risk registers are used to document the risks identified, the level of severity of its impact, and probability of occurrence, ownership and mitigation measures for each risk.

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	32
B	Geopolitical and fiscal	- Operating cash flow - Production - Liquidity	–	1, 2	The Board	32
C	Reservoir and operational performance	- Production - Cash from operations - EBITDA per boe	–	1, 2	General Directors	34
D	Financial discipline and governance	- Liquidity - Cash from operations	↓	1	CFO	34
E	Health, safety, and environment	- AIPR - LTI - EIFR	–	3	The Board	34
F	Asset integrity	- Production - Liquidity	–	3	General Directors	34
G	Major breach of business, ethical, or compliance standards	- Cash from operations - Liquidity	↓	3	The Board	36
H	Commodity prices and FX fluctuations	- Liquidity - EBITDA per boe	↑	1, 2	CFO	36
I	Global Covid-19 pandemic	- Operating cash flow - Production - Liquidity	↑	1, 2	The Board	36

STRATEGIC REPORT

Principal risks and how we manage them

What is the risk	Probability	Impact	Change from 2019
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 the group has been debt free since February 2020 this risk remains.	MED	HIGH	↓
Geopolitical and fiscal			
Description: The Group's oil and gas operations 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. This award has been recognised in Ukraine and the Group is following procedures for its collection.	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. In addition in December 2019 PPC, our subsidiary in Ukraine, has renewed a 24 month UAH280m ($11.8m) revolving credit line and a UAH50m ($2.1m) overdraft facility with Tascombank, neither of which are currently being used. We are confident that this facility can be renewed again for 2022. Other liquidity tools include the ability to make forward sales in Ukraine. Four of the 2015 rental fee cases have been closed in PPC's favour. Furthermore we have improved our understanding of the 2010 and the remaining 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 2021 and that final hearings in respect of the remaining active 2015 rental fee claims will take place in 2021.	Chairman's statement page 4 Financial review page 22
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. In respect of the 2010 rental fee claims and 2015 rental fee claims, provisions of $15.9m and $25.4m respectively, have been recognised in these financial statements to reflect the Company's estimate of the potential liability. Except for this $41.3m 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 continues to work through the proper processes for enforcement of collection of the international arbitration award. A key priority for the Group is to maintain transparent working relationships with all key stakeholders in our significant assets in Ukraine and Russia and to improve the methods of regular dialogue and on-going communications locally. 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 22

STRATEGIC REPORT

Principal risks and how we manage them

What is the risk	Probability	Impact	Change from 2019
Reservoir and operational performance	HIGH	HIGH	–
Financial discipline and governance	MED	HIGH	↓
Health, safety, and environmental risks	HIGH	HIGH	–
Asset integrity	MED	HIGH	–

Reservoir and operational performance

Description: Subsurface and operational risks are inherent to 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.

Financial discipline and governance

Description: The Group has presence in four 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 2019 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.

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.

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.

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	During 2018 new financial controls were implemented and corporate governance was 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.	Chairman's statement page 4 Financial review page 22
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 25
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, was extended until 2025.	Corporate social responsibility page 25 Corporate governance page 40

STRATEGIC REPORT

Principal risks and how we manage them

What is the risk	Probability	Impact	Change from 2019
Major breach of business, ethical, or compliance standards	MED	HIGH	↓
Commodity prices and FX fluctuations	HIGH	HIGH	↑
Global Covid-19 pandemic.	HIGH	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, and the 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.

Commodity prices and FX fluctuations

Description: JKX is exposed to international oil and gas price movements, policy developments in Russia which may affect the regulated gas price, and movements in exchange rates. Such changes will have a direct effect on the Group's trading results.

Gas prices in Ukraine are closely aligned with gas prices in Europe. Ukraine does not currently purchase gas from Russia directly. 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 2019 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 2019, both the Hryvnia and the Rouble strengthened moderately.

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.

Global Covid-19 pandemic.

Description: The Group's oil and gas operations are located in Ukraine and Russia with a head office located in the United Kingdom. All locations are suffering from increasing levels of Covid-19 infection and in due course there may be increasing disruption of normal working patterns. The national and local governments in all locations are recommending or implementing increasingly severe restrictions in order to manage the situation.

In view of the risk the Group's primary objectives include:

i) Protecting the health of the Group's staff, contractors and suppliers and those in the communities from which they are drawn;

ii) Maintaining the Group's operations and business more generally and ensure that high levels of operational safety are maintained; and

iii) Maximising sales prices in an unpredictable market.

Impact: Increasing levels of infection and restrictions on movement have the potential to negatively impact the Group and specifically the operating companies. These impacts may include a reduction in the number of staff fit to work, a reduced ability to conduct production operations, contractors and suppliers being unable to provide the necessary support, a reduction in demand and lower sales prices. If these risks crystallise there may be business constraint or interruption, reduced production, a fall in demand and reduced sales prices and a consequent reduction in the Group's ability to commit to new capital expenditure.

Responsibility	How do we manage it?	Further information
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 25 Corporate governance page 40
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 22 Strategic report Page 13
The Board	In order to manage this risk the Group (and in particular the 2 operating units, PPC and YGE) have undertaken a holistic review of the likely impact on their businesses and have implemented a range of escalating and proportionate responses. These responses include: a) Undertaking awareness-raising in all locations; b) Introducing and enforcing social distancing and remote-working, cancellation of business trips and meetings and the use of remote working solutions; c) Enhanced cleaning regimes for certain Group facilities; d) Temperature screening of staff and contractors at entry points; e) Active liaison with local regional and national government; f) Securing normal business activities including oil and LPG loading, drilling and work over activity; g) Taking steps to minimise exposure to further commodity price decrease; and h) Reducing costs to maintain Group liquidity.	Chairman's statement page 4 Chief Executive's statement page 6

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 2022 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 developed a five year field development plan (medium term), that we are now executing. In addition, we systematically review opportunities for acquisition and new licensing in Ukraine.
- **Russia** Operations, production and cash flow are stable in Russia, following completion of a workover programme in 2019.
- **Hungary** We are in the process of disposing of our six mining plots in Hungary.

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 2020 and current development plans in the case of 2021 through to December 2022. 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. In addition, the Board has considered potential reverse stress tests performed to assess the impact of Covid-19 including production stoppages combined with sustained lower commodity prices as detailed in note 2 to the financial statements.

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 are 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 rental fee claims**
  The Company has persistently defended its position in the Ukrainian courts regarding the rental fee claims for 2010 and 2015 totalling approximately $41.3 million (including interest and penalties, see Note 25 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 22).
- **Global Covid-19 pandemic**
  This risk arose in 2020 and the Board of Directors continue to monitor its potential impact. The potential impact of the pandemic is currently unknown but may include production disruption due to government restrictions, impact on our workforce, supply chain disruption, customer sales and ability to access funding facilities as detailed in note 2 to the financial statements.

Confirmation of longer-term viability

The Board has undertaken a robust assessment of these risks and the other principal risks faced by the business detailed on pages 30 to 39 of the Annual Report. As noted in the going concern disclosures in note 2 to the financial statements which highlight a material uncertainty in respect of going concern, should the 2010 and certain 2015 rental fee claims fall due in the next 12 months or disruption to production occur in excess of one month due to the Covid-19 in conjunction with depressed prices, the Group would likely need to utilise its Tascom facilities, make forward gas sales, agree a payment plan with the tax authorities or take such other measures as necessary to safeguard its viability. As set out in the going concern disclosures the Board anticipates such steps to be achievable and therefore, combined with the debt-free status of the Group, its cash resources and anticipated cash generation the Board has a reasonable expectation that the Company will continue to be viable and meet its liabilities over the assessment period.

Section 172 Statement

The Directors are mindful of their duty to promote the success of the Company in accordance with S 172 of the Companies Act for the benefit of its members as a whole and in doing so to have regard for the matters set out in S 172 (1) (a)-(f). Further details of how the Directors have had regard to the issues, factors and stakeholders considered relevant in complying with S 172 (1) (a)-(f), the methods used to engage with stakeholders and the effect on the Group's decision during the year can be found throughout this report and in particular at page 12 (where matters relating to the Group's business model, stakeholder map and stakeholder relations are addressed), page 13 (where strategic objectives are addressed), pages 14 and 15 and the CSR report on page 25 (in relation to decision-making).

The Directors have applied a structured decision-making process supported by detailed information relevant to any decision. In addition the Board has received regular management information and HSE updates from expertly qualified staff. This information has, when appropriate, expressly addressed the interests of employees, the impact on business relationships with suppliers, customers and others, the impact of the Company and Group's operations on relevant communities and the environment, the potential impact on the Company's reputation for high standards, with Board decisions being recorded in writing and maintained as part of the Company's minutes. This process aims to ensure that all relevant issues are identified and considered by the Board whilst coming to a decision on any issue.

Governance and Financial statements

The Board has encouraged senior management in each location to engage with staff, suppliers, customers and the community in order to assist the Board in discharging its obligations. Board members also carry out regular site visits enabling staff to raise issues directly with them and to enable them to meet key contractors when necessary.

The Board has undertaken specific training with its private practice corporate lawyers in order to ensure that it is aware of its responsibilities under S 172 and in particular to ensure that all members are fully aware of the need to act fairly between its members, especially given the presence of a number of long term significant shareholders and the existence of a nominee of the largest shareholder on its Board.

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GOVERNANCE

Board composition

Charles Valceschini Chairman

Appointed – 16 September 2019

Experience – Mr Valceschini has worked in the oil and gas sector for nearly 40 years and currently specialises in the provision of technical and commercial advice to a wide range of upstream oil and gas companies. Mr Valceschini was previously engaged in technical and leadership roles for a range of companies including BP, TNK-BP and other international upstream companies. During 2000 and 2001 he was CEO and CFO of American Energy Group Limited. Mr Valceschini has a degree in Petroleum Engineering from the University of Wyoming, an MSc in Engineering Management from Portland State University and is an alumnus of the INSEAD Executive Management programme and Moscow School of Management at Skolkovo Project Academy.

Victor Gladun Executive Director, Chief Executive Officer

Appointed – 23 May 2019

Experience – Victor Gladun studied engineering and finance. He graduated from Harvard Law School (International Taxation), participated in Harvard University's project on macroeconomic transformations in Ukraine, and holds the US Brandeis University's Master's Degree in Sustainable International Development. Victor held executive positions in a number of leading international companies in the USA, Ukraine, and Russia. He has worked for TNK-BP, Mitsubishi Motors/NIKO and DTEK. Victor has experience in business development, promotion and crisis management.

Tony Alves Senior Independent Director

Appointed – 16 September 2019

Experience – Mr Alves has worked in the oil and gas sector for over 30 years. From January 2009 until June 2016 he served as an Executive Director and Chief Financial Officer for AIM Listed Volga Gas plc, with whom he remains as a consultant. Previously he was one of the leading equity analysts covering the sector including periods as Head of Oil and Gas research for Peel Hunt and with Investec, Bell Group International and Schroders. Mr Alves read Mathematics at Cambridge University, both as an undergraduate and a post-graduate research student.

Dr. Rashid Javanshir Non Executive Director

Appointed – 16 September 2019

Experience – Dr. Rashid Javanshir worked at BP for over 20 years in senior management roles including Senior Vice President for Strategy & Integration in Global Upstream, London (2012 - 2015) and Regional President for Azerbaijan - Georgia - Turkey (2009 -2012). He also led BP's Southern North Sea Gas Operations in 2003-2006. Dr. Javanshir is a distinguished scientist with more than 150 books and papers published internationally. He holds a PhD in Geophysics from Moscow Gubkin University and a Doctoral Degree in Geology and Mineralogy from the Institute of Geology in Baku. He has completed management programmes in several US Universities, and is an alumnus of Harvard Business School.

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 a Master's degree from Columbia University.

	Appointed	Resigned/Stood Down
Hans Jochum Horn Chairman	24 October 2017	**23 May 2019**
Andrey Shtyrba Non Executive Director	24 October 2017	**22 August 2019**
Adrian Coates Non Executive Director	8 December 2017	**23 May 2019**
Christian Bukovics Non Executive Director	9 February 2018	**22 August 2019**

GOVERNANCE

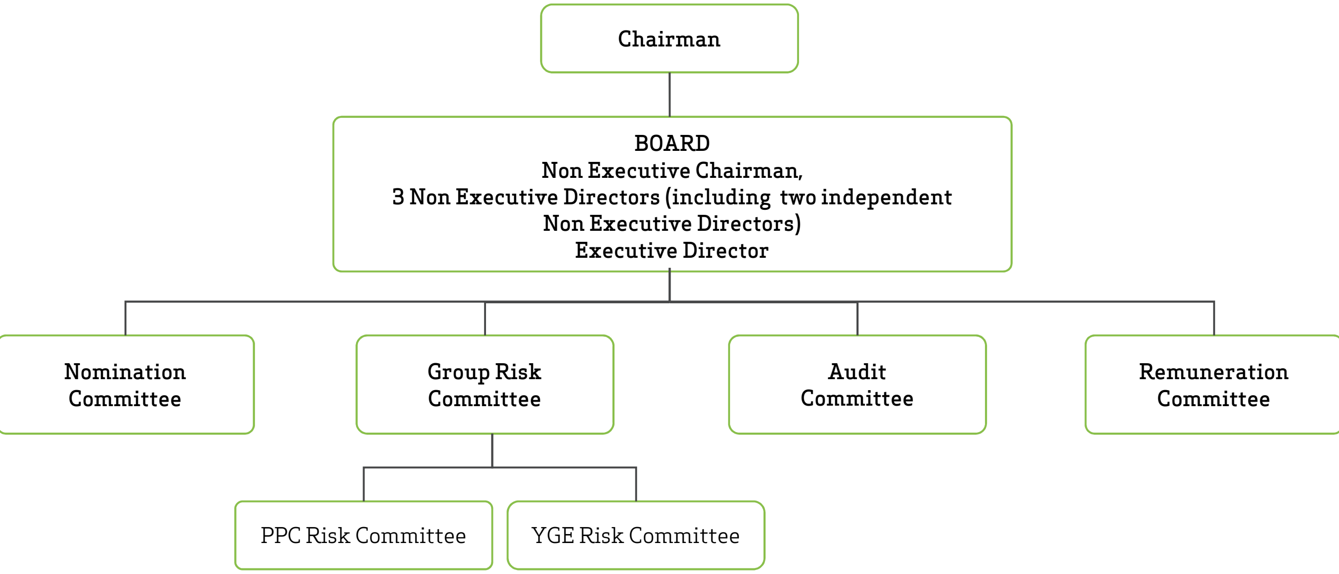
Corporate governance

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 2018 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 sets the tone and takes the lead to ensure that good practice flows throughout the Group.

Governance framework



JKX Board changes during 2019

On 23 May 2019 the 2019 AGM was held at which all directors, including the Chairman, stood down and presented themselves for reappointment by the Shareholders.

Hans Jochum Horn and Adrian Coates were not reappointed and immediately ceased to be directors. Christian Bukovics and Andrey Shtyrba were reappointed but resigned on the same day, their notice period expiring on the 22 August 2019. Mr Victor Gladun was appointed as an Executive Director at the same AGM.

Following the 2019 AGM the Board consisted of 2 independent non-executive directors (Christian Bukovics and Andrey Shtyrba) one non-executive director who was not independent (Michael Bakunenko) and an executive director (Victor Gladun[1]).

Following the expiry of the notice period of Christian Bukovics and Andrey Shtyrba on the 22 August 2019 the Board consisted of one non-executive director who was not independent (Michael Bakunenko) and an executive director (Victor Gladun).

On 16 September 2019, following a search by independent executive search consultants (Ward Howell International), Mr Charles Valceschini was appointed as an independent non-executive director and Chairman, Mr Tony Alves was appointed as an independent non-executive director and Senior Independent Director and Mr Rashid Javanshir was appointed as an independent non-executive director. Ward Howell International has no other connection with the Company or any director.

[1] Victor Gladun is a director appointed from the workforce in accordance with the recommendations of Chapter 1 Provision 5 of the Code. The Board believes he will bring a workforce view to the boardroom and as a financial professional and General Director of PPC is in a position to contribute to discussions on wider issues.

On 20 September 2019 the following Board Committee appointments were made: Nomination Committee: Charles Valceschini (Committee Chairman), Tony Alves, Dr. Rashid Javanshir, Michael Bakunenko, Victor Gladun; Remuneration Committee: Dr. Rashid Javanshir (Committee Chairman), Charles Valceschini, Tony Alves; and Audit Committee: Tony Alves, (Committee Chairman), Dr. Rashid Javanshir. On the same date Victor Gladun was appointed as Chief Executive Officer of the Group.

The Group is now led by a Board of Directors consisting of a Non Executive Chairman, two independent Non Executive Directors, one Non Executive Director who represents the interests of Eclairs, JKX's largest shareholder with a holding of over 27% and an Executive Chairman.

During the Period from 23 May until 20 September the Board did not comply with the Code in relation to the makeup of the Board (where there were insufficient independent non-executive directors during certain periods), the Chairman of the Board (where there was none appointed from 23rd May until 16th September) and the Board Committees (where due to the makeup of the Board they were not constituted in accordance with the requirements of the Code). In addition Dr Rashid Javanshir did not have at least 12 months experience on a Remuneration Committee before being appointed as Chairman of that Committee. The Board however took into account the size of the Group, the existing remuneration structure and Dr Javanshir's general management experience and considered him well suited to the role.

Board effectiveness

Role of the Board

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

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

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

All other authorities are delegated by the Board, supported by appropriate controls, to the Chief Executive, 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 2019, there were five unscheduled Board meetings (2018: six), 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 (2018: once). The number of unscheduled Board meetings in 2019 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, health & safety, 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 board 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.

GOVERNANCE

Corporate governance

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 directors' and officers' insurance cover in respect of legal action against Directors of the Company and its subsidiaries.

Committees of the Board in 2019

During 2019 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.

There was also an executive Risk Committee chaired by the Chief Financial Officer and comprising group employees.

Committee memberships during 2019

	Audit Committee	Remuneration Committee	Nomination Committee
Hans Jochum Horn[1]	Member	Member	Chairman
Michael Bakunenko	Member	Member[2]	Member[5]
Christian Bukovics[3]	-	Member	Member
Adrian Coates[1]	Chairman	-	Member
Andrey Shtyrba[3]	Member	Chairman	Member
Charles Valceschini[4]	-	Member	Chairman
Tony Alves[4]	Chairman	Member	Member
Victor Gladun[4]	-	-	Member
Rashid javanshir[4]	Member	Chairman	Member

1 Ceased to be a director and to hold any committee appointments from 23 May 2019.
2 Ceased to be a member on 20 September 2019
3 Ceased to be a director and to hold any committee appointments from 22 August 2019
4 Appointed as a member of the Board on 16 September 2019 and a member of the relevant board committees on 20 September 2019.
5 Appointed as a member on 20 September 2019

The roles and activities of each of these committees during 2019 are noted on pages 45, 46, 51 and 58.

Board composition, independence and commitment

Until the 23 May 2019 the Board comprised 5 individuals:

- The Non Executive Chairman (Hans Jochum Horn),
- 1 Non Executive Director (Michael Bakunenko) 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 Provision 10 of the Code did not apply to them.

Following the decision of the AGM not to reappoint Hans Jochum Horn and Adrian Coates on 23 May 2019 the Board comprised 4 individuals:

- 1 Non Executive Director (Michael Bakunenko) representing the interests of Eclairs, JKX's largest shareholder with a holding of over 27%, and
- 2 independent Non Executive Directors (Christian Bukovics and Andrey Shtyrba) who were assessed as independent on the basis, inter alia, that the matters set out in Provision 10 of the Code did not apply to them.
- 1 Executive Director (Victor Gladun).

Following the expiry of Christian Bukovics and Andrey Shtyrba's notice period on 22 August 2019 the Board comprised 2 individuals:

- 1 Non Executive Director representing the interests of Eclairs, JKX's largest shareholder with a holding of over 27%, and
- 1 Executive Director (Victor Gladun).

Following the appointment of Charles Valceschini , Tony Alves and Rashid Javanshir on 16 September 2019 the Board comprised 5 individuals:

- The Non Executive Chairman (Charles Valceschini),
- 1 Non Executive Director (Michael Bakunenko) representing the interests of Eclairs, JKX's largest shareholder with a holding of over 27%, and
- 2 independent Non Executive Directors (Tony Alves, Rashid Javanshir) who were assessed as independent on the basis, inter alia, that the matters set out in Provision 10 of the Code did not apply to them; and
- 1 Executive Director (Victor Gladun).

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 in central and eastern Europe, particularly Ukraine and Russia as well as Central Asia. The key biographical details, relevant experience and responsibilities of each Director are provided on pages 40 and 41.

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. The Board consisted of 4 different nationalities at 31 December 2019.

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. Currently the CEO and his immediate reports consist entirely of men.

Senior Independent Director

Adrian Coates was Senior Independent Director ('SID') until 23 May 2019. Following the decision of the AGM not to reappoint Adrian Coates as a Director on 23 May 2019 there was no SID until Tony Alves was appointed as SID on 16 September 2019.

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 Executive and Chief Financial Officer or where such contact is inappropriate.

2019 Board evaluation process

During the first quarter of 2019 the Senior Independent Director reviewed the performance of the Chairman and the Nomination Committee carried out an internal Board and Committee Evaluation. In both cases detailed feedback was provided and where relevant action plans put in place to address any issues.

External evaluation

As the Company was outside of the FTSE 350 during 2019 there was no requirement for an externally-facilitated evaluation of the Board at least every three years, although an internal Board and committee evaluation was conducted. 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 receives invitations to detailed briefings from advisers and at their seminars on a variety of topics that are relevant to the Group and its strategy. The newly appointed Directors all received a full day's induction training session, including specific presentations on key topics and detailed briefings on legal, regulatory and compliance matters from the Company's external legal, financial and communications advisers.

Board activities

Attendance at meetings

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 2019 and individual attendance by Director is shown below:

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Corporate governance

Board and Committee meeting attendance in 2019

Number of meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
	11	3	3	3

Attendance/Eligibility:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Hans Jochum Horn	3/3	2/2	1/1	1/1
Michael Bakunenko	10/11	2/2	1/1	-
Christian Bukovics	7/7	-	1/1	1/1
Adrian Coates	3/3	2/2	-	1/1
Andrey Shtyrba	6/7	2/2	1/1	1/1
Charles Valceshini	3/3	2/2	2/2	2/2
Tony Alves	3/3	1/1	2/2	2/2
Victor Gladun	8/8	-	-	-
Rashid Javanshir	3/3	1/1	2/2	2/2

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 2019

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,
- The Chief Financial Officer's report, and following his appointment the Chief Executive Officer's report, which includes a report of actual performance against budget, reforecasting, updates on oil, gas and condensate prices,
- HSECQ matters,
- Additional funding and growth 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;
- review of crude oil and gas storage strategy;
- reduction in overhead costs and improved efficiency;
- 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;
- monitoring enhanced management information updates focussing on key parameters including production, liquidity and future cash flow;
- disposal of non-core assets and reviewing the group portfolio;
- review of organic and inorganic growth opportunities, particularly in Ukraine;
- simplification of Group structure;
- review and management of ongoing tax and other litigation;
- identifying sources of third party financing; and
- appointment of expert executive search agents and identification of appropriate replacement directors.

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.

In line with the Code all the Directors (including the Chairman) stood down and offered themselves for reappointment at the 2019 Annual General Meeting. Additionally Victor Gladun was proposed for appointment as a director.

Whilst Michael Bakunenko, Victor Gladun, Andrei Shtyrba and Christian Bukovics were reappointed at the AGM Hans Jochum Horn and Adrian Coates were not. Immediately following the conclusion of the 2019 AGM Andrey Shtyrba and Christian Bukovics tendered their resignations which expired on 22 August 2019.

3 further independent non-executive directors (Charles Valceschini, Tony Alves and Dr. Rashid Javanshir) were appointed by the Board on 16 September 2019, as described on page 42.

In line with the recommendations of the Code the Directors have all agreed to stand down and submit themselves to the shareholders for reappointment at the 2020 AGM.

Full biographies of all the Directors can be found on pages 40 and 41.

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 and seeks ways to minimise any negative impact. During Q1 2019 the Nomination Committee carried out an internal Board and Committee evaluation

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 2019 Attendance/Eligibility
Hans Jochum Horn (Chairman)	November 2017	23 May 2019	1/1
Christian Bukovics	February 2018	22 August 2019	1/1
Adrian Coates	December 2017	23 May 2019	1/1
Andrey Shtyrba	November 2017	22 August 2019	1/1
Charles Valceschini (Chairman)	September 2019	Present	2/2
Tony Alves	September 2019	Present	2/2
Michael Bakunenko	September 2019	Present	2/2
Victor Gladun	September 2019	Present	2/2
Rashid Javanshir	September 2019	Present	2/2

The Committee met 3 times during 2019 (2018: 5). During 2019 3 new independent Non Executive Directors (Charles Valceschini, Tony Alves and Rashid Javanshir) were appointed following a search by an independent search consultant (Ward Howell International) that has no other connection with the Group. In addition Victor Gladun was appointed as an executive director and Chief Executive Officer in addition to his existing role as General Director of PPC.

Membership and process

During 2019 the membership of the Nomination Committee underwent significant change as a consequence of changes in the Board membership. In order to ensure continuity of understanding the new members of the Board were provided with copies of previous committee minutes and the Chairman ensured that new Directors were provided with a full induction.

In the period from 22 August until 20 September the Nomination Committee did not comply with the Code as there were no independent non-executive directors until 16 September.

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.

Revision of Terms of Reference

The Nomination Committee reviewed its terms of reference against the Code and proposed a number of amendments to the Board to ensure it remained in compliance with the Code. The Board unanimously approved these amendments and the revised terms of reference are available on the Company's website.

GOVERNANCE

Corporate governance

Compliance

Compliance with the 2018 UK Corporate Governance Code

The Board believes that, except in relation to the composition of the Board and certain Board Committees following the 2019 AGM and the appointment of Dr Rashid Javanshir as Chairman of the Remuneration Committee the Company was fully compliant during 2019 with the provisions set out in the 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 reviewed and strengthened a number of key internal control processes, in particular to reflect the appointment of a Chief Executive Officer, including those relating to approval of expenditure.

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 30 to 39. Further information on internal control and risk management is set out in the Audit Committee Report on page 50.

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 Executive Officer and Chief Financial Officer who work 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.

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 Executive Officer and Chief Financial Officer and overruns, actual or foreseen, are investigated, and approved by the Board where appropriate.

Whistleblowing

The Board reviews the arrangements by which employees 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.

On behalf of the Board

Charles Valceschini
Chairman
31 March 2020

GOVERNANCE

Audit committee report

Attendance and eligibility

Member	Committee member since		Number of meetings in 2019 Attendance/Eligibility
Adrian Coates (as Chairman)	December 2017	Ceased to be a member 23/5/19	2/2
Michael Bakunenko	December 2017	Ceased to be a member 20/9/19	2/2
Hans Jochum Horn	October 2017	Ceased to be a member 23/5/19	2/2
Andrey Shtyrba	October 2017	Resigned 22/8/19	2/2
Tony Alves (Chairman)	September 2019	Present	1/1
Rashid Javanshir	September 2019	Present	1/1

The Audit Committee currently comprises 2 Non Executive Directors, both of whom are independent.

Audit Committee during 2019

Adrian Coates (Chairman), Michael Bakunenko, Hans Jochum Horn and Andrey Shtyrba were the members of the Audit Committee until 23 May 2019. Following the decision at the AGM not to reappoint Adrian Coates or Hans Jochum Horn the Audit Committee consisted of Andrey Shtryba and Michael Bakunenko. Following the expiry of Andrey Shtyrba's notice period on 22 August 2019 Michael Bakunenko was the only member of the Audit Committee until 20 September 2019 when Tony Alves (as Chairman of the Audit Committee) and Rashid Javanshir were appointed as members and Michael Bakunenko stood down. Up until 20 September 2019 the Audit Committee did not comply with the Code. Thereafter it did.

The Audit Committee has carried out the requirements under the Disclosure and Transparency Rules 7.1.3R throughout the period that this report covers. The Board has determined that Tony Alves has relevant and relevant financial experience as defined by the Code and both Tony Alves and Rashid Javanshir have competence relevant to the sector in which the Company operates.

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 Q4 2019 in order to bring them into line with the latest recommendations of the Code. 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 determined that Andrey Shtyrba, Hans Jochum Horn , Adrian Coates and Tony Alves had recent and relevant financial experience gained through their previous and current roles.

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 Committee members, the Committee had the appropriate experience to fulfil its responsibilities and oversee the activities of the Company's auditors.

Revision of Terms of Reference

In Q4 2019 the Audit Committee reviewed its terms of reference against the Code and proposed a number of amendments to the Board to ensure it remained in compliance with the Code. The Board unanimously approved these amendments and the revised terms of reference are available on the Company's website.

Attendance at meetings

The Audit Committee met three times during 2019 (2018: 6).

The Committee's meetings were attended, when considered appropriate by the Chairman of the Committee, by other Directors including the Chief Executive, the Chief Financial Officer, the external auditors and other professional advisers, and by certain senior managers who are responsible for specific topics, such as risk management, internal audit, financial control, and internal compliance procedures.

The Committee Chairman maintains contact with those other attendees throughout the year. Twice during 2019 (2018: twice) the Committee Chairman met with the external auditors to discuss matters which the auditors and Audit Committee may wish to raise.

The Committee's activities during 2019

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	External auditors	Accounting, tax and financial reporting
▪ Considered reports from the external auditors on their assessment of the control environment; ▪ Considered feedback from both the internal and external auditor reports as submitted by local and Group management; ▪ Reviewed risk reports, which required management to identify risks and evaluate them, and ensured appropriate mitigating controls were agreed and implemented; ▪ Approved the scope of the Internal Audit programme for the year; ▪ Considered the effectiveness of the Internal Audit function; ▪ Assessed the effectiveness of the Group's internal control environment; ▪ Review of finance, legal, internal audit and compliance staffing; ▪ Review of enhanced interim controls relating to cost, procurement and payment and ongoing monitoring of their appropriateness and effectiveness; ▪ Liaison with FCA relating to Free Float level; and Review of going concern and viability status and potential impact in the event of any adverse tax judgements.	▪ 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 2019 statutory accounts.	▪ 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 matters ; 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 2019 financial statements related to:

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

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Audit committee report

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 2019 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 2020 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 made in the financial statements.
Rental fee claims in Ukraine As detailed in Note 25 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 $41.3m (2018:$42.5m). The movement in provision during the year is reflected in a net credit of $8.4m (as set out in Note 18 to the financial statements) that is reported as an exceptional item. Management has made a detailed investigation into the mostly likely timing of any potential payments in respect of these rental fee claims and accordingly reclassified some of the 2015 rental fee claims as current. The underlying amounts claimed are denominated in UAH, which has resulted in foreign currency translation charges of $2.1m in relation to current provisions and $5.1m in relation to non-current provisions (as set out in Note 18 to the financial statements which have been reported within the movement in foreign currency translation reserve (see Note 17 to the financial statements)	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 $41.3m (2018:$42.5m) (including interest and penalties) were required in respect of the rental fee claims and that both the classification of the $15.9m provision for the 2010 rental fee claim and the classification of the $25.4m provision for the 2015 rental fee claims as non-current were appropriate.

Matters considered	Response and conclusion
International arbitration award Also as detailed in Note 25 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 the tribunal ruling has been recognised in the Ukrainian courts it has not yet been enforced. 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 25 to the financial statements in respect of the international arbitration award are appropriate.
Liquidity and 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 and a reverse stress test scenario considering risks and potential impacts relating to Covid 19 provided by senior management having considered the Group's business model. In particular this included examining and challenging the appropriateness of the assumptions used to prepare them and the scenarios considered. 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 and that the going concern basis is the appropriate basis of preparation for the 2019 financial statements but that a material uncertainty exists in respect of going concern as a result of potential impacts of Covid 19 (See Note 2 to the financial statements).

Misstatements

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

Internal control

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

Risk management

The Risk Committee, which comprises 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 2019 (2018: 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 32 to 39.

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Audit committee report

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 30 to 32.

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:

- A health check of the main processes established at JKX's Hungarian asset, including distribution of roles and responsibilities between JKX management and contractors;
- Coordinating the Risk Management process at all JKX entities;
- Continuous monitoring of the software development process at PPC during implementation of a new ERP system; and
- Participation in Compliance Committee meetings, ensuring that supporting measures are timely taken.

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, BDO LLP. BDO were appointed with effect from 18 October 2018 following a competitive tender process.

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. During 2019 in addition to the statutory audit fee BDO LLP and member firms charged the Group $80,000 for audit-related assurance services.

Further details of the fees paid, for both audit and non-audit services, can be found in Note 22 to the consolidated financial statements.

The Committee is satisfied that the quantum of the non-audit services provided by BDO is such that the objectivity and independence of the external auditor had not been compromised during their tenure.

Tony Alves

Chairman of the Audit Committee
31 March 2020

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Directors' remuneration report

Introduction

On behalf of the Board, I am pleased to present our Remuneration Report for the year ended 31 December 2019, my first as Chairman of the Remuneration Committee.

During 2019 the Remuneration Committee 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 Group in each of the locations in which it operates.

More specifically the Remuneration Committee has undertaken a number of significant activities, including reviewing the remuneration of the Chairman, the Non-Executive Director's, the Chief Executive (the Company's sole Executive Director) and senior executives, updating the KPI's and reward structures for key staff and implementing additional remuneration for technical staff who have skills that are particularly in demand.

The Remuneration Committee has a full agenda, ensuring that the Directors' Remuneration Policy and remuneration structures for its Executive Director, Non-Executive Directors and senior executives remain in line with market trends and governance development. The Remuneration Committee annually examines the evolution of remuneration practices and policy for Executive Directors, Non-Executive Directors and senior executives of the Company.

The Company's existing Directors' Remuneration Policy has applied since 1 January 2015, having been initially approved by shareholders at the 2014 AGM and re-instated at the AGM in 2017. This policy will expire this year and at the upcoming AGM, currently expected to take place on 12 June 2020, the Remuneration Committee will put forward a new Directors' Remuneration Policy for approval, which (if approved) shall apply from the date of the AGM (the "New Policy"). The New Policy will be a continuation of the existing Remuneration Policy, albeit that it will be updated to reflect the new requirements introduced by the new UK Corporate Governance Code 2018 (the "Code") and changes to the legislative framework. The New Policy is disclosed on pages 64 to 71 and a summary of the changes can be found in the "Looking Ahead" section noted below.

Reward principles

The principles of the Company's remuneration policy are to:

- pay an appropriate level of total remuneration in relation to Group 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;
- award annual bonuses which reflect the achievement of short term financial and strategic objectives as well as personal performance; and
- maintain the ability to foster long-term strategic thinking and to align the executive directors with shareholders through awards granted under the Performance Share Plan (PSP) that vest over several years.

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 ensures that the balance of the executive remuneration package includes significant at risk performance pay.

More than 95% of Group staff are based outside of the UK, primarily in the Ukraine and Russia. The Remuneration Committee takes into account remuneration conditions elsewhere in the Company, and particularly for those employees based in the UK, in formulating the Executive Directors' remuneration policy.

Board Changes

On 23 May 2019 Hans Jochum Horn and Adrian Coates stood down from the Company's Board of Directors at the 2019 Annual General Meeting and were not reappointed. During the meeting, Victor Gladun, General Director of the Company's main operating subsidiary, Poltava Petroleum Company ('PPC'), was appointed as an Executive Director of the Company.

Following the AGM, Christian Bukovics and Andrey Shtyrba tendered their resignations as Non-Executive Directors of the Company and left the Board at the end of their three months' notice period, on 22 August 2019.

Until 23 May 2019 the Remuneration Committee comprised Andrey Shtyrba (as Chairman), Christian Bukovics, Hans Jochum Horn and Michael Bakunenko. From 23 May 2019 until 22 August 2019 the Remuneration Committee comprised Andrey Shtyrba (as Chairman), Christian Bukovics and Michael Bakunenko. From 22 August until 16 September there were no independent directors and the Company was not able to form a Remuneration Committee compliant with the Code.

On 16 September 2019 three independent Non-Executive Directors joined the Board and on 20 September 2019 a Remuneration Committee comprising three independent Non-Executive Directors (Dr Rashid Javanshir (Chairman), Tony Alves and Charles Valceschini) was formed. The Chairman did not have at least 12 month's experience on a remuneration committee prior to his appointment as Chairman of the Committee as recommended by the Code. The Board however took into account the size of the Group, the existing remuneration structure and Dr Javanshir's general management experience and considered him well suited to the role.

There were no Directors appointed as Executive Directors prior to 23 May 2019. On 23 May 2019, Victor Gladun was appointed as an Executive Director of the Company at the Annual General meeting and on 20 September he was additionally appointed as the CEO of the JKX Group. Victor Gladun does not receive any board or committee fees in addition to his i) salary (as set out in section 2 below) in relation to his role as CEO of the Company and Group; and ii) and his other executive roles including as General Director of PPC. The

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Directors' remuneration report

Remuneration Committee considers that the CEO's remuneration is appropriate and reflects input from a benchmarking study conducted by h2glenfern, specialist remuneration consultants.

Remuneration and discretion in 2019

Details of the remuneration decisions for the reporting year are covered in the Annual Report on Remuneration below.

As discussed in the Chairman and CEO's reports, the Group's performance in 2019 was strong with an increase in production volumes and profitability despite difficult trading conditions and a declining Ukrainian gas price. As a result, the Remuneration Committee concluded that Victor Gladun had met the KPI's agreed with the previous board in his capacity as General Director of PPC at the beginning of 2019 and awarded him an annual bonus of $382,000 for his performance in the 2019 financial year. No other bonus payments or incentives (including any share options or awards in the Company or Group) were paid to Victor Gladun. More information about the level of bonus awarded can be found in the later sections of this Remuneration Report.

The Remuneration Committee aims to ensure that total remuneration is set at an appropriate level relative to its peer group comparator companies, those being UK-based oil and gas companies which are primarily quoted on the London Stock Exchange or AIM, and it has sought advice from specialist, independent remuneration consultants in doing so. The main components of remuneration for Executive Directors and senior management are basic annual salary, pension and benefits (including non-contributory health insurance and life assurance) and an annual bonus scheme linked to short-term financial and strategic objectives.

Board fees for Non-Executive Directors were reduced in 2019 in line with market comparators in the light of a benchmarking exercise carried out by Pearl Meyer, specialist remuneration consultants, and to reflect the Non-Executive Directors' reduced time commitment following Victor Gladun's appointments in May and September 2019. The Non-Executive Director (Michael Bakunenko) who was not independent had previously waived his board fees with effect from 22 March 2018 and ceased to be a member of the Remuneration Committee on 20 September 2019.

The Remuneration Committee considers that the remuneration of the sole Executive Director and the Non-Executive Directors operated as intended in 2019 in terms of quantum and Company performance.

Looking ahead

The current Directors' Remuneration Policy will expire this year and we are seeking your support and approval for the new remuneration policy which is intended to apply for three performance years from the date of the 2020 AGM. As noted above, it is intended that the New Policy will be a continuation of the previous Directors' Remuneration Policy and the sole Executive Director's salary will remain unchanged as a result of the approval of the New Policy. The new remuneration policy reflects the following limited changes to the existing policy:

a) malus and clawback provisions may apply to the annual bonus award, in line with the FRC's best practice guidance;

b) shareholding guidelines apply post-cessation of employment as set out on page 68, at the lower of the shareholding guidelines and the executive director's actual shareholding on the date that he/she leaves employment. Please see page 68 for more details;

c) any PSP awards will be subject to total holding and vesting period of 5 years from grant;

d) any PSP awards may be subject to enhanced malus and clawback provisions, in line with the FRC's guidance.

The Remuneration Committee believes that the New Policy will continue to strike the right balance between generating sustainable success for the Group and for our shareholders and rewarding exceptional performance of our Executive Director, senior management and NEDs. The Remuneration Committee considers that the New Policy is appropriate in the light of the benchmarking studies carried out in 2019 by Pearl Meyer (in relation to the Chairman and Non-Executive Director's fees) and h2glenfern (in relation to the CEO's remuneration) and the challenges and opportunities that the Group faces.

The Group is determined to foster trust and open dialogue between its staff and the Board in all governance matters, including executive pay. Similarly, in designing the New Policy, the Remuneration Committee considered the incentive opportunity awarded to the Group's workforce. All UK employees are eligible to receive an annual pension contribution equivalent to 15% of base salary, on the same basis as the Executive Director, and life assurance, income protection and private medical cover. The Executive Director receives the same vacation allowance as employees in the Ukraine, his principal work location and participates in the annual bonus on a similar basis to other employees (albeit that the performance weightings and opportunities within the annual bonus plan will vary depending on role, tenure, seniority and individual performance).

Principles of Remuneration

The Remuneration Committee strives to ensure that the Directors' remuneration attracts and retains the best talent, fosters sustainable growth and preserves the flexibility to change to market conditions and trends. The following principles have been considered when determining our Directors' remuneration and in designing the New Policy:

Clarity - The Remuneration Committee has adopted a harmonious approach to remuneration. The Group's workforce and its sole Executive Director are all eligible to receive an annual cash bonus on the satisfaction of their KPIs, along with their cash salary. In 2019, the sole Executive Director did not participate in the Company's PSP nor was he awarded any other shares or options to acquire shares.

Simplicity - The Remuneration Committee strives to ensure that performance measures are clear and transparent with respect to the annual bonus (including the relative weighting thereof). To the extent that any share interests are granted to Executive Directors in the future under the Company's PSP or other performance plan arrangement, the Remuneration Committee will disclose the Executive Directors' KPIs and relative weightings thereof in the remuneration report for the relevant year.

Risk - The Remuneration Committee has the discretion to reduce and clawback any awards granted under the PSP and annual bonus plan. Please see page 70 below for more information on the application of malus and clawback. Given the inherently discretionary nature of the annual bonus scheme, there is no opportunity for inflated payments to Executive Directors due to formulaic outcomes.

Predictability - the range of possible values of the Executive Director's remuneration alongside the Remuneration Committee's discretion to reduce or stop the vesting of awards under the PSP and annual bonus plan is set out in the New Policy (which has been detailed on pages 64 - 71).

Proportionality/Alignment to culture - the Remuneration Committee strives to align the Executive Director's remuneration with the short-to-medium term success of the Group through the annual bonus scheme which is linked to the performance of the individual and the Group during the previous financial year. Further, the Policy reserves the flexibility with the use of the PSP to link Executive Director performance to the long-term growth of the Company if there is a desire in the future from the Company and our shareholders to do so.

Remuneration disclosure

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

- The Annual Report on Directors' Remuneration (pages 58 to 64) sets out details of how our existing remuneration policy has been applied for the year ended 31 December 2019. This section is subject to an advisory shareholder vote. A summary of the existing Remuneration Policy that has applied since 1 January 2015 can be found in the 2014 Annual Report.
- The new Directors' Remuneration Policy (pages 64 to 71) which shall be subject to a vote at the 2020 AGM and which is intended to apply from the date of the 2020 AGM.

These sections work together to give you full and transparent disclosure of the Company's approach to Directors' remuneration during 2019, 2020 and for the years to come.

The Remuneration Committee will continue to review the Remuneration Policy for Executive and Non-Executive Directors on a regular basis to ensure that it is in compliance with the regulatory framework, market practice and is appropriate in the business environment that the Group operates.

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

Dr. Rashid Javanshir
Chairman of the Remuneration Committee
31 March 2020

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Directors' remuneration report

Work of Remuneration Committee during 2019

The Company's Remuneration Committee is responsible for establishing and overseeing the Group's Director and senior executive remuneration policy principles, approving remuneration arrangements, exercising oversight of Director remuneration and for communicating Director remuneration to its stakeholders.

A summary of the Remuneration Committee's role and activities during 2019 can be found in the table below:

Members from 1 Jan 2019	Role of the Committee	Activities during 2019
Dr. Rashid Javanshir (as Chairman) - appointed 20 September 2019 Charles Valceschini - appointed 20 September 2019 Tony Alves- appointed 20 September 2019 Michael Bakunenko – appointed 8 October 2018, resigned as a member of the Committee on 20 September 2019 Andrey Shtyrba (as Chairman) - appointed 11 December 2017, resigned 22 August 2019 Christian Bukovics – appointed 9 February 2018, resigned 22 August 2019 Hans Jochum Horn - appointed 11 December 2017, stood down 23 May 2019	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 2019/20 Annual Bonus Scheme, and ▪ Review the application and appropriateness of current remuneration policies. ▪ Setting of Non-executive Directors fee levels and Executive Director remuneration.

Membership and process

Members	From	To	Number of meetings in 2019 - Attendance/Eligibility
Dr. Rashid Javanshir (Chairman)	20 September 2019	present	2/2
Tony Alves	20 September 2019	present	2/2
Charles Valceschini	20 September 2019	present	2/2
Michael Bakunenko	8 October 2018	20 September 2019	1/1
Andrey Shtyrba	11 December 2017	22 August 2019	1/1
Christian Bukovics	9 February 2018	22 August 2019	1/1
Hans Jochum Horn	11 December 2017	23 May 2019	1/1

Dr. Rashid Javanshir, Charles Valceschini and Tony Alves joined the Board as independent Non-Executive Directors on 16 September 2019 and were appointed to the Remuneration Committee on 20 September 2019. Dr. Rashid Javanshir was appointed as Chairman of the Remuneration Committee on 20 September 2019. This is Dr. Rashid Javanshir's first time serving on a Remuneration Committee. Although the Code recommends that a Chairman has at least 12 months experience on a Remuneration Committee before being appointed as Chair, the Board took into account the size of the Group, the existing remuneration structure and Dr Javanshir's general management experience and considered him well suited to the role.

Between 22 August and 20 September 2019 the Board did not have a Remuneration Committee as a result of the Board restructure.

The Remuneration 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 Remuneration Committee met three times during 2019.

During 2019, no member of the Remuneration Committee had any personal financial interest and no conflicts of interests arise from cross-directorships or day-to-day involvement in running the Group. No Director plays a part in any decision regarding his/her own remuneration.

Advisors to the Remuneration Committee

Members of the Remuneration Committee provide valuable input in shaping the remuneration practice and polices for Executive Directors. Similarly the Remuneration Committee also seeks internal input from other members of the Board in determining Executive Remuneration and assessing its appropriateness.

In addition, during the year, the Remuneration Committee received advice and information from Pearl Meyer and h2glenfern, specialist remuneration consultants with experience of peer companies in the same sector in order to ensure that the Non-Executive Directors' fees and the CEO's remuneration package remained appropriate and market related. Both were appointed as an independent remuneration consultant following a tender process conducted in 2019. The aggregate amount of the fees paid to Pearl Meyer and h2 glenfern for advice to the Remuneration Committee during 2019 amounted to £11,400.

The Remuneration Committee is satisfied that the advice they have received was objective and independent and was free of any conflict in interest.

Statement of voting at General Meeting

At the Annual General Meeting held on 23 May 2019, the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	99,778,459	99.97%
Against	30,381	0.03%
Total votes cast (for and against, excluding withheld votes)	99,808,840	100 %
Votes witheld[1]	47,289,211	47%
Total votes (for, against and withheld)	147,098,051	

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.

Single figure of total remuneration

The table below sets out a single figure for the total remuneration received by each Director of the Company in respect of their employment with the Company's Group (defined as the Company and PPC and YGE, being the only entities in the Group that have any employees) for the financial years ended 31 December 2018 and 31 December 2019. Since 28 January 2016, all Directors' remuneration was rebased to US Dollars (the Group's reporting currency).

Single figure of total remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2019 since his appointed as CEO and the Company's sole Executive Director on 23 May 2019. In 2019, the Executive Director's contract was settled in its Ukrainian Hryvna equivalent. Figures in this Report are disclosed in US Dollars (the Group's reporting currency). Amounts paid were translated at the National Bank of Ukraine monthly average exchange rates in accordance with the Group's foreign exchange policy.

	Salary and fees	Benefits[3]	Annual Bonus[4]	Pension[5]	Total
2019	$'000	$'000	$'000	$'000	$'000
Executive Director					
Victor Gladun					
Chief Executive Officer[1]	33	-	-	-	33[1]
General Director	261[2]	-	382	-	643
Total	294		382		676

1 This represents additional salary received following the appointment of Victor Gladun as a Chief Executive Officer from 20 September 2019 and is a prorated proportion of his additional salary payable as CEO of $120,000 per annum together with separate remuneration in his role as General Director of PPC.
2 Salary: amount earned in 2019 by Victor Gladun in his capacity as General Director of PPC following his appointment as an Executive Director on 23rd May 2019
3 Benefits: the taxable value of benefits received in the year, including life assurance and private medical cover are negligible.
4 Annual Bonus: this is the total cash bonus earned based on performance for the 2019 calendar year and paid in Q1 2020.
5 Pension: annual contribution by the Group to directors' pension plans or cash in lieu. Victor Gladun will receive an amount which is 15% of his base salary, which is line with the rest of the UK workforce rate, from 1/1/2020.
6 Victor Gladun does not receive any board or committee fees in his capacity as Executive Director of the Company or for any other executive role that he holds in the Group. Victor Gladun has not received any other benefit from the Group (including any share awards). As no shares have been awarded, no amount of Victor Gladun's remuneration has been subject to any share price appreciation or depreciation. No aspect of Victor Gladun's remuneration has been deferred.

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Directors' remuneration report

Fixed - cash salary	The Company did not have any Executive Directors prior to 23 May 2019. On 23 May Victor Gladun was appointed as an Executive Director of the Company at an Annual General meeting. Victor Gladun has held the position of CEO from 20 September 2019 and was paid a proportion of his annual CEO salary starting from this date. He does not receive any board or committee fees in addition to his salary for his CEO and other executive roles including as General Director of PPC. The Executive Director's basic salary and the other fixed elements of pay are determined by the Remuneration Committee on appointment and then reviewed at the beginning of each year and within the parameters of the remuneration policy. The individual salary and benefits of the Executive Director were set taking into account individual performance and market factors, with reference to independent and objective research conducted by h2glenfern that provides up-to-date information on a comparator group of UK companies operating in the independent oil and gas sector.
Discretionary - Annual bonus award	Victor Gladun received an annual bonus of $240,000 for the 2018 calendar year (paid in 2019) in respect of his role as General Director of PPC. This was calculated by reference to KPI's agreed by the previous board for the 2018 year. He received an annual bonus of $382,000 in Q1 2020 in relation to his performance in 2019 calendar year.
Pension	The Company will make a contribution equivalent to 15% of basic salary for the Executive Director with effect from 1/1/20. At his option, the Executive Directors may either have contributions of the same amounts made to his personal pension schemes or cash in lieu of pension at the stated rate, or a combination of pension contributions and cash in lieu at the stated rate, subject to normal statutory deductions.
Taxable benefits	Benefits provided to the Executive Director include life assurance, which is also provided for senior managers, for a sum assured of four times base salary and private medical cover is offered to all Company employees and provides medical cover for them and their dependents, on a non-contributory basis.

Notes to table

There was no Executive Director appointed in 2018.

Basis for determining Executive Director's annual bonus award

The annual cash bonus award reflects the Remuneration Committee's assessment of the extent to which his financial and non-financial KPIs were achieved.

The Annual Bonus Scheme for the 2019 year applied to certain senior management including senior staff in PPC and Yuzhgazenergie ('YGE'). The scheme is discretionary and annual awards are not pensionable. The Remuneration Committee considered Victor Gladun's performance to have fully met his KPI's and awarded him 100% of his maximum opportunity under his bonus award for 2019.

The annual bonus scheme payment for the 2018 year awarded to Victor Gladun in Q1 2019 did not relate to his work as Chief Executive Officer or as an Executive Director of the Company but was based upon his 2018 KPI's and achievements in his capacity as General Director of PPC. This annual cash bonus award was paid prior to Victor Gladun's appointment as an Executive Director of the Group and therefore, in accordance with the legislative framework, we have not reported on the assessment of the bonus in this report.

Annual bonuses for the 2019 year paid in January 2020 will be further disclosed in next year's report (including the relevant KPIs and reporting thereof).

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 Non-Executive Director of the Company for the financial years ended 31 December 2018 and 31 December 2019.

All Non-Executive Directors' remuneration was rebased from GBP to US Dollars from 28 January 2016 (the Group's reporting currency). However, in accordance with the letters of appointment, Dr. Rashid Javanshir, Tony Alves, Adrian Coates and Christian Bukovics director fees were settled in its Sterling equivalent at the rate set in accordance with the Group's foreign exchange policy.

	Fees		Total remuneration	
$'000	**2019**	2018	**2019**	2018
Non Executive Directors				
Charles Valceschini	**53**	-	**53**	-
Tony Alves	**31**	-	**31**	-
Dr Rashid Javanshir	**26**	-	**26**	-
Michael Bakunenko	**-**	2	**-**	2
Former Non Executive Directors				
Hans Jochum Horn	**110**	260	**110**	260
Andrey Shtyrba	**96**	142	**96**	142
Adrian Coates	**62**	149	**62**	149
Christian Bukovics	**87**	113	**87**	113
Vladimir Tatarchuk	**-**	2	**-**	2
Vladimir Rusinov	**-**	2	**-**	2
	465	670	**465**	670

The Non-Executive Directors' fees are subject to an overall cap of £500,000 per annum, excluding exceptional fees for additional work 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.

Changes to Non-Executive Directors' remuneration during 2019

The following Non-Executive Directors had been appointed as such during the year:

Non-Executive	Date of contract	Term of contract	Notice period	Date of termination[1]
Charles Valceschini	16 September 2019	3 years	3 months	N/A
Dr Rashid Javanshir	16 September 2019	3 years	3 months	N/A
Tony Alves	16 September 2019	3 years	3 months	N/A
Michael Bakunenko	8 December 2017	3 years	3 months	N/A
Hans Jochum Horn	24 October 2017	3 years	3 months	23 May 2019
Adrian Coates	8 December 2017	3 years	3 months	23 May 2019
Andrey Shtyrba	24 October 2017	3 years	3 months	22 August 2019
Christian Bukovics	9 February 2018	3 years	3 months	22 August 2019

1 On 23 May 2019, Hans Jochum Horn and Adrian Coates stood down from the Board and were not reappointed at the Annual General Meeting of the Company. Following the meeting, Christian Bukovics and Andrey Shtyrba tendered their resignations as directors of the Company and left the Board at the end of their three months' notice period, on 22 August 2019.

All Non-Executive Directors' letters of appointment automatically terminate if a number of events occur, including material breach, being disqualified from acting as a director or ceasing to act as a director for other reasons. Non-Executive Directors are appointed for an initial term of three years and notice periods are three months for either the Company or individual. No compensation is payable under the terms of the letters of appointment and within the remit of the remuneration policy in force for early termination.

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

The fees were reduced in 2019 from the level introduced in 2013 and were based on a per annum rate (in Sterling) which was compared to published material concerning Non-Executive Director fees in similar size companies and comparable companies in the sector.

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

These fees were reviewed at the 2019 year end and no increase has been awarded from their 2019 level. Non-Executive Directors' fees for 2019 and 2020 are as follows:

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Directors' remuneration report

Position[1]	2019	2020	% decrease from 2019 to 2020
Chairman of the Company	$250,000	**$180,000**	28
Board membership fee	$120,000	**$60,000**	50
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

1 These payments relate solely to the position referred to and where a Non-Executive Director holds more than one position he will receive payment for each such position held.

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.

Scheme interests awarded in 2019 (audited)

Whilst the Company does still have one long-term incentive plan, the 2010 Performance Share Plan ('PSP') which was approved by shareholders at the 2010 and 2014 Annual General Meetings, no grants have been made to Directors under the PSP (or otherwise) during 2019.

Percentage change in CEO remuneration

The table below shows the percentage change in the CEO's 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 2018 and 2019 populations. A comparison with UK employees is used as the most likely recruitment location for senior staff in a premium listed company; 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
	2019 $'000	2018[2] $'000	% change 2018 - 2019	% change 2018 - 2019
Base salary	**33[1]**	N/A	100%[3]	100%
Taxable benefits	**-**	N/A	N/A	N/A
Annual bonus	**382**	N/A	N/A	N/A
Total	**415**	N/A	100%	100%

1 This relates solely to the CEO remuneration received by Victor Gladun in the period from his appointment as CEO on 20 September 2019 until year end and does not include any payment he receives in relation to his role as General Director of PPC. his role as CEO of PPC was received in Q1 2019, prior to his appointment.
2 No amounts were received by a CEO in 2018, and Victor Gladun was not appointed as CEO until 20 September 2019.
3 100% increase is due to the fact that prior to 23 May 2019, the Company did not have an Executive Director.

On 23 May 2019 Victor Gladun was appointed as an Executive Director of the Company at an Annual General meeting. There were no Executive Directors appointed as Directors in 2018.

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 23 May 2019 Hans Jochum Horn and Adrian Coates stood down form the Board and were not reappointed at the Annual General Meeting of the Company. No additional payments were made to them. Following the Annual General Meeting, Andrey Shtyrba and Christian Bukovics, tendered their resignations and such resignations were accepted by the Board, and they left the Board at the end of their three months' notice period, on 22 August 2019. No additional payments were made to them.

Payments to past directors (audited)

There were no payments made to past directors in 2019.

Statement of directors' shareholdings and share interests (audited)

In 2010, the Remuneration Committee introduced an 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.

Victor Gladun, as the sole Executive Director, does not hold any Shares or options (vested or unvested) in the Company as at 31 December 2019 and has not been awarded any Shares or options as part of his remuneration in 2020 between 1 January 2020 and the date of this document, nor has he acquired any Shares in the Group. There were no Executive Directors appointed in 2019 prior to Victor Gladun's appointment on 23 May 2019.

At 31 December 2019, no Non-Executive Director held any Shares or options (vested or unvested) in the Company. Since 31 December 2019, there have been no changes in the Directors' interests in shares of the Company.

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 2019 and 31 December 2018, along with the percentage change in both.

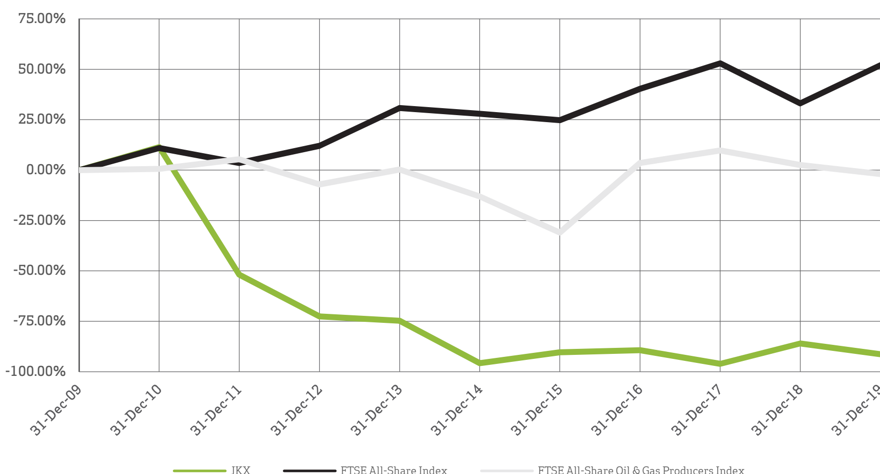
	2019 $'000	2018 $'000	Year-on-year change
All-employee remuneration	8,741	12,502	(30)%
Distributions to shareholders	-	–	N/A

[1] All-employee remuneration includes total staff costs for the Group and is converted into US$ in accordance with Group foreign exchange policy
[2] No dividends or other distributions were made to shareholders in 2018 or 2019.
[3] No other significant distributions and payments or other uses of profit or cash-flow were made in 2018 or 2019.

Performance graph and table

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 Company's Chief Executive Officer's total remuneration over the 10-year period. An investment of £100 in the Company on 31 December 2009 was worth £8.7at 31 December 2019 (same investment on 31 December 2008 was worth £.14.0 at 31 December 2018).

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Directors' remuneration report

	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
CEO single figure of remuneration - Paul Davies ($'000)	818	832	983	1,141	1,043	1,322	62	N/A	N/A	**N/A**
CEO single figure of remuneration – Tom Reed ($'000)	N/A	N/A	N/A	N/A	N/A	N/A	1,261	325	N/A	**N/A**
CEO single figure of remuneration – Victor Gladun ($'000)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	**676**
Total CEO single figure of remuneration ($'000)	818	832	983	1,141	1,043	1,322	1,323	325	N/A	**676**
Bonus award - % against maximum opportunity	40%	43%	33%	62%	33 %	86%	70%	0%	N/A	**57%**

1 From 28 January 2016, the CEO's remuneration was rebased to its equivalent US Dollar amount at that time. For financial years 2010 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: $2010: £1:$1.546; 2011: £1:$1.604; 2012: £1:$1.585; 2013: £1:$1.565; 2014: £1:$1.648; 2015:£1: $1.529. In 2019, the Executive Director's contract was settled in its Ukrainian Hryvna equivalent. Amounts paid were converted at the National Bank of Ukraine monthly average exchange rates.
2 No cash bonus award was received by the CEO in 2017.
3 The Company did not have a CEO in 2018 (or any other Executive Director).
4 No CEO of the Company has ever been awarded an award under the Company's Performance Share Plan or any other deferred share bonus or salary.
5 Victor Gladun did not receive any bonus payment in 2019 after his appointment as CEO on 29 September 2020.
6 Single figure remuneration is calculated on the same basis as set out on page 59 and includes both remuneration actually received as CEO in 2019 and also as General Director of PPC. The figure of $676,000 includes the bonus award made in Q1 2020 in relation to the 2019 financial year.

Summary of policy changes and 2020 implementation

The table below summarises the key components of our proposed remuneration framework, illustrating how it differs from the existing policy and how we intend to implement the New Policy in 2020. Full details of the New Policy are set out on pages 64 – 71.

As the table below illustrates, the New Policy is intended to be a continuation of the existing policy that was approved by shareholders at the 2014 AGM and which was re-instated at the 2017 AGM. The full policy, 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

		Existing Policy	New Policy and 2020 implementation
Fixed	Salary	Fixed remuneration set out in the service contract, to attract and retain talent, which reflects the role, skills and responsibilities. An executive director may receive payment under different contracts in relation to different roles (e.g. acting as Group CEO and General Director of an operating unit), but receives no other fees in relationship to directorship of any group company or membership of any Board committee.	No change to the Policy. An Executive Director's basic salary and the other fixed elements of pay are determined by the Remuneration Committee on appointment and then reviewed at the beginning of each year and within the parameters of the remuneration policy. The individual salary and benefits of the Executive Director were set taking into account individual performance and market factors, with reference to independent and objective research that provides up-to-date information on a comparator group of UK companies operating in the independent oil and gas sector.
	Pension	An Executive Director receives a payment in lieu of pension of 15% of base salary per annum, in line with the pension contributions for UK workforce.	No change. At their option, Executive Directors may either have contributions of the same amounts made to their personal pension schemes or cash in lieu of pension at the stated rate, or a combination of pension contributions and cash in lieu at the stated rate, subject to normal statutory deductions.
	Benefits	Life assurance, private medical insurance and other benefits at the Remuneration Committee's discretion.	No change.

		Existing Policy	New Policy and 2020 implementation
Discretionary	Annual bonus	To align the executive director with the short-term and medium-term success of the Group. The Remuneration Committee has the discretion to defer the annual bonus into shares to be held for one year. KPIs are set by the Remuneration Committee at the start of each year. The measures selected may vary each year depending on business context and strategy, and measures will be weighted appropriately according to business priorities. Under normal circumstances, financial measures will make up at least half of the total bonus opportunity.	Enhanced malus and clawback provisions may apply and may be exercised at the discretion of the Remuneration Committee. No other change.
	PSP Award	The Remuneration Committee has the ability to grant awards of nil-cost options annually to executive directors, conditional on group performance. Maximum opportunity: 150% base salary. Previous Measures and weightings: ▪ 25% TSR; ▪ 25% Earnings per share; ▪ 25% Other financial measures (e.g. ROCE, Profit before tax, cash resources); ▪ 25% Strategic and operational measures (e.g. production, reserves). Three-year vesting period. No PSP award was made in 2019.	PSP awards granted will be subject to a further two-year holding period after vesting (total vesting and holding period of 5 years). No PSP award is intended to be made in 2020. To the extent that any PSP award is granted, full disclosure of the KPIs and relative weightings will be disclosed in following annual report. Enhanced malus and clawback provisions will apply and may be exercised at the discretion of the Remuneration Committee.
Other	Shareholding guidelines	100% of base salary.	The lower of the shareholding requirement or the Executive Director's actual shareholding will be maintained for two years post-employment, releasing on a phased basis: 50% after year 1 and 50% year two.
	NED fees	Fees reflect experience and skill of the individuals and responsibilities and time commitments for the role.	No change. Fee levels will be next reviewed during 2020, with any increase effective 1 January 2021. 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 New Policy.

Directors' Remuneration Policy

The New Policy will be put to shareholders for approval at the AGM to be held on 12 June 2020. Subject to approval, the New Policy is intended to apply for three years from the date of the AGM. The Remuneration Committee is satisfied that the New Policy is in the best interests of shareholders and does not promote excessive risk-taking.

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Directors' remuneration report

The New Policy is a continuation of the existing remuneration policy, subject to the following differences:

a) malus and clawback provisions may apply to the annual bonus award, which may be exercised at the Remuneration Committee's discretion, in line with the FRC's best practice guidance;

b) Shareholding guidelines apply post-cessation of employment, at the lower of the shareholding guideline and the executive director's actual shareholding on the date that he/she leaves employment;

c) any PSP awards will be subject to total holding and vesting period of 5 years from grant;

d) any PSP awards may be subject to enhanced malus and clawback provisions.

Future Policy Table

Base salary

Purpose and link to strategy	To attract and retain the best talent by ensuring base salaries reflect individual performance, market factors and the individual's role, responsibilities and skills.
Operation	Base salaries are reviewed annually, with reference to the individual's role, experience and performance; salary levels are referable to relevant UK sector comparators, and the range of salary increases applied across the Group.
Maximum Opportunity	Any base salary increases are applied in line with the outcome of the annual review. Different increases may be awarded at the Remuneration Committee's discretion in instances such as: a) where there has been a significant increase in the size, value or complexity of the Group; b) there has been a change in the role/responsibility; c) the incumbent executive director is paid below market comparators.
Performance metrics	Business and individual performance are considered in setting base salary.

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 Remuneration Committee reviews comparator companies periodically to ensure they remain appropriate and retains the discretion to adjust the reference group or companies as appropriate. In 2019, h2glenfern, a specialist remuneration consultant, was engaged to assist the Remuneration Committee is setting the Executive Director's remuneration and conducted a benchmarking exercise to ensure that it remained in line with market norms..

Pension

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

Benefits

Purpose and link to strategy	To provide competitive benefits.
Operation	Executive Directors receive benefits which include, but are not limited to, life assurance and private medical cover, although can include any such benefits that the Remuneration Committee deems appropriate, including (but not limited to) a car or a car allowance and long-term disability insurance.
Maximum Opportunity	Benefits values vary by role and are reviewed periodically relative to market circumstances. The cost of the benefits provided changes in accordance with market conditions and jurisdiction and will, therefore, determine the maximum amount that would be paid in the form of benefits during the life-time of the Policy. The Remuneration Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in

	circumstances where factors outside the Company's control had changed materially (e.g. increases in insurance premiums).
Performance metrics	Not performance related.

Annual bonus

Purpose and link to strategy	To incentivise the achievement of short-term and medium-term financial and strategic objectives on an annual basis
Operation	Performance measures, targets and weightings are set at the start of the year according to strategic priorities. At the end of the year, the Remuneration Committee determines the extent to which the targets have been achieved, with any bonus payments delivered in cash. The annual bonus is paid at the start of the following financial year (in relation to the executive director's performance of the previous year). For Executive Directors, the Remuneration Committee has the discretion to mandate the deferral of a proportion (up to 100%) of the annual bonus in JKX shares, to be held for a minimum of 1 year. The annual bonus award (and any deferred shares) may be subject to malus and clawback provisions, which can be exercised at the Remuneration Committee's discretion, in the event of material erroneous, misleading data, gross misconduct, misstatement of accounts, serious reputational damage, and corporate failure. Please see the notes to the table for more information. The sale of any deferred shares is subject to meeting shareholding guidelines.
Opportunity	For Executive Directors, the maximum annual bonus opportunity is 100% of base salary or 150% of base salary in exceptional circumstances.
Performance metrics	Performance is assessed annually based on challenging and stretch targets for operational, organisational, financial and health and safety performance. The measures selected may vary each year depending on business context and strategy, and measures will be weighted appropriately according to business priorities. Under normal circumstances, financial measures will make up at least half of the total bonus opportunity. The targets and relative weightings will be disclosed in the annual report following the relevant financial year. Payment of any annual bonus award will be subject to a discretionary underpin (including individual performance). The Remuneration Committee has the discretion to alter the measures and/or targets during the performance period if it believes the original measures and/or targets are no longer appropriate. The Remuneration Committee has discretion to adjust the formulaic bonus outcomes both upwards and downwards within the plan limits (including down to zero) to ensure alignment of pay with the underlying performance of the business, e.g., in the event of a target being significantly missed or unforeseen circumstances outside of management control.

Performance Share Plan

Purpose and link to strategy	To incentivise strong long-term financial performance and superior longer term returns to shareholders relative to peers and to align the interests of executive directors and shareholders.
Operation	The Remuneration Committee has the ability to grant awards of nil-cost options annually to Executive Directors, conditional on Group performance over a period of at least three years. Shares that vest under the PSP may then be subject to an additional holding period of up to two years. The PSP awards may be subject to malus and clawback provisions, which may be exercised at the Remuneration Committee's discretion, in the event of material erroneous, misleading data, gross misconduct, misstatement of accounts, serious reputational damage, and corporate failure. Please see the notes to the table for more information.

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Directors' remuneration report

	The sale of vested PSP awards is subject to meeting shareholding guidelines.
Opportunity	The PSP provides for an award up to a normal aggregate limit of 150% of salary for Executive Directors, with an overall limit of 200% of salary in exceptional circumstances.
Performance metrics	Vesting of PSP awards is subject to continued employment and the Company's performance over a 3-year performance period. If no entitlement has been earned at the end of the relevant performance period, awards will lapse. From 2015, PSP awards are based on a number of financial and strategic measures, which may include, but are not 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 are subject to an underpin such that for any PSP awards to vest, the Remuneration Committee must satisfy themselves that health and safety performance has been satisfactory over the performance period. Each measure can be applied a weighting of between 0% and 50%. Executive Directors will not be rewarded for poor performance. The Remuneration Committee has the discretion to adjust the performance measures and weightings in advance of making a PSP award to ensure that they continue to be linked to the delivery of Company strategy and long-term success of the Company. Performance measures and weightings, as well as performance against these, will be disclosed in the Report on Remuneration for the relevant year. Under each measure, threshold performance will result in up to 25% of maximum vesting for that element. The vesting level will increase on a sliding scale to 100% vesting for stretch levels of performance. Vesting of PSP awards may be deferred in whole or in part for a period of up to two years following the end of a three year vesting period. As under the annual bonus, the Remuneration Committee has discretion to adjust the formulaic PSP outcomes within the PSP limits to ensure alignment of pay with performance, i.e. to ensure the outcome is a true reflection of the performance of the Company and the individual.

Shareholding guidelines

Purpose and link to strategy	To align Executive Directors with the strategic long term success of the Company.
Operation	To the extent that Executive Directors are awarded share options and shares as part of their remuneration package, Executive Directors may be required to build up a shareholding in the Company over a reasonable period. All beneficially owned shares and deferred annual bonus shares and vested PSP awards will count towards an individual's shareholding on a net of tax basis (where relevant). The lower of the Shareholding guideline (100% of base salary) and the individual's actual shareholding will continue post-employment, unless the Remuneration Committee determines otherwise (including determining that the Shareholding guidelines shall not apply where the Executive Director has voluntarily acquired shares in the Company or Group): ▪ the shareholding requirement will fall to 50% at the end of year 1; ▪ the shareholding requirement will fall to zero after two years.
Maximum Value	100% of base salary.
Performance metrics	Not performance related.

Non-Executive Directors' fees

Purpose and link to strategy	To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Company and the Group.
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. Fee levels will be next reviewed during 2020, with any increase effective 1 January 2021. 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 within the maximum level set out under the Policy. The maximum amount that may be paid to non-executive directors is £500,000 as set out in the Company's Articles of Association. Additional remuneration for a non-executive director who performs special services (as determined by the Board) as expressly permitted by the Articles of Association of the Company is also permitted under this policy.
Performance metrics	None

Non-Executive Directors' expenses

Purpose and link to strategy	To compensate Non-Executive Directors for expenses incurred in connection with the performance of their duties.
Operation	The Company may reimburse Non-Executive directors for any business related costs (such as travel costs, accommodation and other subsistence expenses incurred in connection with their duties) and any associated tax on these. The Remuneration Committee reserves the discretion to reimburse Non-Executive Directors for other expenses if it considers that it is appropriate in the circumstances to do so.
Opportunity	The maximum amount payable depends on the costs of providing such expenses.
Performance metrics	None

Notes to the future policy table

Performance measure selection and approach to target setting

The measures used to calculate the annual bonus are selected annually to reflect the Group's main objectives for the year and reflect both financial and non-financial priorities.

Under the Company's PSP plan, the Remuneration Committee considers the use of TSR to be appropriate since it is dependent on the Company's relative long-term share price performance and therefore provides strong alignment with the interests of the Company's shareholders. The Remuneration Committee equally considers EPS to be an appropriate measure, since it is the primary internal benchmark of long-term financial performance and promotes alignment between management and the Company's shareholders. As outlined in the Policy Table above, for future grants of long-term incentives, the Remuneration Committee may decide to include other financial, strategic and operational measures in addition to EPS and relative TSR. Such measures would be selected on the basis of their relevance to the company's longer term strategy and the Remuneration Committee will provide rationale for their inclusion in the Annual Report on Remuneration for the relevant year.

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Directors' remuneration report

Targets applying to both the annual bonus and PSP awards are reviewed annually, based on a number of internal and external reference points. Performance targets are set to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given year.

Malus and clawback

At any time prior to the vesting of a PSP award, delivery of any deferred shares pursuant to the annual bonus plan, or payment of a cash bonus, the Remuneration Committee may determine that an unvested award may not vest (regardless of whether or not the performance conditions have been met). At any time up to three years after the award vests, or a cash payment is paid or shares delivered, the Remuneration Committee may determine that the cash bonus or shares, or their equivalent value in cash, shall be returned to the Company as a result of misleading financial performance, or a material misstatement in the financial results of the Group, a material downturn in the financial performance of the Group, gross misconduct, reputational damage, corporate failure and/or if the Remuneration Committee considers that the amount of cash bonus or shares under an award cannot be justified based on the financial performance of the Company or performance of the individual.

Remuneration Committee discretion

In addition to the malus and clawback provisions noted above, the Policy gives discretion to the Remuneration Committee to override formulaic outcomes of the performance assessment in relation to the annual bonus and PSP.

Recruitment policy: Executive directors

External appointment

In cases of hiring or appointing a new Executive Director from outside the Group, the Remuneration Committee may make use of all existing components of remuneration, as described on the Policy table above.

In determining appropriate remuneration structure and levels, the Remuneration Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of both the Group and its shareholders. The Remuneration Committee may make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer, i.e. over and above the approach outlined in the table above. In doing so, the Remuneration Committee will consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining.

Any such 'buy-out' awards will typically be made under the existing annual bonus and PSP schemes, although in exceptional circumstances the Remuneration Committee may exercise the discretion available under Listing Rule 9.4.2 R to make awards using a different structure. Any 'buy-out' awards would have a fair value no higher than the awards forfeited.

Internal appointment

In cases of appointing a new Executive Director by way of internal promotion from within the Group, the Policy will be consistent with that for external appointees, as detailed above. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements even in instances where they would not otherwise be consistent with the prevailing Executive Director remuneration policy at the time of appointment.

Recruitment policy: Non-Executive directors

In recruiting a new Non-Executive Director, the Board will use the Policy as set out in the table above.

A base fee in line with the prevailing fee schedule would be payable for membership of the Board of Directors, with additional fees payable for acting as Senior Independent Non-Executive Director and as Chairman of any of the Audit, Remuneration and Nomination Committees, and for individual membership of such Committees.

The Remuneration Committee considers that external directorships provide the Group's Directors and senior executives with valuable experience that is of benefit to the Company, and believes that it is reasonable for the individual Non-Executive Director to retain any fees received from external appointments.

Directors and senior executives may accept appointments outside the Group providing that the Chairman's permission is sought and granted. Details of Directors external appointments and the associated fees received are included in the Annual Report on Remuneration.

Service contracts and policy on payment for loss of office

It is the Remuneration Committee's policy that poor performance should not be rewarded. The table below summarises how variable incentives are typically treated in specific circumstances, with the final treatment remaining subject to the Remuneration Committee's discretion.

The current Executive Director's contract is for an indefinite term and has a 6 months' notice period by either the Company or the individual. This would be the normal policy for new appointments.

Annual Bonus

Reason for leaving	Timing of vesting/payment	Calculation of vesting/payment
Retirement, ill-health, disability, death or any other reasons the Remuneration Committee may determine in its absolute discretion.	Normal payment date, although the Remuneration Committee has discretion to accelerate.	No automatic eligibility for payment. The Remuneration Committee may in its absolute discretion award a bonus for the performance year. Cash bonuses will only be paid to the extent that Group and personal objectives set at the beginning of the year have been achieved. Any resulting bonus will be pro-rated for time served during the year.
Change of control.	Not applicable.	Not applicable.
Any other reason.	No bonus is paid.	Not applicable.

PSP

Reason for leaving	Timing of vesting	Calculation of vesting/payment
Retirement, ill-health, disability, death or any other reasons the Remuneration Committee may determine in its absolute discretion.	Normal vesting date, although the Remuneration Committee has discretion to accelerate.	Any outstanding PSP awards will be pro-rated for time and performance. Note the Remuneration Committee may in its absolute discretion waive time pro-rating of award.
Death.	On date of event.	Any outstanding PSP awards will be pro-rated for time and performance. Note the Remuneration Committee may in its absolute discretion waive time pro-rating of award.
Change of control.	On date of event.	Any outstanding PSP awards will be pro-rated for time and performance. Note the Remuneration Committee may in its absolute discretion waive time pro-rating of award. In the event of a change of control, PSP awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.
Any other reason.	No bonus is paid.	Not applicable.

The table below sets out the date of the Executive Director's service contract, the dates of the Non-Executive Directors' letters of appointment and their notice periods.

Victor Gladun	Effective 20 September 2019[2]	6 months
Charles Valceschini	Effective 16 September 2019	3 months
Tony Alves	Effective 16 Septmber 2019	3 months
Michael Bakunenko	Effective 8 December 2017	3 months
Dr Rashid Javanshir	Effective 16 September 2019	3 months

Service contracts and letters of appointment are available for inspection at the Company's registered office.

Application of Policy

The table below provides an estimate of the potential future reward opportunities for the Executive Director, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

[2] Victor Gladun's contract is for an indeterminate period subject to termination by 6 months' notice either way.

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Directors' remuneration report

Potential reward opportunities are based on the new Policy. The annual bonus is based on the maximum opportunity level which will apply in 2020. Note that no PSP awards will be been granted in 2020. If a PSP award is granted in the future, a revised version of this table will be prepared and disclosed in the annual return

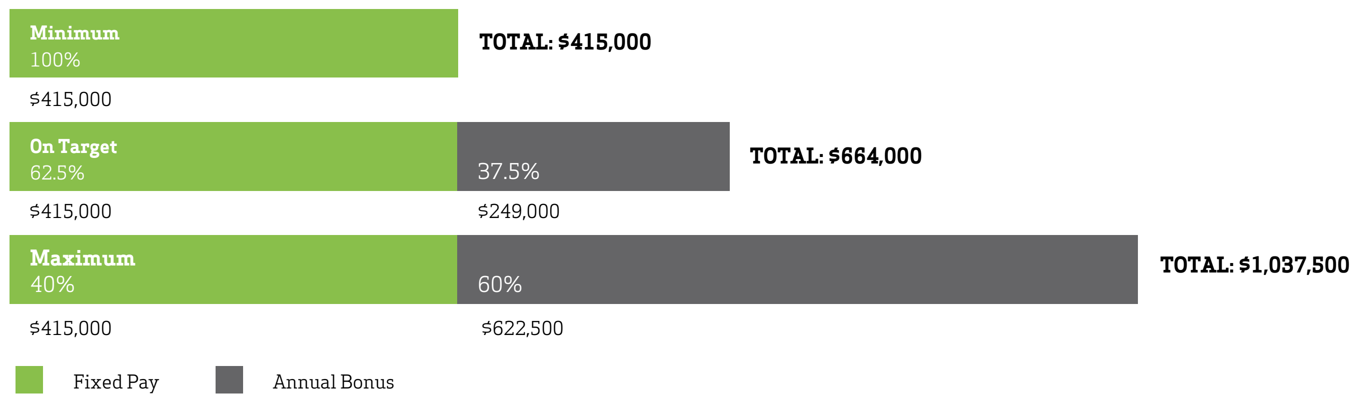
The 'Minimum' scenario reflects base salary, pension and benefits (i.e. fixed remuneration), being the only elements of the Executive Directors' remuneration package not linked to performance.

The 'On-target' scenario reflects fixed remuneration as above, plus on-target bonus (60% of salary).

The 'Maximum' scenario reflects fixed remuneration, plus full payout under all incentives (150% of salary under the annual bonus).

The chart below illustrates the potential future remuneration for the Executive Director under the new policy. In line with current regulations, the illustrations do not assume any share price growth or dividend equivalent payments in share awards.

Victor Gladun
Illustration of package value under new policy.



Notes to application of remuneration policy charts

Element of package	Assumptions used
Fixed Pay	Basic salary effective: 20 September 2019 Benefits: as disclosed in single figure of remuneration Pension: 15% cash allowance
Annual Bonus	Minimum: no bonus earned On target: 60% of maximum bonus is earned Maximum: 150% of maximum bonus is earned

Consideration of conditions elsewhere in the Company and employee engagement

The Remuneration Committee takes into consideration the remuneration arrangements for the UK-based employee population in making its decisions on remuneration for executive directors, non-executive directors and senior executives. More than 95% of the Group's staff are based outside of the UK, primarily in the Ukraine and Russia, where salaries and benefits reflect local practice. The Remuneration Committee does not currently consult with employees specifically on the effectiveness and appropriateness of the executive remuneration policy and framework. However, the Company seeks to promote and maintain good relationships with employee representative bodies as part of its employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Company operates.

Consideration of shareholders views and shareholder engagement

When determining remuneration, the Remuneration Committee takes into account view of its shareholders and best practice guidelines issued by institutional shareholder bodies.

The Remuneration Committee is always open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to remuneration policy. The Remuneration Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate. We will consult shareholders before making any significant changes to our remuneration policy.

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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 2020 AGM and matters of Ordinary Business and those proposed as Special Business, together with explanatory notes, will be sent to shareholders at least 20 clear 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 (2018: nil). The Group made charitable contributions of $0.3m (2018: $0.2m) 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 25 to 28.

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 32 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 2019, the Company did not purchase in the market any of its own ordinary 10p shares, to be held as treasury shares. At 31 December 2019, 402,771 (2018: 402,771) shares continued to be held as treasury shares representing 0.23% (2018: 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.

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Directors' report – other disclosures

Directors

The names and biographies of the Directors who held office as at the date of this Annual Report are set out on pages 40 and 41.

Directors who held office throughout 2019 and the changes made to the Board during the year are set out below:

Name	Appointed	Position
Charles Valceschini	16 September 2019	Non Executive Director,
Michael Bakunenko	8 December 2017	Non Executive Director
Tony Alves	16 September 2019	Non Executive Director
Victor Gladun	16 September 2019	Executive Director
Rashid Javanshir	16 September 2019	Non Executive Director

Name	Removed/Resigned	Position
Hans Jochum Horn	23 May 2019	Non Executive Director
Christian Bukovics	22 August 2019	Non Executive Director
Adrian Coates	23 May 2019	Non Executive Director
Andrey Shtyrba	22 August 2019	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 2019 Ordinary Share Number	31 December 2019 Ordinary Share Number
Michael Bakunenko[1]	47,287,027	47,287,027

[1] Michael Bakunenko as a nominee for Eclairs Group Limited, is deemed to have a beneficial interest in these 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 59 to 63. No Director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its subsidiary companies at any time during the year.

The share capital structure is listed in Note 16 to the financial statements and the significant holdings are listed below.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Change of control (significant contracts)

The Company is not party to any significant agreements (and was not party to any significant agreements during 2019) 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 $5.7m remained outstanding at 31 December 2019, see Note 11 to the consolidated financial statements). The final payments due under the terms of the convertible bond were made on 19 February 2020 and it is now fully redeemed and all payments due have been made. 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. There were no options or awards outstanding under any such scheme as at 31 December 2019 and no options or awards have been granted between that date and the 31 March 2020.

Events after the reporting date

Events after the reporting date are discussed in Note 33 to the financial statements.

Substantial shareholders

At 31 December 2019 and at 29 March 2020, 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.

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Directors' report – other disclosures

Dividends

No dividends have been paid or proposed for the year ended 31 December 2019. 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 pages 91 - 92.

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 2019 can be found on page 85 - 87.

Capitalised interest

No interest was capitalised in 2019 (2018: nil).

Long term incentive schemes

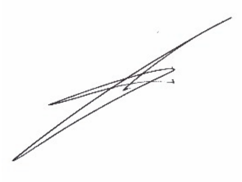
See pages 58 to 71 of the Directors' Remuneration Report.

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
31 March 2020

Independent auditor's report

to the members of JKX Oil & Gas plc

Report on the audit of the group financial statements

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 2019 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 the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion 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 2019 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Basis for opinion

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 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.

Material uncertainty in relation to going concern arising from the Covid-19 pandemic

We draw attention to note 2 in the financial statements which sets out the directors' considerations of the potential impact on the Group's business of the Covid-19 pandemic. As stated in note 2, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Company and Group were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

We have highlighted going concern as a key audit matter as a result of the estimates and judgments required determining oil and gas prices, production, the timing and quantum of potential 2010 and 2015 Rental fee payments in the period to June 2021, and the availability of sufficient and appropriate lending facilities. The level of judgment and estimation uncertainty has subsequently been significantly increased by the Covid-19 pandemic. We considered the resulting potential impact and the effect on our audit strategy made this a key audit matter.

Our audit procedures in response to this key audit matter included:

- We discussed the potential impact of Covid-19 with management and the Audit Committee including their assessment of risks and uncertainties associated with areas such as the Group's workforce, supply chain, customer sales and commodity market prices that are relevant to the Group's business model and operations. We formed our own assessment of risks and uncertainties based on our understanding of the business and oil and gas sector.
- We obtained management's reverse stress testing analysis which was performed to determine the point at which liquidity breaks and considered whether such scenarios, including significant reductions in commodity prices and production were possible given the potential impacts of Covid-19 and the level of uncertainty.
- We evaluated potential mitigating actions identified by management. In doing so we confirmed the terms of facilities in place and assessed the risk that draw down requests may not be approved given uncertainties associated with Covid-19. We used our Ukrainian tax and legal specialists to confirm that Ukrainian legislation allows for payment plans to be granted should the rental claims fall due but such arrangements are at the discretion of the relevant governmental departments.
- We obtained management's base case cash flow forecast, challenging the key operating assumptions based on 2019 and 2020 actual results and external data and market commentary, where possible.
- We tested 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' below.

Independent auditor's report

to the members of JKX Oil & Gas plc

- We critically assessed management's judgments regarding the quantum and timing of rental fee payments 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 economic, political and legislative environment on the Group's operations. In doing so, we made inquiries of internal and external legal counsel and involved our own Ukrainian legal specialists.
- We reviewed the adequacy and completeness of disclosures in the financial statements in respect of going concern.

Conclusions relating to principal risks 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 30 - 39 that describe the principal risks and explain how they are being managed or mitigated; or
- the directors' confirmation set out on page 38 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 53 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 38 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

In addition to the matter described in the material uncertainty relating to going concern paragraph above, 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 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 2019 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, reserves

Key Audit Matter	How the matter was addressed in our audit
	and 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 analysis compiled with our internal research team. In addition, we compared the price forecasts to those forecast by managements external reserves engineer. 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, approved budgets, external reserves engineer decline rates, 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 and external reserve engineers and performed procedures to assess for both their independence and competence. We met with both the internal and external reserve engineers as part of this process and ascertained there had been no limitation to their scope. We compared management's key assumptions to relevant assumptions used by the external reserve engineers and considered the appropriateness of management's assumptions based on the field development plan and the merits of different economic assumptions. We reviewed management's sensitivity analysis and performed our own sensitivity analysis on key inputs to assess the impact of changes in assumptions. We involved our valuations specialists to review the valuation methodology and support our assessment of the discount rates applied and discussed the judgments regarding the calculation with the Audit Committee. We read the key licence agreements and confirmed that the Group holds valid licences. 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 evaluated management's conclusion that the potential impact of Covid-19 and the impact of represented a non-adjusting subsequent event against the relevant accounting standards. 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.

Key Observation

Based on the procedures performed, we noted no material issues arising from our work in relation to the carrying value of oil and gas assets. We found management's conclusion that no impairment charge was required as at 31 December 2019 in respect of the CGU's to be supported by the underlying models. We found the disclosures in note 5 to be appropriate. We found the conclusion that the potential impact of Covid-19 represent a non-adjusting subsequent event and the disclosures regarding such subsequent events to be appropriate. We found the judgments and estimates applied by management in preparing the forecasts to be supportable, although the

Independent auditor's report

to the members of JKX Oil & Gas plc

sensitivity to changes in key inputs including oil and gas prices, foreign exchange rates and discount rates has increased compared to 2018.

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 (see notes 18 and 25)	
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 $41.3m with $14.4m of provisions released in the year as detailed in notes 18 and 25. Separately, in a prior period 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 registered its claim and filed application for collection in December 2019. 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 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 most recent court rulings in the Ukraine during 2019 and 2020 to date, including those relating to the claims for which provisions have been released. We evaluated management's conclusion that it remained appropriate to maintain provision against the remaining claims, following the awards in the Group's favour to date. In doing so, we considered the background to the favourable awards and legislative environment in the Ukraine. We performed a recalculation of the movement in the Rental claim provision including interest accrued and the quantum of amounts released. 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 and compared these to management's assessment of each claim. We confirmed that there were no changes to the previous basis of preparation and critically assessed the calculations for consistency with relevant Ukrainian legislation, in conjunction with our legal experts in the Ukraine 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 the material uncertainty relating to going concern paragraph above and agreed the presentational split between current and non-current provision was consistent with this analysis. In respect of the arbitration award, we confirmed the status of the award with the Management, internal and external legal counsel regarding the registration of the claim in Ukraine and reviewed related documents.

Key Audit Matter	How the matter was addressed in our audit
	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.

Key Observation

Based on the procedures performed, we noted no material issues arising from our work in relation to the Rental fee claims in the Ukraine. 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 the release of provisions in respect of four of the total 2015 Rental fee claims to be appropriate. We found the conclusion that it remains appropriate to maintain provision in respect of the remaining 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 25 to be appropriate.

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	$1,100,000
Basis for determining materiality	5% of profit before tax before exceptional items

	Group
Performance materiality	$825,000
Basis for performance materiality	75% of Group materiality

	Company
Materiality	$780,000
Basis for determining materiality	1% of total assets

	Company
Performance materiality	$585,000
Basis for performance materiality	73% of Company materiality

We considered the activities of the Group and previous period benchmarks. Given the Group earnings are now stabilising from prior year, we consider a profit before tax before exceptional items based measure to appropriately reflect the key drivers of the business at present and therefore and appropriate basis for materiality.

Whilst materiality for the financial statements as a whole was $1,100,000, each significant component of the Group was audited to a lower performance materiality ranging from $110,000 to $600,000.

Independent auditor's report

to the members of JKX Oil & Gas plc

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 100% of the Group's revenue, 94% of the Group's profit before tax and 99% 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.

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 76 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 51 the section 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 47 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 the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the Directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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 76, 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.

Independent auditor's report

to the members of JKX Oil & Gas plc

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. The period of total uninterrupted engagement is two years, covering the years ending 31 December 2018 and 31 December 2019.

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

31 March 2020

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 2019

	Note	2019 $000	2018 $000
Revenue	4	101,744	92,873
Cost of sales			
Exceptional item – net reversal of provision/(provision for production based taxes)	18	8,410	(5,055)
Other production based taxes	19	(23,518)	(21,857)
Other cost of sales	19	(41,264)	(35,629)
Total cost of sales	19	(56,372)	(62,541)
Gross profit		45,372	30,332
Administrative expenses		(13,207)	(13,945)
Loss on foreign exchange		(615)	(711)
Profit from operations before exceptional items		23,140	20,731
Profit from operations after exceptional items		31,550	15,676
Finance income	20	857	908
Finance costs	21	(2,054)	(2,510)
Fair value movement on derivative liability	12	62	(59)
Profit before tax		30,415	14,015
Taxation – current	25	(6,561)	(5,478)
Taxation – deferred			
- before the exceptional items	25	(1,968)	1,472
- on the exceptional items	25	(1,677)	1,761
Total taxation	25	(10,206)	(2,245)
Profit from continuing operations (attributable to equity holders of the parent company)		20,209	11,770
Profit from discontinued operation (attributable to equity holders of the parent company), net of tax	14	2,004	3,487
Profit for the year attributable to equity shareholders of the parent company		22,213	15,257

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 91 to 128

GROUP FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December 2019

	Note 27	2019 $000	2018 $000
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent company:			
Basic profit per 10p ordinary share (in cents)			
-after exceptional items	27	12.02	7.06
-before exceptional items	27	8.02	9.04
Diluted profit per 10p ordinary share (in cents)			
-after exceptional items	27	12.02	6.67
-before exceptional items	27	8.02	8.54
Earnings per share for (loss) /profit 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	27	1.19	2.09
-before exceptional items	27	(0.14)	2.09
Diluted profit/(loss) per 10p ordinary share (in cents)			
-after exceptional items	27	1.19	1.98
-before exceptional items	27	(0.14)	1.98
Earnings per share for profit attributable to the ordinary equity holders of the parent company:			
Basic profit per 10p ordinary share (in cents)			
-after exceptional items	27	13.21	9.15
-before exceptional items	27	7.88	11.13
Diluted profit per 10p ordinary share (in cents)			
-after exceptional items	27	13.21	8.65
-before exceptional items	27	7.88	10.51

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 91 to 128

GROUP FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	2019 $000	2018 $000
Profit for the year	**22,213**	15,257
Other comprehensive income to be reclassified to profit or loss in subsequent periods when specific conditions are met:		
- Currency translation differences	**21,481**	(19,475)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
- Remeasurements of post-employment benefit obligations	**(94)**	(22)
- Changes in the fair value of equity investments at fair value through other comprehensive income	**500**	-
Other comprehensive income for the year, net of tax	**21,887**	(19,497)
Total comprehensive income for the year attributable to equity shareholders of the parent company	**44,100**	(4,240)
Continuing operations	**42,096**	(7,587)
Discontinued operations	**2,004**	3,347

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 91 to 128

GROUP FINANCIAL STATEMENTS

Consolidated statement of financial position

As at 31 December 2019

	Note	2019 $000	2018* $000
ASSETS			
Non-current assets			
Property, plant and equipment	5(a)	215,728	175,112
Deferred tax assets	26	8,012	10,419
Investment	6	500	-
		224,240	185,531
Current assets			
Inventories	7	6,915	4,352
Trade and other receivables	8	3,931	5,111
Cash and cash equivalents	9	20,629	19,182
		31,475	28,645
Assets classified as held for sale	14	3,187	1,237
Total current assets		34,662	29,882
Total assets		258,902	215,413
LIABILITIES			
Current liabilities			
Current tax liabilities		(1,941)	(2,214)
Trade and other payables	10	(14,158)	(10,782)
Borrowings	11	(5,683)	(5,962)
Provisions	18	(15,861)	(12,645)
Lease liabilities	10	(1,461)	-
		(39,104)	(31,603)
Liabilities of disposal group classified as held for sale	14	(287)	(775)
Total current liabilities		(39,391)	(32,378)
Non-current liabilities			
Provisions	18	(31,769)	(35,673)
Borrowings	11	-	(5,041)
Derivatives	12	-	(62)
Defined pension benefit plan		(859)	(577)
Lease liabilities	10	(628)	-
Deferred tax liabilities	26	-	-
		(33,256)	(41,353)
Total liabilities		(72,647)	(73,731)
Net assets		**186,255**	**141,682**
EQUITY			
Share capital	16	26,666	26,666
Share premium		97,476	97,476
Other reserves	17	(150,736)	(172,623)
Retained earnings		212,849	190,163
Total equity		**186,255**	**141,682**

Comparative amounts in respect of inventories and property, plant and equipment have been reclassified for comparability with 2019. Please refer to Note 2.

These financial statements on pages 85 to 128 were approved by the Board of Directors on 31 March 2020 and signed on its behalf by:

Victor Gladun Chief Executive Officer **Ben Fraser** Chief Financial Officer

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 91 to 128

GROUP FINANCIAL STATEMENTS

Consolidated statement of changes in equity

For the year ended 31 December 2019

	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 2019	**26,666**	**97,476**	**190,163**	**(172,623)**	**141,682**
Profit for the year	-	-	22,213	-	22,213
Exchange differences arising on translation of overseas operations	-	-	-	21,481	21,481
Remeasurement of post-employment benefit obligations	-	-	-	(94)	(94)
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	-	500	500
Total comprehensive income attributable to equity shareholders of the parent	-	-	22,213	21,887	44,100
Transactions with equity shareholders of the parent					
Share-based payment charge	-	-	14	-	14
Exercise of share options (Note 15)	-	-	17	-	17
Sale of shares held by Employee Benefit Trust (Note 15)	-	-	442	-	442
Total transactions with equity shareholders of the parent	-	-	473	-	473
At 31 December 2019	**26,666**	**97,476**	**212,849**	**(150,736)**	**186,255**

	Share capital $000	Share premium $000	Retained Earnings $000	Other reserves (Note 17) $000	Total equity $000
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 2019

	Note	2019 $000	2018 $000
Cash flows from operating activities			
Cash generated from continuing operations	29	41,386	37,281
Cash used in discontinued operations	14	(176)	(158)
Bank fees paid		-	(69)
Interest paid		(1,131)	(1,870)
Income tax paid		(7,090)	(3,896)
Net cash generated from operating activities		32,989	31,288
Cash flows from investing activities			
Interest received		818	908
Dividend received		27	-
Proceeds from sale of property, plant and equipment		47	3
Purchase of property, plant and equipment		(27,380)	(13,688)
Net cash used in investing activities		(26,488)	(12,777)
Cash flows from financing activities			
Restricted cash movement		211	286
Exercise of share options		17	-
Sale of shares held by Employee Benefit Trust		442	-
Repayment of borrowings		(5,280)	(5,760)
Lease liabilities		(1,776)	-
Net cash used in financing activities		(6,386)	(5,474)
Increase in cash and cash equivalents in the year		115	13,037
Cash and cash equivalents at 1 January		19,455	6,929
Effect of exchange rates on cash and cash equivalents		1,155	(511)
Cash and cash equivalents at 31 December		20,725	19,455
Cash and cash equivalents in continuing operations at the end of the year	9	20,629	19,182
Cash and cash equivalents in discontinued operations at the end of the year	14	96	273

GROUP FINANCIAL STATEMENTS

Notes to consolidated financial statements

1. General information

JKX Oil & Gas plc (the ultimate parent of the Group hereafter, 'the Company') is a public limited company listed on the London Stock Exchange which is domiciled and incorporated in England and Wales under the UK Companies Act. The registered number of the Company is 3050645. The registered office is 6 Cavendish Square, London, W1G 0PD and the principal place of business is disclosed in the introduction to the Annual Report.

The principal activities of the Company and its subsidiaries (the 'Group') are the exploration for, appraisal and development of oil and gas reserves.

2. Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, IFRS Interpretations Committee ('IFRS IC') interpretations and the Companies Act 2006 applicable for Companies reporting under IFRS and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulations. The Group's financial statements have been prepared under the historical cost convention, as modified for derivative instruments held at fair value through profit or loss. The principal accounting policies adopted by the Group are set out below.

Additionally, on 1 January 2019, the functional currency of the Group's wholly owned Ukrainian subsidiary Poltava Petroleum Company ('PPC') changed from US Dollar ($) to Ukrainian Hryvnia (hryvnia). The change in the functional currency was considered appropriate as gas prices are denominated in hryvnia in a freely traded gas market and the increased impact of local market forces on gas prices, together with the increasing hryvnia cost base, development plan and availability of hryvnia draw downs in the Group's facilities. As such, management concluded that hryvnia is the currency of the primary economic environment which the Company operates in. This change in functional currency is applied prospectively with effect from 1 January 2019. The exchange rate used to translate the balance sheet to reflect the change in functional currency on adoption is $1: 27.69 hryvnia.

Comparative amounts in respect of property, plant and equipment and inventories have been reclassfied for comparability with 2019 in accordance with IFRS. The reclassifications had no impact on net assets or the profit for the period.

Comparatives

- In the 2018 Annual report a group of inventories of $1.6m held for well workovers was included in inventories, whereas in 2019 Annual report they were reclassified under property, plant and equipment to conform with 2019 presentation and to more appropriately reflect their nature. In 2019 Annual report 31 December 2018 inventories balance was reduced by $1.6m from $6.0m to $4.4m; property, plant and equipment balance was increased by $1.6m from $173.5m to $175.1m.

Going concern

The Directors note that the Group is debt free and has generated $33.0m of operating cash flow in 2019, continued its drilling program and ended the year with $20.6m of cash in continuing operations. The Board have reviewed the Group's forecast cash flows for the period to June 2021. Capital and operating costs are based on approved budgets and latest forecasts in the case of 2020 and current development plans in the case of 2021. The forecast cash flows reviewed include scenarios where potential liabilities arise in relation to the rental fee claims in Ukraine (see Note 25 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. Based on the Group's cash flow forecasts, the Directors believe that the combination of its current cash balances, net cash flows from operations, as well as the anticipated 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 will be able to meet its liabilities and commitments as they fall due across the forecast period. In addition, the Group benefits from an undrawn Tascombank loan facility of UAH280m ($11.8m) and overdraft facility of UAH50m ($2.1m) that were both renewed in December 2019, although each draw down is subject to credit approval by the bank.

Notwithstanding the Group's current financial performance and position, the Board are cognisant of the potential impacts of COVID-19 on the Group. Whilst there has been little impact of COVID-19 on the Group's operations at present there may be significant impacts on the business going forward which are currently unknown. The Board has considered possible reverse stress case scenarios for the impact on the Group's operations, financial position and forecasts. Whilst the potential future impacts of Covid-19 are unknown the Board has considered operational disruption that may be caused by the factors such as a) restrictions applied by governments, illness amongst our workforce and disruption to supply chain and sales channels; b) market volatility in respect of commodity prices associated with Covid-19 in addition to geopolitical factors; and c) the Group's ability to utilise its credit facilities.

In addition to sensitivities that reflect future expectations regarding country, commodity price and currency risks that the Group may encounter, in March 2020 and to date, reverse stress tests have been run to reflect possible negative effects of COVID-19 including sustained lower commodity prices and one month production stop in both Russia and Ukraine. None of the scenarios have recognised any possible future benefit that may result from the arbitration award (see Note 25 to the consolidated financial statements). Should the rental claims become payable during the forecast period, or more extended disruption to production occur, the Group would likely need to utilise the Tascom facilities, make forward gas sales, agree a payment plan with the tax authorities, or take other such measure as may be required. Whilst the Board anticipate being able to draw down under those facilities, draw down requests are subject to certain credit approval procedures by the bank and there can be no guarantee that such funding will be made available as and when required. Similarly the Board anticipate being able to secure a payment arrangement with the tax authorities if needed, securing sufficient forward gas sales or taking other such measures as may be required but there can be no guarantee that these measures will be available when required or sufficient.

GROUP FINANCIAL STATEMENTS

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Having considered the forecasts and sensitivity scenarios the Board considers it is appropriate to adopt the going concern basis of accounting in preparing these financial statements. However, at the date of approval of these financial statements, the potential future impact of COVID-19 is uncertain and there can be no guarantee that the Group would receive credit approval for draw downs on the Tascom facilities, secure an appropriate payment plan arrangement for rental fee claims that fell due, secure sufficient forward gas sales or be able to take suitable other measures as required to maintain liquidity. These circumstances indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. As such this is considered to be a material uncertainty. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Adoption of new and revised standards

New standards, interpretations and amendments effective from 1 January 2019

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 2018, except for the following:

(a) IFRS 16 'Leases'
(b) IFRIC 23 'Uncertainty over Income Tax Positions'
(c) Prepayment Features with Negative Compensation – Amendments to IFRS 9
(d) Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
(e) Annual Improvements to IFRS Standards 2015 – 2017 Cycle
(f) Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

The application of (b) to (f) has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

There were no retrospective adjustments as a result of adopting IFRS 16 'Leases'. The Group amended accounting policies applied from 1 January 2019 are disclosed in Note 3 under 'Significant accounting policies'.

IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease liabilities for all material leases. It results in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases was 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 adopted IFRS 16 from 1 January 2019 using the modified retrospective approach and accordingly the information presented for 2018 is not restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Group elected to record right-of-use assets based on the corresponding lease liability. A right-of-use asset and lease obligations of $3.1m were recorded as of 1 January 2019, with no net impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 16%.

The balance sheet shows the following amounts relating to leases:

	1 January 2019 $000	Right-of-use asset recognised during the year $'000	Depreciation charge for the year $000	31 December 2019 $000
Oil and gas asset – coil tubing	2,159	-	(1,177)	982
Properties	907	446	(332)	1,021
Total	3,066	446	(1,509)	2,003

	31 December 2019 $000
Lease liabilities	
Current	1,461
Non-current	628
Total	2,089

The income statement shows the following amounts relating to leases:

	31 December 2019 $000
Interest on lease liabilities (included in finance cost)	254
Expenses relating to short-term leases (included in administrative expenses)	235
Expenses relating to low-value assets, excluding short-term leases of low-value assets (included in administrative expenses)	31
Total	520

	31 December 2019 $000
Amounts recognised in the statement of cash flows	
Total cash outflow for leases	1,776

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 recognised on initial application of IFRS 16 at 1 January 2019.

	$
Operating lease commitments at 31 December 2018	3.9
Discounted using the incremental borrowing rate at 1 January 2018	2.8
Effect of discounting	0.4
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

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 the Group 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 was no impact on adoption of IFRIC 23 on 1 January 2019.

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 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions.

	Effective for annual periods beginning on or after
Amendments to IFRS 3, 'Business combinations'	01-Jan-20
Amendments to IAS 1 and IAS 8: Definition of Material	01-Jan-20
Amendments to References to the Conceptual Framework in IFRS Standards	01-Jan-20
IFRS 17, 'Insurance contracts'	01-Jan-21

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

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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.

Year end for one of the Group's subsidiary, JKX Oil & Gas (Jersey) Ltd, is non-contemporaneous with the Group's year end, but its financial results are being consolidated at 31/12/2019.

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.

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.

The effect of a change in functional currency is accounted for prospectively. The Group translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

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 2019 were $1:£0.76 (2018: $1:£0.78), $1: 23.69 Hryvnia (2018: $1: 27.69 Hryvnia), $1: 61.91Roubles (2018: $1: 69.47 Roubles), $1: 294.43 Hungarian Forint (2018: $1: 280.31 Hungarian Forint).

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

Property, plant and equipment and other intangible assets

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

Oil and gas assets

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

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

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

Costs related to hydrocarbon production activities 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.

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. An asset classified as held for sale is not depreciated.

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

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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.

Equity investments at fair value through other comprehensive income (FVOCI)

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 and dividends 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.

Borrowings

Borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Trade and other receivables

Trade and other receivables are recognised initially at 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.

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 and certain materials and equipment that are acquired for future use such as: parts for cars/trucks, field maintenance, overalls, hand-tools, general materials, accessories, small value parts for production equipment. 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

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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 67 and 68 and in Note 24 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 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.

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.

Amounts received in advance for future gas sales are recorded as contract liabilities and revenue is recognised as the performance obligations are met.

Revenue recognition

Revenue from contracts with customers is recognised 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 recognised 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.

Amounts received in advance for future gas sales are recorded as contract liabilities and revenue is recognised as the performance obligations are met.

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.

Leases

At inception of a contract, the Group assesses 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 recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is 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 asset is 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 includes 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 oil and gas equipment and offices. Service agreements for equipment on the working sites are not considered leases as, based upon an assessment of the terms and nature of their contractual arrangements, the contracts do not convey the right to control the use of an identified asset. 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 is 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 uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is 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 is made to the carrying amount of the right-of-use asset, or the effect is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group elected to apply the practical expedient not to recognise 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 Group also made use of the practical expedient to not recognise a right-of-use asset or a lease liability for leases for which the lease term ends within 12 months of the date of initial application.

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

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The Group did not elect 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 applied the definition of a lease under IFRS 16 to all existing contracts.

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 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 third party estimates 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 including estimates of the relevant levels of risk premiums applied to the assets. 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) 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.

c) Taxation including rental fees and deferred tax assets (Notes 25 and 26)

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/reversed for the amount that is expected to be settled or won. 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.

d) 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. 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.

e) 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.

f) Enforcement of arbitration award (Note 25)
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.

g) Exceptional items (Notes 18 and 25)
Judgment is required when determining whether items meet the definition of 'exceptional' under the Group's accounting policy.

Provisions and reversals 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 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 and, 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.

There are four (2018: 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.

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.

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2019	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	-	24,339	701	-	25,040	-	25,040
– Gas	-	52,319	16,750	-	69,069	-	69,069
– Liquefied petroleum gas	-	6,562	-	-	6,562	-	6,562
– Other	-	1,055	18	-	1,073	-	1,073
	-	84,275	17,469	-	101,744	-	101,744
Inter segment revenue:							
– Management services/other	1,650	-	-	-	1,650	(1,650)	-
	1,650	-	-	-	1,650	(1,650)	-
Total revenue	1,650	84,275	17,469	-	103,394	(1,650)	101,744
Profit/(loss) before tax:							
Profit/(loss) from operations	(6,922)	37,544	1,052	(236)	31,438	112	31,550
Finance income					857	-	857
Finance cost					(2,054)	-	(2,054)
Derivative liability written-off					62	-	62
					30,303	112	30,415
Assets							
Property, plant and equipment	365	116,734	98,629	-	215,728	-	215,728
Investment	500	-	-	-	500	-	500
Deferred tax	-	(172)	8,184	-	8,012	-	8,012
Inventories	-	5,295	1,620	-	6,915	-	6,915
Trade and other receivables	349	1,603	1,973	6	3,931	-	3,931
Cash and cash equivalents	9,496	9,571	1,414	148	20,629	-	20,629
Total assets[1]	10,714	133,027	111,820	154	255,715	-	255,715
Total liabilities[1]	(7,323)	(57,980)	(7,027)	(30)	(72,360)	-	(72,360)
Non cash expense (other than depreciation and impairment)	229	214	118	-	561	-	561
Exceptional item – net reversal of provision for production based taxes	-	8,410	-	-	8,410	-	8,410
Increase in property, plant and equipment and intangible assets	-	20,850	9,104	-	29,954	-	29,954
Depreciation, depletion and amortisation	246	13,049	5,922	-	19,217	-	19,217

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	2019 $000	2018 $000
Ukraine	-	18,131
Russia	17,231	16,911

There is one customer in Russia that exceeds 10% of the Group's total revenues (2018: two customers, one in Ukraine and one in Russia).

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	82,331	734	175,112	-	175,112
Deferred tax	-	966	9,453	-	10,419	-	10,419
Inventories	-	2,851	1,501	-	4,352	-	4,352
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.

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5. Property, plant and equipment and Intangible assets

5.(a) Property, plant and equipment

2019	Oil and gas fields Ukraine $000	Gas field Russia $000	Other assets $000	Total $000
Group				
Cost				
At 1 January	578,094	192,952	17,755	788,801
Application of IFRS 16 – Right-of-use assets	-	2,159	1,353	3,512
Additions during the year	19,924	8,887	1,143	29,954
Foreign exchange	99,454	23,579	510	123,543
Disposal of property, plant and equipment	-	(10)	(407)	(417)
At 31 December	697,472	227,567	20,354	945,393
Accumulated depreciation, depletion and amortisation and provision for impairment				
At 1 January	486,258	110,621	16,810	613,689
Depreciation on disposals of property, plant and equipment	-	(10)	(195)	(205)
Foreign exchange	83,397	13,327	240	96,964
Depreciation charge for the year	12,728	5,784	705	19,217
At 31 December	582,383	129,722	17,560	729,665
Carrying amount				
At 1 January	91,836	82,331	945	175,112
At 31 December	115,089	97,845	2,794	215,728

Oil and gas fields in Ukraine and Russia include $7.8m and $0.6m respectively relating to items under construction (2018: $1.0m and nil).

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)
Reclassified from inventories	-	1,638	-	-	1,638
At 31 December	578,094	192,952	-	17,755	788,801
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	82,331	-	945	175,112

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

2019	Ukraine $000	Hungary $000	Rest of World $000	Total $000
Group				
At 1 January	-	-	-	-
At 31 December	-	-	-	-

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	-	-	-	-

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

A review was undertaken at the reporting date of the carrying amounts of property, plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review impairment triggers were noted in relation to the Ukrainian assets due to the significantly lower gas sales prices in 2019, in relation to the Russian assets due to the lower than expected production rate achieved by Well 5 and the negative revision to its reserves in the latest CPR, and in relation to both 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 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. The impairment tests were performed based on conditions as at year end.

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 Ukrainian hryvnia 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 including assessment of the results of external reserve engineer audits in the year. Such information included 2P reserves for NNC and Elyzavetivske of 21.5 MMboe and 1.8 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 2037). The economic life of the Elyzavetivske field is currently expected to be around 2035 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 international oil prices. The gas price used for 2020 is based on estimates of gas prices to be realised by our Ukrainian subsidiary determined considering external market forecasts as at year end with consideration given the applicability or otherwise of relevant pricing adjustments for the local market. For the following ten years a forward gas price curve was used with gas prices increasing in line with inflation thereafter.
- Oil prices: the Company used a forward price curve as at year end for the next eight 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 wells drilled since 1 January 2018.
- 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 14.2%. This was based on a Capital Asset Pricing Model analysis consistent with that used in previous impairment reviews.

Based on the key assumptions set out above:

- the recoverable amount of NNC's oil and gas assets ($111.4m) exceeds its carrying amount ($107.8m) by $3.6m and therefore NNC's oil and gas assets were not impaired.
- Elyzavetivske's recoverable amount (including the West Mashivska extension) ($19.9m) exceeds its carrying amount ($15.8m) by $4.1m, and therefore the CGU's oil and gas assets were not impaired.

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 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 $3.6 for NNC CGU $m	**Elyzavetivske** Increase/(decrease) in headroom of $4.1m for Elyzavetivske CGU $m
Impact if gas and oil prices:	increased by 20%	40.0	7.9
	reduced by 20%	(40.0)	(7.9)
Impact if gas and oil production volumes:	increased by 10%	36.8	6.5
	decreased by 10%	(17.1)	(0.4)
Impact if future capital expenditure:	increased by 20%	(7.2)	(2.2)

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	decreased by 20%	26.9	4.7
Impact if post-tax discount rate:	increased by 2 percentage points to 16.2%	(10.4)	(0.5)
	decreased by 2 percentage points to 12.2%	14.5	0.5

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 including assessment of the results of external reserve engineer audits in the year. Such information included 2P reserves for YGE of 56.6 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 2020 and annually thereafter, the gas prices have been increased by 3.8% and then by 2% through to 2025 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 10.5%. This was based on a Capital Asset Pricing Model analysis consistent with that used in previous impairment reviews.

Based on the key assumptions set out above YGE's recoverable amount ($112.8m) exceeds it carrying amount ($97.8m) by $15.0m 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 potential changes in key assumptions has therefore been reviewed below.

The impact on the impairment calculation of applying different assumptions to gas prices, production, future capital expenditure and post-tax discount rates, all other inputs remaining equal, would be as follows:

Sensitivity Analysis

		Increase/(decrease) in headroom of $15.0m for Yuzhgazenergie CGU $m
Impact of Adygean gas price:	growth rates increased by 10% annually	4.2
	growth rates reduced by 10% annually	(4.2)
Impact of production volumes:	Increased by 10%	36.3
	Decreased by 10%	(7.4)
Impact of future capital expenditure:	Increased by 20%	(9.7)
	Decreased by 20%	20.2
Impact of post-tax discount rate:	Increased by 1 percentage point to 11.5%	(8.0)
	Decreased by 1 percentage point to 9.5%	10.4

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 2019 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;
- 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; and
- a paper prepared by a specialist third party advisor to the Board of Directors noted the limited number of likely parties potentially interested in purchasing the investment and the difficulties in determining the consideration for which the investment might be disposed generally.

At 31 December 2019 the carrying value of Linx was reported as $0.5m (2018: nil), with this valuation being based upon management's expectation of future and final dividends to be received from Linx in 2020. Management attends Linx shareholder meetings and is in regular communication with its management. Management understands that Linx continues to dispose of its businesses units and dividend out all proceeds to shareholders prior to a liquidation of the company. Previously dividends were received during 2017 and 2019 of $0.1m and $0.03m respectively after disposals of other business units. The carrying value of $0.5m is consistent with Linx management expectations of consideration to be received for disposal of the remaining business units and also with the most recent financial statements of Linx.

7. Inventories

	2019 $000	2018 $000
Warehouse inventory and materials	4,056	2,273
Oil and gas inventory	2,859	2,079
	6,915	4,352

During the year there were no obsolete inventories written off to profit and loss (2018: there were no obsolete inventories written off to profit and loss).

8. Trade and other receivables

	2019 $000	2018 $000
Trade receivables	2,221	2,085
Less: ECLs	(423)	(559)
Trade receivables – net	1,798	1,526
Other receivables	160	279
VAT receivable	639	384
Prepayments	1,334	2,922
	3,931	5,111

As of 31 December 2019, trade and other receivables of $0.4m (2018: $0.6m) were past due and full expected credit loss ("ECL") provision was recognised with the asset considered credit impaired. The amount of the provision was $0.4m (2018: $0.6m). This receivable relates to a single gas customer, which is more than three years past due. Legal proceedings were initiated in Q4 of 2016 and finished in Q3 of 2018 in favour of the Company. During the year ended 31 December 2019 the Company collected $0.1m and is seeking collection of the amount outstanding, but significant uncertainty remains over the collection.

As of 31 December 2019, trade and other receivables of $3.9m (2018: $1.8m) were current and not impaired. There is no difference between the carrying value of trade and other receivables and their fair value.

Prepayments comprise of prepayments made to suppliers. Decrease in prepayments of $1.6m from $2.9m to $1.3m is mainly due to the completion of 3D seismic work on Elyzavetivske field in Ukraine in April 2019, which amounted to $1.3m and was included in $2.9m balance at 31 December 2018.

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

	2019 $000	2018 $000
US Dollar	11	42
Sterling	-	-
Euros	1	1
Hungarian Forints	-	-
Ukrainian Hryvnia	148	15
Russian Roubles	1,798	1,747
	1,958	1,805

9. Cash and cash equivalents

	2019 $000	2018 $000
Cash	12,495	16,939
Short term deposits	8,134	2,243
	20,629	19,182

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

10. Trade and other payables

	2019 $000	2018 $000
Current		
Trade payables	3,894	873
Other payables	298	3
Contract liabilities	2,111	3,273
Other taxes and social security costs	2,435	2,196
VAT payable	1,993	1,327
Accruals	3,427	3,110
	14,158	10,782
Current		
Lease liabilities	1,461	-
Non-Current		
Lease liabilities	628	-

11. Borrowings

	2019 $000	2018 $000
Current		
Convertible bonds due 2020	5,683	5,962
Term-loans repayable within one year	5,683	**5,962**
Non-Current		
Convertible bonds due 2020	-	5,041
Term-loans repayable after more than one year	-	**5,041**

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 were 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).

The Company made the final payment to Bondholders on 19 February 2020 in accordance with the terms and conditions of the Bond (see Note 33).

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.

On 19 February 2018 the Company made a payment of the first instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with 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. On 19 August 2019 the Company made interest payment of $0.4m in accordance with the terms and conditions of the Bond. On 19 February 2020 the Company made the final payment of the third instalment to Bondholders of $5.4m (34% of the principal amount of the Bonds), together with $0.4m interest payment in accordance with the terms and conditions of the Bond.

Cash Alternative Amount

At the option of the Company, the conversion notice in respect of the Bonds could be settled in cash rather than shares, the Cash Alternative Amount payable was 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 2019 the total short-term line of credit amounted to $11.8m at an exchange rate of $1: 23.69 (2018: $10.1m at an exchange rate of $1: 27.69 Hryvnia). The amount outstanding at 31 December 2019 was nil (2018: nil), so the undrawn portion totaled $11.8m (2018: $10.1m). The facility will be available through December 2021 (subject to planned renewal if required) and draw downs are subject to certain bank credit approvals. In addition PPC holds a UAH50m ($1.8m) overdraft facility which remains undrawn and was renewed until 13 December 2021.

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

- drawdowns can be made either in USD or UAH and are individually subject to credit approval by the lender;
- interest rate cost for USD drawn down is 9%;
- interest rate cost for UAH drawn down: 17.0% to 30 days, 17.50% 31 to 90 days, 20.00% 91 to 180 days, 21.00% 181 to 365 days;
- borrowing above UAH90m, equivalent to $3.8m at 31 December 2019 (2018: $3.3m) 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 $19.4m at 31 December 2019 (2018: UAH460m, equivalent to $16.6m at 31 December 2018) 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 13 December 2021.

The credit facility of $11.8m (2018: $10.1m) 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

	2019 $000	2018 $000
Non-current derivative financial instruments		
At the beginning of the year	62	3
Derivative liability written-off	(62)	-
Fair value loss movement during the year	-	59
At the end of the year	-	62

Convertible bonds due 2020 – embedded derivatives

Company Call Option

The Company could 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 were called prior to 19 February 2020, the redemption price would also include an additional U.S. $6,000 per Bond.

The Company could 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.

The Company made the final payment to Bondholders on 19 February 2020 in accordance with the terms and conditions of the Bond (see Note 33).

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 2019 $000	Fair Value 2019 $000	Book Value 2018 $000	Fair Value 2018 $000
Financial assets				
Cash and cash equivalents and restricted cash (Note 9) – classified at amortised cost	20,629	20,629	19,182	19,182
Trade receivables (Note 8) – classified at amortised cost	1,798	1,798	1,526	1,526
Other receivables (Note 8) – classified at amortised cost	160	160	279	279
Financial liabilities				
Trade payables (Note 10) - carried at amortised cost	3,894	3,894	873	873
Other payables (Note 10) - carried at amortised cost	298	298	3	3
Accruals (Note 10) - carried at amortised cost	3,080	3,080	2,468	2,468
Borrowings – convertible bonds due 2020 (Note 11) - carried at amortised cost (current)	5,683	5,683	5,962	5,962
Borrowings – convertible bonds due 2020 (Note 11) - carried at amortised cost (non-current)	-	-	5,041	5,041
Lease liabilities	2,089	2,089	-	-
Derivatives – fair value through profit or loss (Note 12)	-	-	62	62

Financial liabilities measured at amortised cost are carried at $15.0m (2018: $14.3m). The Group's borrowings at 31 December 2019 relate entirely to the convertible bonds due 2020.

Fair value hierarchy

Derivatives

At 31 December 2018 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 2018: £0.11;
- £/US$ spot rate of £1/$1.2754;
- historic volatility of 54.03%;
- 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).

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, assuming that all other variables remain constant.

Following the final payment of the Bond made to Bondholders on 19 February 2020 (see Note 33) the derivative of $0.1m was written off to the Income statement at 31 December 2019 as its fair value was negligible at year end.

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 2019 was $22.6m (2018: $21.0m).

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 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:

	2019 $000	2018 $000
Convertible bonds due 2020 (current and non-current, Note 11)	**(5,683)**	(11,003)
Total cash (Note 9)	**20,629**	19,182
Net cash	**14,946**	8,179
Total shareholders' equity	**186,255**	141,682

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.

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.

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The maturity analysis for financial liabilities was as follows:

Group - 31 December 2019	Within 3 months $000	3 months - 1year $000	1 – 2 years $000	2 – 5 years $000
Maturity of financial liabilities				
Trade payables (Note 10)	3,894	-	-	-
Other payables (Note 10)	298	-	-	-
Accruals (Note 10)	3,080	-	-	-
Borrowings – Convertible bonds due 2020	5,683	-	-	-
Lease liabilities	484	1,294	392	342

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

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	2019 Within 1 Year $000	2018 Within 1 Year $000
Floating rate		
Short term deposits (Note 9)	8,134	2,243
Other receivables (Note 8)	160	279
Other payables (Note 10)	298	3

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 (2018: profit) after tax and net assets for the year ended 31 December 2019 would increase/decrease by $12,000 (2018: $16,000). 1 per cent is the sensitivity rate used as it best represents management's assessment of the possible change in interest rates that could apply to the Group.

Foreign currency exposures - Group

The table below shows the extent to which the Group has monetary assets and liabilities in currencies other than the functional currency of the operating company involved. These exposures give rise to the net currency gains and losses recognised in the income statement.

As at 31 December the asset/(liability) foreign currency exposures were:

	2019 $000	2018 $000
Sterling	675	(1,223)
Euros	1,086	371
Ukrainian Hryvnia	5,470	4,583
Bulgarian Leva	41	33
Russian Roubles	(368)	3,732
Canadian Dollar	-	6
Total net	6,904	7,502

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 (2018: 10 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 (2018: 10 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 2019 $000	Hryvnia 2018 $000	Rouble 2019 $000	Rouble 2018 $000	Sterling 2019 $000	Sterling 2018 $000
Profit/(loss) for the year and Equity						
10 per cent strengthening of the US Dollar/ (2018: 10 per cent)	547	458	(37)	373	67	(122)
10 per cent weakening of the US Dollar/(2018: 10 per cent)	(547)	(458)	37	(373)	(67)	122

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 2019 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 dispose of its Hungarian business. The sale-purchase agreement for the disposal of the Hungarian business was executed in March 2020.

The associated assets and liabilities were presented as held for sale in the financial statements at 31 December 2018 and remains as such at 31 December 2019. Prior to the reclassification assets were measured at the lower of carrying amount and fair value less costs to sell.

At the time the sale was agreed the consideration expected to be received was comprising of approximately $2.0m of consideration and a working capital adjustment anticipated to be $0.9m, with the actual consideration sum due to be determined and settled in full on completion which is expected before the end of April 2020. A reversal of impairment of $2.2m was recognised at 31 December 2019. The amount of this reversal is exceeded by previous historical impairment charges, allowing for depreciation, made against the Hungarian assets.

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The financial performance and cash flow information presented are for periods ended 31 December 2019 and 31 December 2018.

	31 December 2019 $000	31 December 2018 $000
Revenue	133	1,645
Exceptional item - reversal of provision for impairment of Hungary	2,232	-
Royalties	(25)	(75)
Other cost of sales	(369)	(356)
Total cost of sales	1,971	(431)
Administrative expenses	(11)	20
Gain/(loss) on foreign exchange	44	(304)
Profit from operations and before tax	2,004	930
Taxation – current	-	(7)
Taxation – deferred	-	2,564
Total taxation	-	2,557
Profit for the year	2,004	3,487

Net cash outflow from operating activities	(176)	(158)
Effect of exchange rates on cash and cash equivalents	-	17
Net cash used by the subsidiary	(176)	(141)

The following assets and liabilities were classified as held for sale in relation to the discontinued operation as at 31 December 2019 and 2018.

Assets and liabilities of disposal group classified as held for sale	31 December 2019 $000	31 December 2018 $000
Assets classified as held for sale		
Property, plant and equipment	2,232	-
Trade and other receivables	859	753
Cash	96	273
Restricted cash	-	211
Total assets of disposal group held for sale	3,187	1,237
Liabilities of the disposal group classified as held for sale		
Trade and other payables	(87)	(322)
Abandonment provision	(200)	(453)
Total liabilities of disposal group held for sale	(287)	(775)
Net assets	2,900	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.

During 2019 JKX Employee Benefit Trust sold 1,186,547 shares at an average price of £0.30 per share (2018: nil). 180,525 shares were used in 2019 (2018: nil) to settle share options, out of which 48,660 were sold in order to cover National insurance cost, therefore at 31 December 2019 JKX Employee Benefit Trust held 3,632,928 shares in JKX Oil & Gas plc (2018: 5,000,000). During January 2020 JKX Employee Benefit Trust sold its remaining 3,632,928 shares at an average price of £0.28 per share.

16. Share capital

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

	2019 Number	2019 £000	2019 $000	2018 Number	2018 £000	2018 $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 2019 (2018: none) and no treasury shares were used in 2019 (2018: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2019 the market value of the treasury shares held was $0.1m (2018: $0.2m).

17. Other reserves

	Merger reserve $000	Capital redemption reserve $000	Foreign currency translation reserve $000	Post-employment benefit obligation reserve $000	Equity investments with FVOCI reserve $000	Total $000
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)
At 1 January 2019	30,680	587	(203,535)	(355)	-	(172,623)
Exchange differences arising on translation of overseas operations	-	-	21,481	-	-	21,481
Remeasurement of post-employment benefit obligations	-	-	-	(94)	-	(94)
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	-	-	500	500
At 31 December 2019	30,680	587	(182,054)	(449)	500	(150,736)

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.

Equity investments with FVOCI reserve includes movements that relate to changes in the fair value of unlisted investments in equity.

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During 2019, the Russian Rouble ('RR') strengthened by approximately 11% from RR69.47/$ to RR61.91/$ (2018: weakened by approximately 21%, from RR57.60/$ to RR69.47/$). Ukrainian Hryvnia ('UAH') strengthened by approximately 14% from UAH 27.69/$ to UAH 23.69/$ (2018: strengthened by approximately 1%, from UAH 28.07/$ to UAH 27.69/$). Currency translation differences of US$21.4m (2018: US$19.4m) included in the Consolidated statement of comprehensive income arose on the translation of property, plant and equipment denominated in RR and UAH and amounted to $12.2m and $9.2m respectively (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	Production based taxes[1] $000	Onerous lease provision[2] $000	Total $000
At 1 January 2019	12,431	214	12,645
Included in right-of-use assets on transition	-	(214)	(214)
Foreign currency translation	2,107	-	2,107
Amount provided in the year	1,323	-	1,323
At 31 December 2019	15,861	-	15,861

Non-current provisions	Production based taxes[1] $000	Total $000
At 1 January 2019	30,074	30,074
Amount provided in the year	4,670	4,670
Amount released in the year	(14,403)	(14,403)
Foreign currency translation	5,064	5,064
At 31 December 2019	25,405	25,405

1 The provision for production based taxes, is in respect of claims against PPC for additional rental fees for the periods August to December 2010 and January to December 2015. $8.4m was recognised as a credit in the 2019 Consolidated income statement (2018:$5.1m charge) which is the net of a $14.4m reversal of provisions for four tax cases that have been closed in favour of PPC relating to January to December 2015 claims and of $6.0m interest accrued for the remaining cases that have not been closed, of which $1.3m charge relates to the August to December 2010 claim (2018:$1.0m) and $4.7m charge relate to January to December 2015 claims (2018:$4.1m). Remaining claims are being contested in the Ukrainian courts (see Note 25). The amount is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the 2019 year end rate of UAH23.69/$ (2018: UAH27.69/$). The provision for rental fee claims at 31 December 2019 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 concerned 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. The provision was 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%. The remaining life of the leases at 31 December 2018 was 3 years. Subsequently, three out of three floors have been assigned to new tenants which resulted in the release of the provision.

Non-current provisions Provision on decommissioning	Ukraine $000	Russia $000	Total $000
Provision for site restoration			
At 1 January 2019	3,581	2,018	5,599
Foreign exchange adjustment	573	251	824
Revision in estimates	(676)	-	(676)
Unwinding of discount (Note 21)	500	117	617
At 31 December 2019	3,978	2,386	6,364

The provision in respect of Ukraine represents the present value of the well and site restoration costs that are expected to be incurred up to 2034 (2018: 2035). The Russia provision results from the decommissioning of 15 wells (2018:15) and removal of plant as required by the licence obligation and is due to start from 2050 (2018: 2050). 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. Cost of sales

	2019 $000	2018 $000
Operating costs	22,752	20,897
Depreciation, depletion and amortisation	18,512	14,732
Other production based taxes	23,518	21,857
	64,782	57,486
Exceptional item – production based taxes (credit)/charge (Note 18)	(8,410)	5,055
	56,372	62,541

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2019 was $3.0m (2018: $0.9m).

20. Finance income

	2019 $000	2018 $000
Interest income on deposits	857	908
	857	908

21. Finance costs

	2019 $000	2018 $000
Borrowing costs	1,183	2,068
Interest for lease liabilities	254	-
Unwinding of discount on site restoration (Note 18)	617	442
	2,054	2,510

22. Profit from operations – analysis of costs by nature

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

	2019 $000	2018 $000
Depreciation – other assets (Note 5. (a))	705	311
Depreciation, depletion and amortisation – oil and gas assets (Note 5. (a))	18,512	14,732
Staff costs (none was capitalised during the year (2018: net of $0.5m), Note 23)	9,051	12,452
Foreign exchange loss	615	711

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

	2019 $000	2018 $000	2018 $000
	BDO fees	BDO fees	PWC fees
Audit of the parent company and consolidated financial statements	**294**	205	-
Fees payable to company's auditors for other services:			
- Audit of the Company's subsidiaries	**231**	167	-
- Audit related assurance services	**80**	-	105
- Other non-audit services	**-**	2	2
	605	374	107

No non-audit services were provided in 2019 (2018: included $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.)

23. Staff costs

	2019 $000	2018 $000
Wages and salaries	**8,741**	12,502
UK social security costs	**130**	257
Other pension costs	**166**	205
Share based payments (equity-settled) (Note 24)	**14**	13
	9,051	12,977

Staff costs for the year ended 31 December 2018 were shown gross and $0.5m was capitalised, representing time spent on exploration and development activities.

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

	2019 Number	2018 Number
Management/operational	**492**	487
Administration support	**82**	88
	574	575

There is one Director on service contract included within management/operational (2018: nil). Further details of the Directors and their remuneration are included on pages 59 to 62 which form part of these financial statements.

24. 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. 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. During the year 180,525 share options were exercised and none granted in accordance with the PSP (2018: nil). The weighted average share price at the date of exercise of these shares was 23 pence.

At 31 December 2018, there were outstanding options under the PSP, exercisable during the years 2019 to 2026 to acquire 256,150 shares of the Company at nil cost per share. The vesting period for 256,150 of the share options was 3 years, with an exercise period of 7 years making a 10 year maximum term. During 2019 180,525 shares were exercised at nil cost per share and 75,625 shares lapsed. There were no outstanding options under the PSP at 31 December 2019.

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

	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Outstanding at 1 January	151,250	0.00p	1,059,650	0.00p
Exercisable at 1 January	104,900	0.00p	-	-
Lapsed/forfeited during the year	(75,625)	0.00p	(803,500)	0.00p
Exercise of share options	(180,525)	0.00p	-	-
Outstanding at 31 December	-	-	151,250	0.00p
Exercisable at 31 December	-	-	104,900	0.00p

25. Taxation

Analysis of tax on loss	2019 $000	2018 $000
Current tax		
UK - current tax	-	-
Overseas - current year	6,561	5,478
Current tax expense	6,561	5,478
Deferred tax		
Overseas – prior year	-	-
Overseas - current year	3,645	(3,233)
Deferred tax benefit	3,645	(3,233)
Income tax expense	10,206	2,245

Factors that affect the total tax charge

The total tax charge for the year of $10.2m (2018: $2.2m charge) is lower (2018: lower) than the average rate of UK corporation tax of 19.00% (2018: 19.00%). The differences are explained below:

Total tax reconciliation	2019 $000	2018 $000
Profit before tax	30,415	14,015
Tax calculated at 19.00% (2018: 19.00%)	5,779	2,663
Movement in recognised tax losses	474	(1,332)
Effect of tax rates in foreign jurisdictions	355	205
Rental fee provision	1,677	(724)
Other non-deductible expenses	1,745	1,149
Other	176	284
Total tax charge	10,206	2,245

The total tax charge for the year was $10.2m (2018: $2.2m charge) comprising a current tax charge of $6.6m (2018: $5.5m charge) in respect of Ukraine, a deferred tax charge before exceptional items of $2.0m (2018: credit of $1.5m) and a deferred tax charge of $1.7m in respect of exceptional items (2018: credit of $1.8m). The increase in current tax charge reflects a higher profitability in Ukraine. In Ukraine, the corporate tax rate for 2018 was 18% and remains at this level in 2019.

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 a reduction to the main rate from 19% to 17% from 1 April 2020. The impact of the rate reduction is not expected to have a material impact on UK current taxation.

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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.

Rental fees paid 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 had 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 was 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 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 $0.1 million.

The arbitration award has now been legally recognised in Ukraine and in December 2019 JKX filed for its collection. 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 (2018: 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 (2018: 2010), which in total amount to approximately $41.3 million (2018: $42.5 million) (including interest and penalties), as detailed below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the year end rate of $1:UAH 23.69 (2018: $1: UAH 27.69).

- August – December 2010: approximately $15.9 million (2018: $12.4 million) (including $10.7 million (2018: $8.0 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 before the end of 2020. 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 $25.4 million (2018: $30.1 million) (including $16.7 million (2018: $17.9 million) of interest and penalties). Following the commencement of international arbitration proceedings at the beginning of 2015 (see above), from July 2015 PPC reverted to paying a 28% Rental Fee for gas production (instead of the revised official rate of 55%) as a result of the awards granted under the arbitration. PPC also declared part of its Rental Fee payments at 55% for the first 6 months of 2015 as overpayments and consequently stopped paying the Rental Fee for gas in order to align the total payments made in 2015 with the 28% rate awarded made under the arbitration proceedings. The Ukrainian tax authorities have issued PPC with the series of claims for the difference between 28% and 55%, which were being contested in eight separate cases. Four of these cases have now been resolved in PPC's favour and the others continue to be contested:
  - Case No. 816/845/16 for principal of $0.3m. In December 2018 the Poltava Circuit Administrative Court, and in May 2019 the Kharkiv Appellate Administrative Court, found in favour of PPC and both ruled that Tax Notification Decisions previously issued against PPC were illegal and were cancelled. It was expected that PJSTI would file cassation complaint. In July 2019 the Supreme Court of Ukraine refused to accept the cassation complaint of the PJSTI for procedural reasons, meaning that these decisions will not be appealed. This case is therefore closed in favour of PPC.
  - Case No. 816/688/16 for principal of $1.8m. In April 2019, the Poltava Circuit Administrative Court, found in favour of PPC and ruled that Tax Notification Decisions previously issued against PPC were illegal and were cancelled. As PJSTI did not file an appeal within the required time, the judgement of the Poltava Circuit Administrative Court is now binding. This case is therefore closed in favour of PPC.
  - Two cases (Nos. No. 816/846/16 and No. 816/844/16) for a total principal of $3.5m. On 14 November 2019 the Poltava Circuit Administrative Court found in favor of PPC in both cases as well as ruled that Tax Notification Decisions previously issued against PPC were illegal and were cancelled. PJSTI filed appellate complaints in both cases, however, failed to pay the court fee. The Kharkiv Appellate Administrative Court returned in January 2020 appellate complaints in both cases without consideration. PJSTI had time until mid-March 2020 to challenge the above return of appellate complaints, however they failed to do so. Thus, the cases are effectively closed in favour of PPC.
  - Two cases (Nos. 816/687/16 and 816/1191/16) for a total principal of $2.1m are in the process of consideration by the first instance court of merits.
  - Case No. 816/685/16 for a total principal of $2.2m was previously suspended. PJSTI have filed cassation complaint with the Supreme Court to unsuspend it. The hearing is expected to take place in the second half of 2020. If PJSTI is successful at these hearings, then the case will be considered by the first instance court of merits.
  - Case No. 816/686/16 for a total principal of $4.4m were previously confirmed as suspended by the Supreme Court. It is expected that PJSTI may file motions in the first instance court to renew these cases.

It is expected that the process of hearings in respect of the remaining outstanding 2015 rental fee claims will continue into 2021 and possibly beyond. Full provisions are made for all these outstanding claims and classified as non-current. In 2019 reversals have been applied to the provisions (inclusive of interest and penalties) of $0.6m in respect of Case No. 816/845/16, $4.8m in respect of Case No. 816/688/16, $5.3m in respect of Case No. 816/846/16 and $3.7m in respect of Case No. 816/844/16, as all four cases have been closed in PPC's favour.

An exceptional item of $8.4 million has been credited to the Consolidated income statement in the year (2018: $5.1 million charge), being the net of provisions reversed for cases closed in PPC's favour and interest accrued on the remaining August – December 2010 and January – December 2015 claims (see Note 18).

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26. Deferred tax

	Assets		Liability		Net	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Continuing operations						
Ukraine	8,108	9,193	(8,280)	(8,227)	(172)	966
Russia	12,033	11,130	(3,849)	(1,677)	8,184	9,453
Deferred tax asset					8,012	10,419

Refer to Note 2 for details of reclassifications between deferred tax assets and liabilities affecting the comparative information.

The balance comprises temporary differences attributable to:

	Assets		Liability		Net	
	2019 $000	2018 $000	2019 $000	2018 $000	2019 $000	2018 $000
Property, plant and equipment	-	-	(12,128)	(9,635)	(12,128)	(9,635)
Inventory	614	1,206	-	-	614	1,206
Provision for disputed rental fees	6,528	7,038	-	-	6,528	7,038
Provision for site restoration	1,131	1,058	-	-	1,131	1,058
Tax losses	11,556	10,721	-	-	11,556	10,721
Other	311	300	(1)	(269)	310	31
Deferred tax asset /(liability)recognised	20,141	20,323	(12,129)	(9,904)	8,012	10,419

	1 January 2019 $000	exchange differences $000	to profit or loss $000	31 December 2019 $000
Deferred tax liabilities				
Property, plant and equipment	(9,635)	(1,511)	(982)	(12,128)
Other	(269)	32	236	(1)
Deferred tax assets				
Inventory	1,206	191	(783)	614
Provision for disputed rental fees	7,038	1,188	(1,698)	6,528
Provision for site restoration	1,058	160	(87)	1,131
Tax losses	10,721	1,310	(474)	11,556
Other	300	(132)	143	310
Net deferred tax	10,419	1,238	(3,645)	8,012

* Note there are minor differences in the tables due to rounding effects

	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

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

The deferred tax assets include an amount of $11.6m (2018: $10.7m) 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 2020 onwards.

Unprovided deferred taxation	2019 $000	2018 $000
Tax losses	(12,547)	(35,439)
Property, plant and equipment	-	-
Other temporary differences	-	-
	(12,547)	(35,439)

There is no expiry date on the remaining losses as at 31 December 2019. 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.

27. 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 168,090,217 (2018: 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 4,035,699 (2018: 5,402,771), and the profit for the relevant year.

Profit before exceptional items in 2019 of $13,246,738 (2018 profit: $18,550,956) is calculated from the 2019 profit of $22,212,692 (2018: $15,257,404) adjusted for exceptional items of $10,642,954(2018: $5,054,552) and the related deferred tax on the exceptional items of $1,677,000 (2018: $1,761,000).

The diluted earnings per share for the year is based on 173,176,095 (2018: 176,455,391) ordinary shares calculated as follows:

	2019 $000	2018 $000
Profit		
Profit for the purpose of basic and diluted earnings per share (profit for the year attributable to the owners of the parent):		
After exceptional item	22,213	15,257
Before exceptional item	13,247	18,551

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Number of shares	2019	2018
Basic weighted average number of shares	172,125,916	172,125,916
Treasury shares	(402,771)	(402,771)
Shares held in Employee Benefit Trust (Note 15)	(5,000,000)	(5,000,000)
Sale of shares held by Employee Benefit Trust (Note 15)	1,186,547	-
Exercise of share options (Note 24)	180,525	-
Weighted average number of shares	168,090,217	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	168,090,217	176,455,391

In accordance with IAS 33 (Earnings per share) the effects of antidilutive potential have not been included when calculating dilutive earnings per share for the year end 31 December 2019. 5,085,878 potentially dilutive ordinary shares associated with the convertible bonds (Note 13) have been excluded as they are antidilutive in 2019.

The effects of dilutive potential have been included when calculating dilutive earnings per share for the years ended 31 December 2018. 9,476,096 potentially dilutive ordinary shares associated with the convertible bonds have been included as they are dilutive at 31 December 2018.

There were no outstanding share options at 31 December 2019 (2018: 256,150, of which 256,150 had a potentially dilutive effect). All of the Group's equity derivatives were anti-dilutive for the year ended 31 December 2019 (2018: all dilutive).

28. Dividends

No interim dividend was paid for 2019 (2018: nil). In respect of the full year 2019, the directors do not propose a final dividend (2018: no final dividend paid).

29. Reconciliation of profit from operations to net cash inflow from operations

	2019 $000	2018 $000
Profit from operations (continuing operations)	31,550	15,676
Profit from operations (discontinued operations)	2,004	930
Depreciation, depletion and amortisation	19,217	15,155
Gain on disposal of fixed assets	(98)	-
Exceptional item – (decrease)/increase in provision for production based taxes, including forex	(8,410)	5,441
Reversal of provision for impairment of Hungary	(2,232)	-
Increase in provisions – onerous lease provision, including forex	-	284
Abandonment provision write-off	-	(172)
Share-based payment charge	14	13
Cash generated from operations before changes in working capital	42,045	37,327
Decrease/(increase) in operating trade and other receivables	1,156	(1,288)
Increase in operating trade and other payables	1,811	1,250
Increase in inventories	(3,802)	(166)
Net cash generated from continuing operations	41,386	37,281
Net cash used in discontinued operations (Note 14)	(176)	(158)

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	Leases $000
At 1 January 2019	11,003	3,511
Cash flows		
- Payment of principal	(5,280)	(1,776)
- Payment of interest	(1,131)	-
Non-cash flows		
- Accruals	-	134
- Foreign exchange	-	(34)
- Interest accruing in the period	1,091	254
At 31 December 2019	5,683	2,089

	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

30. Capital commitments

Under the work programmes for the Group's exploration and development licenses the Group had no commitments to future capital expenditure on drilling rigs and facilities at 31 December 2019 (2018: $4.4m).

31. 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:

	2019 $000	2018 $000
Short-term employee benefits	1,141	670
Share-based payments charge	14	13
	1,155	683

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 59 to 63 and in the Directors Report on page 71.

Three Non Executive Directors joined the Board during 2019 following removal of two Non Executive Directors at 2019 Annual General meeting (AGM) and resignations of the other two Non Executive Directors after 2019 AGM. Victor Gladun was appointed as an Executive Director of the Company at the AGM and on 20 September he was additionally appointed as the CEO of the JKX Group. Please refer to the Remuneration Report on page 59 for the disclosure on the bonus awarded to the Group CEO for 2019 (2018: nil).

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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.

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 24).

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 2019. 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:

	2019 $000	2018 $000
Gas sales	1,330	662
Sale of property, plant and equipment (pipes)	135	-

	2019 $000	2018 $000
Oil purchase	-	240

Gas, oil and property, plant and equipment 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;
- $0.2m Bond interest payment.

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.

32. 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.

33. Events after the reporting date

On 19 February 2020 the Company made a payment of the final instalment to Bondholders of $5.4m (34% of the principal amount of the Bonds), together with $0.4m interest payment in accordance with the terms and conditions of the Bond.

In early February 2018 the Group announced its intention to exit its oil and gas operations in Hungary and initiated an active programme to dispose of its Hungarian business. The sale-purchase agreement for the disposal of the Hungarian business for expected consideration of around $2.9m was executed in March 2020.

At the date of approval of these consolidated financial statements, Covid-19 continues to spread internationally, contributing to a sharp decline in global financial markets and a significant decrease in global economic activity. On 11 March 2020, the Covid-19 outbreak was declared a global pandemic by the World Health Organization and has since then resulted in numerous governments and companies, including JKX, introducing a variety of measures to contain the spread of the virus. The outbreak has also created significant volatility in financial markets and is considered to have negatively impacted commodity prices, including oil prices, which is relevant to financial performance since year end and may impact future asset values should they remain depressed.

COMPANY FINANCIAL STATEMENTS

Company statement of financial position

For the year ended 31 December 2019

Company number 3050645	Note	2019 $000	2018 $000
Assets			
Non-current assets			
Investments	B	21,424	21,424
Right-of-use assets	A	240	-
Other receivables	C	47,881	104,700
		69,545	126,124
Current assets			
Trade and other receivables	C	263	631
Cash and cash equivalents	E	8,825	13,272
		9,088	13,903
Total assets		78,633	140,027
Liabilities			
Current liabilities			
Trade and other payables	F	(15,391)	(81,301)
Lease liabilities	F	(139)	-
		(15,530)	(81,301)
Non-current liabilities			
Derivatives	F	-	(62)
Lease liabilities	F	(133)	-
Total liabilities		(15,663)	(81,363)
Net Assets		62,970	58,664
Equity			
Share capital	G	26,666	26,666
Share premium		97,476	97,476
Other reserves	G	(503)	(503)
Accumulated deficit		(60,669)	(64,975)
Total equity		62,970	58,664

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 profit for the parent company was $3.8m (2018: $12.1m loss).

These financial statements on pages 129 to 140 were approved by the Board of Directors on 31 March 2020 and signed on its behalf by:

Victor Gladun Chief Executive Officer **Ben Fraser** Chief Financial Officer

COMPANY FINANCIAL STATEMENTS

Company statement of changes in equity

For the year ended 31 December 2019

	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)
Transactions with equity shareholders					
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

	Share capital $000	**Share premium $000**	**Accumulated deficit $000**	**Other reserves $000**	**Total equity $000**
At 1 January 2019	26,666	97,476	(64,975)	(503)	58,664
Profit for the financial year	-	-	3,833	-	3,833
Total comprehensive loss for the year	**-**	**-**	**3,833**	**-**	**3,833**
Transactions with equity shareholders					
Share option charge	-	-	14	-	14
Exercise of share options	-	-	17	-	17
Sale of shares held by Employee Benefit Trust [1]	-	-	442	-	442
Total transactions with equity shareholders	**-**	**-**	**473**	**-**	**473**
At 31 December 2019	26,666	97,476	(60,669)	(503)	62,970

1 Please refer to Group Consolidated financial statements for the full disclosure on the sale of shares held by Employee Benefit Trust in Note 15.

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

A. Presentation of the financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified for financial assets and financial liabilities (including derivative instruments) at fair value through income statement, and in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

Please refer to Directors' report on pages 73 to 76 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

Please refer to Group Consolidated financial statements for the full disclosure on Going Concern on pages 91 - 92.

Adoption of new and revised standards

IFRS 16 is effective for the year ended 31 December 2019. Please refer to Group's accounting policies note for the full disclosure.

There were no retrospective adjustments as a result of adopting IFRS 16 'Leases'. The Company's amended accounting policy applied from 1 January 2019 is disclosed below.

IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease liabilities for all material leases. It results in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases was 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 Company adopted IFRS 16 from 1 January 2019 using the modified retrospective approach and accordingly the information presented for 2018 is not restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Company elected to record right-of-use assets based on the corresponding lease liability. A right-of-use asset and lease obligations of $0.4m were recorded as of 1 January 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 14%.

The balance sheet shows the following amounts relating to leases:

	1 January 2019 $000	Depreciation charge for the year $000	31 December 2019 $000
Properties	375	(135)	240
Total	375	(135	240

The income statement shows the following amounts relating to leases:

	31 December 2019 $000
Interest on lease liabilities	44
Total	44

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

	$
Operating lease commitments at 31 December 2018	0.9
Discounted using the incremental borrowing rate at 1 January 2018	0.4
Effect of discounting	0.1
Impairment provision to be recognised on one of the properties	0.4

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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 2019 was $1/£0.76 (2018: $1/£0.78).

Share based payments

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

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

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

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

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

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

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised

over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity financial statements.

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

The rules regarding the scheme are described in the Remuneration Report on pages 67 to 68 and in Note H on share based payments.

Share capital and treasury shares

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

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

Leases

At inception of a contract, the Company assesses 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 Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is 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 asset is 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 includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from two to three years for offices. 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 is 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company 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 is made to the carrying amount of the right-of-use asset, or the effect is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company elected to apply the practical expedient not to recognise 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 Company also made use of the practical expedient to not recognise a right-of-use asset or a lease liability for leases for which the lease term ends within 12 months of the date of initial application.

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

The Company did not elect 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 Company applied the definition of a lease under IFRS 16 to all existing contracts.

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'.

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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 replaced 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.

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 when they are approved by shareholders.

Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity or in other comprehensive income, in which case the tax is also dealt with in equity or other comprehensive income respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be 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:

	2019 $000	2018 $000
Cost		
At 1 January and 31 December	**21,424**	21,424
	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). The amounts are considered recoverable based on post year end liquidation distributions.

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

At 31 December 2019, 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* [9]	Oil & gas exploration and production	100.00	UK
JKX Bulkan BG EAD [9]	Oil & gas exploration and production	100.00	Bulgaria
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 Services Limited*[4]	Services	100.00	UK
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. 30V, Lesi Ukrainky Boulevard, 01133, Kyiv, Ukraine.
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 100% 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

	2019 $000	2018 $000
Current		
Prepayments	75	285
VAT receivable	188	346
	263	631

	2019 $000	2018 $000
Non-current		
Amounts owed by group undertakings	47,881	104,700

$47.9m (2018: $104.7m) 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 $0.3m (2018: $35.7m) as at 31 December 2019. Movement, mainly due to the waiver of intercompany balances, amounted to $56.8m.

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 due on demand.

D. Taxation

Unprovided deferred tax	2019 $000	2018 $000
Tax losses	8,545	5,820
Property, plant and equipment differences	-	-
Other temporary differences	-	-
	8,545	5,820

Neither the deductible temporary differences nor the tax losses expire under current tax legislation. Deferred tax assets have not been recognised in respect of the unprovided deferred taxation items because it is not probable that future taxable profit will be available to utilise these deductible temporary differences.

The 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%.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

	2019 $000	2018 $000
Cash and cash equivalents	915	13,272
Short term deposits	7,910	-
Total	8,825	13,272

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

F. Trade and other payables

	2019 $000	2018 $000
Current		
Amounts owed to group undertakings	14,168	80,598
Trade payables	308	527
Accruals	915	176
	15,391	81,301
Current		
Lease liabilities	139	-
Non-current		
Lease liabilities	133	-
Derivatives	-	62

Maturity of financial liabilities

31 December 2019	In 1 year or less, or on demand $000	In 2 - 3 years $000
Maturity of financial liabilities		
Amounts owed to group undertakings	14,168	-
Trade payables	308	-
Accruals	915	-
Lease liabilities	166	133

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

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:

	2019 Number	2019 £000	2019 $000	2018 Number	2018 £000	2018 $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 2019 (2018: 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 2019 the market value of the treasury shares held was $0.1m (2018: $0.2m).

Other reserves

	Capital Redemption Reserve $000	Foreign Currency Translation reserve $000	Total $000
At 1 January 2019 and 31 December 2019	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 24.

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 59 and 67.

I. Auditors' remuneration

	2019 $000	2018 $000
Audit services		
Fees payable to the Company's auditors for the audit of the parent company	30	30

J. Directors' remuneration

The remuneration of the Directors is disclosed in the audited section of the Remuneration Report on pages 60 to 63, which form part of these financial statements.

K. Dividends

No interim dividend was paid for 2019 (2018: nil). In respect of the full year 2019, the directors do not propose a final dividend (2018: no final dividend paid).

L. Employees

From 1 January 2019 all employee cost that were previously met by the group company JKX Services Ltd were transferred to JKX Oil & Gas plc. There were no employees of the Company during the year ended 31 December 2018.

	2019 $000
Wages and salaries	1,247
UK social security costs	130
Other pension costs	134
Share based payments (equity-settled) (Note H)	14
	1,525

COMPANY FINANCIAL STATEMENTS

Notes to the Company financial statements

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

	2019 Number
Management/operational	7
Administration support	1
	8

M. Events after the reporting date

See Note 33 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
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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