# JKX Oil & Gas Limited
# Annual Report and Accounts
# For the year ended 31 December 2021

# Chairman's statement

I am pleased to be writing to you as Chairman of the Company and to present its results for the 2021 financial year.

As you will be aware from my letter dated 18 November 2022, you are receiving this report considerably later than I would have liked. This delay is a direct consequence of the invasion of Ukraine by the forces of the Russian Federation in February 2022 and BDO LLP's subsequent resignation as auditor. Despite these particular post-year end challenges, I am glad to be able to report that the Company was rapidly able to appoint a successor auditor (Harris & Trotter LLP), a firm that has significant experience of auditing companies such as JKX. I am grateful for their proactive engagement and help in getting this report issued as soon as practical following their appointment.

Turning then to 2021, the year was challenging with the global Covid-19 pandemic continuing to impact the Company's performance. I would like to acknowledge the resilience of our staff and contractors and the dedication that they demonstrated during the pandemic - and continue to show during the even greater hardships that many of them have suffered following the invasion of Ukraine in February 2022.

The impact of the pandemic limited the operations that the Group was able to undertake during 2021 and as a result total average daily Group production decreased by 13% (from 10,238 boepd in 2020 to 9,028 boepd in 2021 ). Whilst this decrease in average daily production was disappointing, there was some compensation in the form of a significant increase during the period in the oil and gas price. As a result, and despite the decrease in average daily production, revenue for the 2021 year, derived from the sale of the Group's Ukrainian gas, condensate and LPG production was $112.1m, 112.3% higher than the $52.8m reported in 2020. As a result the Group generated an almost 40% increase in profit before tax of $31.6m, compared to $23.0m in 2020.

Reversing the Group production decline is a priority for the Board, and whilst the Board is realistic about the constraints imposed by the current geopolitical situation, the Board continue to actively consider both optimizing recovery from existing assets as well as new acquisitions.

<u>Post-year end events</u>

Notwithstanding the challenges presented during 2021 a number of significant events have arisen in the period after the closing of the 2021 financial year and before the date of issue of this report. Whilst these will be addressed in the Annual Report for the 2022 financial year they are summarised below in the interests of transparency:

**Completion of the Tender Offer, delisting and re-registration as a private Company:** The Company completed its Tender Offer for the purchase of up to 40,096,476 Ordinary Shares on 6th January 2022 accepting all of the 26,942,198 shares that had been validly tendered by Qualifying Shareholders, effectively giving all shareholders that wished the option to exit or reduce their exposure to the Company.

On the same day the Company delisted from the premium segment of the London Stock Exchange and re-registered as a private company, adopting the Wates Corporate Governance Principles for Large Private Companies. The Board had felt that the costs of the listing outweighed the benefits given the specific circumstances of the Company. Whilst a matched bargain trading facility was put in place at the time of delisting, subsequent events have meant that matched bargain trading has been suspended. The Board will consider whether it is appropriate to reintroduce similar arrangements once the current situation in Ukraine is resolved.

**The invasion of Ukraine by the forces of the Russian Federation**: The invasion of Ukraine by the forces of the Russian Federation on 24th February 2022 has presented a significant challenge to the Group and its operations. The Group unconditionally condemns this action and is committed to complying with all applicable legislation, including that relating to sanctions. As described further in this report, the Company has implemented a wide-ranging sanctions policy and has recused itself from governance of its Russian assets. The Board is pursuing the disposal of these assets within the framework of applicable sanctions legislation, but the geopolitical context, the complexity of the applicable sanctions' legislation and the practical reality all present significant challenges to achieving the Board's desired outcome.

**Refreshing of the Board:** Following the receipt of a formal requisition issued by the Company's major shareholder, Eclairs Group Limited, all of the directors of the Company resigned in June 2022 and a new board was appointed. The new Board invites an active and open communication with all shareholders whilst recognising that all decisions must be taken in the interest of the Company as a whole.

**Review of internal controls:** Following the appointment of a new Board in June 2022, the new Board appointed KPMG to carry out a review of the Group's internal control framework and its consistent application across all Group Companies at all levels, except for its two Russian subsidiaries (YGE and Catering YUG) in relation to which the Company believes itself to be constrained from communication and control by applicable sanctions legislation. This review has covered the sales cycle, purchases and the payments cycle as well as donations (and associated paperwork) made by the Group's Companies following the invasion of Ukraine in order to ensure that the applicable processes were appropriate and consistently applied. Whilst donations totalling $3.7 million are still under review, the new Board has already appointed a new Internal Audit Manager with both private practice and industry experience, introduced more onerous payment control requirements and revised its Schedule of Matters Reserved to the Board.

**Re-evaluation of Hungarian assets**: Following the appointment of the new Board in 2022 a re-evaluation of the Group's Hungarian assets has been carried out and it has been decided to re-commence work in a phased manner, minimising expenditure whilst evaluating the prospectivity of the assets. The first phase of this work has commenced and further investment will be contingent on the success of this

# Chairman's statement

initial work programme.  As a result the Board no longer consider it likely that these assets will be disposed of within the next 12 months and they are no longer categorised as an asset held for sale.

**Outlook.**

The Board's renewed focus on cost control, optimised logistics and effective decision making will continue during 2023.  The Board will also continue to focus on ensuring that the internal control environment remains appropriate to meet the increasing challenges the Group faces as a result of geopolitical developments.

With the Company's growing cash reserves, the likely deconsolidation of YGE's reserves and the challenges to ongoing operations the Board is actively considering how best to identify new opportunities, both within the Group's existing portfolio and as part of an acquisition strategy.

Despite its continuing challenges the Company has made good progress and I continue to be positive, despite the complexity of the issues that the Company faces.

Michael Bakunenko

Chairman, JKX Oil & Gas Limited

29 March 202

# Operations review

## Group production

In 2021 Group average production was 9,028 boepd (2020: 10,238 boepd), an overall decrease in production of 12%. The reduction in production was a result of natural production decline in Ukraine with only one new well with significant production added in 2021. Also, in Russia production was offline for nearly a month due to a change in a gas sales contract.

| boepd | | | Workovers* | | Sidetracks | | New wells | |
|---|---|---|---|---|---|---|---|---|
| **Cash generating unit** | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Novomykolaivske complex | 3,065 | 3,563 | 14 | 13 | 2 | 2 | 2 | 3 |
| Elyzavetivske licence | 1,029 | 1,286 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Ukraine | 4,094 | 4,849 | 14 | 13 | 2 | 2 | 2 | 3 |
| Russia | 4,934 | 5,389 | 0 | 0 | 0 | 0 | 0 | 0 |
| Hungary | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Group** | 9,028 | 10,238 | 14 | 13 | 2 | 2 | 2 | 3 |

*Includes abandonments.

Gas and oil production decreased year-on-year in Ukraine and in Russia.

| | Gas, Mcmd | | Oil, bopd | | boepd | |
|---|---|---|---|---|---|---|
| **Cash generating unit** | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Novomykolaivske complex | 370 | 441 | 887 | 970 | 3,065 | 3,563 |
| Elyzavetivske licence | 169 | 212 | 32 | 37 | 1,029 | 1,286 |
| Total Ukraine | 539 | 653 | 919 | 1,007 | 4,094 | 4,849 |
| Russia | 829 | 905 | 54 | 61 | 4,934 | 5,389 |
| Hungary | 0 | 0 | 0 | 0 | 6 | 0 |
| **Total Group** | 1,368 | 1,558 | 973 | 1,068 | 9,028 | 10,238 |

### Ukraine

**Novomykolaivske complex production and operations**

| | boepd | | Workovers | | Sidetracks | | New wells | |
|---|---|---|---|---|---|---|---|---|
| **Field name** | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Ignativske | 1,866 | 2,431 | 11 | 6 | 0 | 1 | 1 | 2 |
| Molchanivske | 380 | 398 | 0 | 1 | 1 | 0 | 0 | 0 |
| Novomykolaivske | 615 | 509 | 2 | 2 | 1 | 0 | 0 | 1 |
| Rudenkivske | 204 | 225 | 1 | 2 | 0 | 1 | 1 | 0 |
| Zaplavske | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 |
| **Novomykolaivske complex** | 3,065 | 3,563 | 14 | 13 | 2 | 2 | 2 | 3 |

The decrease in Novomykolaivske complex production year-on-year was mostly attributed to the IG142 well suddenly ceasing production in February 2021 with production decline in IG103 sidetrack and IG143 also contributing to the annual reduction in production in the Ignativske license. IG149, a new well drilled to the Devonian in Ignativske, commenced production in May 2021 and only partially offset the declines from the other wells. The increase in production in the Novomykolaivske field was mostly attributed to a workover of NN76 from the V16 to the V15 reservoir in March 2021.

# Operations review

**Elyzavetivske licence production and operations**

| | boepd | | Workovers | | New wells | |
|---|---|---|---|---|---|---|
| **Field name** | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Elyzavetivske West | 591 | 773 | 0 | 0 | 0 | 0 |
| Mashivska | 438 | 513 | 0 | 0 | 0 | 0 |
| **Elyzavetivske Licence** | 1,029 | 1,286 | 0 | 0 | 0 | 0 |

The reduction in production from the Elyzavetivske license was mainly the result of ongoing production decline in the Elyzavetivske and West Mashivske fields.

# Reserves update

In Ukraine, production has been partially offset by increases to reserves with a reserves replacement ratio of 42%.

The most significant increase is the result of improved LPG yield in the Novomyolaivske complex.

Additional increases in reserves in Ukraine have resulted from an increase in the reserves associated with IG149, a new well drilled to the Devonian in the Ignativske field in 2021.

Reserves in the Elizavetivske field have increased due to improved forward gas price curves extending the economic life of this license.

A new well is planned in the Zaplavske license in 2022 and as such this has been included as reserves.

In Russia the loss of Well 20 and failure to repair the well in 1H 2020 has meant there has been a small reduction in reserves after taking account of production.

**Total remaining 2P reserves at 31 December 2021**

| 31-Dec-20 | | Revisions | Production | 31-Dec-21 |
|---|---|---|---|---|
| **Total** | | | | |
| Oil (MMbbl) | 3.2 | 0.1 | (0.4) | 2.9 |
| Gas (MMcm) | 13,039 | 401 | (499) | 12,939 |
| LPG (MMbbl) | 3.6 | 0.5 | (0.2) | 4.0 |
| Oil + Gas + LPG (MMboe) | 83.6 | 3.0 | (3.5) | 83.0 |
| **Ukraine** | | | | |
| Oil (MMbbl) | 2.4 | 0.1 | (0.3) | 2.5 |
| Gas MMcm | 3,153 | 9 | (197) | 2,965 |
| LPG (MMbbl) | 3.6 | 0.5 | (0.2) | 4.0 |
| Oil + Gas + LPG (MMboe) | 24.7 | 0.7 | (1.7) | 23.7 |
| **Russia** | | | | |
| Oil (MMbbl) | 0.7 | 0.0 | (0.0) | 0.6 |
| Gas (MMcm) | 9,886 | 392 | (303) | 9,975 |
| Oil + Gas (MMboe) | 58.9 | 2.3 | (1.8) | 59.3 |

Note there are minor difference in the tables due to rounding effects.

**Field-by-Field 2P reserves at 31 December 2021**

| MMboe | Dec-20 | Revisions | Production | Dec-21 |
|---|---|---|---|---|
| **Ukraine** | | | | |
| Ignativske | 3.8 | 0.4 | (0.7) | 3.5 |
| Movchanivske | 1.0 | (0.1) | (0.1) | 0.8 |
| Novomykolaivske | 1.0 | (0.1) | (0.2) | 0.7 |
| Rudenkivske | 13.0 | (0.4) | (0.1) | 12.5 |
| Zaplavska | - | 0.1 | - | 0.1 |
| LPG Novomykolaivske complex | 3.6 | 0.5 | (0.2) | 4.0 |
| Sub-total Novomykolaivske complex licences | 22.4 | 0.4 | (1.3) | 21.5 |
| Elyzavetivske | 2.3 | 0.3 | (0.4) | 2.2 |
| Total Ukraine | 24.7 | 0.7 | (1.7) | 23.7 |
| **Russia** | | | | |
| Koshekhablskoye | 58.9 | 2.3 | (1.8) | 59.3 |
| **Total** | 83.6 | 3.0 | (3.5) | 83.0 |

Reserves reported gross of royalties and includes fuel gas

# Reserves update

## JKX contingent resources

There is no change to the contingent resources in 2021.

| **Field** | Reservoir | 1C (low) | MMboe 2C | 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 |

# Financial review

## Group revenues*

**112.3%**

| | 2021 ($m) | 2020 ($m) | Change ($m) | % Change |
|---|---|---|---|---|
| **Ukraine** | **112.1** | **52.8** | **59.3** | 112**%** |
| Gas | **77.4** | **30.5** | **46.9** | 154**%** |
| Oil | **22.9** | **16** | **6.9** | 43**%** |
| Liquefied Petroleum Gas ('LPG') | **10.5** | **5.7** | **4.8** | 84**%** |
| Other | **1.3** | **0.6** | **0.7** | 117**%** |
| **Total** | **112.1** | **52.8** | **59.3** | 112**%** |

Note that prior year numbers were restated as a result of the application of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" to the Group's operations in Russia.

## Sales prices

| | 2021 | 2020 | Change | % Change |
|---|---|---|---|---|
| **Ukraine** | | | | |
| Gas ($/Mcm) | **449** | **132** | **317** | **240%** |
| Oil ($/bbl) | **70** | **44** | **26** | **59%** |
| LPG ($/tonne) | **645** | **398** | **247** | **62%** |

**Results for the year**

The Group's financial performance for 2021 (excluding assets held for sale as explained below) has been impacted by the significant increase during the period in pricing for oil and gas. The Group generated a profit before tax in 2021 of $31.6m from its operations in Ukraine compared to $23.0m in 2020. Results for both years include net movements in respect of provisions for disputed rental fees for 2010 and 2015 in Ukraine ($18.7m in 2021 and credit of $13.5m in 2020).

Revenue for the year (excluding assets held for sale as explained below), derived from the sale of the Group's Ukrainian gas, condensate and LPG production for 2021 is $112.1m, 112.3% higher than the $52.8m reported in 2020. The increase is primarily due to the higher commodity prices while total average daily Group production decreased by 15.6% (4,105 boepd in 2021 to 4,866 boepd in 2020).

The Group classified Yuzhgazenergie LLC as assets held for sale in the consolidated financial statements as of 31 December 2021 in line with the criteria of IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"* and therefore are not included in the consolidated results. Prior year numbers were also restated.

# Financial review

**Ukraine revenues**

As stated above, revenue for the year, derived from the sale of the Group's Ukrainian gas, condensate and LPG production for 2021 was $112.1m, 112.3% higher than the $52.8m reported in 2020. The increase is primarily due to the higher commodity prices while total average daily Group production decreased by 15.6% (2020: 4,866 boepd , 2021: 4,105 boepd).

The average gas sales price in dollar terms was 240% higher in 2021 than in 2020 (2020: $132/Mcm, 2021 $449/Mcm). This is in line with international market trends. Total produced gas sales volumes for the 2021 year decreased by 24% from 227,306 Mcm in 2020 to 171,855 Mcm in 2021, due to the gas production volume having decreased by 18% from 238,868 Mcm in 2020 to 196,900 Mcm in 2021. Sales of gas inventory reduced from 2,696 Mcm at the beginning of the year to 2,306 at 31 December 2021 but compensated for the lower production levels during the year. For more detail on production trends please refer to the Operations review.

The average oil sales price in dollar terms was 59% higher in 2021 that in 2020. (2020: $44/bbl, 2021 $70/ bbl). Total oil sales volumes for the year decreased by 6% from 360,898 barrels in 2020 to 340,474 barrels in 2021. Oil production volume decreased 1% from 339,072 barrels in 2020 to 334,694 barrels in 2021.

LPG sales volumes were 16,316 tonnes in 2021, 11% higher in comparison with 14,699 tonnes in 2020, with sale prices being higher in 2021 ($383/ tonne in 2020 compared to $645/tonne in 2021).

Inventory held at 31 December 2021 (2.3 million cubic metres of gas and 22, 200 bbl ) had an estimated sales value of $1.6m using average sales prices for December 2021.

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.

**Cost of sales**

Exceptional items relate to provisions for disputed rental fees.
A release of $2.2m of provisions due to the closure of some of the 2015 rental fee claims in favour of our subsidiary PPC was offset by an additional charge of $0.8m reflecting updated interest calculations in relation to the rental fee claims still provided for and $20.1m restored provision for two tax cases related to January to December 2015 claims, which were released in 2019 due to closed status in favour of our subsidiary but the judgments of the lower courts were cancelled in the Supreme Court and were fully paid during the H1 of 2022 resulting in a net movement of $18.7m in 2021.

Cost of sales before exceptional items for 2021 totaled $55.3m (2020:$35.6m), including:

- $28.6m of production taxes, which were $16.5m higher than in 2020. In Ukraine, the production tax expense (before exceptional charges) increased by $16.5m from $12.1m to $28.6m mainly due to an increase in the average border gas price which is the basis for calculating gas production taxes.
- $17.4m of operating costs, which were $6.9m higher than in 2020. Out of this amount, $16.9m relates to Ukraine (2020:$9.9m) and $0.5m to London (2020: $0.6m) . The increase in operating costs in Ukraine is mainly due to an increase in well lease costs and higher labour costs.
- Selling inventory volumes in Ukraine resulted in recognition of a credit of $1.1m (2020: charge $1.3m), which was added to these operating costs respectively, which gives the $16.3m of operating costs reported in note 20.
- $10.4m of depreciation, depletion and amortisation charge (2020:$11.7m), which relates to Ukraine.

**Administrative expenses**

Administrative expenses were $11.7m in 2021, comparing to those of $8.6m in 2020. The increase is mainly due to additional expenses for legal and professional services, related to the preparation for the delisting of the Company, which became effective on 6 January 2022.

**Finance income and costs**

2021 finance costs are similar to 2020 to the amount of $0.7m. The decrease in borrowing cost is due to the bonds repayment in February 2020 and the decrease of interest on lease liabilities due to the expiration of lease agreements. Finance costs also include the unwinding of discount of provisions for site restoration of $0.5m (2020: $0.4m).

Finance income of $0.8m (2020: $0.5m) comprises income from bank deposits.

**Taxation**

The total tax charge for 2021 is $8.2m (2020: $6.6m) comprising a current tax charge of $9.9m (2020: $3.3m) which relates to Ukraine and a deferred tax benefit of $1.7m (2020: charge $3.3m). The deferred tax relates to movements in various deferred tax assets and liabilities in Ukraine as set out in Note 26 to the financial statements.

# Financial review

### Discontinued operation and assets held for sale

The discontinued operations relate to the performance of the Hungarian and Russian operating segments during 2021.

### Riverside Energy Kft

On 9 March 2020 the Company announced that it had agreed terms for the disposal of the entire share capital of its Hungarian business. Following pandemic related delays, the Group received notification that the relevant Hungarian authorities had refused the necessary consent to the transaction pursuant to legislation introduced as a result of the COVID-19 pandemic. Consequently, the transaction did not proceed. Offers to buy the Hungarian business were subsequently received from other interested parties and as of the end of 2021, the sale of the Hungarian business was expected for approximately $3.0m.

Despite the Company's best efforts, the Hungarian business remains unsold and the Board has decided to re-commence work in a phased manner, minimising expenditure whilst evaluating the prospectivity of the assets. The first phase of this work has commenced and further investment will be contingent on the success of this initial work programme. As a result the Board no longer considers it likely that these assets will be disposed of within the next 12 months and they are no longer categorised as an asset held for sale.

### Yuzhgazenergie LLC and Catering Yug LLC

Following a decision made by the Board in September 2021, the Group announced its intention to dispose of its non-core Russian assets (Yuzhgazenergie LLC (YGE) and Catering Yug LLC), and an active program to find a buyer was initiated.
An investment banking firm was engaged in Q4 2021. The Group received several offers from potential buyers and as at the end of 2021, the sale of the Russian business was expected with an estimated net receipt (consideration less cost to sell) of $27m.

Total revenues in Russia in 2021 of $16.9m were at a similar level as in 2020 ($16.8m).

Whilst total gas production volume decreased by 9% from 331,303 Mcm in 2020 to 302,652 Mcm in 2021 a slight increases in the average price for gas from 52 $/Mcm in 2020 to 58 $/Mcm in 2021 resulted in 2021 revenue remaining at the same level as the previous year.

### Cash flows

As of 31 December 2021, the Group's cash balance consisted of restricted cash to the amount of $25.4m, placed as a deposit in connection with the Tender Offer that completed in January 2022, and available cash balances to the amount of $43.9m ( $24.3m at 31 December 2020). This was achieved as a result of strong operating cash flows of $69.8m (2020: $25.6m) from continuing operations, almost all of it generated in Ukraine.

No dividends were paid to shareholders in the period (2020: nil).

**Dmytro Piddubnyy**

Chief Financial Officer

29 March 2023

# Risks

The Board has completed a robust assessment of the most significant risks and uncertainties which could impact the Company's business model, long-term performance, solvency or liquidity, and the results are below.

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

| What is the risk? | How do we manage it? |
|---|---|
| **Invasion of Ukraine by the forces of the Russian Federation**<br><br>Description: On 24 February 2022, Russia invaded Ukraine and there is currently a serious and ongoing military conflict within Ukraine. This conflict is having a major impact on Ukraine and its population, with significant destruction of infrastructure and buildings in the areas of conflict, as well as damage in other areas of Ukraine. The conflict is also impacting the fiscal and economic environment in Ukraine, as well as the financial stability and banking system in Ukraine, including restrictions on the transfer of funds outside of Ukraine. The current conflict is also having a significant adverse effect on the Ukrainian financial markets, hampering the ability of Ukrainian companies and banks to obtain funding from the international capital and debt markets. At present, the conflict is ongoing and the scope and duration of the conflict is uncertain. | The conflict has disrupted the Group's activities in all areas of its operations. At the production site in Ukraine, staff numbers are kept to minimum levels. Where possible, all other staff work remotely and have been supplied with all necessary devices and software to facilitate remote working. Additionally, the Group aims to maintain most of its cash resources outside of Ukraine.<br><br>We continue to monitor impacts to our people and our operations, and mitigation plans are implemented where needed. |
| **Geopolitical and sanctions**<br><br>Description: Following Russia's invasion of Ukraine in February 2022 the EU, the US and the UK imposed further sanctions targeting inter alia the Russian banking system (including financing restrictions and the exclusion of certain banks from the SWIFT-System), Russian individuals and the energy and transport sectors. In response Russia has enacted countersanctions including inter alia restrictions on sales of shares of open or closed joint-stock companies. Russia also announced property blocking sanctions against foreign individuals and companies, in particular restrictions on dividend payments to foreign shareholders in Russian companies.<br><br>Sanctions on Russia and countersanctions issued by Russia could lead to disruptions in global supply chains and shortages in energy products, raw materials, etc., and consequently lead to further increases in operational cost. | The Group remains committed to complying with all laws, including applicable sanctions regimes.<br><br>Following Russia's invasion of Ukraine and the introduction of the aforementioned sanctions, the JKX Board undertook a thorough review of its involvement with Yuzhgazenergie LLC and Catering Yug LLC and in accordance with the advice of its external legal advisers as to the requirements of the applicable sanctions regimes introduced a comprehensive sanctions compliance policy. In order to comply with its legal obligations the Group, inter alia, discontinued its normal governance and control activities and suspended the repatriation of funds from these entities.<br><br>International sanctions against Russia, as well as Russian countersanctions against foreign investors, adversely impact the Group's ability to govern its Russian assets, to repatriate funds, to exit its interest in Russia and the value which can be realised for that interest. The impact of the sanctions is under constant review.<br><br>At this stage the Board cannot reasonably estimate the probability or possible outcome of any exit process from its Russian assets. Actual outcomes may be impacted by a variety of factors, including how the international sanctions or other steps taken by governmental authorities or any other relevant persons may impact the Group's interest in Russia, or otherwise limit the Group's ability to sell it, or the price for which it could be sold and the possibility that the Group will achieve a sale price that is significantly below the net book value of that asset. |

# Risks

| What is the risk? | How do we manage it? |
|---|---|
| **Liquidity, funding, and portfolio management.**<br>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.<br>It is important to maintain sufficient liquidity to allow for operational, technical, commercial, legal, and other contingencies.<br>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).<br>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.<br>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.<br>Although the Group has been debt free since February 2020 this risk remains. | Liquidity is accumulated by deferring high-risk investment projects and minimising costs. Projects are analysed and ranked across the Group and capital is allocated accordingly. All significant investment decisions are subject to Board approval and are taken with due consideration to funding availability. These decisions are taken within the context of the longer term field development plans. |
| **Fiscal.**<br>Description: The Group's most significant oil and gas operations are located in Ukraine. As a result of the legal and practical complexities arising following the invasion of Ukraine by the forces of the Russian Federation the Group has to date been unable to dispose of its Russian assets, although it remains the Board's policy to do so in a compliant manner.<br>Produced oil, gas and condensate are sold into their domestic markets and face risks such as those related to changes in taxes, capital controls, laws and regulations, political situation, or investor sentiment.<br>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.<br>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 | The Group's operations and financial position may be adversely affected by the interruption, inspections and challenges from local authorities, which could lead to remediation work, time-consuming negotiations and suspension of production licences.<br>Except for provision for tax cases, 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.<br>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 to improve the methods of regular dialogue and on-going communications locally.<br>Our strategy is to employ skilled local staff working in the countries of operation and to engage established legal, tax |

# Risks

| What is the risk? | How do we manage it? |
|---|---|
| operations, licence history, compliance with licence commitments and/or local regulations.<br>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.<br>Applicable sanctions regimes prevent normal governance of Russian assets prior to their disposal and there is a risk that these assets may fail to identify or respond to fiscal risk s<br>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.<br>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. [although a challenge to the payment of the award has recently been filed in Kiev by the Ukrainian authorities] | 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. |
| **Reservoir and operational performance.**<br>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.<br>Production from our mature fields at the Novomykolaivske Complex in Ukraine require a high level of maintenance and intervention to minimise the production decline.<br>Impact: Accurate reservoir performance forecasts from fields 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.<br>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.<br>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. | 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.<br>Our subsurface and operations specialists and industry-recognised personnel are part of the daily monitoring and reservoir management process of our fields and assets.<br>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.<br>We continue to focus on low cost, high impact operations to ensure that the Group obtains best value for its expenditure. |

# Risks

| What is the risk? | How do we manage it? |
|---|---|
| **Financial discipline and governance.**<br>Description: The Group has a complex structure which 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.<br>From 2015 to 2022 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 have required additional efforts to ensure proper implementation of governance, controls, and financial discipline procedures.<br>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, investment decisions and exposure to increased legal, regulatory, or financial risks. | A Group Policy Manual has been implemented across the Group and is subject to regular review and revision by the Board to ensure that governance and control procedures are sufficient to ensure the appropriate level of financial discipline and controls, as well as delegation of authority along the corporate and management structure.<br>Following the appointment of the new Board in June 2022, it appointed KPMG to carry out a review of the Group's internal control framework and its consistent application across all Group Companies at all levels. This review has covered sales cycle, purchases and payments cycle, donations (and associated paperwork) made by Group Companies following the invasion of Ukraine in order to ensure that the applicable processes were appropriate and consistently applied. Whilst donations totalling [US$ 3.7m ] are still under review, the new Board has already re-established an independent internal audit function, appointed a new internal audit manager with both private practice and industry experience, introduced more onerous financial and payment controls, updated management reporting and revised its Schedule of Matters Reserved to the Board. |
| **Health, safety, and environmental risks.**<br>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. 195 countries signed the historic Paris Agreement to tackle climate change. Despite this, we know that some changes to the climate are already inescapable due to past emissions of greenhouse gases. The Paris Agreement commits the international community to reduce greenhouse gas emissions in order to avoid some of the most severe impacts of climate change.<br>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 the 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. A programme for adaptation to climate change to address the identified risks is an ongoing process. | Health, safety and the environment is a priority of the Board who are involved in the planning and implementation of continuous improvement initiatives. An HSECQ Manager based in the Group's major operating unit, PPC, reports regularly to the Board of Directors and provides a detailed monthly Group- HSE report.<br>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.<br>All locations have HSE Management Systems modelled on the ISO 9000 series, OHSAS 18001 and ISO 14001.<br>Appropriate insurance policies, provided by reputable insurers, are maintained at the Group level to mitigate the Group's financial exposure to any unexpected adverse events arising out of the normal operations. |
| **Asset integrity.**<br>Description: Our operations risk assessment outline the ability of an asset to perform its required function effectively and efficiently whilst protecting health and safety of staff and the environment and the means of ensuring that the people, systems, processes, and resources that deliver integrity are in place, in use and will perform when required over the whole life-cycle of the asset. | Status of our licences and relevant licence obligations are monitored on a country level. |

# Risks

| What is the risk? | How do we manage it? |
|---|---|
| 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. Continuous improvement of our processes used to manage assets and to find the optimal mix of costs, risks and performance over the whole life cycle of the assets is an ongoing process. | |
| **Major breach of business, ethical, or compliance standards.**<br>Description: The Company is subject to numerous requirements and standards including the UK Bribery Act, and the Wates Principles 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.<br>Impact: Failing to comply with onerous regulations and requirements, such as failure to implement adequate systems to prevent bribery and corruption or money laundering, could result in prosecution, fines or penalties imposed on the Company or its officers, suspension of operations or listing.<br>Inability to clear KYC procedures to the satisfaction of the third parties may result in refusal to engage in business relationships with the Company. Given the Group's share register the risk of withdrawal of banking facilities and professional advice is increasing. | The CFO is responsible for compliance and, with the support of the Board, implements compliance-related activities and procedures.<br>Such activities focus on training, monitoring, risk management, due diligence and regular review of policies and procedures.<br>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.<br>In dealing with third parties, our policy is to maximise transparency and provide all information available to address KYC-related procedures and requests.<br>A review of the Company's Anti-Bribery policies and procedures is currently being undertaken by the newly appointed Internal Audit Manger to ensure it remains adequate given the changing environment in which the Group is operating. |
| **Commodity prices and FX fluctuations.**<br>Description: JKX is exposed to international and local oil and gas price movements, Such changes will have a direct effect on the Group's trading results.<br>Gas prices in Ukraine are closely aligned with gas prices in Europe. Change in gas import flows may have impact on gas prices in Ukraine, and a prolonged period of low gas prices would impact the Group's liquidity.<br>In Ukraine PPC sells the oil and gas it produces at prices determined by a combination of the global oil market and local market factors.<br>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. Continued volatility in foreign exchange rates might affect the US Dollar value of future profits, assets and cash flows of the Group. | JKX's policy is not to hedge commodity price exposure on oil, gas, LPG or condensate and not to hedge foreign exchange risk.<br>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.<br>As commodity prices in Ukraine normally follow international benchmarks, significant changes in the exchange rates are reflected in commodity prices providing a natural hedge.<br>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. |

# Corporate social responsibility ('CSR') review

## Health and safety performance

### Our approach

JKX Oil & Gas (JKX) is an international company that manages several different operations across Europe on a daily basis. Changing market challenges, a proactive stance and business integration in the HSE issues management, have led JKX to apply the principles of Integrated Management Systems at the various organizational and operational levels.
The mature business management systems developed over time have been driven by external changes and through a growing awareness of the opportunities that are emerging in the management of HSE tools and sustainability as integrated parts of the business.

*The Integrated Health and Safety* program is the strategic and systematic integration of distinct health and safety programs and policies. They are a continuum of organizational, personal, occupational, community, and environmental activities. These are replicable, measurable, and integrated across several locations, enhancing the overall health and well-being of workers, their families and preventing work-related injuries and illnesses. We set annual HSECQ targets for all levels within the organisation.

### Covid 19

The JKX Group of companies has implemented a range of measures in line with national and local government requirements in all locations and is implementing additional restrictions. The JKX Group of companies are protecting the health of the Group's staff, contractors, suppliers and those in the communities from which they are drawn by ensuring that high levels of operational safety are maintained and have instructed contractors and suppliers to provide the necessary support by:

a) raising awareness in all locations;

b) introducing and enforcing social distancing;

c) working from home and remote-working;

d) cancellation of business trips and other restricted travelling ;

e) meetings and the use of virtual solutions;

f) enhanced cleaning regimes for certain group facilities;

g) temperature screening of staff and contractors at entry points;

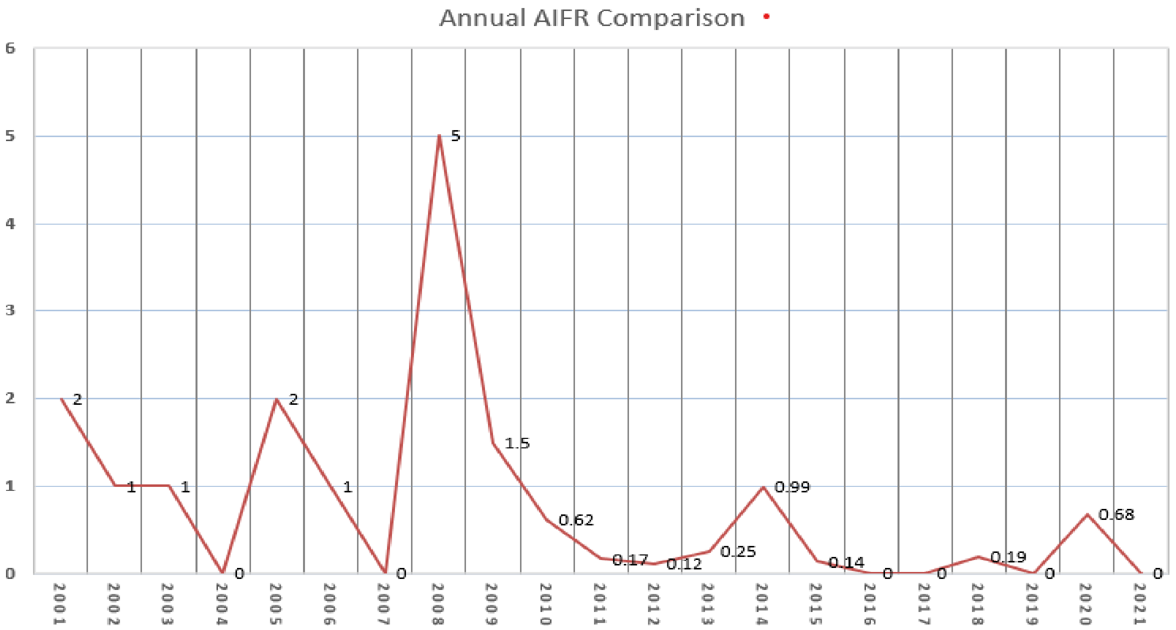
h) active liaison with local regional and national government;

### Our performance in 2021

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 2021 we achieved an all injury frequency rate (AIFR) of 0 per 200,000 hours worked. In 2021 we reported 65 incidents.

Annual Comparisons for the AIFR

# Corporate social responsibility ('CSR') review




### 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. 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 those risks.

Before we 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 that:
▪ 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 the principles of ISO 45001, ISO 14001 (2015) Environmental and ISO 9001 Quality Management Standards (2015).

### Essential principles

These principles are intended to underpin the actions in this guidance and so lead to good health and safety performance within the JKX Group of Companies.

### Strong and active leadership from the top

- visible, active commitment from the Board;
- establishing effective 'downward' communication systems and management structures;
- integration of good health and safety management with business decisions.

### Worker involvement

- engaging the workforce in the promotion and achievement of safe and healthy conditions;
- effective 'upward' communication;

# Corporate social responsibility ('CSR') review

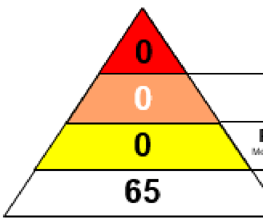
- providing high quality training.

Assessment and review
- identifying and managing health and safety risks;
- accessing (and following) competent advice;
- monitoring, reporting and reviewing performance.

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.

All Injury Frequency Rate 2021 ('AIFR')




| | December 2021 | Rolling Year |
|---|---|---|
| F.A.C Fatal Accident Case | 0 | 0 |
| LTI Lost Time Injuries | 0 | 0 |
| REC / MTC / RWC Medical Treatment / Restricted Work Cases | 0 | 0 |
| NM NM/Loss//Hazards/PD/UA/UC | 3 | 65 |

| JKX & Contractors | Dec 2021 | Rolling Year | JKX & Contractors | Dec 2021 | Rolling Year |
|---|---|---|---|---|---|
| Days Away From Work | 0 | 0 | Safety Exposure Man-Hours | 144,395 | 2,315,524 |
| Fatal Accident Cases | 0 | 0 | F.A.C. Frequency Rate | 0 | 0 |
| Lost Time Injury Cases | 0 | 0 | L.T. I Frequency Rate | 0 | 0 |
| REC / MTC /RWC | 0 | 0 | REC/ MTC/RWC frequency rate | 0 | 0 |
| NM/Loss/Hazard/PD/UA/UC Reports | 3 | 65 | Near Miss / Hazard / PD / UA /UC Frequency | 4.15 | 5.61 |
| Environmental Incidents | 0 | 1 | Environmental Incident Frequency Rate | 0 | 0.08 |
| Man-hours since last L.T. I | 1,404,618 | | Man-hours since last F.A.C | 2,100,352 | |

STRATEGIC REPORT

Corporate social responsibility ('CSR') review Environmental management system
The JKX Environmental Management System is a comprehensive, systematic, planned and documented management process.

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

Global Warming Potential & GHG Reduction Performance In 2022
Scope 1 emissions account for 88% of JKX's 2021 GHG emissions. 95% of that is fugitive emissions from gas activities.

One of the simplest measures used to reduce fugitive emissions is to regularly maintain equipment and invest in the newest technology. Pipeline leaks are the most common source of methane emissions and are mostly associated with faulty or incorrectly installed valves. Following a valve preventative maintenance program will ensure small issues are eradicated before they become more significant.
An efficient monitoring system will also increase the likelihood that unpredictable faults are identified before they become significant issues.
Utilising the natural gas on site instead of flaring it away will decrease GHG emissions significantly. The reinjection of gas wells prevents millions of tonnes of CO2 from being released into the atmosphere each year. The technique increases pressure within the reservoir promoting the flow of any remaining oil.
Methane also has high commercial value. Due to the development of technology, capturing additional methane can be done in a cost-effective manner. Once captured, the methane can be used to produce heat, electricity, or vehicle fuels, thus reducing fugitive emissions and reliance on other sources for the commodities listed (IEA, 2021a).

Waste Management
Waste emissions account for 1.5% of JKX's total 2021 GHG emissions. Reducing waste at an oil and gas production site will require the implementation of an efficient waste management system. As a starting point,adopt the standards for oil and gas waste management provided by the International Organization for Standardisation ISO 29001: 2020 Petroleum, petrochemical, and natural gas industries –

# Corporate social responsibility ('CSR') review

Sector-specific quality management systems — Requirements for product and service supply organizations. The following simple source reduction activities may significantly reduce PPC's waste emissions

- replace products with less toxic, yet effective, substitutes. Some products, such as drilling fluids, drilling fluid additives, and pipe joint compounds, have readily available substitutes.
- maintain a detailed inventory of site activities and store chemicals/materials correctly.
- reduce water usage or reclaim water from waste drilling fluids.
- ensure equipment maintenance occurs regularly.
- encourage onsite recycling activities such as the direct use or reuse of the waste material in a process.

Recycling opportunities for oil/gas field waste such as solvents, metal, filters, coolants, and contaminated water are increasing in popularity. Suggest setting annual goals to encourage employees to recycle/compost 100% of waste at work.

Minimising waste during a drilling operation must begin in the planning stages. Investing in the latest drilling technology and adopting efficient techniques such as V-shaped pits and closed-loop drilling fluid systems, will also minimise waste on site.

Heat pumps are growing in popularity and would be suitable for heating offices. Both Ukraine and Russia have considerable geothermal potential making them ideal candidates for effective use of ground source heat pumps.

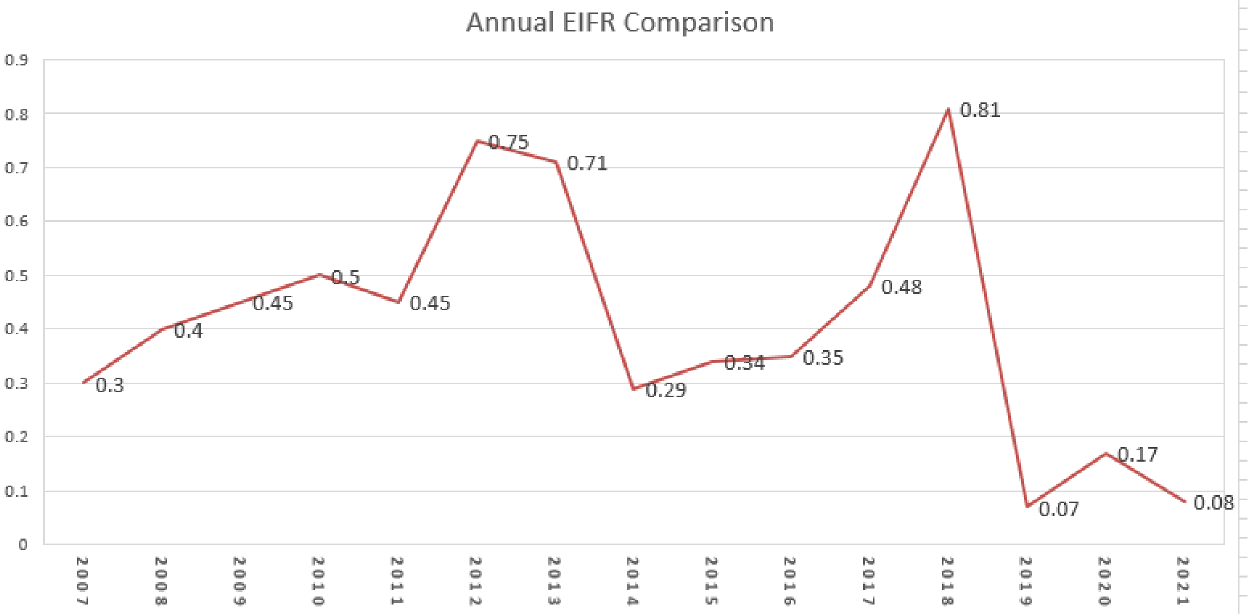
**Electricity Consumption**

All three sites import electricity creating 3,452 $tCO_2e$. This amounts to 7.1% of JKX's total 2021 GHG footprint. The most effective way to reduce GHG emissions, related to electricity usage, is to switch to a renewable source of energy. These include wind, solar, hydro, tidal, geothermal, and nuclear. The UK, Ukraine and Russia are all abundant in renewable energy potential, and although expensive, the technology is readily available

**Environmental incident frequency rate ('EIFR')**

Our EIFR Target for 2021 was not to exceed 0.17 Environmental incidents per 200,000 hours worked; we achieved 0.08

Annual Comparisons for the EIFR




JKX 2021 Greenhouse Gas Emissions Statement

During the 2021 financial year, JKX's total greenhouse gas emissions were 48,380 $tCO_2e$. Scope 1 contributed 87.9%, Scope 2 and Scope 3 contributed 7.1% and 5% respectively. Overall, greenhouse gas emissions in 2021 were 80% lower than in 2020.

| | 2020 | 2021 |
|---|---|---|
| **Total $tCO_2e$** | **245 496** | **48 380** |
| Scope 1 | 216,161 | 42 513 |
| Scope 2 | 17,260 | 3 452 |
| Scope 3 | 12,075 | 2 415 |
| **Emission intensity ($tCO_2e$/mmboe)** | **65 518** | **14 683** |

To calculate greenhouse gas emissions, a variety of data sources were used. When available, country specific conversion factors were used.

- All UK emissions were calculated using DEFRA's UK Government GHG Conversion Factors for Company Reporting 2021.
- Ukrainian and Russian electricity conversion factors were supplied by IRENA.

# Corporate social responsibility ('CSR') review

- Ukrainian natural gas conversion factors were supplied by UNFCCC.
- Russian natural gas conversion factors were supplied by IPCC.

Where Russian and Ukrainian conversion factors are unavailable, DEFRA's UK Government GHG Conversion Factors for Company Reporting 2021 were used.

In 2019, Russia and Ukraine collectively produced 18.5% of total global gas and 13.05% of total global oil. During that year, the Russian and Ukrainian oil and gas industry emitted 1,245 $MtCO_2e$, equalling 3.7% of global greenhouse gas emissions. Both Russia and Ukraine have pledged to limit their 2030 greenhouse gas emissions to 70% and 65% of 1990 levels respectively. To meet these targets, oil and gas companies, such as JKX, must continue actively reducing their annual greenhouse gas emissions.

### Supply chain management

Effective supply chain management systems minimise cost, waste and time so, 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. At JKX supply chain management is much more than simply managing suppliers on an ad hoc basis. The identification of legal standards related to procurement along with appropriate ethical standards to ensure JKX complies with its corporate responsibility and environmental commitment.

### Our achievements

During 2021 some advances were made in our Supply Chain Initiative, and this will continue in 2022 with a more focused approach to procurement and supply.

## 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

Early and sustained public involvement can provide cost savings, time savings, and broader outreach to all stakeholders.
Public engagement allows for better, more durable achievement of project goals and more effective use of community assets. We conduct various activities to forge good relations with local communities through participation in forums established by local authorities and residents' associations.

### 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 2021 amounted to $ 0.1 mUSD across the group. Subject to management approval, staff may be given additional time off in order to join in certain charity-related activities. A detailed list of donations is available on request.

### Our stakeholder engagement

Effective engagement helps translate stakeholder needs into organisational goals and creates the basis of effective strategy development. Discovering the point of consensus or shared motivation helps the JKX group of stakeholders to arrive at a decision and ensures an investment in a meaningful outcome .We work closely with outside interest groups and maintain an open-door policy to better understand local issues and problems are avoided.

### Our investor engagement

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

### 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 for such activities as snow clearing, road repairs, clearing of foliage and on occasions we have assisted with firefighting incidents.

## Modern Slavery, Diversity and Equality

JKX have completed the modern slavery statement registry online, to provide a platform for the public to share the positive steps they have taken to tackle and prevent modern slavery. The registry enhances transparency and accessibility, by bringing modern slavery statements together in one place and makes it easier to find and compare them. It allows users such as consumers, investors and civil society, to search for statements and scrutinise the action JKX and other organisations are taking to identify and address modern slavery risks in their operations and supply chains.

# Corporate social responsibility ('CSR') review

Access to work opportunities is based on merit, equality, fairness and need. 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. JKX implement a zero tolerance approach to modern slavery and we are committed to acting ethically and with integrity in all our business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in our own business or in any of our supply chains.

**Quality**

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

GOVERNANCE

# Board composition

**Michael Bakunenko** Chairman of the Board

**Appointed** – 13 December 2017 (Non-Executive Director), 14 June 2022 (Chairman of the Board)

**Experience** – Michael Bakunenko has been the Executive Chairman of the Board at PJSC Ukrnaftoburinnya, the second 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 Kyiv. Mr. Bakunenko holds a Bachelor's degree from Lehigh University and a Master's degree from Columbia University. Mr Bakunenko was first appointed as a Non-Executive Director on 8 December 2017 and as Chairman of the Board on 14th June 2022.

**Olga Chebysheva** Non-Executive Director, Chair of the Audit Committee

**Appointed** – 14 June 2022

**Experience** – Olga Chebysheva has over 10 years of experience in audit and consulting at PwC. During her career at PwC Ukraine, Olga participated in many audit projects in the oil and gas industry, including audits of JKX and Regal Petroleum. In 2019, Olga joined PJSC Ukrnaftoburinnya, the second largest private oil and gas E&P Company in Ukraine, as Head of Finance. Olga is currently Chief Finance Director at PJSC Ukrnaftoburinnya. Olga holds a Master's degree in International Economics from Donetsk National University. She is a Member of the Association of Chartered Certified Accountants (ACCA) and a certified statutory auditor of Ukraine.

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**Vitaliy Dorogan** Executive Director

**Appointed** – 14 June 2022

**Experience** – Vitaliy Dorogan has 20 years of experience in the oil and gas industry and significant experience in accounting, finance, treasury and commercial functions. He began his career in 2002 at PJSC Ukrnafta, where he then held various positions. At various times, he was responsible for managing the corporate rights of that company and co-ordinating joint projects in the field of oil and gas production. Since 2010, he has been working at PJSC Ukrnaftoburinnya, where he is a Member of the Board. Vitaliy is currently General Director of PPC, the Group's Ukrainian operating subsidiary. He graduated from the Kyiv Institute of International Relations with a degree in International Economic Relations. He also studied at the Kyiv-Mohyla Business School under the Executive MBA program.

**Mark Katsnelson** Non-Executive Director

**Appointed** – 24 June 2022

**Experience** – Mark Katsnelson has more than 30 years' senior commercial experience gained in the US and Ukraine. He has particular expertise in commercial negotiations, deal structuring, the creation and management of long-term commercial relationships, risk management as well as all aspects of gas marketing. Mark graduated from the Kharkiv State Polytechnic University, Faculty of Economics in 1994. Mark is currently the Deputy Chairman of the Board at PJSC Ukrnaftoburinnya..

| | Appointed | Resigned/Stood Down |
|---|---|---|
| **Charles Valceschini** Chairman | 13 September 2019 | **9 June 2022** |
| **Tony Alves** Non-Executive Director | 13 September 2019 | **4 June 2022** |
| **Rashid Javanshir** Non-Executive Director | 13 September 2019 | **9 June 2022** |
| **Victor Gladun** Executive Director | 23 May 2019 | **22 June 2022** |

GOVERNANCE

# Corporate governance

## Governance principles applied during 2021

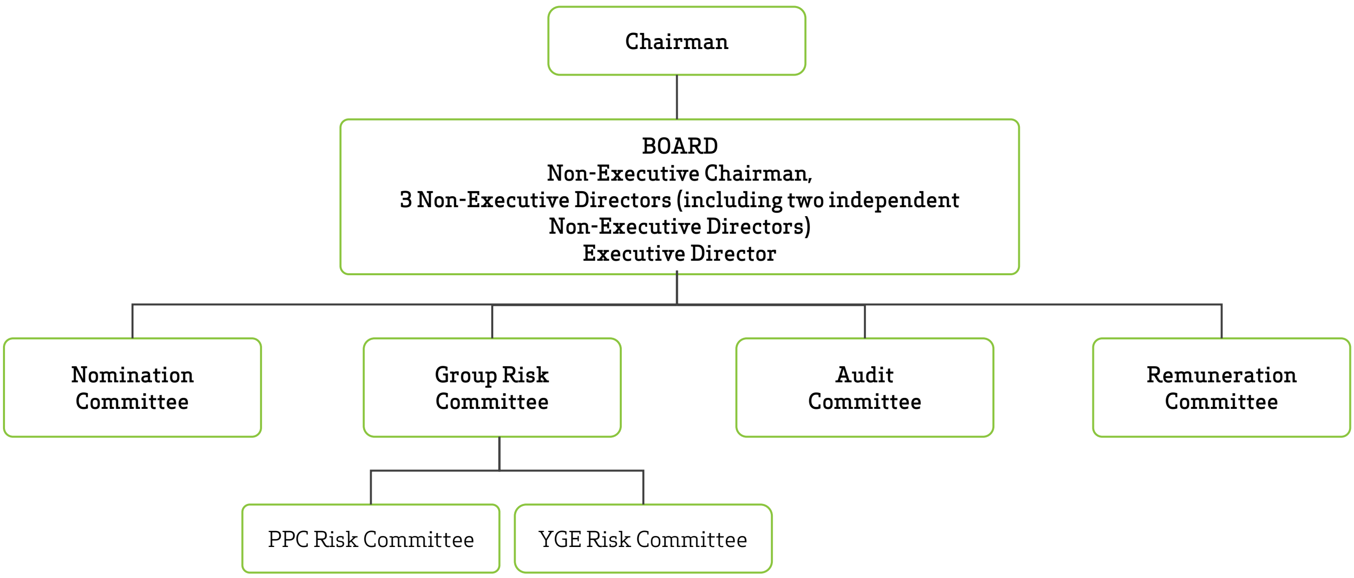
Throughout the 2021 financial year the Company had a listing on the premium segment of the Official List of the Financial Conduct Authority and was subject to the Listing Rules of the UK Listing Authority and applied the principles of the 2018 UK Corporate Governance Code ('the Code')

Following an application from the Company, the Company's ordinary shares were delisted on 6 January 2022 and on 2 February 2022 the Company reregistered as a private company with the name "JKX Oil & Gas Limited". Following its delisting the Company adopted the Wates Corporate Governance Principles for Large Private Companies ("the Wates Principles") in place of the Code.

This section explains in more detail how the principles and provisions of the Code were applied during 2021.

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 during 2021[1]




## JKX Board changes during 2021

On 23 June 2021 the 2021 AGM was held at which all directors, including the Chairman, stood down and presented themselves for reappointment by the Shareholders. All directors, including the Chairman, were reappointed by the Shareholders.

Following the 2021 AGM the Board consisted of the Chairman (Charles Valceschini, who was independent on appointment), two independent non-executive directors (Tony Alves and Rashid Javanshir), one non-executive director who was not independent (Michael Bakunenko) and an executive director ( Victor Gladun[2]).

[1] The Board now consists of a Chairman (Michael Bakunenko), 2 Non-Executive Directors (Olga Chebysheva and Mark Katsnelson) and one Executive Director (Vitaliy Dorogan) . Following delisting the Board adopted the Wates Principles. Having considered the size, complexity and risks faced by the Company the Board has abolished the Remuneration and Nomination Committees whilst retaining the Audit Committee. The Board has also considered the value of appointing independent non-executive directors to offer constructive challenge, but has decided that given the challenges that the company currently faces and the proven working relationship of the existing board members it is not currently appropriate. The matters previously dealt with by the Remuneration and Nomination Committees are now dealt with directly by the Board.

[2] Victor Gladun was a director appointed from the workforce in accordance with the recommendations of Chapter 1 Provision 5 of the Code. The Board believed he would bring a workforce view to the boardroom and as a financial professional and General Director of PPC was in a position to contribute to discussions on wider issues. Mr Gladun resigned from all his roles with the Group in June 2022.

GOVERNANCE

# Corporate governance

Following the resignation of Messrs. Valceschini, Alves and Javanshir in June 2022 and the subsequent resignation of Mr Gladun the Group is now led by a Board of Directors consisting of a Non-Executive Chairman (Michael Bakunenko, who previously represented the interests of Eclairs, JKX's largest shareholder), 2 Non-Executive Directors (Olga Chebysheva and Mark Katsnelson) and one Executive Director (Vitaliy Dorogan) (together the "New Board").

## Board effectiveness

### Role of the Board

The Board provides leadership to the Group. The key matters reserved for the consideration and the approval of the Board were reviewed following the appointment of the New Board and the new policy adopted on 27 July 2022 reserves to the Board key actions and decisions such as Group Strategy and Management (including regular group performance management), Group Structure and Capital, Internal Controls and Risk Management, Approval of Significant Contracts and Corporate Actions, Key Communications, Board Membership and Related Appointments (including succession planning), Directors and Senior Management Remuneration, Corporate Governance, Key Group Policies and other significant matters (such as insurance): In addition, the Board considers strategy in depth as well as reviewing the strategic objectives of the Company at its Board meetings. The full policy can be found on the JKX website.

All other authorities are delegated by the Board, supported by appropriate controls, to the Chief Executive, Chief Financial Officer and General Directors of the major operating Group companies. Y.

### How the Board functions

The Board has historically held six scheduled meetings each year and arranges additional meetings if the need arises. During 2021, there were four additional unscheduled Board meetings (2020: two) and one meeting at which the Non-Executive Directors met in private session, with an open agenda to discuss the current issues affecting the Group (2020: one). The unscheduled Board meetings held in 2021 were needed for the Board members to build a strategic direction for the Company and to address ongoing developments including the impact and response to the COVID-19 pandemic and the delisting and reregistration of the Company as a private company.

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 Chief Financial Officer provides the Board with a performance update each month after the month end. The monthly reports outline all material operational, compliance, 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 forecasts for oil and gas production, sales and costs.

These reports provide the Board with the latest information on cash, cash flow forecasts, 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 forecasts 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 the latest information in detail.

### 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 and the Company Secretary.

## Committees of the Board in 2021

During 2021 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 (or his delegate) and comprising group employees.

### Committee memberships during 2021

| | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|
| Charles Valceschini | - | Member | Chairman |
| Victor Gladun | - | - | Member |
| Tony Alves | Chairman | Member | Member |
| Michael Bakunenko | - | - | Member |
| Rashid Javanshir | Member | Chairman | Member |

The roles and activities of each of these committees during 2021 are noted on pages 28 , 30, 31, 35 and 36.

Following the delisting and reregistration of the Company in January and February 2022 respectively the Board adopted the Wates Principles. Having considered the size, complexity and risks faced by the Company the New Board has abolished the Remuneration and Nomination Committees whilst retaining the Audit Committee. The matters previously dealt with by the Remuneration and Nomination Committees are now dealt with directly by the Board.

### Board composition, independence and commitment during 2021

Throughout 2021 the Board comprised 5 individuals:

- the Non-Executive Chairman (Charles Valceschini),
- two 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;
- one Non-Executive Director (Michael Bakunenko) representing the interests of Eclairs, JKX's largest shareholder with a holding of over 27% during the 2021 calendar year[3], and
- one Executive Director (Victor Gladun).

It was the Board's view that the Non-Executive Directors had sufficient time to fulfil their commitments to the Company.

### Board skills, experience and responsibilities

During the 2021 financial year the Board had 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.

### Board diversity

During the 2021 financial year the Board consisted entirely of men of 4 different nationalities. During the 2021 financial year the CEO and his immediate reports consisted entirely of men. Olga Chebysheva joined the Board during 2022, adding to its gender diversity.

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

The Board supports the longer-term aspirations of Lord Davies' report regarding gender diversity on appointment of directors to boards and will maintain its practice of embracing diversity in all its forms, but has chosen not to set any measurable objectives.

### Senior Independent Director

Tony Alves was appointed as Senior Independent Director ('SID') on 16 September 2019 and continued in such capacity throughout 2021.

During the 2021 financial year the SID was available for discussions with other Non-Executive Directors who may have had concerns which they believed had 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.

Following the delisting and reregistration of the Company and the Board's adoption of the Wates Principles the New Board have not appointed a SID although the Chairman and each director remain available to shareholders if they have concerns that have not been resolved by contact through the normal channels.

### 2021 Board evaluation process

As the Company was outside of the FTSE 350 during 2021 there was no requirement for an externally-facilitated evaluation of the Board.

[3] Following the Company's buy-back and cancelation of shares in Q1 2022 Eclairs' percentage interest in the Company's issued share capital increased to roughly 32.7%, although the number of shares that it held remained unchanged.

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In view of the restrictions imposed by, and the additional work required as a result of, the Covid pandemic, the Company's delisting and its reregistration no formal internal Board or committee evaluation was carried out during 2021, although the Chairman remained in close contact with all directors and received and gave direct feedback to other Directors and senior executives on performance. Despite the absence of a formal evaluation the Board was of the opinion that it had the necessary mix of skills, knowledge and expertise.

### 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. Newly appointed Directors receive an induction training session, including specific presentations on key topics and detailed briefings on legal matters, including issues relating to directors' duties, from the Company's external legal 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 2021 and individual attendance by each Director is shown below:

### Board and Committee meeting attendance in 2021

**Number of meetings**

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| | 10 | 4 | 1 | 2 |

**Attendance/Eligibility:**

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|---|
| Charles Valceschini | 10/10 | - | 1/1 | 2/2 |
| Victor Gladun | 10/10 | - | - | 2/2 |
| Tony Alves | 10/10 | 4/4 | 1/1 | 2/2 |
| Michael Bakunenko | 10/10 | - | - | 2/2 |
| Rashid Javanshir | 10/10 | 4/4 | 1/1 | 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.

As a consequence of the impact of the COVID-19 pandemic and the difficulties associated with organising meetings (both in person and remotely) given the location of Directors and national restrictions a number of matters normally dealt with by Board Committees were, at the request of the relevant Committee Chairman, elevated to the Board for consideration, resulting in a reduction in the number of Committee meetings required.

### Board's work during 2021

During the 2021 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. Matters regularly considered under this rolling agenda during 2021 included:

- Reports from the General Directors of each of the two major operating units on strategic, and operational matters including political and economic developments,
- Reports from the Chief Executive Officer and Chief Financial Officer, which include a report of actual performance against budget, reforecasting, liquidity, updates on oil, gas and condensate prices, etc.,
- HSECQ matters,
- Risk management,
- Portfolio Management,
- Additional funding and growth opportunities including reports from the internal new business team,
- Compliance (including Anti Bribery and Corruption) issues,
- Shareholder engagement,
- Strategic and Governance issues,
- Growth opportunities and portfolio management, and

- Where applicable, reports and recommendations from the Nominations Committee, Audit Committee, Remuneration Committee and Risk 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 impact and mitigation of the ongoing COVID-19 pandemic;
- capital reduction, a tender and related buyback of the Company's shares and delisting,
- reviewing the group portfolio and disposal of non-core assets, including the Group's Russian operations;
- reduction in overhead costs and improved efficiency;
- Gas and crude Oil sales arrangements;
- the Company's free-float position;
- increased transparency and engagement with shareholders regarding production and operations with a regular reporting schedule;
- identifying and addressing critical gaps in the senior management team at both group and operating company level;
- monitoring enhanced management information updates focussing on key parameters including production, liquidity and future cash flow;
- review of organic and inorganic growth opportunities, particularly in Ukraine;
- review and management of ongoing tax and other litigation;
- considering sources of possible third-party financing of the Group; and
- approval of charitable donations (in the form of both funding and equipment) to support regional health services during the ongoing COVID-19 pandemic.

### Re-electing your Board

In line with the Code all the Directors (including the Chairman) stood down and offered themselves for reappointment at the 2021 AGM. All the Directors (including the Chairman) were reappointed by the shareholders.

### Nomination Committee

The role of the Nomination Committee was to review the structure, size, skills and composition of the Company's Board and the Boards of its subsidiaries. The Committee also considered succession planning and suitable nominations for appointments to the Boards, and made appropriate recommendations based on qualifications and experience. The Nomination Committee regularly reviewed the management structure of the Company and sought ways to minimise any negative impact.

The Committee met as often as it determined appropriate. Generally, it met at least once a year and more frequently if required.

| | Committee member since | To | Number of meetings in 2021 Attendance/Eligibility |
|---|---|---|---|
| Charles Valceschini (Chairman) | September 2019 | June 2022 | 1/1 |
| Victor Gladun | September 2019 | June 2022 | 1/1 |
| Tony Alves | September 2019 | June 2022 | 1/1 |
| Michael Bakunenko | September 2019 | June 2022 | 1/1 |
| Rashid Javanshir | September 2019 | June 2022 | 1/1 |

The Committee met once during 2021 (2020: once) and was abolished following the appointment of the New Board in June 2022..

### Membership and process

The membership of the Nomination Committee remained consistent throughout 2021. The letters of appointment of each Non-Executive Director were available for inspection at the Registered Office of the Company throughout the year.

### Succession planning

The Board, through the Nomination committee, was responsible for succession planning for Directorships and key management roles. This required performance and talent assessment in order to ensure that able successors for key roles were identified and then provided with suitable opportunities through career and personal development plans. Succession management processes and plans were reviewed during 2021.

Following the delisting and reregistration of the Company in January and February 2022 respectively the Board adopted the Wates Principles. Having considered the size, complexity and risks faced by the Company the New Board abolished the Nomination Committee and the matters previously dealt with by the Nomination Committee are now dealt with directly by the Board.

## Compliance

### Compliance with the 2018 UK Corporate Governance Code

The Board believes that during 2021 the Company was fully compliant with the provisions of the Code.

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### Internal control and risk management

The Board has overall responsibility for the Group's system of internal controls 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 2021 the Board reviewed the Company's internal control framework and its application and concluded that for the 2021 calendar year the Company's current procedures, policies and systems were 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.

Following the appointment of the New Board a separate Internal Audit function based in Ukraine has been re-established with the appointment of an experienced Internal Audit Manager (see page 2 for further details). The New Board has initiated a review of the effectiveness of the internal control framework . As a part of this process, the New Board appointed KPMG to review controls over the sales cycle, purchases and payments cycle, and donations (and associated paperwork) made by the Group Companies following the invasion of Ukraine in order to ensure that the applicable processes were appropriate and consistently applied. Whilst donations totalling US$3.7m are still under review, the new Board has already introduced more onerous financial and payment controls, updated management reporting and revised its Schedule of Matters Reserved to the Board. The New Board will work with Internal Audit to introduce any further measures considered necessary.

The Board has assessed the emerging and 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 10 to 14. Further information on internal control and risk management is set out in the Audit Committee Report on page 31.

### Compliance with applicable sanctions following the Russian invasion of Ukraine in February 2022.

Following the Russian invasion of Ukraine in February 2022 and the introduction of enhanced sanctions regulations by a number of applicable jurisdictions (as well as counter sanctions introduced by the Government of the Russian Federation) the Company has recused itself from the governance of its Russian assets on the basis of advice received from its external counsel. The situation, the regulatory environment and the Company's response remains under regular review.

The Company remains committed to the disposal of non-core assets, including its Russian assets, in a manner that is compliant with all applicable laws and regulations.

The following description of the internal processes undertaken by the Company describes the approach taken throughout the 2021 calendar year. [4]

### Budgetary process

Each year the Board reviews and approves the Group's annual budget with key risk areas identified. The preparation of the annual budget is a multi-stage comprehensive process led by the Chief Financial Officer who works closely with local managers of operating subsidiaries.

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 believes this ensures 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 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 workplace, 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. No concerns were raised via this confidential reporting process during 2021.

[4] Following the Russian invasion of Ukraine on February 24, 2022 and the introduction of enhanced sanctions by a number of applicable jurisdictions the Company has recused itself from engagement with its Russian assets and the processes have been modified accordingly.

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 appropriate.

The Board is 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 communication with all shareholders so 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, the AGM and more general press and other releases, including via the Group website (www.jkx.co.uk).

Extensive information about the Group's activities is provided in the Annual 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 AGM 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.

### 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. Further information on the company's going concern position can be found in Note 2 to the Consolidated Financial Statements on page 72.

On behalf of the Board

**Michael Bakunenko**
Chairman
29 March 2023

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# Audit committee report

## Attendance and eligibility during the 2021 calendar year

| Member | Committee member since | | Number of meetings in 2021 Attendance/Eligibility |
|---|---|---|---|
| Tony Alves (Chairman) | September 2019 | June 2022 | 4/4 |
| Rashid Javanshir | September 2019 | June 2022 | 4/4 |

### Audit Committee during 2021

Tony Alves (previously Chairman of the Audit Committee) and Rashid Javanshir were appointed to the Committee on 20 September 2019 and the membership of the Audit Committee remained consistent throughout 2021.

The Audit Committee carried out the requirements set out in the Disclosure and Transparency Rules 7.1.3R throughout the 2021 Calendar Year.

Following the resignation of Mr Alves and Mr Javanshir during June 2022 the New Board considered the size, complexity and risks faced by the Company and decided to retain the Audit Committee and decided that whilst the Audit Committee and related structures should be retained whilst the Board considered the most appropriate way forward only Olga Chebysheva (a Non-Executive Director, an ACCA qualified financial professional and certified statutory auditor of Ukraine with over 10 years of experience in audit and consulting at PwC) should be appointed to the Committee not withstanding its Terms of Reference.. Whilst Olga Chebysheva is currently the only member of the Audit Committee the Board will keep the situation under review and will appoint additional members as it believes appropriate.

### 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 auditor's appointment to be put to the shareholders in the forthcoming AGM; 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

Throughout 2021 Tony Alves (Chairman) and Rashid Javanshir constituted the Audit Committee.

The Board had determined that Tony Alves had relevant financial experience as defined by the Code and both Tony Alves and Rashid Javanshir had competence relevant to the sector in which the Company operates. This competence and experience having been 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 the regions in which JKX operates. In practice, the Committee achieves its objectives by a process of regular interaction with management, including those in the regions, 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.

### Attendance at meetings

The Audit Committee met four times during 2021 (2020: 2).

The Committee's meetings were attended, when considered appropriate by the Chairman of the Committee, by other Directors including the Chief Executive as well as 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.

Twice during 2021 (2020: twice) the Committee met with the external auditors by video conference to discuss matters which the auditors and Audit Committee wished to raise.

## The Committee's activities during 2021

During the 2021 financial year, 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;<br>▪ Considered feedback on both the internal and external auditor reports submitted by local and Group management;<br>▪ Reviewed of risk reports and the Group risk register, which required management to identify risks and evaluate them, and ensured appropriate mitigating controls were agreed and implemented;<br>▪ Approved the scope of the Internal Audit programme for the year;<br>▪ Considered the effectiveness of the Internal Audit function;<br>▪ Assessed the effectiveness of the Group's internal control environment, with particular reference to the ongoing COVID-19 pandemic;<br>▪ Review of finance, legal, internal audit and compliance staffing;<br>▪ Liaison with FCA relating to Free Float level; and<br>▪ 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;<br>▪ Reviewed auditors' reports on their audit findings at the half year review and at the year-end;<br>▪ Considered the independence of the auditors and their effectiveness, taking into account:<br>(a) non-audit work undertaken by the external auditors and compliance with the policy;<br>(b) FRC guidance;<br>(c) the Committee's own Assessment;<br>▪ Considered and approved letters of representation issued to the external auditors; and<br>▪ Agreement of the external auditors' remuneration for the 2021 statutory accounts. | ▪ Reviewed the half year and annual financial statements and the significant financial reporting judgements made therein as well as best practice considerations, especially in relation to the COVID-19 pandemic;<br>▪ Considered the liquidity risk and the basis for preparing the Group full year financial statements on a going concern basis and reviewed the related disclosures in the Annual Report;<br>▪ Reviewed the external auditors' report on audit and accounting judgements, including consideration of relevant accounting standards and underlying assumptions;<br>▪ Reviewed disclosures in the Annual Report in relation to internal controls, risk management, principal risks and uncertainties and the work of the Committee;<br>▪ Ongoing analysis of future cash flow and liquidity and implementation of monthly financial update reports; and<br>▪ 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 2021 financial statements related to:

- rental fee claims in Ukraine;
- liquidity and going concern;
- the carrying value of oil and gas assets;
- treatment of assets in Russia and Hungary under IFRS 5

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 2021 and at the conclusion of the audit of these financial statements.

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# Audit committee report

| Matters considered | Response and conclusion |
| --- | --- |
| **Rental fee claims in Ukraine**<br>As detailed in Note 27 to the financial statements, PPC continues to defend itself in the local courts against claims initiated by the tax authorities regarding rental fees for August to December 2010 and for January to December 2015. Management has recorded total provisions for the rental fee claims of $40.4m (2020: $21.0m). The movement in provision during the year is reflected in Note 19 to the financial statements, and is reported as an exceptional item. Management has made a detailed investigation into the most likely timing of any potential payments in respect of these rental fee claims and accordingly reclassified all of the 2015 rental fee claims as current except for one case.<br><br>Management have specifically assessed whether the litigation success on relevant cases during 2020 and 2021 provides a sufficient precedent to release the remaining provisions for the 2015 claims. It was concluded that given the inherent uncertainty associated with the Ukrainian Court system and political environment it remains appropriate to retain the remaining provisions. | 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 on this matter from its legal counsel, Ilyashev & Partners.<br><br>Having reviewed these reports and submissions, the Committee was satisfied that total provisions of $40.4m (2020: $21.0m) (including interest and penalties) were required in respect of the rental fee claims and that the classification between current and non-current was appropriate. |
| **Going concern**<br>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 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.<br><br>This is also an area of significant audit risk and accordingly the Committee received detailed verbal and written reporting from Management 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, a period of at least the next 12 months, and that the going concern basis is the appropriate basis of preparation for the 2021 financial statements, whilst acknowledging the material uncertainty that exists (see Note 2 to the financial statements). |
| **The carrying value of oil and gas assets**<br>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. | 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 2022 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 |

| Matters considered | Response and conclusion |
|---|---|
| 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 the sensitivity analyses disclosed in Note 5 to the financial statements.<br><br>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 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. |
| **Treatment of assets in Russia and Hungary under IFRS 5**<br><br>The Group has classified its Russian and Hungarian entities as assets held for sale as at the year-end, with net assets of $27m and $3m respectively. The relevantaccounting standard - Non-current Assets Held for Sale and Discontinued Operations - IFRS 5, requires the below criteria to be met in order to recognise the assets as held for sale;<br><br>• the asset is available for immediate sale<br>• an active programme to locate a buyer is initiated<br>• the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)<br>• the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value<br>• actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn | The Committee received a memorandum analysing if the criteria listed in the standards under IFRS 5 were appropriately met in order to classify both the Hungarian and Russian entities as assets held for sale as at 31 December 2021.<br><br>The Committee agreed that, on the basis of the evidence available, the IFRS 5 criteria were met. |

## 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.

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.

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# Audit committee report

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

Additional information on risk management is included in the 'Principal risks and how we manage them' section on page 10.

## Internal Audit

During 2021 the Internal Audit Manager resigned and the ACCA qualified chartered accountant who is Head of Finance took over the role for a short period of time before re-appointment of a new Internal Auditor. Following the appointment of the New Board, a new Internal Audit Manager has been recruited. He is an ACCA qualified professional with the relevant experience obtained in one of the big four audit companies and in the internal audit function of private and state entities operating in different sectors, including the oil and gas sector.

## External Audit

The Audit Committee endeavours to maintain an objective and professional relationship with the Company's auditors.

At the 2021 Annual General Meeting BDO LLP were reappointed as the company's auditors for the 2021 audit. BDO had initially been appointed with effect from 18 October 2018 following a competitive tender process.

In Q1 2022 BDO suspended the finalisation of the 2021 audit following the invasion of Ukraine by the Russian Federation. The Company believes that BDO were concerned that, despite the imminent completion of the 2021 audit, sanctions might be introduced at a later date that would prevent the completion of the 2021 audit. This suspension continued until 7 November 2022 when the Company received BDOs letter dated 4 November resigning as auditor of the Company. This letter has been circulated to all shareholders as required by Sn 520 of the 2006 Companies Act.

The Company obtained a detailed opinion from its expert international trade lawyers, BakerMckenzie assessing the impact of the enhanced sanction regime on the JKX group and its operations. Amongst other matters this addressed whether there was any legal reason why BDO could not complete the 2021 audit and concluded that there was no legal reason why BDO could not do so.

The suspension of the 2021 audit by BDO and its subsequent resignation inevitably caused delay in the filing of the Company's 2021 audited accounts. The Company has sought to ensure that Companies House was fully aware of the situation and the Company's commitment to comply with its statutory filing obligations at the earliest date.

Following the appointment of Harris &Trotter LLP as statutory auditors on 1 December 2022 and the completion of the 2021 audit the Company will make all necessary filings at the earliest practical opportunity.

## Non-audit services

The Company has a policy governing the engagement of the external auditor to provide non-audit services. The policy precludes 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 2021 Harris & Trotter LLP did not provide any non-audit services to the Group.

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

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

**Olga Chebysheva**

**Chair of the Audit Committee**

29 March 2023

GOVERNANCE

# Directors' remuneration report

## Introduction

Following the resignation in June 2022 of Dr. Rashid Javanshir (Chairman of the Remuneration Committee during the 2021 financial year), I now present the Remuneration Report for the year ended 31 December 2021 on behalf of the Board.

During 2021 the Remuneration Committee undertook both its routine and extraordinary activities including considering the impact of the ongoing COVID-19 pandemic on matters within the Remuneration Committee's remit. The Remuneration Committee adopted a fit-for-purpose approach that ensured that the necessary talent and skills were available at all levels of the Group in each of the locations in which it operated, despite the challenging environment.

The Company's current Director's Remuneration Policy ("Remuneration Policy") was approved by shareholders at the 2020 AGM that took place on 19 June 2020 and has applied from that date. The new Remuneration Policy received overwhelming support from shareholders, with over 99% of the votes cast in favour of the policy. The Remuneration Policy is a continuation of the remuneration policy that has applied since 1 January 2015, having been initially approved by shareholders at the 2014 AGM and re-instated at the AGM in 2017.

The Company's Remuneration Policy has been designed 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; and
- award annual bonuses which reflect the achievement of short term financial and strategic objectives as well as personal performance.

Each element of remuneration has a specific role in achieving the objectives of the Remuneration Policy and aligning the interests of Executive Directors and senior executives with the interests of shareholders.

Following the delisting and reregistration of the Company in January and February 2022 respectively and having considered the size, complexity and risks faced by the Company the New Board has abolished the Remuneration Committee although the Remuneration Policy remains in place. The matters previously dealt with by the Remuneration Committee are now dealt with directly by the Board.

## Composition of the Remuneration Committee

During the 2021 financial year the Remuneration Committee consisted of three independent Non-Executive Directors (Dr Rashid Javanshir (Remuneration Committee Chairman), Tony Alves and Charles Valceschini). No change was made to the composition of the Remuneration Committee during 2021.

## Remuneration Committee activities in 2021

During the financial year to which this report relates, the Remuneration Committee considered the remuneration of the Chairman, the other Non-Executive Directors and the Chief Executive (the Company's sole Executive Director) and updated the KPI's and reward structures for senior executives. No changes were made to the remuneration of the sole Executive Director (except for award of an annual salary increment), Chairman or other Non-Executive Directors during 2021. Executive remuneration packages were reviewed to ensure that they remained appropriate and bonus recommendations were made and implemented.

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

More than 95% of Group staff are based outside of the UK, primarily in the Ukraine and Russia. The Remuneration Committee took into account remuneration conditions elsewhere in the Company, and particularly for those employees based in the UK, in considering whether the Remuneration Policy remained appropriate.

The Remuneration Committee did not receive any advice from external remuneration specialists or consultants in 2021.

## Remuneration and discretion in 2021

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

As reported in the 2020 Annual Report, Victor Gladun was paid an annual bonus of $354,000 for his performance in the 2021 financial year which was paid in Q1 2021. This represented 70% of the maximum opportunity. The amount was apportioned between his role as General Director of PPC and Chief Executive of the Company.

As discussed in the Chairman and CEO's reports, the Group's performance in 2021 was strong given the challenges posed by the ongoing COVID-19 pandemic and the related fall in commodity prices. As a result, the Remuneration Committee concluded that the Chief Executive Officer (Victor Gladun) had largely met the KPI's agreed at the beginning of 2021 and awarded him an annual bonus of $362,200 for his performance in the 2021 financial year. The represented 70% of the maximum opportunity.

GOVERNANCE
# Directors' remuneration report

The Remuneration Committee's general discretion accounted for up to 25% of the Executive Director's maximum performance. The purpose of this general discretion is to ensure that the Executive Director is fairly remunerated taking all external and internal factors as a whole and to ensure that performance against the other KPIs does not lead to any arbitrary or perverse results. The Remuneration Committee awarded the Executive Director 25% out of a maximum of 25% with respect to the discretionary KPI.

Victor Gladun's bonus was paid in Q1 2022 and was apportioned between his role as CEO of the Company and General Director of PPC (pro-rated in accordance with the salary that he receives in each capacity). No other bonus payments or incentives (including any share options or awards in the Company or Group) were paid to Victor Gladun during 2021 or for the 2021 financial year. Victor Gladun did not receive any board or committee fees in addition to his salary (as set out in section 2 below) in relation to his role as CEO of the Company and as General Director of PPC.No further discretion was exercised by the Remuneration Committee aside from those explained above. No malus/clawback provisions were used with respect to the Executive Director's remuneration in 2021.

More information about Victor Gladun's salary and the level of bonus awarded can be found in the later sections of this Remuneration Report. Please note that no Performance Share Plan (PSP) award or share incentive award was made to Victor Gladun in 2021.

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 previously sought advice from specialist, independent remuneration consultants in doing so (as explained in more detail in the 2019 Directors' Remuneration Report). 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/committee fees for Non-Executive Directors were reduced in 2019 and have not changed since then. The Non-Executive Director (Michael Bakunenko) who was not independent had previously waived his board and committee fees. He 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 2021 in terms of quantum and Company performance.

## Employee remuneration

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 Remuneration 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 and life assurance, income protection and private medical cover. During 2021 the Executive Director received the same vacation allowance as employees in the Ukraine, his principal work location and participated in the annual bonus on a similar basis to other employees (albeit that the performance weightings and opportunities within the annual bonus plan varied depending on role, tenure, seniority and individual performance).

## Principles of Remuneration

The Remuneration Committee strives to ensure that the Company's and Group's executive remuneration package 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 applied in determining our Directors' remuneration and are reflected in the Remuneration Policy that was adopted and approved in 2020:

**Clarity** - The Remuneration Committee has adopted a harmonious approach to remuneration. The Group's workforce and any Executive Director are all eligible to receive an annual cash bonus on the satisfaction of their KPIs, in addition to their cash salary. In 2021, the sole Executive Director received an annual performance bonus but did not participate in a performance share plan, 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 weightings thereof). To the extent that any share interests are granted to Executive Directors in the future under the Company's PSP or other performance share 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 annual bonus plan. Please see page 72 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. To the extent that share interests are granted to Executive Directors in the future under a performance share plan arrangement, the Remuneration Committee shall have the discretion to reduce and clawback such awards.

**Predictability** - the range of possible values of the Executive Director's remuneration is set out on pages 44 – 50.

**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 Remuneration 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.

# Directors' remuneration report

## Remuneration disclosure

This Report is split into two parts: the Annual Report on Directors' Remuneration and the Directors' Remuneration Policy:

- The Annual Report on Directors' Remuneration (pages 38 to 44) sets out details of how the Remuneration Policy has been applied for the year ended 31 December 2021. This section is subject to an advisory shareholder vote. A summary of the existing Remuneration Policy that has applied since 12 June 2020 can be found in the 2019 Annual Report.
- The Directors' Remuneration Policy (pages 44 to 52) which was approved at the 2020 AGM and applied 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 2021 and for the years to come.

The Board 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

Michal Bakunenko

Chairman of the Board

**29 March 2023**

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# Directors' remuneration report

## Work of Remuneration Committee during 2021

The Company's Remuneration Committee was 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 2021 can be found in the table below:

| Members from 1 Jan 2021 | Role of the Committee | Activities during 2021 |
|---|---|---|
| Dr. Rashid Javanshir (as Chairman) - appointed 20 September 2019<br>Charles Valceschini - appointed 20 September 2019<br>Tony Alves- appointed 20 September 2019 | Establishes the overall principles of remuneration for Directors of all Group companies<br>Determines the remuneration of Executive Directors and Senior Management, communicates this to the stakeholders in the annual report<br>If relevant, recommends the participation in, and operation of, the Company's long-term incentive plans<br>The full terms of reference are available from the Company's website | In addition to regular topics, the Committee engaged in specific matters including:<br>▪ Review and approval of performance targets for the 2022 Annual Bonus Scheme;<br>▪ Review and approval of Executive Director and Senior Management performance against KPI's for the 2021 calendar year for the 2021 Annual Bonus Scheme;<br>▪ Review temporary remuneration strategies in the light of the impact of the ongoing COVID-19 pandemic;<br>▪ Review the application and appropriateness of current remuneration policies;<br>▪ Determine Executive Director remuneration. |

## Membership and process during 2021

| Members | From | To | Number of meetings in 2021 - Attendance/Eligibility |
|---|---|---|---|
| Dr. Rashid Javanshir (Chairman) | 20 September 2020 | June 2022 | 1/1 |
| Tony Alves | 20 September 2020 | June 2022 | 1/1 |
| Charles Valceschini | 20 September 2020 | June 2022 | 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 also appointed as Chairman of the Remuneration Committee on 20 September 2019.

The Remuneration Committee endeavoured to meet at least twice a year to assist the Board in determining the remuneration arrangements and contracts of the Directors and senior executives. However due to the COVID-19 pandemic, the Remuneration Committee met only once during 2021. Instead, at the request of the Chairman of the Remuneration Committee, the Board in 2021 considered a number of issues that might otherwise have been reserved for the Remuneration Committee.

During 2021, 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 provided valuable input in shaping the remuneration practice and polices for Executive Directors and senior executives. Similarly the Remuneration Committee also sought internal input from other members of the Board in determining Executive Remuneration and assessing its appropriateness.

During the 2021 calendar year, the Remuneration Committee did not receive advice from remuneration consultants and made no payments to remuneration consultants.

## Statement of voting at General Meeting

At the AGM held on 23 June 2021, the Directors' Remuneration Report received the following votes from shareholders:

# Directors' remuneration report

**Remuneration Report**

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 51,183,252 | 99.83% |
| Against | 88,498 | 0.17% |
| Total votes cast (for and against, excluding withheld votes) | 51,271,750 | 100% |
| Votes withheld[1] | 9,771 | 0.019% |
| Total votes (for, against and withheld) | 51,281,521 | |

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

The table below sets out a single figure for the total remuneration received by all Director's for the financial years ended 31 December 2020 and 31 December 2021. Since 28 January 2016, all Directors' remuneration was rebased to US Dollars (the Group's reporting currency).

The table below includes a single figure for the total remuneration received by the sole Executive Director of the Company (Victor Gladun) in respect of his employment with the Group (defined as the Company, PPC and YGE, being the only entities in the Group that have any employees) for the financial years ended 31 December 2020 and 2021. In 2021, 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 average exchange rates in accordance with the Group's foreign exchange policy.

| | Salary and fees[1] | | Benefits[4] | | Annual Bonus[5] | | Pension[6] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| $'000 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| **Executive Director** | | | | | | | | | | |
| Victor Gladun | | | | | | | | | | |
| Chief Executive Officer | 103[3] | 102[3] | - | - | 91 | 88 | 15 | 15 | 209 | 205 |
| General Director | 308[3] | 307[3] | - | - | 271 | 266 | - | - | 579 | 573 |
| **Total** | 411 | 409 | - | - | 362 | 354 | 15 | 15 | 788 | 778 |

| Total Fixed Remuneration[7,] | | Total Variable Remuneration | |
|---|---|---|---|
| 2020 $000 | 2020 $000 | 2020 $000 | 2020 $000 |
| 411 | 409 | 362 | 354 |

1 This represents the salary payable in his capacity as CEO of the Company and his separate salary that he receives in his capacity as General Director of PPC.

2 As a result of the COVID-19 pandemic, Victor Gladun's salary that he received in his capacity as CEO and sole Executive Director of the Company and General Director of PPC was reduced by 30% for the period 1 March 2020 - 30 September 2020. Any entitlement to the reduced amount was waived by Victor Gladun. The temporary reduction ceased to apply from 1 October 2020.

3 Benefits: the value of taxable benefits received in the year, (which consists of life assurance and private medical cover (including on a pre-tax basis)) are negligible.

4 Annual Bonus: this is the total cash bonus earned based on the performance for the 2020 and 2021 calendar years which was paid in Q1 2021 and Q1 2022 respectively. Please see below for information regarding the KPIs and weightings in relation to the same.

5 Pension: annual contribution by the Group to directors' pension plans or as a cash payment in lieu. From 1 January 2020, Victor Gladun has received an amount which is 15% of his base salary, which is line with the rest of the UK workforce rate.

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.

8

No part of Victor Gladun's remuneration has been subject to the operation of any malus or clawback.

Note that Victor Gladun has signed a declaration certifying that he does not receive any remuneration fees or benefits in addition to those disclosed above.

| | |
|---|---|
| Fixed - cash salary | Victor Gladun was appointed as the sole Executive Director of the Company at the 2019 AGM. In addition Victor Gladun has held the position of Group CEO from 20 September 2019. He does not receive any board or committee fees in addition to the salary he receives as CEO of the Company and for his other executive role as General Director of PPC. |

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# Directors' remuneration report

| | |
|---|---|
| | The Executive Director's basic salary and the other fixed elements of pay were determined by the Remuneration Committee on appointment and are reviewed at the beginning of each year, 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. |
| Discretionary - Annual bonus award | Victor Gladun received an annual bonus of $382,000 in Q1 2020 in relation to his performance in 2019 calendar year and has received a bonus of $ 354,000 for the 2020 calendar year (which was paid in Q1 2021). Both payments were calculated by reference to KPI's previously agreed and set by the board for 2019 and 2020. His bonus was apportioned between his role as General Director of PPC and CEO of the Company. Only one set of KPIs applied to his FY2020 bonus (which was paid in Q1 2021). |
| Pension | The Company has made a contribution equivalent to 15% of basic salary for the Executive Director from 01/01/2020, which is line with the rest of the UK workforce rate.<br><br>At his option, the Executive Director may either have contributions made to his personal pension scheme or receive 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. The Executive Director has electedto receive this amount in cash. |
| 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 which provides medical cover for them and their dependents, on a non-contributory basis. |

**Notes to table**

Victor Gladun was appointed as an Executive Director on 23 May 2019. There was no other Executive Director appointed during 2020 or 2021.

## Basis for determining Executive Director's annual bonus award

The value of 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 2021 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 substantially met his KPI's and awarded him $362,200 being 70% of his maximum opportunity under his bonus award for 2021.

Victor Gladun's bonus payment was apportioned between his role as General Director of PPC and CEO of the Company. The FY2021 KPIs and the weightings in relation to the same are disclosed below.

In FY2021, the following KPIs were applicable for the Executive Director in relation to his role as CEO and General Director of PPC. The bonus received was apportioned between his role as CEO of the Company and General Director of PPC. Aside from the KPIs and relative weightings (and performance against the same) disclosed below, no additional KPIs were applicable.

| KPI | Weighting | 2021 performance |
|---|---|---|
| Production, boe | 28% | 0%[1] |
| Reserve Replacement, boe[2] | 27% | Fully met |
| Maintain clean HSE record | 10% | Fully met |
| Close on sale of Hungarian assets | 5% | 0% |
| Collection of funds under Arbitral Award[3] | 5% | 0% |
| Discretionary by Board of Directors[4] | 25% | 20% |
| **TOTAL** | 100% | 70% |

[1] Target production was adjusted downward after results of Well 146 became known early in the year.
2 The Kashtan reserves additions included in the self-assessment were included as part of this assessment.
3. Please refer to Note 27 (paragraph "International arbitration proceedings") of the Group Annual report for the details. Note any amount collection, however small, qualified for 100% performance against the target

# Directors' remuneration report

4 As with previous years, the Board has a general discretion of 25% to ensure that the Executive Director is fairly remuneratedand that performance against the other KPIs does not lead to any arbitrary results. Factors that the Board will take into account when exercising its discretion include, but are not limited to, EBIDTA, Free Cash Flow and strengthening of technical performance. Note that the 2021 Financial performance of the Company was good, aided by significantly increased oil & gas pricing.

In addition to the KPIs set out above, if the Executive Director's achievement against the KPIs was less than 100%, the Remuneration Committee had the discretion under the terms of the 2021 bonus award to increase the total 2021 performance by up to 25% to take into account the impact of COVID on the business and to ensure that Victor Gladun was fairly remunerated given that the impact of COVID on the business was beyond his control and that the actual impact of COVID was unforeseen when the KPIs were decided. The Remuneration Committee determined that Victor Gladun's overall performance against his KPIs should be increased by 14% on the basis that the Company was managed well through the COVID pandemic.

## 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 2020 and 31 December 2021.

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[1] | |
|---|---|---|---|---|
| $'000 | **2021** | 2020 | **2021** | 2020 |
| **Non-Executive Directors** | | | | |
| Charles Valceschini | 183 | 183 | 183 | 183 |
| Tony Alves | 105 | 105 | 105 | 105 |
| Dr Rashid Javanshir | 90 | 90 | 90 | 90 |
| Michael Bakunenko[2] | - | - | - | - |
| **Former Non-Executive Directors** | | | | |
| Hans Jochum Horn | - | - | - | - |
| Andrey Shtyrba | - | - | - | - |
| Adrian Coates | - | - | - | - |
| Christian Bukovics | - | - | - | - |
| | 378 | 378 | 378 | 378 |

1 The total remuneration for Non-Executive Directors decreased in 2021 following the reduction in the number of Non-executive Director's and a downward review of the annual fees payable to them and the introduction of the new Remuneration Policy. The rates of board and committee fees did not change in 2021. The number of Non-Executive Directors decreased between 2020 and 2021 and, as a result the remaining Non-Executive Directors held more committee positions. Further, the increase in fees received in FY2021 compared to FY2020 is due to the fact that in FY2020 the fees of the three Non-Executive Directors were pro-rated to reflect their appointments part way through that year.
The Non-Executive Directors do not receive any taxable benefit, pension benefit or variable remuneration (including share incentives). The total variable remuneration for Non-Executive Directors is zero.
Each Non-Executive Director has signed a declaration certifying that they do not receive any further payment, fees or benefit from the Company in addition to those disclosed above.

2 Michael Bakunenko, as a non-independent Non-Executive Director, does not receive any board or committee fees.

The Non-Executive Directors' fees are subject to an overall cap of £500,000 per annum in accordance with the existing Remuneration Policy, excluding exceptional fees for additional work under the Company's Articles of Association.

## Changes to Non-Executive Directors' remuneration during 2021

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 |
|---|---|---|---|---|
| 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 |

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.

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# Directors' remuneration report

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.

As noted above, 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).

No increase in fees has been awarded from their 2020 level. Non-Executive Directors' fees for 2020 and 2021 are as follows:

| Position[1] | 2021 | **2022** | % increase from 2021 to 2022 |
|---|---|---|---|
| Chairman of the Company | $160,000 | **$160,000** | Nil |
| Board membership fee | $60,000 | **$60,000** | Nil |
| Senior Independent Director | $15,000 | **$15,000** | Nil |
| Committee chairman – Audit | $15,000 | **$15,000** | Nil |
| Committee chairman – Remuneration | $15,000 | **$15,000** | Nil |
| Committee chairman – Nomination | $15,000 | **$15,000** | Nil |
| Committee membership – Audit | $7,500 | **$7,500** | Nil |
| Committee membership – Remuneration | $7,500 | **$7,500** | Nil |
| Committee membership – Nomination | $7,500 | **$7,500** | Nil |

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 Company share scheme nor are they eligible to join the Company's pension benefit arrangements. The Non-Executive Directors who were not independent in 2020 and 2021 (Michael Bakunenko) agreed to waive his committee and board membership fees. Victor Gladun also did not receive any committee or board membership fees.

## Scheme interests awarded in 2021 (audited)

The Company no longer has any long-term incentive plans and all grants made under the previous performance share plan have now either vested or expired.

No new share award was made in 2021.

## Percentage change in CEO remuneration

The table below shows the percentage change in the CEO and sole Executive Director'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 all full-time UK employees of the Company. All other Group staff are employed in Ukraine and Russia which have different economies from the UK driving their remuneration levels and practices.

| | | | | **All employees** |
|---|---|---|---|---|
| | **2021 $'000** | 2020 $'000 | % change 2020 - 2021 | % change 2020 - 2021 |
| Base salary | **411[1]** | 409[1] | 0.5%[2] | 0% |
| Pension contribution | **15** | 15 | - | 0% |
| Taxable benefits | **-** | - | - | 0% |
| Annual bonus | **362** | 354 | 2.3% | 0% |
| Total | **788** | 778 | 1.3% | 0% |

2 This relates to the CEO and General Director's remuneration received by Victor Gladun in his capacity as CEO and as General Director of PPC. Victor Gladun has not received any increase to his salary between 2020 and 2021. Victor Gladun's salary was temporarily reduced between 1 March 2020 and 30 September 2020. This reduction to his salary also temporarily reduced the pension contributions that he received from the Company.

3 The 39% increase is due to the fact that Victor Gladun only received a portion of his salary as CEO in 2019 to reflect his appointment as CEO part way through the financial year (in September 2019) and agreed to waive his pension contribution in FY19. Victor' Gladun's salary as General Director of PPC was pro-rated from 23 May 2019 following his appointment as an Executive Director on 23 May 2019.

4 Please refer to the "Single figure of total remuneration for Executive Directors" section for the details on the CEO and General Director's remuneration received by Victor Gladun.

# Directors' remuneration report

## Percentage change in Non-Executive director remuneration

| | Charles Valceschini | | | All employees |
|---|---|---|---|---|
| | **2021 $'000** | 2020 $'000 | % change 2020 - 2021 | % change 2020 - 2021 |
| Base salary/fees | 183 | 183 | 0% | - |
| Taxable benefits (including pensions) | - | - | - | - |
| Annual bonus | - | - | - | - |
| Total | 183 | 183 | - | - |

1

| | Dr Rashid Javanshir | | | All employees |
|---|---|---|---|---|
| | **2021 $'000** | 2020 $'000 | % change 2020 - 2021 | % change 2020 - 2021 |
| Base salary | 90 | 90 | 0% | -% |
| Taxable benefits | - | - | - | -% |
| Annual bonus | - | - | - | -% |
| Total | 90 | 90 | - | -% |

1

| | Tony Alves | | | All employees |
|---|---|---|---|---|
| | **2021 $'000** | 2020 $'000 | % change 2020 - 2021 | % change 2020 - 2021 |
| Base salary | **105** | 105 | 0% | -% |
| Taxable benefits | **-** | - | - | -% |
| Annual bonus | **-** | - | - | -% |
| Total | **105** | 105 | - | -% |

1

## 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**
There were no Non-executive Directors who left the business during the year.

## Payments to past directors (audited)

No payments or other benefits were made to past directors during the year.

## Statement of directors' shareholdings and share interests (audited)

The Remuneration Policy approved at the 2021 AGM includes an executive share ownership requirement of 100% of basic salary for Executive Directors which can be built up over a reasonable period of time from the date of appointment. The Remuneration Committee waived this requirement in relation to Victor Gladun, currently the sole Executive Director.

Victor Gladun, as the sole Executive Director, does not currently hold any Shares or options (vested or unvested) in the Company as at 31 December 2021 and has not been awarded any Shares or options as part of his remuneration in 2022 between 1 January 2022 and the date of this document, nor has he acquired any Shares in the Group.

At 31 December 2021, no Non-Executive Director held any Shares or options (vested or unvested) in the Company. Since 31 December 2021, 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 2021 and 31 December 2020, along with the percentage change in both.

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# Directors' remuneration report

| | 2021 $'000 | 2020 $'000 | Year-on-year change |
|---|---|---|---|
| All-employee remuneration[1] | **4,867** | 7,265 | (33)% |
| Distributions to shareholders[2,3] | - | – | 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 2020 or 2021.
3 No other significant distributions and payments or other uses of profit or cash-flow were made in 2020 or 2021.

The table below details the Company's Chief Executive Officer's total remuneration over the 10-year period.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016[1] | 2017 | 2018[3] | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CEO single figure of remuneration - Paul Davies ($'000) | 832 | 983 | 1,141 | 1,043 | 1,322 | 62 | N/A | N/A | N/A | N/A | **N/A** |
| CEO single figure of remuneration – Tom Reed ($'000) | N/A | N/A | N/A | N/A | N/A | 1,261 | 325 | N/A | N/A | N/A | **N/A** |
| CEO single figure of remuneration – Victor Gladun ($'000) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 676 | 778 | **788** |
| Total CEO single figure of remuneration[5] ($'000) | 832 | 983 | 1,141 | 1,043 | 1,322 | 1,323 | 325 | N/A | 676 | 778 | **788** |
| Bonus award - % against[4] maximum opportunity | 43% | 33% | 62% | 33 % | 86% | 70% | 0%[2] | N/A | 57% | 70% | **70%** |

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 2021, 2020 and 2019, the Executive Director's contract was settled in its Ukrainian Hryvna equivalent. Amounts paid were converted at the National Bank of Ukraine 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 Victor Gladun did not receive any bonus payment in 2019 after his appointment as CEO on 29 September 2020. His base salary (of $120,000) for his role as CEO of the Company was prorated to reflect this. The total amount set out above, includes the salary that Victor Gladun received as General Director of PPC and the bonus payment that he received in Q1 2020, in relation to his FY2020 bonus which was earned in his capacity as General Director of PPC. He did not receive a bonus in relation to his role as CEO of the Company for FY2019.
5 Single figure remuneration is calculated on the same basis as set out on page 60 and includes both remuneration actually received as CEO in 2020 and also as General Director of PPC. The figure of $778,000 includes the bonus award made in Q1 2021 in relation to the 2021 financial year. This bonus was apportioned between his role as CEO of the Company and General Director of PPC. In 2020, Victor Gladun's salary was temporarily reduced in the wake of the COVID-19 pandemic by 30% in total (in relation to the salary that he receives as Genera Director and CEO).

## Summary of Remuneration Policy and 2022 implementation

The table below summarises the key components of our Remuneration Policy that was approved by shareholders at the 2020 AGM. Full details of the Remuneration Policy are set out on pages 64 – 71 of the 2019 Annual Report.

There were no deviations from the procedure for the implementation of the remuneration policy in the year ended 31 December 2021.

No change to the existing Remuneration Policy is being proposed for FY 2022. The Remuneration Committee has decided not to grant any share award to the CEO under the Company's Performance Share Plan (PSP) for FY 2021 and FY2022.

The full Remuneration Policy, as approved by shareholders at the 2020 AGM, can be found on pages 64 – 71 of the 2019 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

| | | Remuneration Policy | 2021 implementation |
|---|---|---|---|
| Fixed | Salary | Fixed remuneration set out in the service contract, to attract and retain talent, which reflects the role, skills and responsibilities.<br><br>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 | No change. The Executive Director's basic salary is fixed at $120,000 per annum. [1] |

# Directors' remuneration report

| | | Remuneration Policy | 2021 implementation |
|---|---|---|---|
| | | directorship of any group company or membership of any Board committee.<br><br>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.<br><br>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. | No change.<br><br>Since 1 January 2021, the Executive Director has received monthly pension contributions of 15% of annual salary as an additional cash benefit. |
| | Benefits | Life assurance, private medical insurance and other benefits at the Remuneration Committee's discretion. | No change. |
| Discretionary | Annual bonus | To align the executive director with the short-term and medium-term success of the Group.<br><br>The Remuneration Committee has the discretion to defer the annual bonus into shares to be held for one year.<br><br>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. | No change.<br><br>Please refer to "Basis for determining Executive Director's annual bonus award" section for the 2021 KPIs and their weightings.<br><br>The KPIs for FY2022, have not yet been set.<br><br>Annual bonuses for the 2022 year, if any, to be paid in January 2023 will be further disclosed in the next year's report (including the relevant KPIs and reporting thereof). |
| | PSP Award | The Remuneration Committee has the ability to grant awards of nil-cost options annually to executive directors, conditional on group performance.<br><br>Maximum opportunity: 150% base salary.<br><br>To the extent that any PSP award is granted, full disclosure of the KPIs and relative | No PSP awards were granted in 2021.<br><br>No PSP awards vested in 2021.<br><br>No PSP awards shall be granted in 2022. |

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# Directors' remuneration report

| | | Remuneration Policy | 2021 implementation |
|---|---|---|---|
| | | weightings will be disclosed in the following annual report.<br>Enhanced malus and clawback provisions will apply and may be exercised at the discretion of the Remuneration Committee.<br>Three-year vesting period. PSP awards granted will be subject to a further two-year holding period after vesting (total vesting and holding period of 5 years).<br>No PSP award was made in 2020 or 2021. | |
| Other | Shareholding guidelines | 100% of base salary.<br>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. | No change. |
| | NED fees | Fees reflect experience and skill of the individuals and responsibilities and time commitments for the role.<br>The Non-Executive Directors' fees are subject to an overall cap of £500,000 per annum in accordance with the existing Remuneration Policy, excluding exceptional fees for additional work under the Company's Articles of Association. | No change.<br>The total remuneration for Non-Executive Directors decreased in 2020 following the introduction of the new Remuneration Policy.<br>No change for FY2022 are expected. |

1 As a result of the COVID-19 pandemic, Victor Gladun's salary that he receives in his capacity as CEO and sole Executive Director of the Company and General Director of PPC was reduced by 30% for the period 1 March 2020 - 30 September 2020. The temporary reduction ceased to apply from 1 October 2020.

## Directors' Remuneration Policy

The existing Remuneration Policy was approved by shareholders at the 2020 AGM held on 12 June 2020 and has applied from that date. The Remuneration Policy is intended to apply for three years from the date of the 2020 AGM. The Remuneration Committee is satisfied that the Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking.

The Remuneration Policy is a continuation of the previous 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 awards granted under a performance share plan (including the PSP) will be subject to total holding and vesting period of 5 years from grant;
d) any share award granted may be subject to enhanced malus and clawback provisions.

## Current Remuneration 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. |

# Directors' remuneration report

| | |
|---|---|
| | Different increases may be awarded at the Remuneration Committee's discretion in instances such as:<br><br>a) where there has been a significant increase in the size, value or complexity of the Group;<br>b) there has been a change in the role/responsibility;<br>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 in 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.<br><br>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.<br><br>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.<br><br>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).<br><br>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.<br><br>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 |

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# Directors' remuneration report

| | |
|---|---|
| | reputational damage, and corporate failure. Please see the notes to the table for more information.<br><br>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.<br><br>Payment of any annual bonus award will be subject to a discretionary underpin (including individual performance).<br><br>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.<br><br>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 a performance share plan may then be subject to an additional holding period of up to two years.<br><br>Any share awards granted 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.<br><br>The sale of vested share awards granted under a performance share plan of the Company shall be subject to meeting shareholding guidelines.<br><br>The Company does not currently operate any performance share plan for Directors or Senior Management. |
| Opportunity | 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 share awards under a performance share plan shall be 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.<br><br>From 2015, awards granted under the Company's former Performance Share Plan (PSP) were based on a number of financial and strategic measures, which may include, but are not limited to: |

# Directors' remuneration report

| | |
|---|---|
| | ▪ TSR;<br>▪ Earnings per share ('EPS');<br>▪ Other financial measures (e.g. ROCE, Profit before tax, cash resources); and<br>▪ Strategic and operational measures (e.g. production, reserves).<br>In addition, future share awards granted to Executive Directors shall be subject to an underpin such that for any award 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 shall have the discretion to adjust the performance measures and weightings in advance of making a share 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.<br>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.<br>Vesting of any share 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.<br>As under the annual bonus, the Remuneration Committee shall have the discretion to adjust formulaic outcomes within the performance share plan limits to ensure alignment of pay with performance, i.e. to ensure the outcome is a true reflection of the performance of the Company 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.<br>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).<br>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):<br>▪ the shareholding requirement will fall to 50% at the end of year 1;<br>▪ 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.<br>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. |

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# Directors' remuneration report

| | |
|---|---|
| | 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.<br>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.<br>The maximum amount that may be paid to non-executive directors is £500,000 as set out in the Company's Articles of Association.<br>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.<br>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.

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

# Directors' remuneration report

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 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. |

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# Directors' remuneration report

### 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.

| Name | Date | Notice period |
|---|---|---|
| Victor Gladun | Effective 20 September 2019[1] | 6 months |
| Charles Valceschini | Effective 16 September 2019 | 3 months |
| Tony Alves | Effective 16 September 2019 | 3 months |
| Michael Bakunenko | Effective 8 December 2017 | 3 months |
| Dr Rashid Javanshir | Effective 16 September 2019 | 3 months |

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

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

**Application of Policy (as set out in the Policy approved by the Remuneration Policy approved by shareholders at the 2020 AGM)**

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'.

Potential reward opportunities are based on the new Policy. The annual bonus is based on the maximum opportunity level which will apply in 2021. Note that no PSP awards was 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.

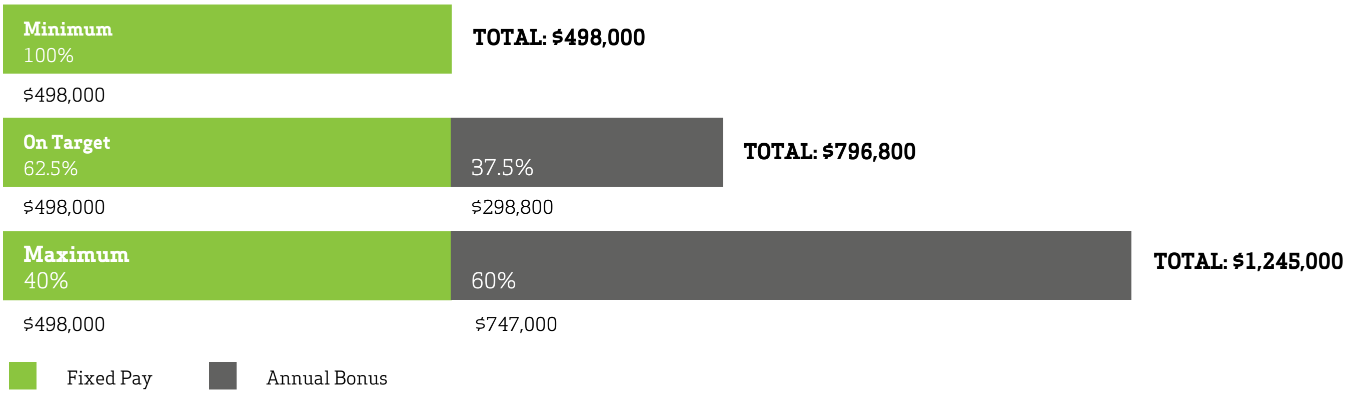
The 'On-target' scenario reflects fixed remuneration as above, plus on-target bonus (60% of salary).

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.

# Directors' remuneration report

**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<br>Benefits: as disclosed in single figure of remuneration<br>Pension: 15% cash allowance |
| Annual Bonus | Minimum: no bonus earned<br>On target: 60% of maximum bonus is earned<br>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 the 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.

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.

# Director's remuneration report

## Legal form

JKX Oil & Gas plc was, until 2 February 2022, a public company. On 2nd February 2022 the Company was reregistered as a private company with the name JKX Oil & Gas Limited.

The Company is and was 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 2023 AGM and matters of Ordinary Business and those proposed as Special Business, together with explanatory notes, will be sent to shareholders at an appropriate time 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 will be announced 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 (2020: nil). The Group made charitable contributions of $0.3m (2020: $0.4m) for local educational, health (including in relation to the current COVID-19 pandemic), 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 15 to 20.

## 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 10 to 14 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 2021, the Company did not purchase in the market any of its own ordinary 10p shares, to be held as treasury shares. At 31 December 2021, 402,771 (2020: 402,771) shares continued to be held as treasury shares representing 0.23% (2020: 0.23%) of the shares then in issue.

Following board consideration and in order to simplify administration these Treasury Shares were cancelled during 2022.

## 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

Following registration as a private company on 2 February 2022 new Articles of Association were adopted. Any amendments to the Articles may be made in accordance with the provisions of the Companies Act by way of special resolution.

# Director's remuneration report

To the members of JKX Oil & Gas Limited

## Directors

The names and biographies of the Directors who held office as at the date of this Annual Report are set out on pages 21-22.

Directors who held office throughout 2021 are set out below. There were no changes made to the Board during the 2021 financial year although all these directors have subsequently resigned.

| Name | Appointed | Position |
|---|---|---|
| Charles Valceschini | 16 September 2019 | Non-Executive Director |
| Victor Gladun | 23 May 2019 | Executive Director |
| Tony Alves | 16 September 2019 | Non-Executive Director |
| Michael Bakunenko | 8 December 2017 | Non-Executive Director |
| Rashid Javanshir | 16 September 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 2021 Ordinary Share Number | 31 December 2021 Ordinary Share Number |
|---|---|---|
| Michael Bakunenko[1] | 47,287,027 | 47,287,027 |

1 Michael Bakunenko as a nominee for Eclairs Group Limited, was deemed to have a beneficial interest in these ordinary shares.

There were no changes to the shareholdings of the 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 38 to 44. 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 2021 financial year and is currently in force. The Company also purchased and maintained throughout the 2021 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 2021) that take effect, alter or terminate upon a change of control following a takeover.

There are and were 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. There are a number of other agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, finance agreements and property lease arrangements. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole.

## Events after the reporting date

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

# Director's remuneration report

## Substantial shareholders

At 31 December 2021 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 2021 Number of shares | 31 December 2021 % of total voting rights |
|---|---|---|
| Eclairs Group Limited | 47,287,027 | 27.54% |
| Bridgewater Holdings Corp. | 34,288,253 | 19.97% |
| Neptune Invest & Finance Corp | 22,295,598 | 12.98% |
| Keyhall Holding Limited | 19,656,344 | 11.45% |
| Interneft Ltd | 10,599,447 | 6.16% |

## Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group Financial Statements in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, 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 Company and of the profit or loss of the Group for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

### Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

## 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.

# Director's remuneration report

To the members of JKX Oil & Gas Limited

## Dividends

No dividends have been paid or proposed for the year ended 31 December 2021. The Board will not be recommending the payment of a dividend.

## Going concern

The going concern statement can be found on page 72.

## 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 2021 can be found on pages 66 – 68.

## Capitalised interest

No interest was capitalised in 2021 (2020: nil).

## Long term incentive schemes

See pages 38 to 53 of the Directors' Remuneration Report.

## Directors' responsibilities

The directors confirm to the best of their knowledge:

- The Groups financial statements have been prepared in accordance with UK-adopted international accounting standards applied in accordance with provisions in the Companies Act 2006 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 position and 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 companys 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

Michael Bakunenko

Chairman of the Board.

29 March 2023

# Independent auditor's report

To the members of JKX Oil & Gas Limited

*Our involvement with component auditors*

### Qualified opinion

We have audited the financial statements of JKX Oil and Gas Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated statement of cash flows, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006, and as regards to the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practise.

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section:

- 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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards in conformity with the requirement of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practise; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for qualified opinion

With respect to the contribution to the overall Group loss of the Russian subsidiary Yuzhgazenergie LLC ('YGE'), totalling $60,094k, the audit evidence available to us was limited because we were not able to review the component auditors' work performed on the subsidiary, nor were we able to get additional supporting evidence from Group Management due to their inability to communicate with local Management at the subsidiary. The issue stems from the breakout of war in the region following the invasion of Ukraine by Russian forces on 24 February 2022. Owing to the nature of the conflict and resulting lack of engagement and communication with the subsidiary, we were unable to obtain sufficient appropriate audit evidence regarding the contribution to the Group Profit & Loss figures by YGE through the use of other audit procedures.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 1 December 2022 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard have not been provided to the Group or the Parent Company.

### Material uncertainty relating to going concern

We draw attention to note 2 in the financial statements, which refers to the invasion of Ukraine by Russian military forces on 24 February 2022. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We have highlighted going concern as a key audit matter as a result of the estimates and judgments required by Management in their going concern assessment and the effect on our audit strategy.

Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting and in response to the key audit matter included:

- We discussed the impact on the Group of the ongoing conflict between Ukraine and Russia 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 compared this against our own assessment of risks and uncertainties based on our understanding of the business and oil and gas sector information.
- We obtained Management's base case cash flow forecast covering the 12-month period from the date of anticipated signing, and challenged the key operating assumptions based on 2021 and 2022 year to date actual results, external data and market commentary, where applicable.

# Independent auditor's report

To the members of JKX Oil & Gas Limited

- We obtained Management's sensitivity testing analysis which was performed to determine the impact of certain negative scenarios such as a notable reduction in commodity prices or production, and whether such scenarios were possible given the further potential impacts of the invasion of Ukraine by Russian military forces and the level of uncertainty involved.
- We tested the mathematical integrity of the forecast models and assessed their consistency with approved budgets and Field Development Plans, as applicable.
- 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.
- We reviewed the adequacy and completeness of disclosures in the financial statements in respect of going concern.

Based on the work we have performed, we have identified a material uncertainty in relation to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### Overview of work performed

*Coverage*

| | 2021 |
|---|---|
| Group profit before tax | 98% |
| Group revenue | 87% |
| Group total assets | 84% |

*Materiality*

Materiality for the Group financial statements as a whole came to $1.2m based on 4% of profit before tax.

*Scope*

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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 (Poltava Petroleum Company and the Parent Company) which were subject to full scope audits, and a third significant component (Yuzhgazenergie LLC) which we were unable to audit due to the reasons discussed above in the qualified opinion section. The audit of the Ukrainian component was performed in the Ukraine, by local component auditors under the supervision and direction of the Group audit team. The audits of the Parent Company and the Group consolidation were performed in the United Kingdom by the Group engagement team. The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures by the Group engagement team.

*Our involvement with component auditors*

For the work performed by the component auditor, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with the component auditor included the following:

- Detailed Group reporting instructions were sent to the component auditor, which included the significant areas to be covered by the audit (including areas that were considered to be key audit matters as detailed below), and set out the information to be reported to the Group audit team.
- The Group audit team was actively involved in the direction of the audit performed by the component auditor for Group reporting purposes, 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 Group audit team reviewed the component audit file remotely, engaging with the component auditors during their fieldwork and completion phases.

# Independent auditor's report

To the members of JKX Oil & Gas Limited

### Key audit matters

Key audit matters are those matters that, in our professional judgement, 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. In addition to the matters described in the conclusions related to the going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| <u>Rental fee claims in Ukraine</u><br><br>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.<br><br>Management have recorded a provision of $40.5m as at the year end, with an additional $20.9m provided for in the current year as a result of the Ukrainian Supreme Court ruling against the Group in two cases previously considered by Management to be resolved in their favour, resulting in a previous reversal of the provision.<br><br>Separately, in 2018 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. $6.2m was received during the current year, whilst $5.9m remains outstanding.<br><br>The assessment of whether the remaining award meets the recognition criteria of an asset at year end under relevant accounting standards requires judgment given the operating environment.<br><br>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 current political climate following the outbreak of war with Russia, this area is considered to be a key audit matter. | We held meetings with Management, internal and external legal counsel in order to obtain an understanding of the significant developments in the year for each claim and the impact of the wider legislative and political environment in the Ukraine on the overall assessment of the claims.<br>We reviewed the board minutes for indications of inconsistencies with the positions noted by these Parties.<br><br>We evaluated Management's conclusions that it remained appropriate to maintain a 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, the nature of uncertainties associated with the remaining appeal processes on the claims for which provisions are held and the legislative environment in the Ukraine.<br><br>We performed a recalculation of the movement in the rental claim provision including interest accrued and the quantum of amounts released.<br><br>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.<br><br>We obtained legal letters from the Group's internal legal advisor, and held conversations with the Group's external legal advisor, and compared these to Management's assessment of each claim.<br><br>We obtained Management's analysis of the estimated timing of any payments, discussed further under going concern above and checked that the presentational split between current and non-current provision was consistent with this analysis.<br><br>In respect of the arbitration award, we confirmed the status of the award with Management, internal and external legal counsel regarding the registration of the claim in Ukraine and reviewed related documents. We inspected Board minutes and made inquiries of Management to identify any information which may contradict Management's assessment that the asset recognition criteria had yet to be met for the remaining amount rewarded. |
| <u>Key Observation</u><br>Based on the procedures performed, we noted no material issues arising from our work in relation to the rental fee claims in the Ukraine and found the judgments and estimates to be appropriate. | |
| <u>Carrying value of oil and gas assets</u><br><br>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 | We obtained and examined Management's impairment indicator paper and assessed the appropriateness of their conclusion that a potential indicator of impairment was present. |

# Independent auditor's report

To the members of JKX Oil & Gas Limited

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|---|---|
| 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.<br><br>Management identified an impairment indicator in respect of each of the two cash generating units in the Ukraine and performed an impairment test. Based on that impairment test Management concluded that no impairment was required.<br><br>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, foreign exchange rates, production and reserves, operating and development costs and discount rates.<br><br>In addition, due to the ongoing war in Ukraine there is an increased level of judgement involved in Management's forecasts which underpin the carrying value of oil and gas assets.<br><br>The carrying value of the Group's oil and gas assets were therefore considered to be a key audit matter. | Accordingly, we obtained Management's impairment test and assessed the appropriateness of management's determination of each cash generating unit (CGU) in line with the relevant accounting standard.<br><br>We obtained Management's discounted cash flow models and performed data integrity and mechanical checks on the models. We determined whether the basis of preparation of the models were in line with the applicable accounting standard, our expectations and valuation methodology.<br><br>We compared the actual performance of the CGUs during 2021 to budgets for the period in order to assess the quality of Management's forecasting.<br><br>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 and production levels, operating and development costs and discount rates.<br><br>We compared forecast oil and gas prices in Ukraine to current pricing and market analysis. We assessed the consistency of production profiles and capital expenditure forecasts against the Group's Field Development Plans, approved budgets, reserves engineer reports, and met with operational Management to inform our assessment and gain an understanding of these plans and budgets.<br><br>We compared the 2P reserves included in the models to Reserve Statements prepared by the Group's internal reserves expert and performed procedures to assess their independence and competence. We had meetings with the internal reserves expert as part of this process to understand the scope and significant judgments and estimates.<br><br>We reviewed Management's sensitivity analysis and performed our own sensitivity analysis on key inputs to assess the impact of changes in assumptions on the carrying value of the assets.<br><br>We assessed the appropriateness of the valuation methodology and discount rates applied and discussed the judgments regarding the calculation with Management.<br><br>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 their current end dates, including assessing the forecast economic value of the assets beyond the expiry date and risks and uncertainties within the operating environments.<br><br>We reviewed the disclosures in the financial statements regarding key assumptions and sensitivity of the carrying value to reasonable changes in such assumptions to check they were in accordance with the requirements of the relevant accounting standard. |
| Key Observation<br>Based on the procedures performed, we found Management's conclusion that no impairment charge was required as at 31 December 2021 in respect of the CGU's to be supported by the underlying models, and the judgments and estimates contained therein to be acceptable. | |
| Recognition of assets held for sale<br><br>The Group has classified its Russian and Hungarian entities as assets held for sale as at the year-end, with net assets of $27m and $3m respectively. The relevant accounting standard - Non-current Assets Held for Sale and Discontinued Operations - IFRS 5, requires | We have held discussions with Management regarding both potential buyers and whether the criteria listed in the standards under IFRS 5 were appropriately met in order to classify both the Hungarian and Russian entities as assets held for sale as at 31 December 2021. |

# Independent auditor's report

To the members of JKX Oil & Gas Limited

| | |
|---|---|
| the below criteria to be met in order to recognise the assets as held for sale;<br><br>• the asset is available for immediate sale<br>• an active programme to locate a buyer is initiated<br>• the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions)<br>• the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value<br>• actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn<br><br>SPAs were in place for both entities at an agreed price in line with their perceived net asset values. Management confirmed that it was their intention to sell both assets as at 31 December 2021.<br><br>Subsequent to the year end, events such as the outbreak of war in February 2022 and the ability of prospective buyers to make payment, had a significant impact on Management's held for sale assessment. These were considered to be non-adjusting post balance sheet events as the conditions that influenced Management's decision were not deemed to be present at the year-end.<br><br>There is significant judgement required around the timing and classification of an asset held for sale, and this was therefore considered to be a key audit matter. | We obtained and reviewed the Sales and Purchase Agreements for both assets and agreed the value attributed to each asset.<br><br>We critically assessed the adjustments processed to bring the consolidated balance sheet in line with those valuations. The Group has recognised impairments in both entities to meet these sales values, and we challenged Management on this treatment, ensuring it was in line with the criteria of accounting standards.<br><br>We have considered the length of time that the assets have been classified as held for sale and evaluated whether this provides an indication that the probability of the asset sales have decreased.<br><br>We challenged Management as to the events that occurred post-year end that impacted on the held for sale status of both assets, and whether these conditions would be considered to be in place as at the balance sheet date.<br><br>We reviewed the disclosures in financial statements and we have received specific representations in regards to this matter. |
| <u>Key Observation</u><br>Based on the procedures performed, we consider the treatment of the Hungarian and Russian entities as assets held for sale in line with IFRS 5 to be acceptable. | |

**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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | Group 2021 |
|---|---|
| Materiality | $1,200,000 |
| Basis for determining materiality | 4% of profit before tax |
| Rationale for the benchmark applied | We considered a profit related measure to be appropriate given the Group's profitable nature. |
| Performance Materiality | $780,000 |
| Basis for performance materiality | 65% of materiality given this is a first year audit |

| | Company 2021 |
|---|---|

# Independent auditor's report

To the members of JKX Oil & Gas Limited

| | |
|---|---|
| Materiality | $730,000 |
| Basis for determining materiality | 1% of total assets |
| Rationale for the benchmark applied | JKX Oil & Gas Limited is a holding company with investments in subsidiaries. We have therefore considered total assets as an appropriate materiality basis. |
| Performance Materiality | $470,000 |
| Basis for performance materiality | 65% of materiality given this is a first year audit |

*Component materiality*

We set performance materiality for each component of the Group at between $240,000 - $600,000 dependent on the size and our assessment of the risk of material misstatement of the Group.

*Reporting threshold*

We agreed with Management that we would report to them all individual audit differences in excess of $24,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

## 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

*Going concern and longer-term viability*

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and
- The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate.

*Other Code provisions*

- Directors' statement on whether the financial statements are fair, balanced and understandable;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- The section describing the work of the audit committee.

## Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

*Strategic report and Directors' report*

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

# Independent auditor's report

To the members of JKX Oil & Gas Limited

- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and 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.

*Directors' remuneration*

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

*Matters on which we are required to report by exception*

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, except for those points highlighted in our qualified opinion section; 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; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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.

*Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Holding discussions with Management to consider any known or suspected instances of non-compliance with laws and regulations or fraud identified by them;
- Gaining an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, through discussion with Management and the audit committee and our knowledge of the industry;
- Considering the significant laws and regulations of the countries in which the Group operates to be those relating to the industry, financial reporting framework, tax legislation and the listing rules.
- Assessing the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur;
- Testing the appropriateness of journal entries made through the year by applying specific criteria to detect possible irregularities and fraud;
- Performing a detailed review of the Group's year-end adjusting entries and consolidation elimination journals, investigating any that appear unusual as to nature or amount and agreeing to supporting documentation;
- For significant and unusual transactions, particularly those occurring at or near year-end, obtaining evidence for the rationale of these transactions and the sources of financial resources supporting the transactions;
- Assessed whether the judgements made in accounting estimates were indicative of a potential bias (refer to key audit matters above);
- Extending inquiries to individuals outside of Management and the accounting department to corroborate Management's ability and intent to carry out plans that are relevant to developing the estimate set out in the key audit matters section above;
- Reviewing minutes from board meetings of those charged with governance to identify any instances of non-compliance with laws and regulations; and
- Directing the auditors of the significant components to ensure an assessment is performed on the extent of the components compliance with the relevant local and regulatory framework.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve

# Independent auditor's report

To the members of JKX Oil & Gas Limited

deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Haffner (Senior Statutory Auditor)

For and on behalf of Harris & Trotter LLP, Statutory Auditor

64 New Cavendish Street
London
W1G 8TB

29 March 2023

GROUP FINANCIAL STATEMENTS

# Consolidated income statement

For the year ended 31 December 2021

| | Note | 2021 $000 | 2020[1] $000 |
|---|---|---|---|
| Revenue | 4 | 112,152 | 52,831 |
| Cost of sales | | | |
| Exceptional item – (provision for production based taxes)/net reversal of provision | 18 | (18,691) | 13,543 |
| Other production based taxes | 20 | (28,613) | (12,092) |
| Other cost of sales | 20 | (26,694) | (23,473) |
| Total cost of sales | 20 | (73,998) | (22,022) |
| Gross profit | | 38,154 | 30,809 |
| Administrative expenses | | (11,738) | (8,584) |
| Other operating income | 6, 8 | 6,771 | - |
| Other operating expenses | | (528) | - |
| (Loss)/gain on foreign exchange | | (1,121) | 1,048 |
| Profit from operations before exceptional items | | 50,229 | 9,730 |
| Profit from operations after exceptional items | | 31,538 | 23,273 |
| Finance income | 21 | 795 | 464 |
| Finance costs | 22 | (706) | (727) |
| Profit before tax | | 31,627 | 23,010 |
| Taxation – current | 25 | (9,858) | (3,292) |
| - before the exceptional items | 25 | 2,739 | 1,050 |
| - on the exceptional items | 25 | (1,036) | (4,370) |
| Total taxation | 25 | (8,155) | (6,612) |
| Profit from continuing operations (attributable to equity holders of the parent company) | | 23,472 | 16,398 |
| (Loss)/profit from discontinued operation (attributable to equity holders of the parent company), net of tax | 14 | (63,718) | 3,470 |
| (Loss)/profit for the year attributable to equity shareholders of the parent company | | (40,246) | 19,868 |

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

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 72 to 113

| | Note | 2021 in cents | 2020* in cents |
|---|---|---|---|
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent company:** | | | |
| Basic and diluted profit per 10p ordinary share | | | |
| -after exceptional items | 27 | 13.67 | 9.55 |
| -before exceptional items | 27 | 25.16 | 4.21 |
| **Earnings per share for (loss)/profit from discontinued operations attributable to the ordinary equity holders of the parent company:** | | | |
| Basic and diluted (loss)/profit per 10p ordinary share | | | |
| -after exceptional items | 27 | (37.11) | 2.02 |
| -before exceptional items | 27 | (1.73) | 2.21 |
| **Earnings per share for (loss)/profit attributable to the ordinary equity holders of the parent company:** | | | |
| Basic and diluted (loss)/profit per 10p ordinary share | | | |
| -after exceptional items | 27 | (23.44) | 11.57 |
| -before exceptional items | 27 | 23.48 | 6.42 |

* Comparative earnings per share have been amended to provide a consistent basis of measurement with 2021. Refer to Note 27 for details.

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 72 to 113

GROUP FINANCIAL STATEMENTS

# Consolidated statement of comprehensive income

For the year ended 31 December 2021

| | 2021 $000 | 2020[1] $000 |
|---|---|---|
| (Loss)/profit for the year | **(40,246)** | 19,868 |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods when specific conditions are met: | | |
| - Currency translation differences | **2,465** | (30,431) |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| - Remeasurements of post-employment benefit obligations | **(12)** | (115) |
| Other comprehensive income/(loss) for the year, net of tax | **2,453** | (30,546) |
| Total comprehensive loss for the year attributable to equity shareholders of the parent company | **(37,793)** | (10,678) |
| Continuing operations | **25,925** | (14,148) |
| Discontinued operations | **(63,718)** | 3,470 |

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

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 72 to 113

GROUP FINANCIAL STATEMENTS

# Consolidated statement of financial position

As at 31 December 2021

| | Note | 2021 $000 | 2020 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5(a) | 102,210 | 173,913 |
| Deferred tax assets | 26 | - | 9,451 |
| Investment | 6 | 500 | 500 |
| | | 102,710 | 183,864 |
| **Current assets** | | | |
| Inventories | 7 | 4,234 | 4,358 |
| Trade and other receivables | 8 | 9,419 | 3,661 |
| Cash and cash equivalents | 9 | 43,921 | 24,329 |
| Restricted cash | 9 | 25,387 | - |
| | | 82,961 | 32,348 |
| Assets classified as held for sale | 14 | 35,558 | 3,186 |
| Total current assets | | 118,519 | 35,534 |
| Total assets | | 221,229 | 219,398 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Current tax liabilities | | (4,504) | (877) |
| Trade and other payables | 10 | (23,427) | (9,332) |
| Lease liabilities | 12 | (373) | (401) |
| Provisions | 18 | (13,108) | (15,911) |
| | | (41,412) | (26,521) |
| Liabilities of disposal group classified as held for sale | 14 | (5,558) | (286) |
| Total current liabilities | | (46,970) | (26,807) |
| **Non-current liabilities** | | | |
| Provisions | 18 | (31,776) | (10,931) |
| Defined pension benefit plan | 19 | (1,052) | (922) |
| Lease liabilities | 12 | (392) | (358) |
| Deferred tax liabilities | 26 | (1,970) | (3,518) |
| | | (35,190) | (15,729) |
| Total liabilities | | (82,160) | (42,536) |
| **Net assets** | | **139,069** | **176,862** |
| **EQUITY** | | | |
| Share capital | 16 | 26,666 | 26,666 |
| Share premium | 16 | - | 97,476 |
| Other reserves | 17 | (178,829) | (181,282) |
| Retained earnings | | 291,232 | 234,002 |
| Total equity | | 139,069 | 176,862 |

These financial statements on pages 66 to 113 were approved by the Board of Directors on 29 March 2023 and signed on its behalf by:

**Michael Bakunenko**
Chairman, JKX Oil & Gas Limited

**Dmytro Piddubnyy**
Chief Financial Officer

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 72 to 113

GROUP FINANCIAL STATEMENTS

# Consolidated statement of changes in equity

For the year ended 31 December 2021

| | 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 2021** | **26,666** | **97,476** | **234,002** | **(181,282)** | **176,862** |
| Loss for the year | - | - | (40,246) | - | (40,246) |
| Exchange differences arising on translation of overseas operations | - | - | - | 2,465 | 2,465 |
| Reduction of Capital[1] | - | (97,476) | 97,476 | - | - |
| Remeasurement of post-employment benefit obligations | - | - | - | (12) | (12) |
| Total comprehensive loss attributable to equity shareholders of the parent | - | (97,476) | 57,230 | 2,453 | (37,793) |
| **At 31 December 2021** | **26,666** | **-** | **291,232** | **(178,829)** | **139,069** |

| | Share capital $000 | Share premium $000 | Retained Earnings $000 | Other reserves (Note 17) $000 | Total equity $000 |
|---|---|---|---|---|---|
| **At 1 January 2020** | **26,666** | **97,476** | **212,849** | **(150,736)** | **186,255** |
| Profit for the year | - | - | 19,868 | - | 19,868 |
| Exchange differences arising on translation of overseas operations | - | - | - | (30,431) | (30,431) |
| Remeasurement of post-employment benefit obligations | - | - | - | (115) | (115) |
| Total comprehensive (loss)/income attributable to equity shareholders of the parent | - | - | 19,868 | (30,546) | (10,678) |
| **Transactions with equity shareholders of the parent** | | | | | |
| Sale of shares held by Employee Benefit Trust (Note 15) | - | - | 1,285 | - | 1,285 |
| Total transactions with equity shareholders of the parent | - | - | 1,285 | - | 1,285 |
| **At 31 December 2020** | **26,666** | **97,476** | **234,002** | **(181,282)** | **176,862** |

1 Please refer to Note 16 for the full disclosure on the cancelation of the Share Premium account.

**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 2021

| | Note | 2021 $000 | 2020[1] $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from continuing operations | 29 | 69,841 | 25,613 |
| Cash generated from discontinued operations | 14 | 3,763 | 3,625 |
| Interest paid | | - | (381) |
| Income tax paid | | (6,305) | (4,250) |
| Net cash generated from operating activities | | 67,299 | 24,607 |
| **Cash flows from investing activities** | | | |
| Interest received | | 795 | 487 |
| Proceeds from sale of property, plant and equipment | | 56 | 120 |
| Purchase of property, plant and equipment | | (15,149) | (11,219) |
| Cash (used) in/generated from discontinued operations | | (1,316) | (2,170) |
| Net cash used in investing activities | | (15,614) | (12,782) |
| **Cash flows from financing activities** | | | |
| Sale of shares held by Employee Benefit Trust | | - | 1,285 |
| Repayment of borrowings | | - | (5,440) |
| Principal paid on lease liabilities | | (388) | (1,661) |
| Net cash used in financing activities | | (388) | (5,816) |
| Increase in cash and cash equivalents in the year | | 51,297 | 6,009 |
| Cash and cash equivalents at 1 January | | 24,725 | 20,725 |
| Effect of exchange rates on cash and cash equivalents | | (1,302) | (2,009) |
| Cash and cash equivalents at 31 December | | 74,720 | 24,725 |
| Cash and cash equivalents in continuing operations at the end of the year[1] | 9 | 69,308 | 21,760 |
| Cash and cash equivalents in discontinued operations at the end of the year[1] | 14 | 5,412 | 2,965 |

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

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 72 to 113

# Notes to the consolidated financial statements

## 1. General information

For the period from 1 January – 31 December 2021, JKX Oil & Gas plc (the ultimate parent of the Group hereafter, 'the Company') was a public limited company listed on the London Stock Exchange. The Company is domiciled and incorporated in England and Wales under the UK Companies Act. The registered number of the Company is 3050645.

For the period from 1 January – 18 October 2021, the registered office of the Company and its principal place of business was located at 6 Cavendish Square, London, W1G 0PD. With effect from 18 October 2021, the registered office has been located at 100 New Bridge Street, London, EC4V 6JA and its principal place of business is at 33 Cavendish Square, London, W1G 0PW.

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

The Company's securities were delisted from the London Stock Exchange on 6 January 2022 and the Company was re-registered as a private company with the name "JKX Oil & Gas Limited" on 2 February 2022.

## 2. Basis of preparation

The Group's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively "IFRS") applied in accordance with the provisions of the Companies Act 2006. 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 plus equity investments at fair value through other comprehensive income (FVOCI). The principal accounting policies adopted by the Group are set out below. Considering the above, the Group has assessed the going concern assumption based on which the financial statements have been prepared.

### Going concern

The Group's business activities, together with the factors likely to affect its future operations, performance and position are set out in the Chairman's Statement and Finance Review. The financial position of the Group, its cash flows and liquidity position are set out in these consolidated financial statements.

On 24 February 2022 Russia initiated a full-scale military invasion of Ukraine. This was followed up by the immediate enactment of martial law by the Ukrainian President's Decree approved by Verkhovna Rada of Ukraine and corresponding introduction of the related temporary restrictions that impact the economic environment.

As a result of the War, JKX Oil & Gas Group has experienced a number of significant disruptions and operational issues within its business, which are described in detail in Note 33 Subsequent Events. The currently known impacts of the War on the Group are:
- The production assets of the Group's Ukrainian subsidiaries are located in the central part of the country (Poltava region), which is controlled by the Ukrainian Government. No military activities have occurred at the Group's field locations. The Gas Transmission System Operator of Ukraine has maintained complete operational and technological control over the operations of the Ukrainian Gas Transmission System.
- All of the Group's inventories are in good condition and in safe storage.
- Following the onerous sanctions regimes provided by the UK/EU/US in 2022 and the loss of control over the Group's Russian subsidiaries Yuzhgazenergie LLC and Catering Yug LLC, Management recognised impairment against these investments in the financial statements for 2022. Management are still committed to finding an exit strategy and are now evaluating the options to exit. However no active marketing process will be conducted until the likelihood of a sale and a possible exit strategy become clear.
- The Group has no debt and funds its operations from its own cash resources. Cash and cash equivalents were $51.9 million as at 31 January 2023, of which $30.4 million were held outside of Ukraine, in currencies other than the Ukrainian Hryvnia. The Directors maintain a significant level of flexibility to modify the Group's development plans as may be required to preserve cash resources for liquidity management. Absent the potential impact of the military conflict in Ukraine, the Directors are satisfied that the Group and the Company are a going concern and will continue their operations for the foreseeable future.

In assessing the impact of the military conflict on the ability of the Group and the Company to continue as a going concern, management have prepared and reviewed updated financial forecasts, including cash flow projections, for the twelve months from the date of approval of these financial statements, taking into consideration most likely and possible downside scenarios for the ongoing business impacts of the War.
These forecasts were based on the following key assumptions:
- All of the Group's assets in Ukraine remain safe and in good condition;
- The Group continues to work only on the condition that 100% advances are received prior to sale;
- According to the updated budget, gas production is estimated to be 116,428 million cubic meters for 2022, with oil and condensate production at 25,681 thousand tons;
- In an extreme scenario, in which the Group has zero production as a result of possible future military conflict dictating field operations being completely shut-in, and all other non-production-related costs being maintained at current levels with no reduction or mitigating actions as would otherwise be possible, the Directors are satisfied that the Group and the Company have sufficient liquid resources to be able to meet their liabilities as they fall due and to be able to continue as a going concern for the foreseeable future.

GROUP FINANCIAL STATEMENTS

# Notes to the consolidated financial statements

Based on these steps that management are taking, they have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, due to the uncertain impact of the future development of the military invasion on the above-mentioned significant assumptions underlying managements forecasts, management concludes that a material uncertainty exists, which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

### Adoption of new and revised standards

**New standards, interpretations and amendments effective from 1 January 2021**

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 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 2020, except for the following:

(a) Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16;

(b) Covid-19-Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16

The application of the above standards has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

**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 2021 and have not been early adopted by the Group. For these Standards and Interpretations management anticipates that their adoption will not have a material effect on the consolidated financial statements of the Group in future periods.

| | Effective for annual periods beginning on or after |
|---|---|
| IFRS 17 Insurance Contracts | 01-Jan-23 |
| Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current | 01-Jan-23 |
| Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies | 01-Jan-23 |
| Amendments to IAS 8: Definition of Accounting Estimates | 01-Jan-23 |
| Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 01-Jan-23 |
| Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use | 01-Jan-22 |
| Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts — Cost of Fulfilling a Contract | 01-Jan-22 |
| Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework | 01-Jan-22 |
| Annual Improvements to IFRS Standards 2018–20201 | 01-Jan-22 |

## 3. Significant accounting policies

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. All intragroup balances, transactions, income and expenses and profits or losses, including unrealised profits arising from intragroup transactions, have been eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Companies and their subsidiaries after eliminating intragroup transactions as noted above. Uniform accounting policies are applied across the Group.

### Foreign currencies

All amounts in these financial statements are presented in thousands of US dollars, unless otherwise stated. The presentation currency of the Group is the US Dollar.

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.

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# Notes to the consolidated financial statements

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 2021 were $1:£0.74 (2020: $1:£0.73), $1: 27.28 Hryvnia (2020: $1: 28.27 Hryvnia), $1: 74.29 Roubles (2020: $1: 73.88 Roubles), $1: 326.74 Hungarian Forint (2020: $1: 296.81 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.

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# Notes to the consolidated financial statements

### 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.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The probability of shareholders' approval should be considered as part of the assessment of whether the sale is highly probable.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).

Non-current assets held for sale and discontinued operations 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 Group assets, can be determined. A cash-generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

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

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

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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.
All other finance costs, which include interest on borrowings calculated using the effective interest method, obligations under leases, the unwinding effect of the effect of discounting provisions and exchange differences, are recognised in the income statement in the period in which they are incurred.

### 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.

When 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 retained earnings. No gain or loss is recognised in the financial statements on the purchase, sale, issue or cancellation of these shares.

### 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.

Convertible bonds are removed from the balance sheet when the obligation specified in the contract is discharged. The difference between the carrying amount of convertible bonds that has been settled and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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

Investments in unquoted equity instruments are measured at fair value through other comprehensive income as allowed by 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). 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'.

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# Notes to the consolidated financial statements

### 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 Income statement.

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.

### 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.

### 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 Limited 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 retained earnings. No gain or loss is recognised in the financial statements on the purchase, sale, issue or cancellation of treasury shares.

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# Notes to the consolidated financial statements

### 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 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, entity specific incremental borrowing rate. Generally, the Group uses entity specific 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.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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.

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 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 in the notes to the consolidated financial statements.

### 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 (b))

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

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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) Fair value measurements**
Fair value measurements are estimates of the amounts for which assets or liabilities could be transferred at the measurement date, based on the assumption that such transfers take place between participants in principal markets and, where applicable, taking highest and best use into account.
Where available, fair value measurements are derived from prices quoted in active markets for identical assets or liabilities. In the absence of such information, other observable inputs are used to estimate fair value. Inputs derived from external sources are corroborated or otherwise verified, as appropriate. In the absence of publicly available information, fair value is determined using estimation techniques that take into account market perspectives relevant to the asset or liability, in as far as they can reasonably be ascertained, based on predominantly unobservable inputs. fair value estimations are generally determined using models and other valuation methods, the key inputs for which include future prices, volatility, price correlation, counterparty credit risk and market liquidity, as appropriate; for other assets and liabilities, fair value estimations are generally based on the net present value of expected future cash flows.

**d) 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.

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

**f) Judgement used in the fair value of unlisted investments (Note 6)**
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The objective of a fair value measurement is to estimate the price at which an orderly transaction would take place between market participants under the market conditions that exist at the measurement date. IFRS 13 requires that valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. The Group has used a market approach to estimate fair value of the unlisted investments. The Group used its judgements to:

(i) select a valuation method – management considered two valuation methods, market and income, in valuing its investment in UNB, income approach was not selected based on the wide range of information required and a high degree of judgement involved;

(ii) make assumptions that are based on market conditions existing at the end of the reporting period – two other entities that are similar to the UNB in terms of business activities and location have been selected, assumptions were based on the latest financial information available;

(iii) management applied its judgement to determine the point in a range of values that is 'most representative of a fair value;

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(iv) apply discount to each of the criteria to determine the fair value of UNB.

**g) 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.

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

**Rental fee demands (Notes 18 and 25)**
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.

Changes in the judgement about the timing of the provision releases: during 2019 provisions were maintained for open cases unless judgments of the Supreme Court of Ukraine had been received in favour of PPC or appeals to this court were considered remote, based on assessment of facts and circumstances at the time. During 2020 the Group determined that it was appropriate to release provisions when first and appellate Court rulings have been received in respect of the case (on its merits) in the Group's favour. In reaching that conclusion Management considered their experience of the legal process to date, the fact that the Supreme Court checks judgments of the first and appellate Courts and cannot review any new facts or circumstances, and sought advice from external counsel. Accordingly the risk of the lower court judgments on the merits of the case being cancelled were considered very low. Consequently the Group's Management released the provisions against any cases whereby the court judgments of first and appellate instances ruled in favour of PPC. However, during the first half of 2022 the Supreme Court cancelled all the judgments of the lower courts that had ruled in favour of PPC and ordered PPC to pay the outstanding debt. PPC fully paid the outstanding sum in July 2022 and recognised $20.1m of additional provision for two tax cases related to January to December 2015 claims in the consolidated financial statements as at31 December 2021. Whilst this Supreme Court decision occurred post-year end, the cases themselves were present and ongoing as at the balance sheet date, and therefore it is considered an adjusting post-balance sheet event to be recognised in the current year.

**Non-current assets held for sale and discontinued operations (Note 14)**
Reversal of provision for impairment/(provision for impairment) of Hungary has been included as an exceptional item in the profit and loss from discontinued operations for 2020 and 2021 respectively as it was deemed non-recurring. At 31 December 2021 the Group was in the process of disposing of the Hungarian business unit and it was classified as held for sale. Accordingly, given the divestment and withdrawal strategy was applicable to Hungary, reversal of provision for impairment/(provision for impairment) did not recur.

The Group announced its intention to dispose of Russian business unit, as a non-core asset, in Q3 2021. Following the classification, a write-down was recognised on 31 December 2021 to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell. This was recognised in discontinued operations as an exceptional item (provision for impairment of Russian assets) in the statement of profit or loss.

**i) Non-current assets held for sale and discontinued operations (Note 14)**
Hungarian business unit has been classified as held for sale for the period of more than 12 months. Judgment is required to determine whether the asset should remain to be classified as held for sale at 31 December 2021.

An extension of the period required to complete the sale does not preclude the asset from being classified as held for sale as the delay is caused by events and circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset. Management reviewed the classification criteria as defined by IFRS 5 and confirms that the sale remained highly probable as at the balance sheet date and the Group remained committed to its plan to sell the Hungarian business unit.

## 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 three (2020: four) reportable operating segments which are based on the internal reports provided to the Chief Operating Decision Maker ('CODM'), the Group's Board of Directors. Ukraine segment is 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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| 2021 | UK $000 | Ukraine $000 | Rest of World[1] $000 | Sub Total $000 | Eliminations $000 | Total $000 |
|---|---|---|---|---|---|---|
| **External revenue** | | | | | | |
| Revenue by location of asset: | | | | | | |
| – Oil | - | 22,874 | - | 22,874 | - | 22,874 |
| – Gas | - | 77,378 | - | 77,378 | - | 77,378 |
| – Liquefied petroleum gas | - | 10,523 | - | 10,523 | - | 10,523 |
| – Other | - | 1,361 | - | 1,361 | - | 1,361 |
| | - | 112,136 | - | 112,136 | - | 112,136 |
| Inter segment revenue: | | | | | | |
| – Management services/other | 219 | 16 | - | 235 | (219) | 16 |
| | 219 | 16 | - | 235 | (219) | 16 |
| Total revenue | 219 | 112,152 | - | 112,371 | (219) | 112,152 |
| **Profit/(loss) before tax:** | | | | | | |
| Profit/(loss) from operations | (34) | 31,727 | (140) | 31,553 | (15) | 31,538 |
| Finance income | | | | 795 | - | 795 |
| Finance cost | | | | (706) | - | (706) |
| | | | | 31,642 | (15) | 31,627 |
| **Assets** | | | | | | |
| Property, plant and equipment | 334 | 101,876 | - | 102,210 | - | 102,210 |
| Investment | 500 | - | - | 500 | - | 500 |
| Inventories | - | 4,234 | - | 4,234 | - | 4,234 |
| Trade and other receivables | 6,416 | 3,003 | - | 9,419 | - | 9,419 |
| Cash and cash equivalents | 25,858 | 35,293 | 8,157 | 69,308 | - | 69,308 |
| Total assets[1] | 33,108 | 144,406 | 8,157 | 185,671 | - | 185,671 |
| Total liabilities[1] | (1,546) | (75,031) | (25) | (76,602) | - | (76,602) |
| Exceptional item – provision for production based taxes | - | (18,691) | - | (18,691) | - | (18,691) |
| Increase in property, plant and equipment and intangible assets | 385 | 13,123 | - | 13,508 | - | 13,508 |
| Depreciation, depletion and amortisation | (257) | (10,840) | - | (11,097) | - | (11,097) |

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

| Major customers | 2021 $000 | 2020 $000 |
|---|---|---|
| Ukraine | 30,688 | 9,751 |

There is one customer in Ukraine that exceeds 27% of the Group's total revenues (2020: one customer in Ukraine, which exceeded 18% of the Group's total revenues ).

| 2020 | 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 | - | 15,984 | - | - | 15,984 | - | 15,984 |
| – Gas | - | 30,496 | - | - | 30,496 | - | 30,496 |
| – Liquefied petroleum gas | - | 5,654 | - | - | 5,654 | - | 5,654 |

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| 2020 | UK $000 | Ukraine $000 | Russia $000 | Rest of World[1] $000 | Sub Total $000 | Eliminations $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| – Other | - | 697 | - | - | 697 | - | 697 |
| | - | 52,831 | - | - | 52,831 | - | 52,831 |
| Inter segment revenue: | | | | | | | |
| – Management services/other | 503 | - | - | - | 503 | (503) | - |
| | 503 | - | - | - | 503 | (503) | - |
| Total revenue | 503 | 52,831 | - | - | 53,334 | (503) | 52,831 |
| **Profit/(loss) before tax:** | | | | | | | |
| Profit/(loss) from operations | (4,138) | 27,455 | - | (84) | 23,233 | 40 | 23,273 |
| Finance income | | | | | 464 | - | 464 |
| Finance cost | | | | | (727) | - | (727) |
| | | | | | 22,970 | 40 | 23,010 |
| **Assets** | | | | | | | |
| Property, plant and equipment | 206 | 96,065 | 77,642 | - | 173,913 | - | 173,913 |
| Investment | 500 | - | - | - | 500 | - | 500 |
| Deferred tax | - | - | 9,451 | - | 9,451 | - | 9,451 |
| Inventories | - | 2,976 | 1,382 | - | 4,358 | - | 4,358 |
| Trade and other receivables | 245 | 1,409 | 2,001 | 6 | 3,661 | - | 3,661 |
| Cash and cash equivalents | 2,101 | 16,378 | 2,569 | 3,281 | 24,329 | - | 24,329 |
| Total assets[1] | 3,052 | 116,828 | 93,045 | 3,287 | 216,212 | - | 216,212 |
| Total liabilities[1] | (1,065) | (37,281) | (3,899) | (5) | (42,250) | - | (42,250) |
| Non cash expense (other than depreciation and impairment) | 33 | - | - | - | 33 | - | 33 |
| Exceptional item – net reversal of provision for production based taxes | - | 13,543 | - | - | 13,543 | - | 13,543 |
| Increase in property, plant and equipment and intangible assets | - | 10,564 | 734 | - | 11,298 | - | 11,298 |
| Depreciation, depletion and amortisation | (155) | (12,122) | (5,635) | - | 17,912 | - | 17,912 |

1 Assets and liabilities include Russia at 31 December 2020. The loss before tax excludes the loss of the Russian disposal group classified as held for sale in 2021 with the comparative results of the disposal group reclassified to discontinued operations. 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

| 2021 | Oil and gas fields Ukraine $000 | Gas field Russia $000 | Right-of use assets - coil tubing Russia[1] $000 | Other assets $000 | Right-of use assets - properties[1] $000 | Total $000 |
|---|---|---|---|---|---|---|
| Group | | | | | | |
| **Cost** | | | | | | |
| At 1 January | 593,654 | 189,461 | 1,739 | 19,406 | 1,370 | 805,630 |
| Additions during the year | 11,789 | - | - | 1,041 | 678 | 13,508 |
| Foreign exchange | 21,685 | - | - | 91 | 18 | 21,794 |
| Disposal of property, plant and equipment | - | - | - | (46) | - | (46) |
| Reclassified as assets held for sale | - | (189,461) | (1,739) | (1,542) | (374) | (193,116) |
| At 31 December | 627,128 | - | - | 18,950 | 1,692 | 647,770 |
| **Accumulated depreciation, depletion and amortisation and provision for impairment** | | | | | | |
| At 1 January | 499,682 | 112,483 | 1,739 | 17,145 | 668 | 631,717 |
| Depreciation on disposals of property, plant and equipment | - | - | - | (12) | - | (12) |
| Foreign exchange | 18,194 | - | - | 26 | 12 | 18,232 |
| Depreciation charge for the year | 10,369 | - | - | 386 | 342 | 11,097 |
| Reclassified as assets held for sale | - | (112,483) | (1,739) | (1,171) | (81) | (115,474) |
| At 31 December | 528,245 | - | - | 16,374 | 941 | 545,560 |
| **Carrying amount** | | | | | | |
| At 1 January | 93,972 | 76,978 | - | 2,261 | 702 | 173,913 |
| At 31 December 2021 | 98,883 | - | - | 2,576 | 751 | 102,210 |

1 Right-of use assets relating to the Group's oil and gas assets and property leases have been reclassified to be presented separately. Please refer to Note 12 for the full disclosure on the Right-of-use assets.

Oil and gas fields in Ukraine includes $11.3m relating to items under construction (2020: $7.9m).

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| 2020 | Oil and gas assets | | | | | |
|---|---|---|---|---|---|---|
| | Oil and gas fields Ukraine $000 | Gas field Russia $000 | Right-of use assets - coil tubing Russia[1] $000 | Other assets $000 | Right-of use assets- properties[1] $000 | Total $000 |
| Group | | | | | | |
| **Cost** | | | | | | |
| At 1 January | 697,472 | 225,408 | 2,159 | 19,001 | 1,353 | 945,393 |
| Additions during the year | 9,368 | 505 | - | 1,248 | 177 | 11,298 |
| Foreign exchange | (113,186) | (36,452) | (420) | (639) | (160) | (150,857) |
| Disposal of property, plant and equipment | - | - | - | (204) | - | (204) |
| At 31 December | 593,654 | 189,461 | 1,739 | 19,406 | 1,370 | 805,630 |
| **Accumulated depreciation, depletion and amortisation and provision for impairment** | | | | | | |
| At 1 January | 582,383 | 128,545 | 1,177 | 17,228 | 332 | 729,665 |
| Depreciation on disposals of property, plant and equipment | - | - | - | (124) | - | (124) |
| Foreign exchange | (94,425) | (20,625) | (281) | (362) | (43) | (115,736) |
| **Depreciation charge for the year** | 11,724 | 4,563 | 843 | 403 | 379 | 17,912 |
| At 31 December | 499,682 | 112,483 | 1,739 | 17,145 | 668 | 631,717 |
| **Carrying amount** | | | | | | |
| At 1 January | 115,089 | 96,863 | 982 | 1,773 | 1,021 | 215,728 |
| At 31 December 2020 | 93,972 | 76,978 | - | 2,261 | 702 | 173,913 |

1 Right-of use assets relating to the Group's oil and gas assets and property leases have been reclassified to be presented separately. Please refer to Note 12 for the full disclosure on Right-of-use assets.

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## 5.(b) 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 carrying amount of the 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. Such information included 2P reserves for NNC and Elyzavetivske of 21.7 MMboe and 2.2 MMboe, respectively.
- Economic life of field: it was assumed that the title to the licences is retained based on legal right 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 2041). The economic life of the Elyzavetivske field is currently expected to be around 2044 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 2022 is based on estimates of gas prices to be realised by our Ukrainian subsidiary determined considering external market forecasts as at the year end with consideration given to the applicability or otherwise of relevant pricing adjustments for the local market. For the period of the model a forward gas price curve was used.
- Oil prices: the Company used a forward price curve as at the year end for the next ten years and remaining constant thereafter.
- Production taxes: the Company has assumed production tax rates of 29% for gas and 31% for oil and condensate. 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 16.6%. This was based on a Capital Asset Pricing Model analysis consistent with that used in previous impairment reviews.

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Based on the key assumptions set out above:

- the recoverable amount of NNC's oil and gas assets ($147.1m) exceeds its carrying amount ($90.3m) by $56.8m and therefore NNC's oil and gas assets were not impaired.
- Elyzavetivske's recoverable amount (including the West Mashivska extension) ($29.1m) exceeds its carrying amount ($8.6m) by $20.5m, 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 $56.8 for NNC CGU $m | Elyzavetivske Increase/(decrease) in headroom of $20.5m for Elyzavetivske CGU $m |
|---|---|---|---|
| Impact if gas and oil prices: | increased by 20% | 47.7 | 7 |
| | reduced by 20% | (47.8) | (7.1) |
| Impact if gas and oil production volumes: | increased by 10% | 32.4 | 4.1 |
| | decreased by 10% | (32.4) | (4.2) |
| Impact if future capital expenditure: | increased by 20% | (15.8) | (0.1) |
| | decreased by 20% | 15.8 | 0.1 |
| Impact if post-tax discount rate: | increased by 2 percentage points to 18.6% | (10.3) | (1.0) |
| | decreased by 2 percentage points to 14.6% | 11.6 | 1.2 |

## 6. Investments

The carrying value of unlisted investments comprises:

| | 2021 $000 | 2020 $000 |
|---|---|---|
| PJSC of "Mining Company Ukrnaftoburinnya" | - | - |
| Linx Telecommunications Holding B.V. | 500 | 500 |
| | 500 | 500 |

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 as at 31 December 2017 and 31 December 2018 respectively, with the Linx investment subsequently being written back in 2019.

As of 1 January 2018 the 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 2021 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 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

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- 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 2021 the carrying value of Linx was reported as $0.5m (2020: $0.5m), with this valuation being based upon management's expectation of future and final dividends to be received from Linx in 2022. 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, 2019 and 2021 of $0.1m, $0.03m and $0.4m respectively after disposals of other business units and recognised in other operating income. During 2020 Management was informed about the negotiations that are ongoing with a potential buyer for the other significant business units. The carrying value of $0.5m is consistent with Linx management's 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

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Warehouse inventory and materials | 2,349 | 3,233 |
| Oil and gas inventory | 1,885 | 1,125 |
| | 4,234 | 4,358 |

During 2021, $0.2m (2020: $0.1m) was recognised as an expense for inventories carried at net realisable value and obsolete inventories . This is recognised in cost of sales.

## 8. Trade and other receivables

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Trade receivables | 536 | 2,019 |
| Less: ECLs | (346) | (348) |
| Trade receivables – net | 190 | 1,671 |
| Other receivables [1] | 6,269 | 166 |
| VAT receivable | 1,773 | 228 |
| Prepayments | 1,187 | 1,596 |
| | 9,419 | 3,661 |

As at 31 December 2021, trade and other receivables of $0.3m (2020: $0.3m) were past due and full expected credit loss ("ECL") provision was recognised with the asset considered credit impaired. The amount of the provision was $0.3m (2020: $0.3m). This receivable relates to a single gas customer, which is more than four years past its due date. Legal proceedings were initiated in Q4 of 2016 and finished in Q3 of 2018 in favour of the Company. The Company is seeking collection of the amount outstanding, but significant uncertainty remains over the collection ($0.1m was collected in 2019).

[1] In January 2022, the Group received part of the arbitration award to the amount of $6.2m, recognised as an asset at the reporting date (see Note 25), and as other operating income through the consolidated income statement. This event is classified as adjusting as it reflects conditions that were already in place at the balance sheet date,. as the Group received correspondence summarising the strong intent to settle this amount.

As at 31 December 2021, trade and other receivables of $9.4m (2020: $3.6m) were current and not impaired. There is no difference between the carrying value of trade and other receivables and their fair value.

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

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| | 2021 $000 | 2020 $000 |
|---|---|---|
| US Dollar | 6,278 | 6 |
| Sterling | - | 3 |
| Euros | - | 1 |
| Ukrainian Hryvnia | 181 | 23 |
| Russian Roubles | - | 1,804 |
| | 6,459 | 1,837 |

## 9. Cash and cash equivalents

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Cash | 43,697 | 22,858 |
| Restricted cash[1] | 25,387 | - |
| Short term deposits | 224 | 1,471 |
| | 69,308 | 24,329 |

[1] In November 2021, the Company placed a deposit with SP Angel Corporate Finance LLP, which acted exclusively as its broker in connection with the Tender Offer. Please refer to Note 16 for the full disclosure.

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

## 10. Trade and other payables

| | Note | 2021 $000 | 2020 $000 |
|---|---|---|---|
| **Current** | | | |
| Trade payables | | 1,890 | 1,218 |
| Other payables | | 203 | 150 |
| Contract liabilities | (a) | 10,105 | 2,433 |
| Other taxes and social security costs | | 5,594 | 1,956 |
| VAT payable | | 3,361 | 1,444 |
| Accruals | | 2,274 | 2,131 |
| | | 23,427 | 9,332 |
| **Current** | | | |
| Lease liabilities | | 373 | 401 |
| **Non-Current** | | | |
| Lease liabilities | | 392 | 358 |

| (a) Contract liabilities | 2021 $000 | 2020 $000 |
|---|---|---|
| At 1 January | 2,433 | 2,111 |
| Cash received in advance of performance and not recognised as revenue during the period | 7,683 | 265 |
| Foreign exchange | (11) | 57 |
| At 31 December | 10,105 | 2,433 |

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# Notes to the consolidated financial statements

Contract liabilities are included within "trade and other payables" on the face of the statement of financial position. They arise from the Group's oil and gas forward sales, which enter into contracts that can take a few months to complete.

## 11. Borrowings

### Credit facility

On 11 December 2019, 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 2021 the total short-term line of credit amounted to $10.3m at an exchange rate of $1: 27.28 (31 December 2020: $9.9m at an exchange rate of $1: 28.27 Hryvnia). The amount outstanding at 31 December 2021 was nil (31 December 2020: nil), so the undrawn portion totaled $10.3m (2020: $9.9m). The facility was available until December 2021 (subject to planned renewal after this date, 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 19 January 2022 and the revolving credit line was renewed until 13 December 2021. Management of the Group decided not to extend the agreement for a renewable loan facility and overdraft facility in 2022.

The main terms and conditions of the revolving credit line with Tascombank 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 $3.3m at 31 December 2021 (2020: $3.2m) will require a corporate guarantee from JKX Oil & Gas Limited. The corporate guarantee provided by the JKX Oil & Gas Limited in respect of the credit facility with Tascombank is considered to be an insurance contract under the provisions of IFRS 4;
- assets with a market value of UAH460m, equivalent to $16.9m at 31 December 2021 (2020: UAH460m, equivalent to $16.3m) have been identified for use as a collateral, collateral is to be provided only on a drawdown; and
- 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 $10.3m (31 December 2020: $9.9m) 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. This covenant was not met, however this did not result in additional interest of 2% being applied as the credit facility was not used during the year ended 31 December 2021.
- 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. This covenant has been met as PPC had no debt during the year ended 31 December 2021.

In July 2020 PPC also signed a $5.0m loan facility agreement with Alfa-Bank valid for 3 years. The loan facility cannot exceed $5.0m, calculated at a fixed rate at the date of agreement, using an exchange rate of $27.6647.

The main terms and conditions of the loan facility with Alfa-Bank are as follows:

- drawdowns can be made either in USD, EUR or UAH and are individually subject to credit approval by the lender;
- interest rate cost for USD drawn down is 4.9%, based on 2 months repayment;
- interest rate cost for EUR drawn down 4.4%, based on 2 months repayment;
- interest rate cost for UAH drawn down 11.3%, based on 2 months repayment;
- full loan facility will require a corporate guarantee from JKX Oil & Gas Limited. The corporate guarantee provided by JKX Oil & Gas Limited in respect of the credit facility with Alfa-Bank is considered to be an insurance contract under the provisions of IFRS 4;
- collateral shall be properly documented and provided in advance, the tranche cannot be granted otherwise; and
- each amount borrowed shall be repaid within 2 months from the date when the tranche is agreed (agreed by signing of an additional agreement ). The last date of the agreed loan facility is 21 July 2023.

Significant financial penalties:

- the non-payment penalty is 0.2% per day of the overdue amount but no more than National Bank of Ukraine (NBU) double discount rate;
- if the covenants are not met (for each case) an additional interest of 0.1% applies to the facility; and
- if the amount of the loan facility is not used for the purpose indicated in the loan facility agreement PPC is liable to pay 25% of the amount used not for the purpose indicated in the loan facility agreement.

Significant financial covenants:

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# Notes to the consolidated financial statements

All covenants listed below have been met during the year ended 31 December 2021.

- EBITDA – should not be less than Nil at the end of each quarter during the period of the loan facility agreement;
- Debt to EBITDA ratio – should be no more than 3.0 at the end of each quarter during the period of the loan facility agreement; and
- EBITDA to Financial costs (Interest) ratio – should be not less than 2.0 at the end of each quarter during the period of the loan facility agreement.

## 12. Leases

This note provides information for leases where the Group is a lessee.

The balance sheet shows the following amounts relating to leases:

| | 1 January 2021 $000 | Right-of-use asset recognised during the year $000 | Foreign exchange on assets recognised $000 | Depreciation charge for the year $000 | Foreign exchange on depreciation $000 | Reclassified as asset held for sale $000 | 31 December 2021 $000 |
|---|---|---|---|---|---|---|---|
| Properties | 702 | 678 | 18 | (342) | (12) | (293) | 751 |
| Total | 702 | 678 | 18 | (342) | (12) | (293) | 751 |

| | 1 January 2020 $000 | Right-of-use asset recognised during the year $'000 | Foreign exchange on assets recognised $000 | Depreciation charge for the year $000 | Foreign exchange on depreciation $000 | 31 December 2020 $000 |
|---|---|---|---|---|---|---|
| Oil and gas asset – coil tubing | 982 | - | (420) | (843) | 281 | - |
| Properties | 1,021 | 177 | (160) | (379) | 43 | 702 |
| Total | 2,003 | 177 | (580) | (1,222) | 324 | 702 |

| | 31 December 2021 $000 | 31 December 2020 $000 |
|---|---|---|
| **Lease liabilities** | | |
| Current | 373 | 401 |
| Non-current | 392 | 358 |
| Total | 765 | 759 |

The income statement shows the following amounts relating to leases:

| | 31 December 2021 $000 | 31 December 2020 $000 |
|---|---|---|
| Interest on lease liabilities (included in finance cost) | 69 | 197 |
| Depreciation | 342 | 1,222 |
| Expenses relating to short-term leases (included in administrative expenses) | 9 | 61 |
| Expenses relating to low-value assets, excluding short-term leases of low-value assets (included in administrative expenses) | 107 | 37 |
| Total | 527 | 1,517 |

| | 31 December 2021 $000 | 31 December 2020 $000 |
|---|---|---|
| **Amounts recognised in the statement of cash flows** | | |
| Total cash outflow for leases | 388 | 1,661 |

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# Notes to the consolidated financial statements

When measuring lease liabilities, the Group discounted lease payments using entity specific incremental borrowing rates. The weighted-average rate applied is 14% (2020: 17%).

## 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 and Fair Value 2021 $000 | Book and Fair Value 2020 $000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents (Note 9) – classified at amortised cost | 43,921 | 24,329 |
| Restricted cash (Note 9) – classified at amortised cost | 25,387 | - |
| Trade receivables (Note 8) – classified at amortised cost | 190 | 1,671 |
| Other receivables (Note 8) – classified at amortised cost | 6,269 | 166 |
| **Financial liabilities** | | |
| Trade payables (Note 10) - carried at amortised cost | 1,890 | 1,218 |
| Other payables (Note 10) - carried at amortised cost | 203 | 150 |
| Accruals (Note 10) - carried at amortised cost | 597 | 1,839 |
| Lease liabilities | 765 | 759 |

The Group had no borrowings at 31 December 2021. Financial liabilities measured at amortised cost were carried at $3.5m at 31 December 2021 (2020: $4.0m).

### 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 2021 was $75.8m (2020: $26.2m).

### 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 cash. The Group's funding requirements are met through a combination of equity and operational cash flow. The Group is debt free and benefits from undrawn credit facilities (see Note 11).

### 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:

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Cash (Note 9) | 43,921 | 24,329 |
| Restricted cash (Note 9) | 25,387 | - |
| Total cash | 69,308 | 24,329 |
| Total shareholders' equity | 139,597 | 176,862 |

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# Notes to the consolidated financial statements

### 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.

The maturity analysis for financial liabilities was as follows:

| **Group - 31 December 2021** | **Within 3 months $000** | **3 months - 1year $000** | **1 – 2 years $000** | **2 – 5 years $000** |
|---|---|---|---|---|
| **Maturity of financial liabilities** | | | | |
| Trade payables (Note 10) | **1,890** | - | - | - |
| Other payables (Note 10) | **203** | - | - | - |
| Accruals (Note 10) | **597** | - | - | - |
| Lease liabilities | **89** | **273** | **343** | **103** |

| **Group - 31 December 2020** | Within 3 months $000 | 3 months - 1year $000 | 1 – 2 years $000 | 2 – 5 years $000 |
|---|---|---|---|---|
| **Maturity of financial liabilities** | | | | |
| Trade payables (Note 10) | 1,218 | - | - | - |
| Other payables (Note 10) | 150 | - | - | - |
| Accruals (Note 10) | 1,839 | - | - | - |
| Lease liabilities | 149 | 382 | 258 | 211 |

### Interest rate risk profile of financial assets and liabilities - Group

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** | **2021 Within 1 Year $000** | 2020 Within 1 Year $000 |
|---|---|---|
| **Floating rate** | | |
| Short term deposits (Note 9) | **224** | 1,471 |
| Other receivables (Note 8) | **6,269** | 1,671 |
| Other payables (Note 10) | **203** | 150 |

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

### Interest rate sensitivity - Group

The sensitivity analysis below has been determined based on the exposure to interest rates on our short term deposits at the reporting date.

If interest rates had been 1 per cent higher/lower and all other variables were held constant, the Group's loss (2020: profit) after tax and net assets for the year ended 31 December 2021 would increase/decrease by $1.000 (2020: $3,000). 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.

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

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Sterling | **24,881** | 700 |
| Euros | **12,183** | 4,254 |
| Ukrainian Hryvnia | **18,019** | 4,395 |
| Russian Roubles | **-** | 4,164 |
| Total net | **55,083** | 13,513 |

[1]Foreign currency exposures do not include Russian Roubles and Hungarian Forints, as Russia and Hungary are 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) 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 23 per cent (2020: 19 per cent) increase and decrease in the US Dollar against Sterling and against Hryvnia, all other variables were held constant. Due to the historically significant foreign currency fluctuation in the UK and Ukraine 23 per cent has been used to calculate sensitivity for Sterling and Hryvnia. 23 per cent (2020: 19 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 2021 $000 | Hryvnia 2020 $000 | Euros 2021 $000 | Euros 2020 $000 | Sterling 2021 $000 | Sterling 2020 $000 | Rouble 2021 $000 | Rouble 2020 $000 |
|---|---|---|---|---|---|---|---|---|
| Profit/(loss) for the year and Equity | | | | | | | | |
| 23 per cent strengthening of the US Dollar/ (2020: 19 per cent) | **(3,369)** | (835) | **(2,278)** | 738 | **(4,653)** | (133) | - | (791) |
| 23 per cent weakening of the US Dollar/(2020: 19 per cent) | **5,382** | 835 | **3,639** | (738) | **7,432** | 133 | - | 791 |

### 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 pages 13 – 14, 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 31 December 2021 as there is no impact on any outstanding amounts.

## 14. Discontinued operations and assets classified as held for sale

### 14.1 Riverside Energy Kft

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.

On 9 March 2020 the company announced that it had agreed terms for the disposal of the entire share capital of the Hungarian business. Following pandemic related delays the Group received notification that the relevant Hungarian authorities have refused the necessary consent to the transaction pursuant to legislation introduced as a result of the COVID-19 pandemic. Consequently, the transaction did not proceed. A few offers from other interested parties to buy the Hungarian business were received by the Group in 2021.

The Hungarian business unit has been classified as held for sale for the period of more than 12 months. An extension of the period required to complete the sale does not preclude the asset from being classified as held for sale as the delay is caused by events and circumstances beyond the Group's control. Management reviewed the classification criteria as defined by IFRS 5 and confirms that the sale was highly probable at 31 December 2021 and the Group remained committed to its plan to sell the Hungarian business unit.

Subsequently to 31 December 2021, following the appointment of the new Board in 2022 a re-evaluation of the Group's Hungarian assets has been carried out and it has been decided to re-commence work in a phased manner, minimising expenditure whilst evaluating the prospects of the assets. The first phase of this work has commenced and further investment will be contingent on the success of this

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initial work programme. As a result the Board no longer consider it likely that these assets will be disposed of within the next 12 months and they are no longer categorised as an asset held for sale.

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 2020 and 31 December 2021. Prior to the reclassification assets were measured at the lower of carrying amount and fair value less costs to sell.

The financial performance and cash flow information presented are for periods ended 31 December 2021 and 31 December 2020.

| | 31 December 2021 $000 | 31 December 2020 $000 |
|---|---|---|
| Royalties | (98) | - |
| Other cost of sales | (3,700) | - |
| Exceptional item - reversal/(loss) on provision for impairment of Hungary | 256 | (322) |
| Total cost of sales | (3,542) | (322) |
| Exceptional item - provision for impairment of Hungary | - | |
| Administrative expenses | (10) | (669) |
| Loss on foreign exchange | (68) | (11) |
| (Loss)/profit from operations and before tax | (3,620) | (1,002) |
| Taxation-current | (4) | - |
| (Loss)/profit for the year | (3,624) | (1,002) |

| | | |
|---|---|---|
| Net cash inflow from operating activities | 364 | 300 |
| Net cash outflow from investing activities | - | - |
| Net cash generated by the subsidiary | 364 | 300 |

The following assets and liabilities were classified as held for sale in relation to the discontinued operation as at 31 December 2021 and 2020.

| Assets and liabilities of disposal group classified as held for sale | 31 December 2021 $000 | 31 December 2020 $000 |
|---|---|---|
| Assets classified as held for sale | | |
| Property, plant and equipment | 2,167 | 1,911 |
| Trade and other receivables | 1,356 | 879 |
| Cash | 859 | 396 |
| Total assets of disposal group held for sale | 4,382 | 3,186 |
| Liabilities of the disposal group classified as held for sale | | |
| Trade and other payables | (1,196) | (86) |
| Abandonment provision | (186) | (200) |
| Total liabilities of disposal group held for sale | (1,382) | (286) |
| Net assets | 3,000 | 2,900 |

### 14.2 Yuzhgazenergie LLC and Catering Yug LLC

The Group announced its intention to dispose of Yuzhgazenergie LLC (YGE), as a non-core asset, in Q3 2021. Steps were actively taken to dispose of YGE, but no disposal could be completed before the introduction of enhanced sanctions following the Russian invasion of Ukraine. This was deemed a non-adjusting subsequent event as these conditions were not present as at 31 December 2021. The Group

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classified YGE as assets held for sale in the consolidated financial statements as at 31 December 2021 due to the following criteria of IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*:

(a) it must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets (or disposal groups). The Board made a decision to sell the asset in September 2021 and an active program to find a buyer was initiated. An investment banking firm was engaged and started to look for a potential buyer. The Group received several offers from potential buyers by 31 December 2021.

(b) its sale must be highly probable. The Group received an offer from a potential buyer to sell the business for $27m And signed an SPA with the terms of sale finalised.

Immediately before the classification of the Russian business as discontinued operations, the recoverable amount was estimated for certain items of property, plant and equipment and no impairment loss was identified. Following the classification, a write-down of $60,998k was recognised on 31 December 2021 to reduce the carrying amount of the assets in the disposal group to their fair value less costs to sell. This was recognised in discontinued operations in the statement of profit or loss.

The results of Yuzhgazenergie LLC and Catering Yug LLC for the year are presented below:

| | **31 December 2021 $000** | 31 December 2020 $000 |
|---|---|---|
| Revenue | **16,896** | 16,792 |
| Exceptional item - provision for impairment of Russian asset | **(60,998)** | - |
| Royalties | **(1,576)** | (1,691) |
| Other cost of sales | **(10,317)** | (11,524) |
| Total cost of sales | **(55,995)** | 3,577 |
| Administrative expenses | **(2,454)** | (1,523) |
| Other operating income | **27** | - |
| Loss on foreign exchange | **(366)** | (12) |
| Finance income | **148** | 23 |
| Finance cost | **(197)** | (224) |
| (Loss)/profit from operations and before tax | **(58,837)** | 1,841 |
| Taxation-current | **(687)** | (11) |
| Taxation-deferred | **(570)** | 2,642 |
| (Loss)/profit for the year | **(60,094)** | 4,472 |

| | | |
|---|---|---|
| Net cash inflow from operating activities | **3,399** | 3,325 |
| Net cash outflow from investing activities | **(1,316)** | (2,170) |
| Net cash generated by the subsidiary | **2,083** | 1,155 |

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The following assets and liabilities were classified as held for sale in relation to the discontinued operation as at 31 December 2021.

| Assets and liabilities of disposal group classified as held for sale | 31 December 2021 $000 |
|---|---|
| Assets classified as held for sale | |
| Property, plant and equipment | 14,1031 |
| Deferred tax assets | 8,829 |
| Inventories | 1,320 |
| Trade and other receivables | 2,371 |
| Cash | 4,553 |
| Total assets of disposal group held for sale | 31,176 |
| Liabilities of the disposal group classified as held for sale | |
| Lease liabilities | (257) |
| Trade and other payables | (2,319) |
| Abandonment provision | (1,600) |
| Total liabilities of disposal group held for sale | (4,176) |
| Net assets | 27,000 |

## 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. 180,525 shares were used in 2019 to settle share options, out of which 48,660 were sold in order to cover the National insurance cost, therefore at 31 December 2019 JKX Employee Benefit Trust held 3,632,928 shares in JKX Oil & Gas plc. 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:

| | 2021 Number | 2021 £000 | 2021 $000 | 2020 Number | 2020 £000 | 2020 $000 |
|---|---|---|---|---|---|---|
| **Authorised** | | | | | | |
| Ordinary shares of 10p each | 300,000,000 | 30,000 | - | 300,000,000 | 30,000 | - |
| **Allotted, called up and fully paid** | | | | | | |
| Balance at 1 January and 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 2021 (2020: none) and no treasury shares were used in 2021 (2020: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2021 the market value of the treasury shares held was $0.2m (2020: $0.2m).

In November 2021 the Company proposed a tender offer for the purchase of up to 40,096,476 Ordinary Shares in the Company, cancellation of the admission of its Ordinary Shares to the premium segment of the Official List and to trading on the Main Market of the London Stock Exchange. The resolutions proposed were duly passed at the general meeting of the Company.

In November 2021, the Company completed a reduction of its share capital through the cancellation of its entire share premium account of $97,476,000 (£72,629,460) in full thereby creating distributable reserves to undertake the Tender Offer.

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In January 2022, a total of 26,942,198 Shares were validly tendered at the Tender Offer Price of pence 42.0 per Ordinary Share (15.65% per cent of the issued share capital of the Company) and the Delisting of the Company became effective on the 6 January 2022.

## 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 2021** | 30,680 | 587 | (212,485) | (564) | 500 | (181,282) |
| Exchange differences arising on translation of overseas operations | - | - | 2,465 | - | - | 2,465 |
| Remeasurement of post-employment benefit obligations | - | - | - | (12) | - | (12) |
| **At 31 December 2021** | 30,680 | 587 | (210,020) | (576) | 500 | (178,829) |
| | | | | | | |
| **At 1 January 2020** | 30,680 | 587 | (182,054) | (449) | 500 | (150,736) |
| Exchange differences arising on translation of overseas operations | - | - | (30,431) | - | - | (30,431) |
| Remeasurement of post-employment benefit obligations | - | - | - | (115) | - | (115) |
| **At 31 December 2020** | 30,680 | 587 | (212,485) | (564) | 500 | (181,282) |

The 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.

The capital redemption reserve relates to the buyback of shares in 2002. There have been no additional share buy-backs since this time.

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

Foreign currency translation reserve includes movements that relate to the retranslation of the subsidiaries whose functional currencies are not the US Dollar.

During 2021, the Russian Rouble ('RR') weakened by approximately 0.6% from RR73.88/$ to RR74.29/$ (2020: weakened by approximately 19% from RR61.91/$ to RR73.88/$). Ukrainian Hryvnia ('UAH') strengthened by approximately 3.5% from UAH 28.27/$ to UAH 27.28/$ (2020: weakened by approximately 19% from UAH 23.69/$ to UAH 28.27/$). The currency translation gain of US$2.4m (2020: currency translation loss US$30.4m) included in the Consolidated statement of comprehensive income arose on the translation of property, plant and equipment denominated in UAH $3.5m (2020: currency translation loss on RR $15.8m and UAH $18.8m) (see Note 5 (a)).

**The post-employment benefit obligation reserve** relates to a remeasurement of the liability for the defined benefit pension plan in PPC, our subsidiary in Ukraine. Please refer to Note 19 for the details.

## 18. Provisions

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.

$18.7m was recognised as an expense in the 2021 Consolidated income statement (2020: $13.5m credit from reversal) which is the net of a $2.2m reversal of provisions for one tax case that has been closed in favour of PPC relating to January to December 2015 claims, $0.8m interest accrued for the remaining cases that have not been closed, of which $0.5m charge relates to the August to December 2010 claim (2020: $0.5m charge) and a $0.3m charge relating to January to December 2015 claims (2020: $1.1m), and $20.1m restored provision for two tax cases related to January to December 2015 claims, which were released in 2019 due to the closed status in favour of PPC but the judgments of the lower courts were cancelled in the Supreme Court and were fully paid during the first half of 2022. Remaining claims are being contested in the Ukrainian courts (see Note 25). The amount is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the 2021 year end rate of UAH27.28/$ (2020: UAH28.27/$).

Restored provisions for cases 816/687/16 amounting to $2.7m and 816/686/16 amounting to $7.6m are disclosed in the current portion of provisions and were fully paid during 1 half of 2022 (see Note 25).

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Case 816/685/16, principal only, amounting to $2.8m and related to January to December 2015 claims was reclassified from non-current to current at 31 December 2021. This case is expected to be considered on merits by the courts during the next twelve months.

The provision relating to August to December 2010 case amounting to $14.8m was reclassified from current to non-current at 31 December 2021. Whilst PPC has been successful in the court hearings, the Board considers it appropriate to maintain a provision given the uncertainty that remains regarding the future development of the claim, although this required significant judgment given the recent nature of the court rulings and assessment of the legislative environment. Any legal proceedings seeking to re-open the case and seek collection is anticipated to continue beyond 12 months after the reporting date given the legislative steps that would be required, and provisions in relation to this case have been presented as a non-current liability based on the expected timing of any subsequent payments. The provision against the case was previously classified as current based on the expected timing of the Supreme Court ruling in 2021 and potential payment.

The provision for rental fee claims at 31 December 2021 includes estimated interest and penalties. Judgement is applied regarding application of the 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.

Changes in the judgement about the timing of the provision releases: during 2019 provisions were maintained for open cases unless judgments of the Supreme Court of Ukraine had been received in favour of PPC or appeals to this court were considered remote, based on an assessment of facts and circumstances at the time. During 2020 the Group has determined that it is now appropriate to release provisions when first and appellate Court rulings have been received in respect of the case (on its merits) in the Group's favour. In reaching that conclusion Management have considered their experience of the legal process to date, the fact that the Supreme Court checks judgments of the first and appellate Courts and cannot review any new facts or circumstances and have sought advice from external counsel. Accordingly the risk of the lower court judgments on the merits of the case being cancelled are considered very low. Consequently the Group's Management have released provisions after court judgments of first and appellate instances in favour of PPC.

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.

| **Current provisions for production based taxes** | 2021 $000 | 2020 $000 |
|---|---|---|
| At 1 January | 15,911 | 15,861 |
| Amount provided in the year | 508 | 515 |
| Amount releases in the year | (2,185) | - |
| Foreign currency translation | 11,129 | (2,573) |
| Reclassification from/(to) non-current provisions | (12,255) | 2,108 |
| At 31 December | 13,108 | 15,911 |

| **Non-current provisions for production based taxes** | 2021 $000 | 2020 $000 |
|---|---|---|
| At 1 January | 5,080 | 25,405 |
| Amount provided in the year | 20,369 | 1,101 |
| Amount releases in the year | - | (15,159) |
| Foreign currency translation | (10,358) | (4,159) |
| Reclassification from/(to) current provisions | 12,255 | (2,108) |
| At 31 December | 27,346 | 5,080 |

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| **Non-current provisions**<br>**Provision on decommissioning** | Ukraine<br>$000 | Russia<br>$000 | Total<br>$000 |
|---|---|---|---|
| Provision for site restoration | | | |
| At 1 January 2021 | 3,911 | 1,940 | 5,851 |
| Foreign exchange adjustment | 141 | - | 141 |
| Additions | 246 | - | 246 |
| Revision in estimates | (336) | - | (336) |
| Disposal of the well | (63) | - | (63) |
| Unwinding of discount (Note 22) | 531 | - | 531 |
| Reclassified to liabilities held for sale | - | (1,940) | (1,940) |
| At 31 December 2021 | 4,430 | - | 4,430 |

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 (2020: 2034). The provisions are made using the Group's internal estimates that management believe form a reasonable basis for the expected future costs of decommissioning.

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## 19. Defined pension benefit plan

| | 2021 $000 | 2020 $000 |
|---|---|---|
| At 1 January 2021 | 922 | 859 |
| Service cost | 39 | 40 |
| Interest expense | 106 | 87 |
| Benefit payments | (59) | (41) |
| Employer contribution | 12 | 115 |
| Foreign exchange | 32 | (138) |
| At 31 December 2021 | 1,052 | 922 |

The Group operates a defined benefit pension plan in PPC, our subsidiary in Ukraine. PPC participates in a mandatory Ukrainian State-defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group has no further payment obligation towards the local government pension scheme once the contributions have been paid.

The liability recognised in the Statement of Financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period. There is no pension asset given the nature of the scheme.

PPC has jobs with hazardous working conditions (hereinafter referred to as the "list II"). 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 "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.

## 20. Cost of sales

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Operating costs | 16,325 | 11,749 |
| Depreciation, depletion and amortisation | 10,369 | 11,724 |
| Other production based taxes | 28,613 | 12,092 |
| | 55,307 | 35,565 |
| Exceptional item – production based taxes charge/(credit) (Note 18) | 18,691 | (13,543) |
| | 73,998 | 22,022 |

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2021 was $2.3m (2020: $2.8m).

## 21. Finance income

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Interest income on deposits | 795 | 464 |
| | 795 | 464 |

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# Notes to the consolidated financial statements

## 22. Finance costs

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Borrowing costs | - | 140 |
| Interest on defined pension plan | 106 | - |
| Interest on lease liabilities | 69 | 197 |
| Unwinding of discount on site restoration (Note 18) | 531 | 390 |
| | 706 | 727 |

## 23. Profit from operations – analysis of costs by nature

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

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Depreciation – other assets (Note 5. (a)) | 728 | 556 |
| Depreciation, depletion and amortisation – oil and gas assets (Note 5. (a)) | 10,369 | 11,950 |
| Staff costs (none was capitalised during the year (2020: nil), Note 24) | 4,867 | 6,416 |
| Foreign exchange loss/(gain) | 1,121 | (1,048) |

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

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Audit of the parent company and consolidated financial statements | 530 | 267 |
| Fees payable to company's auditors for other services: | | |
| - Audit of the Company's subsidiaries | 355 | 170 |
| - Audit related assurance services | 44 | 92 |
| | 929 | 529 |

No non-audit services were provided in 2021 and 2020.

## 24. Staff costs

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Wages and salaries | 4,571 | 6,197 |
| UK social security costs | 110 | 77 |
| Other pension costs | 186 | 142 |
| | 4,867 | 6,416 |

No staff costs were capitalised for the year ended 31 December 2021.

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

| | 2021 Number | 2020 Number |
|---|---|---|
| Management/operational | 430 | 453 |
| Administration support | 75 | 77 |
| | 505 | 530 |

There is one Director on a service contract included within management/operational (2020: one). Further details of the Directors and their remuneration are included on pages 38 to 46 which form part of these financial statements.

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## 25. Taxation

| **Analysis of tax on loss** | 2021 $000 | 2020 $000 |
|---|---|---|
| **Current tax** | | |
| UK - current tax | - | - |
| Overseas - current year | 9,858 | 3,292 |
| Current tax expense | 9,858 | 3,292 |
| **Deferred tax** | | |
| Overseas - current year | (1,703) | 3,320 |
| Deferred tax (benefit)/charge | (1,703) | 3,320 |
| **Income tax expense** | 8,155 | 6,612 |

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

### Factors that affect the total tax charge

The total tax charge for the year of $8.2m (2020: $6.6m charge) is lower (2020: lower) than the average rate of UK corporation tax of 19.00% (2020: 19.00%). The differences are explained below:

| **Total tax reconciliation** | 2021 $000 | 2020 $000 |
|---|---|---|
| Profit before tax from continuing operations | 31,627 | 23,010 |
| (Loss)/profit before tax from discontinued operation | (63,718) | 3,470 |
| Tax calculated at 19.00% (2020: 19.00%) | 6,009 | 4,372 |
| Effect of tax rates in foreign jurisdictions | (325) | (230) |
| Rental fee provision | - | (1,904) |
| Other non-deductible expenses | 2,529 | 4,529 |
| Other | (58) | (155) |
| Total tax charge from continuing operations | 8,155 | 6,612 |
| Total taxation from discontinued operation | 1,260 | (2,631) |

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

The total tax charge for the year was $8.2m (2020: $6.6m charge) comprising a current tax charge of $9.9m (2020: $3.3m charge) in respect of Ukraine, a deferred tax benefit before exceptional items of $2.7m (2020: benefit of $1.1m) and a deferred tax charge of $1.0m in respect of exceptional items (2020: $4.4m charge). The increase in current tax charge reflects a higher profit in Ukraine. In Ukraine, the corporate tax rate for 2020 was 18% and remains at this level in 2021.

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.

The current UK Corporation tax rate of 19% generally applies to all companies whatever their size. From 1 April 2023, this rate will cease to apply and will be replaced by variable rates ranging from 19% to 25%. A small profits rate of 19% will apply to companies whose profits are equal to or less than £50,000. The main Corporation Tax rate is increased to 25% and will apply to companies with profits in excess of £250,000.

### 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.

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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 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.

In January 2022 the Group received part of the arbitration award amounting to USD 6.2 million and recognised it as an asset at the reporting date (Note 8), with the remaining amount of USD 5.9 million expected to be received by the end of 2023. The recognition of the remaining amount of USD 5.9 million will not be made in the financial statements until there is further clarity on the process for, and likely success of, enforcing collection.

**Rental Fee demands**
The Group currently has four claims (2020: two) for additional Rental Fees being contested through the Ukrainian court process. These arose from disputes over the amount of Rental Fees paid by PPC for certain periods since 2010, which in total amount to approximately $40.5 million (2020: $21.0million) (including interest and penalties), as detailed below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the year end rate of $1:UAH 27.28 (2020: $1:UAH 28.27).

- August – December 2010: approximately $14.8 million (2020: $13.8 million) (including $10.3 million (2020: $9.5 million) of interest and penalties). The case is divided into two court disputes:
  - 816/4476/14 – On 5 April 2017 the Poltava Circuit Administrative Court found in favour of PPC. The Kharkiv Appellate Administrative Court on 1 June 2017 turned down PJTI's appellate complaint on merits. On 22 April 2021 the Supreme Court cancelled the judgments of the lower courts in favour of PPC and decided to close the proceedings, leaving all the court judgments against PPC in case No. 816/539/14 as the only effective ones.
  - 816/3731/14 – This case is a fiduciary court dispute on forcible collection of the 2010 royalty and was initiated by PJSTI against PPC once PPC lost tax dispute No. 816/539/14. After two court judgments in favour of PPC in case No. 816/4476/14, on 29 June 2017, the PCAC found in favour of PPC in the collection case and declined to collect the 2010 royalty from PPC. The KHAC by its ruling on 5 February 2018 and the Supreme Court by its ruling on 21 July 2021 upheld the judgment of the first instance court – thus, the case was decided in favour of PPC on merits. However, there was a probability of re-opening the case if the PJSTI succeeds in renewing the terms for reconsidering the court judgments in this case due to newly discovered circumstances (the «NDC») – i.e., the judgment of the Supreme Court in case No. 816/4476/14 in April 2021. In the end, the PJSTI filed the application for NDC and lodged a motion on renewal of deadlines for filing. However, all three

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instances, including the Supreme Court, refused to reconsider the amount due to NDC since the PJSTI missed the deadlines for filing of the respective application. Therefore the case has been fully closed in favour of PPC. Reserves are in place for now.

- 440/4814/22 – after the latest court judgment of the Supreme Court dated 25May 2022 in favour of PPC in the case above, PPC lodged a motion to PJSTI requesting to eliminate the tax debt on the 2010 royalty from the electronic card of tax payers. PJSTI refused to do so. PPC initiated a new claim obliging PJSTI to eliminate the respective tax debt. PCAC commenced the administrative proceedings and scheduled the hearing for 30 October 2022.

- January – December 2015: approximately $25.6 million (2020: $7.2 million) (including $16.9 million (2020: $5.4 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 under the arbitration proceedings. The Ukrainian tax authorities have issued PPC with a series of claims for the difference between 28% and 55%, which were being contested in eight separate cases. Six of these cases have now been resolved in PPC's favour and the others continue to be contested:

**Open 2015 cases for which provisions held:**

Management have specifically assessed whether the success in cases during 2019 and 2020 provides sufficient precedent to release the remaining provisions for the 2015 claims. It was concluded that given the inherent uncertainty associated with the Ukrainian Court system and political environment it remains appropriate to retain the remaining provisions.

- Case No. 816/685/16 for $5.5m has already been suspended. PJSTI have filed a cassation complaint with the Supreme Court to unsuspend it. The hearing is expected to take place in the first half of 2023.

**2015 cases closed in favour of the Group for which provisions released in prior periods:**

- 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 a 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.
- Case No. 816/846/16 for $5.3m. On 14 November 2019 the Poltava Circuit Administrative Court found in favour of PPC as well as ruled that Tax Notification Decisions previously issued against PPC were illegal and were cancelled. The KHAC by its judgment of 5 October 2020 and the Supreme Court by its judgment of 17 March 2021 upheld the judgment of the first instance court – thus, the case is fully closed in favour of PPC.
- Case No. 816/844/16 for $3.7m. On 14 November 2019 the Poltava Circuit Administrative Court found in favour of PPC as well as ruling that Tax Notification Decisions previously issued against PPC were illegal and were cancelled. The KHAC by its judgment of 15 July 2020 and the Supreme Court by its judgment of 1 July 2021 upheld the judgment of the first instance court – thus, the case is fully closed in favour of PPC.
- On 18 November 2020 the Poltava Circuit Administrative Court found in favour of PPC in case No. 816/1191/16 for a total of $2.1m. The Kharkiv Appellate Administrative Court on 29 March 2021 turned down PJTI's appellate complaint on merits. PJSTI attempted to file several times the cassation complaint – however, five times the cassation complaints of PJSTI were turned down. This case is therefore closed in favour of PPC.

**Lost 2015 cases:**

- On 4 May 2020 the Poltava Circuit Administrative Court found in favour of PPC in case No. 816/687/16 for $4.7m. The Kharkiv Appellate Administrative Court on 15 October 2020 turned down PJTI's appellate complaint. However, on 19 April 2022 the Supreme Court cancelled all the judgments made by the lower courts in favour of PPC, and ordered PPC to pay the outstanding debt. PPC fully paid the outstanding sum in June 2022. However, the interest on this amount is still provided for since there is a chance that within 3 years the PJSTI may request PPC to pay this amount.
- On 22 December 2020 the Poltava Circuit Administrative Court found in favour of PPC in case No. 816/686/16 for $10.4m. PJSTI filed an appellate complaint and the Kharkiv Appellate Administrative Court accepted it. On 12 March 2021 Kharkiv Appellate Administrative Court found in favour of PPC and cancelled the tax notification decisions recognising them as illegal. However, on 21 June 2022 the Supreme Court cancelled all the judgments made by the lower courts in favour of PPC and ordered PPC to pay the outstanding debt. PPC fully paid the outstanding sum in July 2022. However, the penalties are still provided for since there is a chance that within 3 years the PJSTI may request PPC to pay this amount.

It is expected that the process of hearings in respect of the remaining outstanding 2015 rental fee claims will continue into 2023 and possibly beyond. Full provisions are made for claim 816/685/16 and the 2010 cases.

Changes in the judgement about the timing of the provision releases: during 2019 provisions were maintained for open cases unless judgments of the Supreme Court of Ukraine had been received in favour of PPC or appeals to this court were considered remote, based on an assessment of facts and circumstances at the time. During 2020 the Group determined that it was appropriate to release

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provisions when first and appellate Court rulings have been received in respect of the case (on its merits) in the Group's favour. In reaching that conclusion Management considered their experience of the legal process to date, the fact that the Supreme Court checks judgments of the first and appellate Courts and cannot review any new facts or circumstances, and sought advice from external counsel. Accordingly the risk of the lower court judgments on the merits of the case being cancelled are considered very low. Consequently the Group's Management released provisions after court judgments of first and appellate instances in favour of PPC.

In 2021 the Group has released provisions totalling $2.2m (inclusive of interest and penalties) in respect of Case 816/1191/16, which was one tax case that has been closed in favour of PPC relating to January to December 2015 claims.

In 2020 the Group released provisions totalling $15.1m (inclusive of interest and penalties) associated with two of the 2015 cases, $4.7m in respect of Case No. 816/687/16 and $10.4m in respect of Case 816/686/16 for which the 2nd Instance Court rejected appeals lodged by the tax authorities on the case merits. A cassation appeal for one case was filed and was expected to be heard at the end of 2021. A cassation appeal for case 816/686/16 has not yet been filed but is anticipated in due course. In line with the Group's revised position on provisioning the related reserves for these cases were released.

An exceptional item of $18.7m has been charged to the Consolidated income statement in the year (2020: $13.5m credit), being the net of provisions reversed for cases closed in PPC's favour, interest accrued on the remaining August – December 2010 and January – December 2015 claims, and the re-recognition of previously reversed cases as a result of the Supreme Court overruling judgments made by the lower courts in favour of PPC and ordering PPC to pay the outstanding debt (see Note 18).

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## 26. Deferred tax

| | Assets | | Liability | | Net | |
|---|---|---|---|---|---|---|
| | **2021 $000** | 2020 $000 | **2021 $000** | 2020 $000 | **2021 $000** | 2020 $000 |
| **Continuing operations** | | | | | | |
| Ukraine | 3,729 | 2,576 | (5,699) | (6,095) | (1,970) | (3,519) |
| Russia | - | 12,312 | - | (2,861) | - | 9,451 |

The balance comprises temporary differences attributable to:

| | Assets | | Liability | | Net | |
|---|---|---|---|---|---|---|
| | **2021 $000** | 2020 $000 | **2021 $000** | 2020 $000 | **2021 $000** | 2020 $000 |
| Property, plant and equipment | - | - | (5,699) | (8,956) | (5,699) | (8,956) |
| Inventory | 553 | 539 | - | - | 553 | 539 |
| Provision for disputed rental fees | 2,175 | 1,099 | - | - | 2,175 | 1,099 |
| Provision for site restoration | 700 | 1,025 | - | - | 700 | 1,025 |
| Tax losses | - | 11,924 | - | - | - | 11,924 |
| Other | 301 | 301 | - | - | 301 | 301 |
| Deferred tax asset /(liability) recognised | 3,729 | 14,888 | (5,699) | (8,956) | (1,970) | 5,932 |

| | 1 January 2021 $000 | exchange differences $000 | to profit or loss $000 | Reclassified to assets held for sale $000 | 31 December 2021 $000 |
|---|---|---|---|---|---|
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment | (8,956) | (245) | 641 | 2,861 | (5,699) |
| **Deferred tax assets** | | | | | |
| Inventory | 539 | 20 | (6) | - | 553 |
| Provision for disputed rental fees | 1,099 | 40 | 1,036 | - | 2,175 |
| Provision for site restoration | 1,025 | 23 | 40 | (388) | 700 |
| Tax losses | 11,924 | - | - | (11,924) | - |
| Other | 301 | 8 | (8) | - | 301 |
| Net deferred tax | 5,932 | (154) | 1,703 | (9,451) | (1,970) |

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

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| | 1 January 2020 $000 | exchange differences $000 | to profit or loss $000 | 31 December 2020 $000 |
|---|---|---|---|---|
| Deferred tax liabilities | | | | |
| Property, plant and equipment | (12,128) | 1,965 | 1,207 | (8,956) |
| Other | (1) | - | - | - |
| Deferred tax assets | | | | |
| Inventory | 614 | (100) | 25 | 539 |
| Provision for disputed rental fees | 6,528 | (1,057) | (4,372) | 1,099 |
| Provision for site restoration | 1,131 | (106) | - | 1,025 |
| Tax losses | 11,556 | (2,104) | 2,472 | 11,924 |
| Other | 310 | 0 | (10) | 302 |
| Net deferred tax | 8,012 | (1,402) | (678) | 5,932 |

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

As at31 December 2020 the deferred tax assets include an amount of $11.9m which was related to carried forward tax losses of the Russian subsidiary. The prior year deferred tax charge before exceptional items of $2.6m was reclassified to profit from discontinued operations as a result of the application of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" to the Group's operations in Russia. Please refer to Note 14 for details.

## 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 171,723,145 (2020: 171,723,145), including shares purchased by the Company and held as treasury shares of 402,771 (2020: 402,771).

Profit before exceptional items in 2021 of $40,313,200 (2020 profit: $11,016,481) is calculated from the 2021 loss of $40,246,487 (2020: profit $19,867,529) adjusted for exceptional items of $79,523,687 (2020: $13,221,048) and the related deferred tax on the exceptional items of $1,036,000 (2020: $4,370,000).

There are no dilutive instruments.

| | 2021 Cents | 2020 Cents |
|---|---|---|
| **Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent company:** | | |
| Basic and diluted profit per 10p ordinary share | | |
| -after exceptional items | 13.67 | 9.55 |
| -before exceptional items | 25.16 | 4.21 |
| **Earnings per share for (loss)/profit from discontinued operations attributable to the ordinary equity holders of the parent company:** | | |
| Basic and diluted (loss) /profit per 10p ordinary share | | |
| -after exceptional items | (37.11) | 2.02 |
| -before exceptional items | (1.73) | 2.21 |
| **Total earnings per share for (loss)/profit attributable to the ordinary equity holders of the parent company:** | | |
| Basic and diluted (loss)/profit per 10p ordinary share | | |
| -after exceptional items | (23.44) | 11.57 |
| -before exceptional items | 23.48 | 6.42 |

GROUP FINANCIAL STATEMENTS

# Notes to the consolidated financial statements

| Reconciliations of earnings used in calculating earnings per share | 2021 $000 | 2020 $000 |
|---|---|---|
| Profit from continuing operations for the purpose of basic and diluted earnings per share (profit for the year attributable to the owners of the parent): | | |
| - After exceptional item | 23,472 | 16,398 |
| - Before exceptional item | 43,199 | 7,225 |
| | | |
| (Loss)/profit from discontinued operations for the purpose of basic and diluted earnings per share ((loss)/profit for the year attributable to the owners of the parent): | | |
| - After exceptional item | (63,718) | 3,470 |
| - Before exceptional item | (2,976) | 3,792 |
| | | |
| Total (loss)/profit for the purpose of basic and diluted earnings per share (loss)/profit for the year attributable to the owners of the parent): | | |
| - After exceptional item | (40,246) | 19,868 |
| - Before exceptional item | 40,313 | 11,016 |

| Number of shares | 2021 | 2020 |
|---|---|---|
| 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 16) | (3,632,928) | (3,632,928) |
| Sale of shares held by Employee Benefit Trust (Note 16) | 3,632,928 | 3,632,928 |
| Weighted average number of shares | 171,723,145 | 171,723,145 |

## 28. Dividends

No interim dividend was paid or declared for 2021 (2020: nil). In respect of the full year 2021, the directors do not propose a final dividend (2020: no final dividend paid or declared).

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

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Profit from operations (continuing operations) | 31,538 | 23,273 |
| (Loss)/profit from operations (discontinued operations) | (63,718) | 1,040 |
| Depreciation, depletion and amortisation | 11,097 | 17,912 |
| Gain on disposal of fixed assets | (34) | (113) |
| Exceptional item –for production based taxes, including forex | 18,691 | (13,543) |
| Increase in provision for impairment of Hungary and Russia | 60,742 | 322 |
| Cash generated from operations before changes in working capital | 58,316 | 28,891 |
| Increase/(decrease) in operating trade and other receivables | (1,748) | 272 |
| Increase/(decrease) in operating trade and other payables | 15,974 | (3,794) |
| Decrease in inventories | 1,062 | 3,869 |
| Net cash generated from continuing operations | 69,841 | 28,938 |
| Net cash generated from discontinued operations (Note 14) | 3,763 | 300 |

**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.

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# Notes to the consolidated financial statements

| | Leases $000 |
|---|---|
| At 1 January 2021 | 759 |
| Cash flows | |
| - Payment of principal | (388) |
| Non-cash flows | |
| -Additions and modification of lease agreements | 654 |
| - Reclassified to assets held for sale | (312) |
| - Disposal of lease agreements | (28) |
| - Foreign exchange | 11 |
| - Interest accruing in the period | 69 |
| At 31 December 2021 | 765 |

| | Borrowings $000 | Leases $000 |
|---|---|---|
| At 1 January 2020 | 5,683 | 2,089 |
| Cash flows | | |
| - Payment of principal | (5,440) | (1,661) |
| - Payment of interest | (381) | - |
| Non-cash flows | | |
| - Foreign exchange | - | 134 |
| - Interest accruing in the period | 138 | 197 |
| At 31 December 2020 | - | 759 |

## 30. Capital commitments

Under the work programs for the Group's exploration and development licences the Group had committed $0.6m to future capital expenditure on drilling rigs and facilities at 31 December 2021 (2020: $0.3m).

## 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:

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Short-term employee benefits | 378 | 1,156 |
| | 378 | 1,156 |

Further information about the remuneration of individual Directors, together with the Directors' interests in the share capital of JKX Oil & Gas Limited, is provided in the audited part of the Remuneration Report on pages 38 to 46 and in the Directors Report on page 55.

### 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 10% of the ordinary share capital was considered a related party at 31 December 2021. The Company's Chairman, Michael Bakunenko, is also Chairman of the Board of UNB.

The following transactions were carried out with UNB:

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# Notes to the consolidated financial statements

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Gas sales | 3,070 | 2,498 |

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Natural gas liquids (NGLs) purchase | - | 30 |

The balances owed to and due from related parties were as follows as at 31 December 2021 and 2020:

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Trade and other payables (contract liabilities) | 3,308 | - |

Gas, oil and property, plant and equipment are sold and purchased on normal commercial terms and conditions.

**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 C 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 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

In this note we disclosed non-adjusting events after the reporting period. The adjusting events are disclosed in Notes 3, 8 and 17.
In January 2022, a total of 26,942,198 Shares were validly tendered at the Tender Offer Price of 42.0 pence per Ordinary Share (15.65% per cent of the issued share capital of the Company) and the Delisting of the Company became effective on the 6 January 2022.

On February 24, 2022, Russia started a broad offensive in Ukraine with simultaneous attacks across various areas. This was quickly followed by the enactment of martial law by the Ukrainian President's Decree, approved by the Parliament of Ukraine, and the corresponding introduction of related temporary restrictions that impact the economic environment and business operations in Ukraine. Currently, the Ukrainian army continues to actively resist, and in part push back the invasion. At the same time, a very broad range of countries across the world, imposed sanctions on Russia as a result of its invasion of Ukraine, targeting the Russian economy, financial institutions and a wide range of individuals.
As a result of the invasion, the Group has experienced a number of significant operational issues within its business, including:

### Operating activity in Ukraine

As at date of issuing of this report the Group's Ukrainian subsidiaries continue running their operations without any restrictions. Management of the Group maintain control over all their operations. Office-based personnel are working remotely while production-based employees perform their duties at their areas of operation. All possible production processes were automatized with remote control with the goal to minimize the number of employees at the plant. As at the date of approval of these financial statements, no assets of the Group have been damaged.
The final resolution and consequences of these events are hard to predict, but they may have a further serious impact on the Ukrainian economy and business of the Group. Management continues to identify and mitigate, where possible, the impact on the Group, but the majority of these factors are beyond their control, including the duration and severity of conflict, as well as any further actions of various governments and diplomacy.
In January 2022, the Government of Ukraine imposed temporary and partial gas price regulation to sustain production of certain food products. Under this scheme, all independent gas producers in Ukraine were required to sell up to 20% of their natural gas production for the period until 30 April 2022 at a price set as the cost of sales of the relevant gas producer (based on established accounting rules) for such gas, plus a margin of 24%, plus existing subsoil production taxes. In March 2022, the Ukrainian Government enacted changes to the subsoil production tax rates applicable to natural gas production by modifying the applicable rates based on gas sales prices, extending the incentive rates for new wells for a further 10 years and making improvements to the regulatory environment. These changes took effect on 1 March 2022, and the legislation includes provisions that these rates will not be increased for 10 years. Also, as

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# Notes to the consolidated financial statements

a direct result of the conflict in Ukraine, including the significant decline in domestic consumption disrupting the previous supply, demand and pricing dynamics, there has been a divergence between domestic and European gas pricing, and accordingly, the methodology (linked to European prices) used to determine the reference gas price for the subsoil tax rates has had a significantly detrimental effect for domestic gas producers. In order to address this issue, the Ukrainian Parliament, in September 2022, approved draft legislation which modifies such methodology to ensure that it operates as originally intended (with such reference price being aligned with domestic prices). This legislation was enacted on 1 October 2022 with an effective implementation date of 1 August 2022. In addition, the excise tax applicable to LPG sales was cancelled entirely with effect from 24 February 2022, and the VAT rate applicable to condensate and LPG sales was reduced to 7% (from 20%) with effect from 18 March 2022.
During the first six months of 2022, the Ukrainian Hryvnia was relatively stable against the US Dollar, weakening modestly from UAH27.3/$1.00 on 31 December 2021 to UAH29.3/$1.00 on 30 June 2022. Increases and decreases in the value of the Ukrainian Hryvnia against the US Dollar affect the carrying value of the Group's assets. However, since the period end, in July 2022, the National Bank of Ukraine devalued the Ukrainian Hryvnia by 25% against the US Dollar in order to protect its foreign exchange reserves as the ongoing war continues to materially affect the Ukrainian economy, and currently the official exchange rate of the Ukrainian Hryvnia to the US Dollar is UAH36.57/$1.00. This is not expected to a have a material net impact on the Group with its production and sales dictated by (but not directly linked to) international commodity prices, and should materially offset general price increases that will result from such devaluation.

Operating activity in Russia

In response to Russia's invasion in Ukraine the EU, the US and the UK imposed further sanctions including financing restrictions targeting certain Russian banks and certain state-owned companies. The EU announced the resolution on the enactment of additional and more severe sanctions for Russia, specifically targeting inter alia the Russian banking system, Russian individuals and the energy and transport sectors. Russia continued the widespread attacks across Ukraine and intensified the attacks during the following days. The EU, the US and the UK decided to exclude certain banks from the SWIFT-System.
On March 4, 2022, the US, the EU and the UK imposed further property blocking sanctions on individuals and Russia enacted countersanctions including inter alia restrictions on sales of shares of open or closed joint-stock companies. Russia also announced property blocking sanctions against foreign individuals and companies, in particular restrictions on dividend payments to foreign shareholders in Russian companies.
The scope of sanctions has evolved at pace and continues to do so across various jurisdictions including restrictions on dealing with designated individuals and entities and exporting of a wide range of goods and services to Russia.
Following Russia's invasion of Ukraine and the introduction of the aforementioned sanctions, the JKX Board undertook a thorough review of its involvement with Yuzhgazenergie LLC and Catering Yug LLC and discontinued discharging its normal governance and control activities towards these entities.
International sanctions against Russia, as well as Russian countersanctions against foreign investors, adversely impacted the Group's ability to exit its interest in Russia and the value which can be realised for that interest. The Board's review of the sanctions impact, including the ability to exit the shareholding in Russia, is still ongoing. At this stage the Board cannot reasonably estimate the probability or possible outcome of any exit process. Actual outcomes may be impacted by a variety of factors, including the international sanctions or other steps taken by governmental authorities or any other relevant persons may impact the Group's interest in Russia, or otherwise limit the Group's ability to sell it, or the price for which it could be sold and the possibility that the Group will achieve a sale price that is significantly below the net book value of that asset.
As at 31 December 2021, the Group accounted for Yuzhgazenergie LLC and Catering Yug LLC as non-current assets held for sale amounting to USD 27 million due to the conditions and circumstances present as at the balance sheet date.
Based on the negative circumstances described above that occurred post-year end, JKX has determined that thse Russian assets no longer meets the criteria set out in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', as the sale of the shareholding in Russia within the next twelve months, is no longer considered to be highly probable. In addition, JKX has determined that it no longer meets the criteria set out in IFRS 10 'Consolidated Financial Statements' for having 'control' over the investees in Russia, following the Board ceasing to exercise its power over the investees and direct their activities. JKX will therefore not consolidate its interest in Yuzhgazenergie LLC and Catering Yug LLC, treating the investment prospectively as a financial asset measured at fair value within 'Other investments' until the shareholding is derecognised.
The deconsolidation of Russian investments Yuzhgazenergie LLC and Catering Yug LLC will have a material effect on the Group's 2022 financial statements due to their carrying amount which will be estimated as nil. It is considered that any measure of fair value of this investment, other than nil, would be subject to an extremely high measurement uncertainty and could not be reasonably justified. The respective impairment charge will be recorded in the Group's 2022 financial statements.

The Group has determined that the events described above are non-adjusting subsequent events, with the outbreak of war occurring after the year-end in February 2022. Accordingly, the financial position and results of operations as at and for the year ended 31 December 2021 have not been adjusted to reflect their impact. The duration and impact of the war in Ukraine remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods.
After consideration of all available evidence and actions taken and planned by the Group to offset the adverse effects of the on-going military invasion on the business up to the date when these financial statements are authorized for issue, Management concluded that it is appropriate to prepare the consolidated financial statements on a going concern basis, while acknowledging a material uncertainty therein as discussed in Note 2.

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# Notes to the consolidated financial statements

### Hungary

Following the appointment of the new Board in 2022 a re-evaluation of the Group's Hungarian assets has been carried out and it has been decided to re-commence work in a phased manner, minimising expenditure whilst evaluating the prospects of the assets. The first phase of this work has commenced and further investment will be contingent on the success of this initial work programme. As a result the Board no longer consider it likely that these assets will be disposed of within the next 12 months and they are no longer categorised as an asset held for sale. This event was considered to be non-adjusting as these conditions were not in place at the balance sheet date.

COMPANY FINANCIAL STATEMENTS

# Company statement of financial position

As at 31 December 2021

| Company number 3050645 | Note | 2021 $000 | 2020 $000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | C | 13,270 | 13,270 |
| Right-of-use assets | B | 331 | 106 |
| Other receivables | D | - | 32,011 |
| | | 13,601 | 45,387 |
| **Current assets** | | | |
| Trade and other receivables | D | 33,400 | 7,660 |
| Cash and cash equivalents | F | 360 | 1,412 |
| Restricted cash | F | 25,387 | - |
| | | 59,147 | 9,072 |
| Total assets | | 72,748 | 54,459 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | G | (1,353) | (1,110) |
| Lease liabilities | B | (167) | (136) |
| | | (1,520) | (1,246) |
| **Non-current liabilities** | | | |
| Lease liabilities | B | (158) | - |
| Total liabilities | | (1,678) | - |
| **Net Assets** | | 71,070 | 53,213 |
| **Equity** | | | |
| Share capital | H | 26,666 | 26,666 |
| Share premium | | - | 97,476 |
| Other reserves | H | (503) | (503) |
| Retained earnings /accumulated deficit | | 44,907 | (70,426) |
| **Total equity** | | 71,070 | 53,213 |

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 $17.9m (2021 $11.0m loss).

These financial statements on pages 114 to 124 were approved by the Board of Directors on 29 March 2023 and signed on its behalf by:

**Michael Bakunenko**
Chairman, JKX Oil & Gas Limited

**Dmytro Piddubnyy**
Chief Financial Officer

COMPANY FINANCIAL STATEMENTS

# Company statement of changes in equity

For the year ended 31 December 2021

| | Share capital $000 | Share premium $000 | Accumulated deficit $000 | Other reserves $000 | Total equity $000 |
|---|---|---|---|---|---|
| At 1 January 2020 | 26,666 | 97,476 | (60,669) | (503) | 62,970 |
| Loss for the financial year | - | - | (11,042) | - | (11,042) |
| **Total comprehensive loss for the year** | - | - | (11,042) | - | (11,042) |
| **Transactions with equity shareholders** | | | | | |
| Sale of shares held by Employee Benefit Trust | - | - | 1,285 | - | 1,285 |
| **Total transactions with equity shareholders** | - | - | 1,285 | - | 1,285 |
| At 31 December 2020 | 26,666 | 97,476 | (70,426) | (503) | 53,213 |

| | **Share capital $000** | **Share premium $000** | **Retained earnings $000** | **Other reserves $000** | **Total equity $000** |
|---|---|---|---|---|---|
| At 1 January 2021 | **26,666** | **97,476** | **(70,426)** | **(503)** | **53,213** |
| Profit for the financial year | **-** | **-** | **17,857** | **-** | **17,857** |
| **Total comprehensive profit for the year** | **-** | **-** | **17,857** | **-** | **17,857** |
| **Reduction of Capital[1]** | **-** | **(97,476)** | **97,476** | **-** | **-** |
| **Transactions with equity shareholders** | | | | | |
| **Total transactions with equity shareholders** | **-** | **-** | **-** | **-** | **-** |
| At 31 December 2021 | **26,666** | **-** | **44,907** | **(503)** | **71,070** |

[1] Please refer to Company financial statements for the full disclosure on the cancelation of the Share Premium account in Note H.

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 the 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 the Directors' report on pages 54 to 57 for information on the 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 page 72.

### Adoption of new and revised standards

No new accounting standards, or amendments to accounting standards, or IFRS IC interpretations that are effective for the year ended 31 December 2021, have had a material impact on the company. Please refer to the Group's accounting policies note for the full disclosure.

### Disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- Presentation of statement of cash flows;
- The requirements of IFRS 7 'Financial instruments': Disclosure of quantitative and qualitative information regarding risks arising from all financial instruments held by the Company. Equivalent disclosures are included in the Group's consolidated financial statements;
- The requirement of IFRS 13 'Fair Value Measurement' to disclose the valuation techniques and inputs used to develop fair value measurements for assets and liabilities held at fair value. Equivalent disclosures are included in the Group consolidated financial statements;
- Disclosure of related party transactions entered into between two or more members of a Group. Equivalent disclosures are included in the Group consolidated financial statements; and
- 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 2021 was $1/£0.74 (2020: $1/£0.73).

### 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);

# Notes to the Company financial statements

- 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 48 to 49 and in Note I on share based payments.

### Share capital and treasury shares

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

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

Repurchased JKX Oil & Gas Limited 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 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. The Company used weighted average cost of capital 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.

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# Notes to the Company financial statements

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.

### 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. The 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.

COMPANY FINANCIAL STATEMENTS

# Notes to the Company financial statements

## B. Leases

The balance sheet shows the following amounts relating to leases:

| | 1 January 2021 $000 | Additions during the year $000 | Depreciation charge for the year $000 | 31 December 2021 $000 |
|---|---|---|---|---|
| Properties – office lease | 106 | 385 | (160) | 331 |
| Total | 106 | 385 | (160) | 331 |

| | 1 January 2020 $000 | Additions during the year $000 | Depreciation charge for the year $000 | 31 December 2020 $000 |
|---|---|---|---|---|
| Properties – office lease | 240 | - | (134) | 106 |
| Total | 240 | - | (134) | 106 |

| | 2021 $000 | 2020 $000 |
|---|---|---|
| **Current** | | |
| Lease liabilities | 167 | 136 |
| | | |
| **Non-current** | | |
| Lease liabilities | 158 | - |

When measuring lease liabilities, the Company discounted lease payments using the weighted-average cost of capital of 7%.

The income statement shows the following amounts relating to leases:

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Interest on lease liabilities | 15 | 26 |
| Total | 15 | 26 |

## C. Investments

The net book value of unlisted fixed asset investments comprises:

| | 2021 $000 | 2020 $000 |
|---|---|---|
| **Cost** | | |
| At 1 January | 13,270 | 21,424 |
| Write-off of investment | - | (8,154) |
| At 31 December | 13,270 | 13,270 |
| **Equity investment in subsidiaries** | | |
| At 31 December | 13,270 | 13,270 |

COMPANY FINANCIAL STATEMENTS

# Notes to the Company financial statements

At 31 December 2021, subsidiary undertakings of JKX Oil & Gas Limited 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 [6] | 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 [6] | Oil & gas services | 100.00 | Ukraine |
| EuroDril Limited[4] | Oil & gas exploration, production and services | 100.00 | UK |
| 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*[4] | Dormant | 100.00 | UK |
| JKX (Navtobi) Limited [7] | Oil & gas exploration and production | 100.00 | Cyprus |
| JKX (Nederland) B.V. [1] | Finance and Holding | 100.00 | Netherlands |
| 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 [6] | Holding | 100.00 | Ukraine |
| Shevchenko Farm | Landowner | 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 [8] | 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 [5] | Oil & gas exploration, production and services | 100.00 | Russia |

* Held directly by JKX Oil & Gas Limited. 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. 284 Pushkina Str., Maikop, Adygea Republic, 385000, Russia.
4. 100 New Bridge Street, London, EC4V 6JA, England.
5. 400m from Shovgenovsk-Koshekhabl motor road, a. Koshekhabl, Koshekhablsky District, Republic of Adygea, 385400, Russia.
6. Production site of JV PPC, Sokolova Balka, Novosanjary district, Poltava region, 39352, Ukraine.
7. 1st Floor, 22 Stasicratous Olga Court, Nicosia, Cyprus.
8. Vaci ut 33, Budapest, 1134, Hungary.

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

COMPANY FINANCIAL STATEMENTS

# Notes to the Company financial statements

## D. Other receivables

| | 2021 \$000 | 2020 \$000 |
|---|---|---|
| **Current** | | |
| Prepayments | 130 | 9 |
| VAT receivable | - | 223 |
| Other receivables | 6,270 | - |
| Amounts owed by group undertakings | 27,000 | 7,428 |
| | 33,400 | 7,660 |

| | 2021 \$000 | 2020 \$000 |
|---|---|---|
| **Non-current** | | |
| Amounts owed by group undertakings | - | 32,011 |

\$27.0m (2020: \$39.4m) owed by subsidiary undertakings bears no interest and is due on demand. They were classified as current receivables following the subsidiary YGE being reclassified as an asset held for sale at the reporting date.

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 \$3.6m (2020: \$0.2m) due from its subsidiary Folyópart Energia Kft, and a reversal of a previous expected credit loss of \$28.0m in relation to amounts due from its subsidiary JKX (Nederland) B.V. as at 31 December 2021. The movement included a revaluation of the RUB denominated intercompany liability of \$0.3m and a repayment received during the year of \$30.8m (2020: \$9.8m and \$2.5m, respectively).

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. The company analyses the ability of subsidiaries to generate sufficient future profits to settle the amounts owing and in case of a risk to be non-recoverable, these amounts will be included in the reserve of expected credit losses. Discounting over the recovery period had no effect as an effective interest rate is 0% given the loans are due on demand.

## E. Taxation

| **Unprovided deferred tax** | 2021 \$000 | 2020 \$000 |
|---|---|---|
| Tax losses | 7,899 | 7,815 |
| Property, plant and equipment differences | - | - |
| Other temporary differences | - | - |
| | 7,899 | 7,815 |

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 Company's profits for this accounting year are taxed at an effective rate of 19.00%. From 1 April 2023, this rate will cease to apply and will be replaced by variable rates ranging from 19% to 25%.

## F. Cash and cash equivalents

| | 2021 \$000 | 2020 \$000 |
|---|---|---|
| Cash and cash equivalents | 360 | 177 |
| Restricted cash* | 25,387 | - |
| Short term deposits | - | 1,235 |
| Total | 25,747 | 1,412 |

COMPANY FINANCIAL STATEMENTS

# Notes to the Company financial statements

*In November 2021, the Company placed a deposit with SP Angel Corporate Finance LLP, which acted exclusively as its broker in connection with the Tender Offer. Please refer to Note H for the full disclosure.

## G. Trade and other payables

| | 2021 \$000 | 2020 \$000 |
|---|---|---|
| **Current** | | |
| Amounts owed to group undertakings | 174 | 199 |
| Trade payables | 763 | 698 |
| Accruals | 416 | 213 |
| | 1,353 | 1,110 |

### Maturity of financial liabilities

| 31 December 2021 | In 1 year or less, or on demand \$000 |
|---|---|
| Maturity of financial liabilities | |
| Amounts owed to group undertakings | 174 |
| Trade payables | 763 |
| Accruals | 417 |
| Lease liabilities | 167 |

| 31 December 2020 | In 1 year or less, or on demand \$000 |
|---|---|
| Maturity of financial liabilities | |
| Amounts owed to group undertakings | 199 |
| Trade payables | 698 |
| Accruals | 212 |
| Lease liabilities | 101 |

## H. Called up share capital and other reserves

Share capital, denominated in Sterling, was as follows:

| | 2021 Number | 2021 £000 | 2021 \$000 | 2020 Number | 2020 £000 | 2020 \$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 |
| 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 |

COMPANY FINANCIAL STATEMENTS

# Notes to the Company financial statements

The Company purchased no treasury shares during 2021 (2020: none). There were no treasury shares used in 2021 (2020: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2021 the market value of the treasury shares held was $0.2m (2020: $0.2m).

In November, 2021 the Company proposed a tender offer for the purchase of up to 40,096,476 Ordinary Shares in the Company, cancellation of the admission of its Ordinary Shares to the premium segment of the Official List and to trading on the Main Market of the London Stock Exchange. The resolutions proposed were duly passed at the general meeting of the Company.

In November, 2021 the Company has canceled its share premium account of $97,476,000 (£72,629,460) in full to generate sufficient distributable reserves to undertake the Tender Offer.

In January, 2022 a total of 26,942,198 Shares were validly tendered at the Tender Offer Price of 42.0 pence per Ordinary Share (15.65% per cent of the issued share capital of the Company) and the Delisting of the Company became effective on the 6 January 2022.

### Other reserves

| | Capital Redemption Reserve $000 | Foreign Currency Translation reserve $000 | Total $000 |
|---|---|---|---|
| At 1 January 2021 and 31 December 2021 | 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.

## I. 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 38 to 48.

## J. Auditors' remuneration

| | 2021 $000 | 2020 $000 |
|---|---|---|
| **Audit services** | | |
| Fees payable to the Company's auditors for the audit of the parent company | **42** | 31 |

## K. Directors' remuneration

The remuneration of the Directors is disclosed in the audited section of the Remuneration Report on pages 38 to 44, which form part of these financial statements.

## L. Dividends

No interim dividend was paid or declared for 2021 (2020: nil). In respect of the full year 2021, the directors do not propose a final dividend (2020: no final dividend paid or declared).

## M. Employees

From 1 January 2019 all employee costs that were previously met by the group company JKX Services Ltd were transferred to JKX Oil & Gas Limited.

| | 2021 $000 | 2020 $000 |
|---|---|---|
| Wages and salaries | **905** | 844 |
| UK social security costs | **110** | 77 |
| Other pension costs | **147** | 102 |
| | **1,162** | 1,023 |

COMPANY FINANCIAL STATEMENTS

# Notes to the Company financial statements

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

| | 2021 Number |
|---|---|
| Management/operational | 7 |
| Administration support | 1 |
| | 8 |

## N. 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

## Directors and advisers

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Olga Chebysheva
Vitaliy Dorogan
Mark Katsnelson

**Company Secretary**
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## Notes