Final Results
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JKX Oil & Gas PLC
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31 March 2021

JKX Oil & Gas plc

('JKX' or the 'Company')

FINAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2020

JKX Oil & Gas plc (LSE: JKX), announces its results for the year ended 31 December 2020.

2020 Highlights

Despite the ongoing COVID-19 pandemic and turbulence in the international commodity markets, JKX has delivered a solid performance in 2020, demonstrating its resilience in the face of significant uncertainty.

- Strong year end cash position of $24.3m (2019:$20.6m)
- Cash generated from continuing operations of $28.9m (2019:$41.4m)
- Final bond payment made in February 2020, making the JKX Group debt free
- Average daily production 10,238 boepd (2019:10,748boepd)
- Revenue of $69.6m (2019:$101.7m)
- Profit for the year of $19.9m (2019:$22.2m)

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Jeroen van de Crommenacker

Chairman's statement

I am pleased to be writing to you after my first full year as Chairman of your company.

2020 has been an unexpectedly challenging year for all, and your company has been no exception. However before considering the company's performance I would like to acknowledge the resilience and dedication that our staff and contractors have shown during the ongoing COVID-19 pandemic.

The measures that we rapidly implemented across the Group in order to mitigate the threat to our staff, our contractors and our communities have been largely successful. Whilst the Group has recorded cases of COVID-19 across our workforce, I am glad to be able to confirm that at the time of writing all those affected have made a recovery to a point where they have been able to, or we anticipate that they will soon be able to, return to work.

We remain committed to the communities in which we operate and as part of our Corporate Social Responsibility programme we have also provided funding and material to support the local and national medical responses in Russia and Ukraine.

Turning then to our performance in 2020, your company has again managed to deliver a full year profit (2020: $19.9m). Whilst this is below the 2019 outcome it is a credible result given the challenges your company has faced, including the postponement of a number of capital projects in both Russia and Ukraine as a result of the ongoing pandemic.

Final data shows that Group production volumes fell by 5% year-on-year during 2020 when compared to the 2019 performance, but with production levels remaining well above the 2018 result. Sales prices were also negatively impacted with both gas prices and oil and condensate prices declining significantly in 2020.

Despite these challenges the company remained profitable during 2020 ending the year with an increase in net cash reserves to $24.3 million, representing a 18% increase over cash reserves at the end of 2019 (31 December 2019: $20.6 million), further strengthening your company's financial position and ensuring its increased resilience in the current challenging environment.

As the Chief Executive Officer explains further in his report, the company has had its $12.1 million international arbitration award against the Government of Ukraine recognised in the Ukrainian courts and will continue to press for rapid settlement. The company also continues to successfully protect its position in relation to litigation relating to 2010 and 2015 tax claims.

Outlook.

Our focus on cost control, production optimisation and sound company management will continue during 2021 and the Board and executive management remain committed to maximising value from our core assets.

With the company's growing cash reserves we have increased our focus on identifying additional growth opportunities, both within our existing portfolio and as part of an acquisition strategy focusing on Ukraine - an area in which we have a deep understanding and a proven track record. In contrast to many companies we remain willing and able to acquire and develop appropriate assets as opportunities are identified and evaluated.

Following the unexpected collapse of the sale of our Hungarian assets the Board will continue to review its options but will remain focused on areas that present the best opportunities for your company given its resourcing, knowledge base and experience, as discussed in more detail by the CEO in his report.

Despite the continuing challenges your company faces, it has made good progress during 2020. I continue to be optimistic whilst recognising the magnitude of the issues that JKX, and the industry as a whole, faces.

Charles Valceschini
Chairman

31 March 2021

Chief Executive's statement

2020 has been another year of challenge, not just for JKX but for the Oil and Gas industry. Despite the impact of the ongoing COVID-19 pandemic, the unprecedented decline in global commodity prices and our inability to execute work as originally planned the company remained profitable, demonstrated its operational resilience and maintained liquidity through active cost management.

This successful outcome results from the rapid HSE, finance and operational initiatives that we have taken including "socially distanced" working practices, testing for concerned staff and the adoption of a revised mid-year budget to protect liquidity and free cash.

None of this would have been possible without the loyalty and support of our women and men who have risen to the challenges in an exemplary manner. Before considering the year in more detail I would like to recognise their contribution and thank them for their commitment during a period that has been difficult for all of us. The dedication and loyalty of the JKX Team has made it possible to strengthen our shared culture despite the challenges of the last year.

Our performance

Despite the challenges of 2020 we have managed to achieve a minimal reduction in production performance compared to 2019. Our financial performance has however been negatively impacted by the significant year-on-year fall in oil and gas prices, with average Ukrainian gas sales prices having fallen from $206/Mcm in 2019 to $132/Mcm in 2020 and oil prices having decreased from $61/bbl in 2019 to $44/bbl in 2020.

Consequently, despite delivering a positive financial performance during this unprecedented year our operating profit before exceptional items was $11.8m in 2020 (2019: $23.1m).

In order to minimise the negative impact of the decline in sales prices the Group's management implemented austerity measures to defer capital costs and cut operational and administrative costs.

These measures were implemented in March 2020 with Poltava Petroleum Company ("PPC") management salaries temporarily reduced by up to 25%, PPC's staff number reduced by 15% and a full review of capital and other costs. In May 2020 the remaining PPC staff salaries were temporarily reduced with the largest reductions (of up to 25%) being borne by the highest paid and without changes for other staff. The Board approved a revised Group budget in June 2020 that cut operating costs by $4.9m or 21% lower than in 2019 (2020: $17.9m, 2019: $22.8m) and administrative costs decreased by $3.1m or 23% (2020: $10.1m when 2019: $13.2m).

Our operations

In both Ukraine and Russia we have continued to focus on operational risk management, developing existing fields step by step with proven, low risk technology. A particular emphasis of 2020 has been to minimise capex and we consequently decided to suspend the drilling program from April to October. Despite this group production was only 5% lower in 2020 than in 2019 (2020: 10,238 boepd, 2019: 10,748 boepd). This was achieved through the drilling of one high producing well in Ukraine, low cost additional perforations on existing wells in Ukraine and the continuing benefits of two Russian workovers that had been completed in 2019.

Despite the suspension of the drilling program described above we achieved three new wells, two sidetracks and 13 workovers in Ukraine in 2020. The most successful Ukrainian well in 2020 was IG143 completed in Q1 which achieved a flow rate of 539 boepd.

Enhancements made to the LPG facility in Ukraine during a planned shut-down allowed us to increase our LPG yield by 34%, exceeding expectations. Subsurface studies have now been completed on the Devonian reservoir in Rudenkivske which has allowed us to identify a number of potential well locations, and progress is being made towards drilling at the most prospective of these.

In Ukraine we achieved a 174% reserves replacement ratio, largely through careful management of the West Mashivska Field and lower production decline than had been anticipated.

In 2020 PPC successfully converted the Zaplavska exploration licence into a 20-year production license. Work has commenced to unlock remaining resource potential in the Devonian and Visean reservoirs located in this field.

Meanwhile in Russia production has increased by 4% (2020: 5,389 boepd, 2019: 5,158 boepd) despite Well 20 ceasing production in February 2020. This increase in production is the result of two successful workovers in 2019 with production from these wells more than offsetting the loss of production from Well 20. In addition, production from existing wells has been more stable than expected enabling us to use a lower cost coiled tubing contractor as less acid stimulation treatments are now required to maintain production.

Our financial stability

The Group's financial strength remains robust as evidenced by the final repayment of the long-term debt of $5.8m in February 2020. Precautionary cost-cutting measures were implemented in March 2020 with operational and administrative expenses reduced across all locations and capital expenditure postponed until 2021.

Additionally, we continue to defend our legal position and to enforce the award of US$12.1million made by the International Tribunal in The Hague. We have had notable success in litigation of the remaining 2015 rental fee claims and we are still awaiting a final ruling from the Supreme Court in relation to a claim for underpayment of rental fees for 2010.

Managing our risks

The maintenance of an adequate internal control framework and appropriate risk management are essential to our success. Appropriate policies and procedures are implemented across the Group and are subject to regular review to ensure that they remain appropriate and fit for purpose.

Geological and operational risks are essential to our business and we continue to maintain and to improve our internal expertise and supplement this with the use of appropriate contractors and specialists to mitigate these risks.

2020 saw the most severe fall in the gas price in Ukraine in over 20 years although at the time of writing the trend is more positive and we continue to rely on the trading expertise of our commercial team to achieve best sales price.

In the light of this turbulence, we remain focused on the control of operational and administrative costs and we perform regular economic analysis of our planned capital projects to ensure that profitability remains central to our decision making.

Outlook

The Group's focus for 2021 is Ukraine, continuing development of the Devonian in Ignativske and working up exploration prospects in our own acreage. We continue to explore new business opportunities both through the acquisition of new licences through transparent mechanisms such as online auctions and tenders for production sharing agreements, as well as continuing with the development of our current licences.

Whilst 2021 will continue to present us with challenges I take confidence from our strengthening financial position and the dedication and skills of our men and women that will be key to the continuing success of your company.

Victor Gladun
Director
Chief Executive Officer

31 March 2021

Financial review

Revenue

Group revenues	2020 ($m)	2019 ($m)	Change ($m)	% Change
Ukraine	**52.8**	**84.3**	**(31.5)**	**(37%)**
Gas	30.5	52.3	(21.8)	(42%)
Oil	16.0	24.3	(8.3)	(34%)
Liquefied Petroleum Gas ('LPG')	5.7	6.6	(0.9)	(14%)
Other	0.7	1.1	(0.4)	(36%)
Russia	**16.8**	**17.4**	**(0.6)**	**(3%)**
Gas	16.2	16.7	(0.5)	(3%)
Condensate	0.6	0.7	(0.1)	(14%)
Total	**69.6**	**101.7**	**(32.1)**	**(32%)**

	2020	2019	Change	% Change
Ukraine				
Gas ($/Mcm)	132	206	(74)	(36%)
Oil ($/bbl)	44	61	(17)	(28%)
LPG ($/tonne)	383	449	(66)	(15%)
Russia				
Gas ($/Mcm)	52	57	(5)	(9%)

Results for the year

The Group's financial performance for 2020 has been impacted by the significant decline in oil and gas prices. Operating costs and G&A costs decreased due to well lease contract re-negotiations, right-sizing and wages decrease.

However despite these challenges and uncertain economic environment, the Group still generated profit before tax of
$24.9m compared to $30.4m in 2019. Results for both years include net movements in respect of provisions for disputed rental fees for 2010 and 2015 in Ukraine. $13.5m was recognisedas a credit in the 2020 Consolidated income statement (2019: $8.4m credit) which is the net of a $15.1m reversal of provisions for two tax cases that have been closed in favour of PPC relating to 2015 claims and of $1.6m interest accrued for the remaining cases that have not been closed.

Total revenue for 2020 is $69.6m, 31.6% lower than the $101.7m reported in 2019. The decrease is primarily due to the significantly lower commodity prices while total average daily Group production has remained relatively stable (10,238 boepd in 2020 to 10,748 boepd in 2019).

Ukraine revenues

The decrease in total revenues was due to significantly lower sales prices. The average gas sales price in dollar terms was 36% lower in 2020 than in 2019. This is in line with international market trends. Total gas sales volumes decreased by 11.6% from 257,030 Mcm in 2019 to 227,306 Mcm in 2020, due to the gas production volume having decreased 14.7% from 279,982 Mcm in 2019 to 238,868 Mcm in 2020. Selling gas inventory which reduced from 14,041 Mcm in the beginning of the year to 2,696Mcm at 31 December 2020 compensated the lower production levels during the year. For more detail on production trends please refer to the Operations review.

The average oil sales price reduced from $61/bbl in 2019 to $44/bbl in 2020 and total oil sales volumes for the year decreased 8.6% from 382,200 barrels in 2019 to 349,213 barrels in 2020. Oil production volume decreased 5.4% from 373,616 barrels in 2019 to 353,573 including barrels in 2020, with some levels being taken to inventory.

LPG sales volumes were 14,699 tonnes in 2020 compared to 13,636 tonnes in 2019, with sale prices being lower in 2020 ($383/ tonne in 2020 compared to $449/tonne in 2019).

Inventory held at 31 December 2020 (2.7 million cubic metres of gas and 32.6 thousand barrels of oil) had an estimated sales value of $2.2m using average sales prices for December 2020.

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

Russia revenues

Total revenues in Russia decreased due to the lower average gas prices in US$ terms, which were offset by higher gas production (2020: 331,303 Mcm, 2019: 316,254 Mcm). The benefit of the 3%increase in the average rouble gas sales price on 1 August 2020 was offset by the weaker rouble in 2020.

Cost of sales

Exceptional items relate to provisions for disputed rental fees. A release of $15.1m of provisions due to the closure of some of the 2015 rental fee claims in favour of our subsidiary was offset by an additional charge of $1.6m reflecting updated interest calculations in relation to the rental fee claims still provided for. This gives a net movement of $13.5m in 2020.

Cost of sales before exceptional items for 2020 totalled $48.8m (2019:$64.8m), including:

- $13.8m of production taxes, which were $9.8m lower than in 2019.In Ukraine, production tax expense (before exceptional charges) decreased by $9.8m from $21.8m to $12.0m mainly due to a decrease in the average border gas price which is the basis for calculating gas production taxes. Only $1.7m of the total production taxes relate to Russia (2019: $1.8m) where the mineral extraction tax rate for wells deeper than 5,000m has remained at 343 Roubles/Mcm.
- $17.9m of operating costs, which were $4.9m lower than in 2019. Out of this amount, $9.7m relates to Ukraine (2019:$14.7m) and $6.1m relates to Russia (2019:$7.0m) and $0.6m to London (2019: $0.8m) . The decrease in operating costs in Ukraine is mainly due to a decrease in well lease costs and lower labour costs due to right-sizing. The cost-cutting plan was designed and implemented by PPC management as a response to commodity prices drop.
- Selling inventory volumes in Ukraine resulted in recognition of a charge of $1.3m (2019: $0.4m), which was added to these operating costs respectively, gives the $17.8mcosts of sales reported in the income statement.
- $17.9m of depreciation, depletion and amortisation charge (2019:$18.4m), of which $12.1m relates to Ukraine (2019: $13.1m) and Russia $5.6m (2019: $5.3m).

Administrative expenses

Administrative expenses were $10.1m in 2020, comparing favourably to those of $13.2m in 2019. The decrease is mainly due to staff cost reductions and wages decrease resulting from a right-sizing exercise carried out and cost efficiency measures implemented in the first half of 2020 in response to the current challenging environment.

Finance income and costs

Finance costs decreased from $2.1m in 2019 to $1.0m in 2020mainly as a result of the bond interest which reduced from $1.2m to $0.2m due to the full bond repayment in February 2020. Finance costs also includes unwinding of discount of provisions for site restoration of $0.5m (2019: $0.6m).

Finance income of $0.5m (2019: $0.9m) comprises income from bank deposits.

Taxation

The total tax charge for 2020 is $4.0m (2019: $10.2m) comprising a current tax charge of $3.3m (2019: $6.6m) which relates to Ukraine and a deferred tax charge of $0.7m (2019: $3.6m). The decrease in current tax charge reflects a change in profitability in Ukraine. The deferred tax relates to movements in various deferred tax assets and liabilities in Ukraine and Russia as set out in Note 27, 28 to the financial statements.

Discontinued operation

The discontinued operation is the Hungarian business. The related result reported reflects the running costs incurred during 2020. A Memorandum of Understanding with a potential buyer was signed in February 2021. The sale of the business is expected in 2021 for approximately $2.9m.

Cash flows

During the year, the Group's available cash balances in continuing operations have increased ($24.3m at 31 December 2020 compared to $20.6m at 31 December 2019) while at the sametime making a final settlement of outstanding convertible bond liability. This was achieved as a result of a strong operating cash flow of $29.9m (2019: $41.4m) from continuing operations, almostall of it generated in Ukraine. Use of cash during the year is as shown in the cash bridge. Net cash outflow from financing activities in the period mainly relates to the $5.4m final payment to the bondholders in February 2020. No dividends were paid to shareholders in the period (2019: nil).

Cash flows ($m)

31 Dec 2019 Cash balance	Cash from continuing operations	Interest paid	Income tax paid	Capex additions Group	Bond repayment	Interest received and other	31 Dec 2020 Cash balance
20.6	28.9	(0.4)	(4.3)	(13.4)	(5.4)	(1.7)	24.3

Liquidity outlook

After a final payment of $5.8m to bond holders in February 2020, the Group is debt free. Our subsidiary in Ukraine still has a UAH280m ($9.9m) revolving credit line and a UAH50m ($1.8m) overdraft facility with Tascombank, neither of which are currently being used and can be drawn down subject to credit approvals by the bank. Both facilities have been renewed until December 2021 and can be drawn down subject to credit approvals by the bank. In July 2020 our subsidiary in Ukraine also signed a $5m loan facility agreement with Alfa-Bank which remains undrawn. For terms and conditions of this new facility please refer to Note 11 to these financial statements.

In addition, in the first of half of 2020 we revised the Budget for 2020 and further improved our liquidity by deferring capital expenditure and focusing on cost control. We are not burdened by significant field development commitments in the short or long term.

We continue to maintain provisions in respect of 2010 and 2015 rental fee claims ($13.8m and $7.2m respectively). The Group's expectation is that a final hearing with respect to the 2010 rental fee claim will take place during the coming months and the full provision for the claim has therefore been reported under current liabilities. It is expected that some of the final hearings in respect of the remaining 2015 rental fee claims will take place before 31 December 2021 and some will take place later. Provisions in relation to these cases have been allocated between current and non-current liabilities accordingly based on the expected timing of any subsequent payments. Of the total provisions of $7.2m for the 2015 rental fee claims, $2.1m has been reported under current liabilities and $5.1m has been reported under non-current liabilities.

The international arbitration award, directing the State of Ukraine to pay $11.8m plus interest and $0.3m costs to JKX as described in the 2019 Annual Report, has now been successfully legally recognised in Ukraine and JKX has filed for collection. No possible future benefit that may result from this award will be reflected in the accounts until there is further clarity on the process for, and likely success of, enforcing collection.

Both our Ukrainian and Russian operations remain cash flow positive despite recent disruption as a result of COVID-19 and the commodity prices drop. In 2020 the Company generated sufficient cash to cover the Group's costs and investment programmes. Operationally the Group's cash flows are forecasted to be sufficient to manage potential rental fee settlements if they become due. The Group also has access to the conditional Tascombank and Alfa-Bank loan facilities or can pursue other options to maintain liquidity should the need arise.

The consolidated financial statements have been prepared on a going concern basis (see Note 2 to the consolidated financial statements).

Dmytro Piddubnyy

Chief Financial Officer

Operations review

Group production

In 2020 Group average production was 10,238 boepd (2019: 10,748 boepd), an overall decrease in production of 5%. The reduction in production was a result of natural production decline and only one new well with significant production added in 2020 in Ukraine.

	boepd		Workovers*		Sidetracks		New wells	
Cash generating unit	2020	2019	2020	2019	2020	2019	2020	2019
Novomykolaivske complex	3,563	4,127	13	17	2	0	3	2
Elyzavetivske licence	1,286	1,457	0	2	0	0	0	2
Total Ukraine	4,849	5,584	13	19	2	0	3	4
Russia	5,389	5,158	0	2	0	0	0	0
Hungary	0	6	0	0	0	0	0	0
Total Group	10,238	10,748	13	21	2	0	3	4

* Includes abandonments.

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

Cash generating unit	Gas, Mcmd		Oil, bopd		boepd	
	2020	2019	2020	2019	2020	2019
Novomykolaivske complex	441	527	970	1,025	3,563	4,127
Elyzavetivske licence	212	242	37	33	1,286	1,457
Total Ukraine	653	769	1,007	1,058	4,849	5,584
Russia	905	867	61	59	5,389	5,158
Hungary	0	1	0	1	0	6
Total Group	1,558	1,637	1,068	1,118	10,238	10,748

Ukraine

Novomykolaivske complex production and operations

Field name	boepd		Workovers		Sidetracks		New wells	
	2020	2019	2020	2019	2020	2019	2020	2019
Ignativske	2,431	3,069	6	7	1	0	2	1
Molchanivske	398	355	1	5	0	0	0	0
Novomykolaivske	509	398	2	1	0	0	1	1
Rudenkivske	225	305	2	4	1	0	0	0
Zaplavska	0	0	2	0	0	0	0	0
Novomykolaivske complex	3,563	4,127	13	17	2	0	3	2

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

Outlook

Following the success of IG103 sidetrack, IG142 and, in 2020, follow-up well IG143 to the Devonian reservoir of the Ignativske field, further Devonian targets in the Ignativske licence are being evaluated and de-risked.

In Rudenkivske, the subsurface study on the Devonian was carried out by an external contractor and is now complete. The work has resulted in a number of potential drilling locations, therefore the subsurface concept will be derisked through drilling the first well location selected as a result of this study. This Devonian well has the highest chance of success and is planned for 2H 2021 or 1H 2022.

Operational and technical teams continue to evaluate how the Rudenkivske Visean reservoirs can be developed successfully.

Work has commenced to unlock remaining resource potential, in the Devonian and Visean, of the Zaplavska licence with subsurface studies indicating promising targets that will be progressed further.

Elyzavetivske licence production and operations

Field name	boepd		Workovers		New wells	
	2020	2019	2020	2019	2020	2019
Elyzavetivske	773	996	0	0	0	0
West Mashivska	513	462	0	2	0	2
Elyzavetivske Licence	1,286	1,458	0	2	0	2

The reduction in production from the Elyzavetivske licence was mainly the result of ongoing production decline in the Elyzavetivske field. West Mashivska production has increased year-on-year due to WM4, drilled late in 2019, being online for the whole of 2020.

Outlook

At present there are no plans for future development of this field.

Russia

Koshekhablskoye licence production and operations

Well name	boepd		Workovers	
	2020	2019	2020	2019
Well 5	360	263	0	1
Well 18	1,494	78	0	1
Well 20	57	1,353	0	0
Well 25	1,774	1,735	0	0
Well 27	1,631	1,672	0	0
Koshekhablskoye field*	5,389	5,158	0	2

*Includes Well 15 production.

In 2020 despite losing production from Well 20 in Q1 production has increased as the loss of production from Well 20 has been more than offset by production from the two new wells added in 2019, Well 5 and Well 18.

Principal risks and uncertainties

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

Liquidity, funding, and portfolio management.

Description: As for any other exploration and production company, our fields are prone to natural production decline. Our ability to ensure long-term sustainable production depends on having sufficient funds to invest in our development and efficient allocation of capital on investment projects or acquisitions.

It is important to maintain sufficient liquidity to allow for operational, technical, commercial, legal, and other contingencies.

Having sufficient funds to invest in development projects or other growth opportunities is subject to not only cash flow generated by existing operations but also access to external capital (such as equity or debt financing) or ability to carry out corporate transactions (such as mergers, acquisitions, or divestitures).

Impact: Inability to build or maintain sufficient liquidity may result in increased risk of having insufficient funds on hand to address unanticipated cash outflows, need to suspend planned payments to third parties, or other unplanned actions to urgently build sufficient liquidity.

Poor capital allocation decisions, inability to access external sources of capital or execute corporate transactions may result in long-term decline in production and cash flow from existing operations and further reduced ability to engage in new development projects.

Although the Group has been debt free since February 2020 this risk remains.

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.

In December 2019 PPC, our subsidiary in Ukraine, renewed a 24 month UAH280m ($9.9m) revolving credit line and a UAH50m ($1.8m) overdraft facility with Tascombank, neither of which are currently being used. We are confident that these facilities can be renewed again for 2022. The Alfa bank facility for $5.0m was added in the middle of 2020. Other liquidity tools include the ability to make forward sales in Ukraine.

Three of the 2015 rental fee cases have been closed in PPC's favour. Furthermore we have improved our understanding of the 2010 and the remaining 2015 rental fee claims and ensured that we have the resources to meet these potential liabilities if necessary. In particular, careful consideration has been given to the earliest dates that courts may conclude that PPC may be required to settle any or all of the various claims in the event that court hearings proceed without undue delay. The Group's expectation is that a final hearing with respect to the 2010 rental fee claim will take place this year and that final hearings in respect of the remaining active 2015 rental fee claims will take place in 2021 and 2022.

During 2020 the average Ukrainian sales prices achieved for oil and

What is the risk?	How do we manage it?
	condensate were significantly lower than in 2019 (2020 decline: Oil and condensate: 28%, Gas: 36%) and the Group responded by revising the 2020 work programme and budget focusing on the highest impact, lowest cost activities. Despite the Hungarian Authorities refusal to consent to the sale of the Group's Hungarian assets the Board continues to focus on minimising Hungarian costs and expects to dispose of it during 2021. The Board has also reinforced the Group's New Business Development team and holds regular review meetings to consider opportunities.
Geopolitical and fiscal. Description: The Group's oil and gas operations are located in Ukraine and Russia and the oil, gas and condensate that we produce are sold into their domestic markets. There are geopolitical risks related to these countries and the relationship between them. Some of such risks may be related to changes in taxes, capital controls, laws and regulations, political situation, or investor sentiment. Both countries have relatively weak judicial systems that are susceptible to outside influence and it can take an extended period for the courts to reach final judgment. Both countries display emerging market characteristics where the right to production can be challenged by State and non-State parties. The business environment is such that a challenge may arise at any time in relation to the Group's operations, licence history, compliance with licence commitments and/or local regulations. Local legislation constantly evolves as the governments attempt to manage the economies and business practices regarding taxation, banking operations and foreign currency transactions. The constantly evolving legislation can create uncertainty for local operations if guidance or interpretation is not clear. Geopolitical tensions between Ukraine and Russia, political instability and military action in parts of Ukraine have negatively impacted its economy, financial markets and relations with the Russian Federation. Any continuing or escalating military action in eastern Ukraine could have a further adverse effect on the economy. Impact: If Management's interpretation of tax legislation does not align with that of the tax authorities, the tax authorities may challenge transactions which could result in additional taxes, penalties and fines which could have a material adverse effect on the Group's financial position and results of operations. PPC has at times sought clarification of their status regarding a number of rental fees. PPC continues to defend itself in court against action initiated by the tax authorities regarding rental fees for August to December 2010 and for January to December 2015. In addition, in February 2017, the Company was awarded approximately $11.8m in damages plus interest and costs of $0.3m by an international arbitration tribunal pursuant to a claim made against Ukraine under the Energy Charter Treaty. This award has been recognised in Ukraine and the Group is following procedures for its collection.	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. In respect of the 2010 and 2015 rental fee claims, provisions of $13.8m and $7.2m respectively, have been recognised in these financial statements to reflect the Company's estimate of the potential liability. Except for this $21.0m provision, the Group's financial statements do not include any other adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts or classifications of liabilities that may result from these tax uncertainties. The Company continues to work through the proper processes for enforcement of collection of the international arbitration award. A key priority for the Group is to maintain transparent working relationships with all key stakeholders in our significant assets in Ukraine and Russia and to improve the methods of regular dialogue and on-going communications locally. Our strategy is to employ skilled local staff working in the countries of operation and to engage established legal, tax and accounting advisers to assist in compliance, when necessary. The Group endeavours to comply with all regulations via Group procedures and controls or, where this is not immediately feasible for practical or logistical considerations, seeks to enter into dialogue with the relevant Government bodies.
Reservoir and operational performance. Description: Subsurface and operational risks are inherent to our business. The reservoir performance cannot be predicted with certainty and operations required for hydrocarbon production are subject to risks of interruption or failure. Production from our mature fields at the Novomykolaivske Complex in Ukraine require a high level of maintenance and intervention to minimise the production decline. In Russia, acidisation of deep, high pressure and high temperature wells and other well maintenance procedures to stabilise production are required, increasing risk of failure. Impact: Accurate reservoir performance forecasts from fields in Ukraine and Russia are critical in achieving the desired economic returns and to determine the availability and allocation of funds for future investment into the exploration for, or development of, other oil and gas reserves and resources. If reservoir performance is lower than forecast, sufficient finance may not be available for planned investment in other development projects which will result in lower production, profits and cash flows. Inability to ensure continuous operation of wells, flowlines, production facilities and successful execution of drilling, workover, repair, enhancement interventions may result in lower production, profits and cash flows.	There is daily monitoring and reporting of the well and plant performance at all our fields. Production data is analysed by our in-house technical expertise. This supports well intervention planning and further field development. Our subsurface and operations specialists and industry-recognised personnel are part of the daily monitoring and reservoir management process of our fields and assets. Production forecasts generated for future development opportunities are risked to take account of geological uncertainty. Operational risks are taken account of by adding a percentage of contingency to the duration and cost of the planned development action. The percentage of contingency added is based on both historical experience and perceived difficulty of the development action. We continue to focus on low cost, high impact operations to ensure that the Group obtains best value for its expenditure.
Financial discipline and governance. Description: The Group has presence in four countries with major operations in Russia, Ukraine, and the United Kingdom. Such a complex structure requires complex governance and control procedures to be in place to ensure appropriate level of financial discipline and controls, as well as delegation of authority along the corporate and management structure. From 2015 to 2019 the Group underwent several major Board and management changes, changes of advisors and contractors, as well as significant reduction of staff across its operations. These changes have required additional efforts to ensure proper implementation of governance, controls, and financial discipline procedures. Impact: Failure to maintain an appropriate level of financial discipline, governance and controls may lead to unnecessary or inappropriate spending, lack of control over procurement, contracting, investment decisions and exposure to increased legal, regulatory, or financial risks.	During 2018 new financial controls were implemented and corporate governance was enhanced, including more frequent and detailed management reporting to the Board of Directors. A Group Policy Manual has been implemented across the Group and updated in 2020. It is subject to regular review and revision by the Board to ensure that governance and control procedures are sufficient to insure the appropriate level of financial discipline and controls, as well as delegation of authority along the corporate and management structure. The appointment of a Group CEO in 2019 also helped to consolidate approval processes and introduce a single point of ultimate executive control.
Health, safety, and environmental risks. Description: We are exposed to a wide range of significant health, safety, security and environmental risks influenced by the geographic range, operational diversity and technical complexity of our oil and gas exploration and production activities. 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. Impact: Technical failure, non-compliance with existing standards and procedures, accidents, natural disasters and other adverse conditions where we operate, could lead to injury, loss of life, damage to the environment, loss of containment of hydrocarbons and other hazardous material, as well as the risk of fires and explosions. Failure to manage these risks effectively could result in loss of certain facilities, with the associated loss of production, or costs associated with mitigation, recovery, compensation and fines. Poor performance in mitigating these risks could also result in damaging publicity for the Group. A programme for adaptation to climate change to address the identified risks is an ongoing process for 2021/2022.	Health, safety and the environment is a priority of the Board who are involved in the planning and implementation of continuous improvement initiatives. A London-based Group HSECQ Manager reports directly to the Board of Directors and provides a detailed monthly HSE report. The Group HSECQ Manager is responsible for maintaining a strong culture of health, safety and environmental awareness in all our operational and business activities. The HSECQ Manager reports to the Board with details of Group performance. Operations in Ukraine, Russia and Hungary all have a dedicated HSECQ Team of local personnel led by an HSECQ Manager. All locations have HSE Management Systems modelled on the ISO 9000 series, OHSAS 18001 and ISO 14001. Appropriate insurance policies, provided by reputable insurers, are maintained at the Group level to mitigate the Group's financial exposure to any unexpected adverse events arising out of the normal operations. Following a fatal accident in Ukraine in 2020 involving a third party contractor, a fatal accident enquiry was held and lessons learnt communicated across the Group. As a result the HSE aspects of the contractor qualification process have been enhanced.
Asset integrity. 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. 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.	Status of our licences and relevant licence obligations are monitored on a country level. In 2018 the deadline for the Callovian well drilling commitment in Russia, which is the Group's largest single commitment, was extended until 2025. The Company continues to monitor compliance with its gaseous emission levels in Russia and is in the process of identifying a long-term action plan.
Major breach of business, ethical, or compliance standards.	The CFO is responsible for compliance and, with the support of the Board, implements compliance-related activities and procedures.

What is the risk?	How do we manage it?
Description: The Company is subject to numerous requirements and standards including the UK Bribery Act, UK Listing Rules, UK Corporate Governance Code, and the Disclosure and Transparency Rules, among others. Additionally, some of our stakeholders, such as financial institutions, may require us to comply with other requirements or ask us to provide information on our business, operations, employees and shareholders as part of Know Your Client ("KYC") procedures. Impact: Failing to comply with onerous regulations and requirements, such as failure to implement adequate systems to prevent bribery and corruption or money laundering, could result in prosecution, fines or penalties imposed on the Company or its officers, suspension of operations or listing. Inability to clear KYC procedures to satisfaction of the third parties may result in refusal to engage in business relationships with the Company. Given the Group's share register the risk of withdrawal of banking facilities is increasing.	Such activities focus on training, monitoring, risk management, due diligence and regular review of policies and procedures. We prohibit bribery and corruption in any form by all employees and by those working for and/or connected with the business. Employees are expected to report actual, attempted or suspected bribery or other issues related to compliance to their line managers or through our independently managed confidential reporting process, which is available to all staff as well as third parties. In 2017 we engaged an independent consultant to assess our anti-bribery and corruption ("ABC") policies, procedures and practices and in 2018 we engaged KPMG to conduct a forensic review of procurement of legal services and subsequent payments made to legal advisors in Ukraine in 2017. Recommendations arising from both have been implemented to further strengthen our ABC framework. This included completion of a full Bribery Risk Assessment. Senior and higher-risk staff are required to complete annual declaration statements confirming that they have understood the company's ethical policies and have complied with them. In dealing with third parties, our policy is to maximise transparency and provide all information available to address KYC-related procedures and requests. The Company is in ongoing discussions with the FCA about the level of shares in public hands which currently stands at 21.9, below the 25% level required by the Listing Rules.

Commodity prices and FX fluctuations.

Description: JKX is exposed to international oil and gas price movements, policy developments in Russia which may affect the regulated gas price and movements in exchange rates. Such changes will have a direct effect on the Group's trading results. Gas prices in Ukraine are closely aligned with gas prices in Europe. Ukraine does not currently purchase gas from Russia directly. Change in gas import flows may have impact on gas prices in Ukraine, and a prolonged period of low gas prices would impact the Group's liquidity. In Ukraine PPC sells the oil and gas it produces at prices determined by a combination of the global oil market and local market factors. During 2020 the average price achieved fell significantly by comparisons to the average price received in 2019 (2020 decline: Oil and condensate: 28%, Gas: 36%). Foreign exchange risk has increased following the significant devaluation of the Ukrainian Hryvna and the Russian Rouble through 2020. 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 the Hryvnia and Rouble 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. JKX attempts to maximise its realisations versus relevant benchmarks while keeping credit risk to a minimum by selling mostly on spot markets and on a prepayment basis. As commodity prices in Ukraine closely follow international benchmarks, significant changes in the exchange rates are reflected in commodity prices providing a natural hedge. In Russia, the vast majority of gas produced is sold to a single local gas trading company through a long term gas sales contract with prices set in Roubles. Sales price for gas is fixed and is subject to increase according to changes in a tariff set by relevant regulatory bodies. The Company continues to seek other sales opportunities in Russia to improve realisations. The Group attempts to match, as far as practicable, receipts and payments in the same currency and also follow a range of commercial policies to minimise exposures to foreign exchange gains and losses.

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 $000	2019 $000
Revenue	4	69,623	101,744
Cost of sales			
Exceptional item - net reversal of provision for production based taxes	19	13,543	8,410
Other production based taxes	21	(13,783)	(23,518)
Other cost of sales	21	(34,997)	(41,264)
Total cost of sales	21	(35,237)	(56,372)
Gross profit		34,386	45,372
Administrative expenses		(10,119)	(13,207)
Gain/(loss) on foreign exchange		1,048	(615)
Profit from operations before exceptional items		11,772	23,140
Profit from operations after exceptional items		25,315	31,550
Finance income	22	487	857
Finance costs	23	(951)	(2,054)
Fair value movement on derivative liability	12	-	62
Profit before tax		24,851	30,415
Taxation - current	27	(3,303)	(6,561)
Taxation - deferred			
- before the exceptional items	27	3,692	(1,968)
- on the exceptional items	27	(4,370)	(1,677)
Total taxation	27	(3,981)	(10,206)
Profit from continuing operations (attributable to equity holders of the parent company)		20,870	20,209
(Loss)/profit from discontinued operation (attributable to equity holders of the parent company), net of tax	15	(1,002)	2,004
Profit for the year attributable to equity shareholders of the parent company		19,868	22,213

	Note	2020 in cents	2019 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	29	12.15	12.02
-before exceptional items	29	6.81	8.02
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	29	(0.58)	1.19

-before exceptional items	29	(0.40)	(0.14)
Earnings per share for profit attributable to the ordinary equity holders of the parent company:			
Basic and diluted profit per 10p ordinary share			
-after exceptional items	29	11.57	13.21
-before exceptional items	29	6.41	7.88

Consolidated statement of comprehensive income

For the year ended 31 December 2020

	2020 $000	2019 $000
Profit for the year	19,868	22,213
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods when specific conditions are met:		
- Currency translation differences	(30,431)	21,481
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
- Remeasurements of post-employment benefit obligations	(115)	(94)
- Changes in the fair value of equity investments at fair value through other comprehensive income	-	500
Other comprehensive (loss)/income for the year, net of tax	(30,546)	21,887
Total comprehensive (loss)/income for the year attributable to equity shareholders of the parent company	(10,678)	44,100
Continuing operations	(9,676)	42,096
Discontinued operations	(1,002)	2,004

Consolidated statement of financial position

As at 31 December 2020

	Note	2020 $000	2019 $000
ASSETS			
Non-current assets			
Property, plant and equipment	5(a)	173,913	215,728
Deferred tax assets	28	9,451	8,012
Investment	6	500	500
		183,864	224,240
Current assets			
Inventories	7	4,358	6,915
Trade and other receivables	8	3,661	3,931
Cash and cash equivalents	9	24,329	20,629
		32,348	31,475
Assets classified as held for sale	15	3,186	3,187
Total current assets		35,534	34,662
Total assets		219,398	258,902
LIABILITIES			
Current liabilities			
Current tax liabilities		(877)	(1,941)
Trade and other payables	10	(9,332)	(14,158)
Lease liabilities	13	(401)	(1,461)
Borrowings	11	-	(5,683)
Provisions	19	(15,911)	(15,861)
		(26,521)	(39,104)
Liabilities of disposal group classified as held for sale	15	(286)	(287)
Total current liabilities		(26,807)	(39,391)
Non-current liabilities			
Provisions	19	(10,931)	(31,769)
Defined pension benefit plan	20	(922)	(859)
Lease liabilities	13	(358)	(628)
Deferred tax liabilities	28	(3,518)	-
		(15,729)	(33,256)
Total liabilities		(42,536)	(72,647)
Net assets		176,862	186,255
EQUITY			
Share capital	17	26,666	26,666
Share premium		97,476	97,476
Other reserves	18	(181,282)	(150,736)
Retained earnings		234,002	212,849
Total equity		176,862	186,255

These financial statements were approved by the Board of Directors on 31 March 2021 and signed on its behalf by:

Victor Gladun
Chief Executive Officer

Dmytro Piddubnyy
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2020

	Share capital $000	Share premium $000	Retained Earnings $000	Other reserves (Note 18) $000	Total equity $000
	Attributable to equity shareholders of the parent				
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 16)	-	-	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
At 1 January 2019	26,666	97,476	190,163	(172,623)	141,682
Profit for the year	-	-	22,213	-	22,213
Exchange differences arising on translation of overseas operations	-	-	-	21,481	21,481
Remeasurement of post-employment benefit obligations	-	-	-	(94)	(94)
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	-	500	500
Total comprehensive income attributable to equity shareholders of the parent	-	-	22,213	21,887	44,100
Transactions with equity shareholders of the parent					
Share-based payment charge	-	-	14	-	14
Exercise of share options (Note 26)	-	-	17	-	17
Sale of shares held by Employee Benefit Trust (Note 16)	-	-	442	-	442
Total transactions with equity shareholders of the parent	-	-	473	-	473
At 31 December 2019	26,666	97,476	212,849	(150,736)	186,255

Share 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 18 for the details.

Consolidated statement of cash flows

For the year ended 31 December 2020

	Note	2020 $000	2019 $000
Cash flows from operating activities			
Cash generated from continuing operations	31	28,938	41,386
Cash generated from/(used) in discontinued operations	15	300	(176)
Interest paid		(381)	(1,131)
Income tax paid		(4,250)	(7,090)
Net cash generated from operating activities		24,607	32,989
Cash flows from investing activities			
Interest received		487	818
Dividend received		-	27
Proceeds from sale of property, plant and equipment		120	47
Purchase of property, plant and equipment		(13,389)	(27,380)
Net cash used in investing activities		(12,782)	(26,488)
Cash flows from financing activities			
Restricted cash movement		-	211
Exercise of share options		-	17
Sale of shares held by Employee Benefit Trust		1,285	442
Repayment of borrowings		(5,440)	(5,280)
Principal paid on lease liabilities		(1,661)	(1,776)
Net cash used in financing activities		(5,816)	(6,386)
Increase in cash and cash equivalents in the year		6,009	115
Cash and cash equivalents at 1 January		20,725	19,455
Effect of exchange rates on cash and cash equivalents		(2,009)	1,155
Cash and cash equivalents at 31 December		24,725	20,725
Cash and cash equivalents in continuing operations at the end of the year	9	24,329	20,629
Cash and cash equivalents in discontinued operations at the end of the year	15	396	96

Notes to consolidated financial statements

1. General information

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

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

2. Basis of preparation

The financial information set out herein does not constitute the Group's statutory financial statements for the year ended 31 December 2020, but is derived from the Group's audited financial statements. The auditors have reported on the 2020 financial statements and their reports were unqualified and did not contain statements under s498(2) or (3) Companies Act 2006, nor did they contain a material uncertainty in relation to going concern. The 2020 Annual Report was approved by the Board of Directors on 31 March 2021, and will be mailed to shareholders in April 2021. The financial information in this statement is audited but does not have the status of statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The Group's consolidated financial statements, which form part of the 2020 Annual Report, have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention as modified for derivative financial instruments held at fair value through profit and loss plus equity investments held at fair value through other comprehensive income. The Group financial information is presented in US Dollars ($) and rounded to the nearest thousand.

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.

Going concern

The Directors note that the Group is debt free and has generated $29m of operating cash flow in 2020 with $24.3m of cash held at 31 December 2020. In addition, the Group benefits from an undrawn Tascombank loan facility of UAH280m ($9.9m) and overdraft facility of UAH50m ($1.8m) that were both renewed in December 2019, although each draw down is subject to credit approval by the bank. Additionally, in July 2020 the Group secured a $5.0m facility with Alfa-Bank, although draw downs are conditional on credit approval by the bank and tranches are repayable 2 months from draw down. Please refer to Note 11 for the major terms of the credit facilities.

In response to the reduced commodity prices in 2020 the Group has taken measures to reduce operating costs and deferred discretionary capex whilst implementing rigorous policies and protocols to enable its Ukrainian and Russian operations to operate safely and effectively despite the COVID-19 pandemic. Production has continued without significant disruption through the year and the Board notes that whilst oil and gas prices remain reduced compared to the pre-COVID-19 period the market is now improving.

The Board have reviewed the Group's forecast cash flows, sensitivities and combined stress case scenarios for a period of at least the next 12 months. In doing so, the Board considered risks and uncertainties associated with COVID-19 and the probability of those occurring noting the additional information available to assess such risks following the development of the pandemic over recent months. Factors considered included a) potential for further government led restrictions, illness amongst our workforce and disruption to supply chain and sales channels; b) market volatility in respect of commodity prices; and c) the Group's ability to utilise its credit facilities.

The forecasts have been based on approved operational budgets. Gas prices in the regulated Russian market have been forecasted based on recent prices and contractual terms, oil price assumptions in Ukraine have been forecast at a discount to current market forward curves and Ukrainian gas prices have been estimated conservatively considering market prices, seasonal gas price trends and market outlooks.

The forecast cash flows reviewed include scenarios where potential liabilities arise in relation to the rental fee claims in Ukraine (see Note 27 to the consolidated financial statements) that the Group continues to contest. This included assessments of the timing of such potential payments that may fall due in the forecast period following detailed analysis of Ukrainian legislation and the status of each claim with internal and external legal and tax experts, notwithstanding the previous experience of continued delays in the court proceedings.

The Board further considered separate scenarios including: a) the effect of reductions in Ukrainian oil and gas prices of 20% on the base case, noting that the base case pricing is below market prices, sustained across the forecast period; and b) the impact of temporary disruption to operations associated with the potential for localised COVID-19 cases albeit operations have continued uninterrupted to date and the nature of the operations reduces the risk of such an eventuality. The rental claims stress test scenario is based on the estimated earliest payment dates when the payments fall due. This case was combined with both scenarios listed above. All reasonably possible forecasts demonstrate that significant cash balances are maintained under such scenarios and they would be sufficient to meet such obligations as they fall due.

Based on the Group's cash flow forecasts, the Directors believe that the combination of its current cash balances, net cash flows from operations and undrawn facilities mean that the Group will be able to meet its liabilities and commitments as they fall due across the forecast period. Accordingly the Board considers it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

Adoption of new and revised standards

New standards, interpretations and amendments effective from 1 January 2020
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 2019, except for the following:

(a) Definition of Material - Amendments to IAS 1 and IAS 8;
(b) Definition of a Business - Amendments to IFRS 3;
(c) Interest Rate Benchmark Reform - Amendments to IFRS 7, IFRS 9 and IAS 39;
(d) Revised Conceptual Framework for Financial Reporting;
(e) COVID-19-related Rent Concessions - Amendments 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 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions.

	Effective for annual periods beginning on or after
Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16	01-Jan-22
Reference to the Conceptual Framework - Amendments to IFRS 3	01-Jan-22
Onerous Contracts - Cost of Fulfilling a Contract Amendments to IAS 37	01-Jan-22
Annual Improvements to IFRS Standards 2018-2020	01-Jan-22
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	01-Jan-23
IFRS 17, 'Insurance contracts'	01-Jan-23

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.

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 2020 were $1:£0.73 (2019: $1:£0.76), $28.27 Hryvnia (2019: $1: 23.69 Hryvnia), $1: 73.88 Roubles (2019: $1: 61.91 Roubles), $1: 296.81 Hungarian Forint (2019: $1: 294.43 Hungarian Forint).

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

Property, plant and equipment and other intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

On disposal of a subsidiary or joint arrangement, the attributable amount of unamortised goodwill, which has not been subject to impairment, is included in the determination of the profit or loss on disposal.

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

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

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 15 "Discontinued operations and assets classified as held for sale".

Impairment of property, plant and equipment and intangible assets
Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash-generating unit for impairment assessment purposes at the lowest level at which their identifiable cash flows, that are largely independent of the cash flows of the other Groups assets, can be determined. A cash-generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

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

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

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'.

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 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.

Share options

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

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

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

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

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

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

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

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

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

Bonus scheme

The Group operates a bonus scheme for its employees. The bonus payments are made annually, normally in January of each year and the costs are accrued in the period to which they relate.

Pension costs

The Group contributes to the individual pension scheme of the qualifying employees' choice. Contributions are charged to the income statement as they become payable. The Group has no further payment obligations once the contributions have been paid.

Decommissioning

Provision is made for the cost of decommissioning assets at the time when the obligation to decommission arises. Such provision represents the estimated discounted liability for costs which are expected to be incurred in removing production facilities and site restoration at the end of the producing life of each field. A corresponding item of property plant and equipment is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities. Any change in 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 plc shares are classified as treasury shares in shareholders' equity and are presented in the retained earnings. The consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

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

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

The asset is depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Lease terms range from two to three years for 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 (a))
Costs capitalised as oil and gas assets in property, plant and equipment, and intangible assets are assessed for impairment when circumstances suggest that the carrying value may exceed its recoverable value. As part of this assessment, management has carried out an impairment test (ceiling test) on the oil and gas assets classified as property, plant and equipment, where indicators of impairment have been identified on a CGU. This test compares the carrying value of the assets at the reporting date with the expected discounted cash flows from each project prepared under the fair value less cost of disposal approach. For the discounted cash flows to be calculated, management has used a production profile based on its best estimate of proven and probable reserves of the assets and a range of assumptions, including an internal oil and gas price profile benchmarked to mean analysts' consensus and third party estimates and a discount rate which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks. This assessment involves judgement as to (i) the likely commerciality of the asset, (ii) proven, probable ('2P') reserves which are estimated using standard recognised evaluation techniques (iii) future revenues and estimated development costs pertaining to the asset, (iv) the discount rate to be applied for the purposes of deriving a recoverable value including estimates of the relevant levels of risk premiums applied to the assets. In cases where impairment tests demonstrate headroom, reversals of impairment charges are not recognised in the Group income statement if the existence of the headroom is sensitive to pricing, production or discount rates.

b) Depreciation of oil and gas assets (Note 5 (a))
Oil and gas assets held in property, plant and equipment are mainly depreciated on a unit of production basis at a rate calculated by reference to proved plus probable reserves and incorporating the estimated future cost of developing and extracting those reserves. Future development costs are estimated using assumptions as to the numbers of wells required to produce those reserves, the cost of the wells, future production facilities and operating costs; together with assumptions on oil and gas realisations based on the approved field development plans.

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

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

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

d) Provisions for decommissioning costs (Note 19)
Estimates of the cost of future decommissioning and restoration of production facilities are based on current legal and constructive requirements, technology and price levels, while estimates of when decommissioning will occur depend on assumptions made regarding the economic life of fields which in turn depend on such factors as oil and gas prices, decommissioning costs, discount rates and inflation rates. Management reviewed the estimation process and the basis for the principal assumptions underlying the cost estimates, noting in particular the reasons for any major changes in estimates as compared with the previous year. The Group was satisfied that the approach applied was fair and reasonable. The Group was also satisfied that the discount and inflation rates used to calculate the provision were appropriate. The discount rates were based on government bonds issued in the respective countries.

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

(i) select a valuation method - 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;
(iv) apply discount to each of the criteria to determine the fair value of UNB.

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

g) Exceptional items (Notes 19 and 27)
Judgment is required when determining whether items meet the definition of 'exceptional' under the Group's accounting policy.

Rental fee demands (Notes 19 and 27)
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 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.

Non-current assets held for sale and discontinued operations (Note 15)
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 2019 and 2020 respectively as it was deemed non-recurring. The Group is in the process of disposal of the Hungarian business unit and it is classified as held for sale. Accordingly, given the divestment and withdrawal strategy applicable to Hungary reversal of provision for impairment/(provision for impairment) will not recur.

h) Non-current assets held for sale and discontinued operations (Note 15)
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 2020.

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 is highly probable and the Group remains committed to its plan to sell the Hungarian business unit.

In February 2021 the Group signed Memorandum of Understanding with a new potential buyer. The sale is expected to qualify for recognition as a completed sale within one year from the date of this Annual report.

4. Segmental analysis

The Group has one single class of business, being the exploration for, evaluation, development and production of oil and gas reserves. Accordingly the reportable operating segments are determined by the geographical location of the assets and, therefore all information is being presented for geographical segments. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments.

There are four (2019: 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 and Russia segments are involved with production and exploration; the 'Rest of World' are involved in exploration, development and production and the UK is the home of the head office and purchases material, capital assets and services on behalf of other segments.

The Group derives revenue from the transfer of goods at a point in time.

Segment revenue, segment expense and segment results include transfers between segments. Those transfers are eliminated on consolidation.

Segment results and assets include items directly attributable to the segment. Segment assets consist primarily of property, plant and equipment, inventories and receivables. Capital expenditures comprise additions to property, plant and equipment and intangible assets.

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	610	-	16,594	-	16,594
- Gas	-	30,496	16,174	-	46,670	-	46,670
- Liquefied petroleum gas	-	5,654	-	-	5,654	-	5,654
- Other	-	697	8	-	705	-	705
	-	52,831	16,792	-	69,623	-	69,623
Inter segment revenue:							
- Management services/other	503	-	-	-	503	(503)	-
	503	-	-	-	503	(503)	-
Total revenue	503	52,831	16,792	-	70,126	(503)	69,623
Profit/(loss) before tax:							
Profit/(loss) from operations	(4,138)	27,455	2,042	(84)	25,275	40	25,315
Finance income					487	-	487
Finance cost					(951)	-	(951)
					24,811	40	24,851
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 Total assets and liabilities exclude assets and liabilities of the Hungarian disposal group classified as held for sale. Please refer to Note 15 for details.

Major customers	2020 $000	2019 $000
Ukraine	9,751	-
Russia	16,111	17,231

There are two customers, one in Ukraine and one in Russia that exceeds 10% of the Group's total revenues (2019: one customer in Russia that exceeds 10% of the Group's total revenues).

2019	UK $000	Ukraine $000	Russia $000	Rest of World[1] $000	Sub Total $000	Eliminations $000	Total $000
External revenue							
Revenue by location of asset:							
- Oil	-	24,339	701	-	25,040	-	25,040
- Gas	-	52,319	16,750	-	69,069	-	69,069
- Liquefied petroleum gas	-	6,562	-	-	6,562	-	6,562
- Other	-	1,055	18	-	1,073	-	1,073
	-	84,275	17,469	-	101,744	-	101,744
Inter segment revenue:							
- Management services/other	1,650	-	-	-	1,650	(1,650)	-
	1,650	-	-	-	1,650	(1,650)	-
Total revenue	1,650	84,275	17,469	-	103,394	(1,650)	101,744
Profit/(loss) before tax:							
Profit/(loss) from operations	(6,922)	37,544	1,052	(236)	31,438	112	31,550
Finance income					857	-	857
Finance cost					(2,054)	-	(2,054)
Derivative liability written-off					62	-	62
					30,303	112	30,415
Assets							
Property, plant and equipment	365	116,734	98,629	-	215,728	-	215,728
Investment	500	-	-	-	500	-	500
Deferred tax	-	(172)	8,184	-	8,012	-	8,012
Inventories	-	5,295	1,620	-	6,915	-	6,915
Trade and other receivables	349	1,603	1,973	6	3,931	-	3,931
Cash and cash equivalents	9,496	9,571	1,414	148	20,629	-	20,629
Total assets[1]	10,710	133,031	111,820	154	255,715	-	255,715
Total liabilities[1]	(7,323)	(57,980)	(7,027)	(30)	(72,360)	-	(72,360)
Non cash expense (other than depreciation and impairment)	229	214	118	-	561	-	561
Exceptional item - net reversal of provision for production based taxes	-	8,410	-	-	8,410	-	8,410
Increase in property, plant and equipment and intangible assets	-	20,850	9,104	-	29,954	-	29,954
Depreciation, depletion and amortisation	246	13,049	5,922	-	19,217	-	19,217

2 Total assets and liabilities exclude assets and liabilities of the Hungarian disposal group classified as held for sale. Please refer to Note 15 for details.

5. Property, plant and equipment and Intangible assets

5.(a) Property, plant and equipment

Right-of-use

2020	Oil and gas fields Ukraine $000	Gas field Russia $000	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

3 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 13 for the full disclosure on the Right-of-use assets.

Oil and gas fields in Ukraine and Russia include $7.9m and nil respectively relating to items under construction (2019: $7.8m and $0.6m).

	Oil and gas assets					
2019	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	578,094	192,952	-	17,755	-	788,801
Application of IFRS 16 - Right-of-use assets	-	-	2,159	-	907	3,066
Additions during the year	19,924	8,887	-	1,143	446	30,400
Foreign exchange	99,454	23,579	-	510	-	123,543
Disposal of property, plant and equipment	-	(10)	-	(407)	-	(417)
At 31 December	697,472	225,408	2,159	19,001	1,353	945,393
Accumulated depreciation, depletion and amortisation and provision for impairment						
At 1 January	486,258	110,621	-	16,810	-	613,689
Depreciation on disposals of property, plant and equipment	-	(10)	-	(195)	-	(205)
Foreign exchange	83,397	13,327	-	240	-	96,964
Depreciation charge for the year	12,728	4,607	1,177	373	332	19,217
At 31 December	582,383	128,545	1,177	17,228	332	729,665
Carrying amount						
At 1 January	91,836	82,331	-	945	-	175,112
At 31 December 2019	115,089	96,863	982	1,773	1,021	215,728

4 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 13 for the full disclosure on Right-of-use assets.

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 significantly lower gas sales prices in 2020, and in relation to both Ukrainian and Russian assets due to the carrying amount of the Group net assets exceeding the Company's market capitalisation.

As there is no readily available market for the Group's oil and gas properties, fair value is derived as the net present value of the estimated future cash flows arising from the continued use of the assets, incorporating assumptions that a typical market participant would take into account.

The value in use of an oil and gas property is generally lower than its Fair Value Less Costs of Disposal ('FVLCD') as value in use reflects only those cash flows expected to be derived from the asset in its current condition. FVLCD includes appraisal and development expenditure that a market participant would consider likely to enhance the productive capacity of an asset and optimise future cash flows. Consequently, the Group determines recoverable amount based on FVLCD using a Discounted Cash Flow ('DCF') methodology.

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

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

Impairment test for the Ukrainian oil and gas assets

Poltava Petroleum Company ('PPC'), a wholly owned subsidiary of JKX, holds 100% interest in five production licences (Ignativske, Movchanivske, Rudenkivske, Novomykolaivske, Elyzavetivske) and one exploration licence (Zaplavska) in the Poltava region of Ukraine.

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

The Elyzavetivske production licence is located 45km from the Novomykolaivske Complex and has its own gas production facilities.

Ukrainian Cash Generating Units ('CGUs')

In respect of the Group's Ukraine assets the NNC forms a single CGU as these contain oil and gas fields which are serviced by a single processing facility and do not have separately identifiable cash inflows. In addition they have commonality of facilities, personnel and services.

The Elyzavetivske licence also has its own separate processing facilities and separately identifiable cash flows and therefore is a distinct CGU for the purpose of the impairment test. During 2015 an extension to the Elyzavetivske production licence was awarded to PPC which included the West Mashivska field. Due to the proximity of the West Mashivska field to the Elyzavetivske plant, production will be tied back to the Elyzavetivske processing facilities and therefore forms part of this CGU.

In accordance with IAS 36, the impairment review was undertaken in Ukrainian hryvnia being the currency in which future cash flows from NNC and Elyzavetivske will be generated.

Key Assumptions - NNC and Elyzavetivske

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available information assessed internally. Such information included 2P reserves for NNC and Elyzavetivske of 22.4 MMboe and 2.3 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 2039). The economic life of the Elyzavetivske field is currently expected to be around 2034 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 2021 is based on estimates of gas prices to be realised by our Ukrainian subsidiary determined considering external market forecasts as at year end with consideration given the applicability or otherwise of relevant pricing adjustments for the local market. For the period of the model a forward gas price curve was used.
- Oil prices: the Company used a forward price curve as at 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.

Based on the key assumptions set out above:

- the recoverable amount of NNC's oil and gas assets ($114.5m) exceeds its carrying amount ($84.4m) by $30.1m and therefore NNC's oil and gas assets were not impaired.
- Elyzavetivske's recoverable amount (including the West Mashivska extension) ($19.1m) exceeds its carrying amount ($9.3m) by $9.8m, 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 $29.3 for NNC CGU $m	Elyzavetivske Increase/(decrease) in headroom of $9.5m for Elyzavetivske CGU $m
Impact if gas and oil prices:	increased by 20%	38.7	5
	reduced by 20%	(38.8)	(5.1)
Impact if gas and oil production volumes:	increased by 10%	25.5	2.5
	decreased by 10%	(25.5)	(2.5)
Impact if future capital expenditure:	increased by 20%	(14.2)	(0.0)
	decreased by 20%	14.2	0.0
Impact if post-tax discount rate:	increased by 2 percentage points to 18.6%	(10.3)	(0.9)
	decreased by 2 percentage points to 14.6%	11.9	1.0

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

Following the 2007 acquisition of YGE in Russia, a technical and environmental re-evaluation of YGE's Koshekhablskoye gas field redevelopment was undertaken by the Group. The re-evaluation resulted in a revised development plan and production profile. The development plan and production profile have continued to be refined since that time.

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

Key Assumptions - YGE

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available information assessed internally including assessment of the results of external reserve engineer audits in the year. Such information included 2P reserves for YGE of 58.9 MMboe.
- Economic life of field: it was assumed that YGE will be successful in extending the licence term beyond its current 2026 expiration based on available legal right to the economic life of the field (expected to be around 2063). The discounted cash flow methodology used has not taken account of any opportunities that may exist to extract reserves in a shorter timeframe by investing to increase the current plant capacity.
- Gas prices: from 1 July 2021 and annually thereafter, the gas prices have been increased by 3.0% based on historical experience.
- Capital and operating costs: these were based on current operating and capital costs in Russia, project estimates provided by third parties and supported by estimates from our own specialists, where necessary.
- Post tax nominal Rouble discount rate of 12.1%. This was based on a Capital Asset Pricing Model analysis consistent with that used in previous impairment reviews.

Based on the key assumptions set out above YGE's recoverable amount ($96.8m) exceeds it carrying amount of CGU's assets ($89.5m) by $7.3m and therefore YGE's Koshekhablskoye gas field was not impaired.

Any impairment is dependent on judgement used in determining the most appropriate basis for the assumptions and estimates made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to potential changes in key assumptions has therefore been reviewed below.

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

Sensitivity Analysis

		Increase/(decrease) in headroom of $20.0m for Yuzhgazenergie CGU $m
Impact of Adygean gas price:	growth rates increased by 10% annually	8.9
	growth rates reduced by 10% annually	(8.1)
Impact of production volumes:	Increased by 10%	19.4
	Decreased by 10%	(19.3)
Impact of future capital expenditure:	Increased by 20%	(5.1)
	Decreased by 20%	5.2
Impact of post-tax discount rate:	Increased by 1 percentage point to 13.1%	(6.6)
	Decreased by 1 percentage point to 11.1%	7.6

6. Investments

The carrying value of unlisted investments comprises:

	2020 $000	2019 $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 at 31 December 2017 and had been for several years.

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 2020 the carrying value of UNB remained fully impaired following assessment by the Board considering relevant available information and valuation techniques, reflecting:

- the lack of liquidity in the shares of UNB and considerations regarding the nature of markets for such an investment;
- the absence of any history of dividends or other returns on the investment since acquisition in 2006 and the significant uncertainty regarding future returns;
- the absence of regular formal communication with UNB;
- the level of uncertainty regarding any market valuation method based on quoted Ukrainian oil and gas companies given key differences in the respective businesses and corporate structures;
- the limited number of quoted Ukrainian oil and gas companies that can be used for the market valuation approach, defined in IFRS 13; and
- a paper prepared by a specialist third party advisor to the Board of Directors noted the limited number of likely parties potentially interested in purchasing the investment and the difficulties in determining the consideration for which the investment might be disposed generally.

At 31 December 2020 the carrying value of Linx was reported as $0.5m (2019: $0.5m), with this valuation being based upon management's expectation of future and final dividends to be received from Linx in 2021. Management attends Linx shareholder meetings and is in regular communication with its management. Management understands that Linx continues to dispose of its businesses units and dividend out all proceeds to shareholders prior to a liquidation of the company. Previously dividends were received during 2017 and 2019 of $0.1m and $0.03m respectively after disposals of other business units. During 2020 the 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 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

	2020 $000	2019 $000
Warehouse inventory and materials	3,233	4,056
Oil and gas inventory	1,125	2,859
	4,358	6,915

During the year there were no obsolete inventories written off to profit and loss (2019: there were no obsolete inventories written off to profit and loss).

8. Trade and other receivables

	2020 $000	2019 $000
Trade receivables	2,019	2,221
Less: ECLs	(348)	(423)
Trade receivables - net	1,671	1,798
Other receivables	166	160
VAT receivable	228	639
Prepayments	1,596	1,334
	3,661	3,931

As of 31 December 2020, trade and other receivables of $0.3m (2019: $0.4m) 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 (2019: $0.4m). This receivable relates to a single gas customer, which is more than four years past due. Legal proceedings were initiated in Q4 of 2016 and finished in Q3 of 2018 in favour of the Company. The Company is seeking collection of the amount outstanding, but significant uncertainty remains over the collection ($0.1m was collected in 2019).

As of 31 December 2020, trade and other receivables of $3.6m (2019: $3.9m) 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:

	2020 $000	2019 $000
US Dollar	6	11
Sterling	3	-
Euros	1	1
Ukrainian Hryvnia	23	148
Russian Roubles	1,804	1,798
	1,837	1,958

9. Cash and cash equivalents

	2020 $000	2019 $000
Cash	22,858	12,495
Short term deposits	1,471	8,134
	24,329	20,629

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

10. Trade and other payables

	Note	2020 $000	2019 $000
Current			
Trade payables		1,218	3,894
Other payables		150	298
Contract liabilities	(a)	2,433	2,111
Other taxes and social security costs		1,956	2,435
VAT payable		1,444	1,993
Accruals		2,131	3,427
		9,332	14,158

Current		
Lease liabilities	401	1,461
Non-Current		
Lease liabilities	358	628

(a) Contract liabilities	2020 $000	2019 $000
At 1 January	2,111	3,273
Amounts included in contract liabilities that was recognised as revenue during the period	-	(1,848)
Cash received in advance of performance and not recognised as revenue during the period	265	-
Foreign exchange	57	686
	2,433	2,111

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

	2020 $000	2019 $000
Current		
Convertible bonds due 2020	-	5,683
Term-loans repayable within one year	-	5,683

Convertible bonds due 2020 (the final payment to Bondholders was made on 19 February 2020)

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

Prior to restructuring the Bonds had an annual coupon of 8 per cent per annum payable semi-annually in arrears.

The Bonds were convertible into ordinary shares of the Company at any time from 1 April 2013 up until seven days prior to their maturity on 19 February 2020 at a conversion price of 76.29 pence per Ordinary Share, unless the Company settles the conversion notice by paying the Bondholder the Cash Alternative Amount (see below).

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

Convertible bonds restructured on 3 January 2017

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

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

On 19 February 2018 the Company made a payment of the first instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with the final accretion payment of $0.5m (3.0% of the principal amount of the Bonds) and interest of $1.1m. On 19 February 2019 the Company made a payment of the second instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with $0.7m interest payment in accordance with the terms and conditions of the Bond. On 19 August 2019 the Company made interest payment of $0.4m in accordance with the terms and conditions of the Bond. On 19 February 2020 the Company made the final payment of the third instalment to Bondholders of $5.4m (34% of the principal amount of the Bonds), together with $0.4m interest payment in accordance with the terms and conditions of the Bond.

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 2020 the total short-term line of credit amounted to $9.9m at an exchange rate of $1: 28.27 (2019: $11.8m at an exchange rate of $1: 23.69 Hryvnia). The amount outstanding at 31 December 2020 was nil (2019: nil), so the undrawn portion totaled $9.9m (2019: $11.8m). The facility will be available through 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 13 December 2021.

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 $3.2m at 31 December 2020 (2019: $3.8m) will require a corporate guarantee from JKX Oil & Gas Plc. The corporate guarantee provided by the JKX Oil & Gas plc in respect of the credit facility with Tascombank is considered to be an insurance contract under the provisions of IFRS 4;
- assets with a market value of UAH460m, equivalent to $16.3m at 31 December 2020 (2019: UAH460m, equivalent to $19.4m) have been identified for use as a collateral, collateral is to be provided only on a drawdown;
- amount borrowed will be repaid during the last 4 months, by equal-sized monthly payments, to be effected on the last day of the month/the last day of the credit limit period. Last date of repayment for the last part of amount borrowed is 13 December 2021.

The credit facility of $9.9m (2019: $11.8m) 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 2020.
- 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 2020.

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 at the date of agreement 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 Plc. The corporate guarantee provided by the JKX Oil & Gas plc 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:

All covenants listed below have been met during the year ended 31 December 2020.

- 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. Derivatives

	2020 $000	2019 $000
Non-current derivative financial instruments		
At the beginning of the year	-	62
Derivative liability written-off	-	(62)
At the end of the year	-	-

Convertible bonds due 2020 - embedded derivatives (the final payment to Bondholders was made on 19 February 2020)

Company Call Option

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

The Company could redeem the Bonds any time in full but not in part at their principal amount plus any accrued interest if the aggregate principal amount of the Bonds outstanding is less than 15% of the aggregate principal amount originally issued.

Fixed exchange rate

The Sterling-US Dollar exchange rate is fixed at £1/$1.5809 for the conversion and other features.

Following the final payment of the Bond made to Bondholders on 19 February 2020 (see Note 11) the derivative of $0.1m was written off to the income statement at 31 December 2019 as its fair value was negligible at year end.

13. 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 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

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

	31 December 2020 $000	31 December 2019 $000
Lease liabilities		
Current	401	1,461
Non-current	358	628
Total	759	2,089

The income statement shows the following amounts relating to leases:

	31 December 2020 $000	31 December 2019 $000
Interest on lease liabilities (included in finance cost)	197	254
Depreciation	1,222	1,509
Expenses relating to short-term leases (included in administrative expenses)	61	235
Expenses relating to low-value assets, excluding short-term leases of low-value assets (included in administrative expenses)	37	31
Total	295	520

	31 December 2020 $000	31 December 2019 $000
Amounts recognised in the statement of cash flows		
Total cash outflow for leases	1,661	1,776

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

14. Financial instruments

Fair values of financial assets and financial liabilities - Group

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction. Where available, market values have been used (this excludes short term assets and liabilities).

	Book and Fair Value 2020 $000	Book Value 2019 $000	Fair Value 2019 $000
Financial assets			
Cash and cash equivalents (Note 9) - classified at amortised cost	24,329	20,629	20,629
Trade receivables (Note 8) - classified at amortised cost	1,671	1,798	1,798
Other receivables (Note 8) - classified at amortised cost	166	160	160
Financial liabilities			
Trade payables (Note 10) - carried at amortised cost	1,218	3,894	3,894
Other payables (Note 10) - carried at amortised cost	150	298	298
Accruals (Note 10) - carried at amortised cost	1,839	3,080	3,080
Borrowings - convertible bonds due 2020 (Note 11) - carried at amortised cost (current)	-	5,683	5,683
Lease liabilities	759	2,089	2,089

The Group had no borrowings at 31 December 2020. Financial liabilities measured at amortised cost were carried at $4.0m at 31 December 2020 (2019: $15.0m).

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 2020 was $26.2m (2019: $22.6m).

Capital management - Group

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

The Group's policy as to the level of equity capital and reserves is to ensure that it maintains a strong financial position and low gearing ratio which provides financial flexibility to continue as a going concern and to maximise shareholder value. The capital structure of the Group consists of shareholders' equity together with net 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:

	2020 $000	2019 $000
Convertible bonds due 2020 (Note 11)	-	(5,683)
Total cash (Note 9)	24,329	20,629
Net cash	24,329	14,946
Total shareholders' equity	176,862	186,255

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 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

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

Interest rate risk profile of financial assets and liabilities - Group

Fixed rate interest was charged on the Group's convertible bond (see Note 11). The interest rate profile of the other financial assets and liabilities of the Group as at 31 December is as follows (excluding short-term assets and liabilities, non-interest bearing):

Group - 31 December	2020 Within 1 Year $000	2019 Within 1 Year $000
Floating rate		
Short term deposits (Note 9)	1,471	8,134
Other receivables (Note 8)	1,671	160
Other payables (Note 10)	150	298

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

Interest rate sensitivity - Group

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

If interest rates had been 1 per cent higher/lower and all other variables were held constant, the Group's profit (2019: profit) after tax and net assets for the year ended 31 December 2020 would increase/decrease by $5,000 (2019: $12,000). 1 per cent is the sensitivity rate used as it best represents management's assessment of the possible change in interest rates that could apply to the Group.

Foreign currency exposures - Group

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

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

	2020 $000	2019 $000
Sterling	700	675
Euros	4,254	1,086
Ukrainian Hryvnia	4,395	5,470
Bulgarian Leva	-	41
Russian Roubles	4,164	(368)
Total net	13,513	6,904

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

Foreign currency sensitivity - Group

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

The following table details the Group's sensitivity to a 19 per cent (2019: 10 per cent) increase and decrease in the US Dollar against Sterling and against Hryvnia and Rouble, all other variables were held constant. Due to the historically significant foreign currency fluctuation in the UK, Ukraine and Russia 19 per cent has been used to calculate sensitivity for Sterling, Hryvnia and Rouble. 19 per cent (2019: 10 per cent) is the sensitivity rate that best represents management's assessment of the possible change in the foreign exchange rates affecting the Group. A positive number below indicates an increase in profit and equity when the US Dollar weakens against the relevant currency. For a strengthening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Hryvnia 2020 $000	Hryvnia 2019 $000	Rouble 2020 $000	Rouble 2019 $000	Sterling 2020 $000	Sterling 2019 $000
Profit/(loss) for the year and Equity						
19 per cent strengthening of the US Dollar/ (2019: 10 per cent)	(835)	(547)	(791)	37	(133)	(67)
19 per cent weakening of the US Dollar/(2019: 10 per cent)	835	547	791	(37)	133	67

Commodity risk and sensitivity - Group

The Group's earnings are exposed to the effect of fluctuations in oil, gas and condensate prices. The Group's oil, gas and condensate is sold to local trading companies through market related contracts.

The Group is a price taker and does not enter into commodity hedge agreements unless required for borrowing purposes which may occur from time to time. Therefore no sensitivity analysis has been prepared on the exposure to oil, gas or condensate prices for outstanding monetary items at the 31 December 2020 as there is no impact on any outstanding amounts.

15. Discontinued operations and assets classified as held for sale

In early February 2018 the Group announced its intention to exit its oil and gas operations in Hungary and initiated an active programme to dispose of its Hungarian business.

On 9 March 2020 the company announced that it had agreed terms for the disposal of the entire share capital of 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 current COVID-19 pandemic. Consequently, the transaction did not proceed.

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 is highly probable and the Group remains committed to its plan to sell the Hungarian business unit.

In February 2021 the Group signed Memorandum of Understanding with a new potential buyer in the amount of $2.9m. The purpose of this Memorandum is to establish the responsibilities/next steps of the parties in order to successfully conclude the possible deal, subject to the agreement and execution of a legally binding acquisition agreement.

The associated assets and liabilities were presented as held for sale in the financial statements at 31 December 2018 and remains as such at 31 December 2019 and 31 December 2020. 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 2020 and 31 December 2019.

	31 December 2020 $000	31 December 2019 $000
Revenue	-	133
Exceptional item - reversal of provision for impairment of Hungary	-	2,232
Royalties	-	(25)
Other cost of sales	-	(369)
Total cost of sales	-	1,971
Exceptional item - provision for impairment of Hungary	(322)	-
Administrative expenses	(669)	(11)
(Loss)/gain on foreign exchange	(11)	44
(Loss)/profit from operations and before tax	(1,002)	2,004
(Loss)/profit for the year	(1,002)	2,004
Net cash inflow/(outflow) from operating activities	300	(176)
Effect of exchange rates on cash and cash equivalents	-	-
Net cash generated/(used) by the subsidiary	300	(176)

The following assets and liabilities were classified as held for sale in relation to the discontinued operation as at 31 December 2020 and 2019.

Assets and liabilities of disposal group classified as held for sale	31 December 2020 $000	31 December 2019 $000
Assets classified as held for sale		
Property, plant and equipment	1,911	2,232
Trade and other receivables	879	859
Cash	396	96
Total assets of disposal group held for sale	3,186	3,187
Liabilities of the disposal group classified as held for sale		
Trade and other payables	(86)	(87)
Abandonment provision	(200)	(200)
Total liabilities of disposal group held for sale	(286)	(287)
Net assets	2,900	2,900

16. 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 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.

17. Share capital

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

	2020 Number	2020 £000	2020 $000	2019 Number	2019 £000	2019 $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 2020 (2019: none) and no treasury shares were used in 2020 (2019: none) to settle share options. There are no shares reserved for issue under options or contracts. As at 31 December 2020 the market value of the treasury shares held was $0.2m (2019: $0.1m).

18. 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 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)

Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	-	-	-	-
At 31 December 2020	30,680	587	(212,485)	(564)	500	(181,282)
At 1 January 2019	30,680	587	(203,535)	(355)	-	(172,623)
Exchange differences arising on translation of overseas operations	-	-	21,481	-	-	21,481
Remeasurement of post-employment benefit obligations	-	-	-	(94)	-	(94)
Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	-	-	500	500
At 31 December 2019	30,680	587	(182,054)	(449)	500	(150,736)

Merger reserve was created on 30 May 1995 when JKX Oil & Gas plc acquired the issued share capital of JP Kenny Exploration & Production Limited for the issue of ordinary shares and represents the difference between the fair value of consideration given for the shares and the nominal value of those instruments.

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

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 2020, the Russian Rouble ('RR') weakened by approximately 19% from RR61.91/$ to RR73.88/$ (2019: strengthened by approximately 11% from RR69.47/$ to RR61.91/$). Ukrainian Hryvnia ('UAH') weakened by approximately 19% from UAH 23.69/$ to UAH 28.27/$ (2019: strengthened by approximately 14% from UAH 27.69/$ to UAH 23.69/$). Currency translation differences of US$30.4m (2019: US$21.4m) included in the Consolidated statement of comprehensive income arose on the translation of property, plant and equipment denominated in RR and UAH and amounted to $15.8m and $18.8m respectively (see Note 5 (a)), $4.2m relates to the translation of the liabilities in RR and UAH.

Post-employment benefit obligation reserve relates to a remeasurement of liability for defined benefit pension plan in PPC, our subsidiary in Ukraine. Please refer to Note 20 for the details.

19. 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. $13.5m was recognised as a credit in the 2020 Consolidated income statement (2019: $8.4m credit) which is the net of a $15.1m reversal of provisions for two tax cases that have been closed in favour of PPC relating to January to December 2015 claims and of $1.6m interest accrued for the remaining cases that have not been closed, of which $0.5m charge relates to the August to December 2010 claim (2019:$1.3m charge) and $1.1m charge relate to January to December 2015 claims (2019:$4.7m). Remaining claims are being contested in the Ukrainian courts (see Note 27). The amount is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the 2020 year end rate of UAH28.27/$ (2019: UAH23.69/$).

Case 816/1191/16, amounting to $2.1m and related to January to December 2015 claims was reclassified from non-current to current at 31 December 2020.

The provision for rental fee claims at 31 December 2020 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 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	Production based taxes $000	Total $000
At 1 January 2020	15,861	15,861
Amount provided in the year	515	515
Foreign currency translation	(2,573)	(2,573)
Reclassification from non-current provisions	2,108	2,108
At 31 December 2020	15,911	15,911

Non-current provisions	Production based taxes $000	Total $000
At 1 January 2020	25,405	25,405
Amount provided in the year	1,101	1,101
Amount released in the year	(15,159)	(15,159)
Foreign currency translation	(4,159)	(4,159)
Reclassification to current provisions	(2,108)	(2,108)
At 31 December 2020	5,080	5,080

Non-current provisions Provision on decommissioning	Ukraine $000	Russia $000	Total $000
Provision for site restoration			
At 1 January 2020	3,978	2,386	6,364
Foreign exchange adjustment	(656)	(388)	(1,044)
Revision in estimates	199	(198)	1
Unwinding of discount (Note 23)	390	140	530
At 31 December 2020	3,911	1,940	5,851

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 (2019: 2034). The Russia provision results from the decommissioning of 15 wells (2019:15) and removal of plant as required by the licence obligation and is due to start from 2064 (2019: 2050). The provisions are made using the Group's internal estimates that management believe form a reasonable basis for the expected future costs of decommissioning.

20. Defined pension benefit plan

	2020 $000	2019 $000
At 1 January 2020	859	577
Service cost	40	34
Interest expense	87	94
Benefit payments	(41)	(35)
Employer contribution	115	95
Foreign exchange	(138)	94
At 31 December 2020	922	859

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 100% for "list II" categories of early pensioners. Pensions are calculated using a formula based on the employee's salary, pension insurance service record, and total length of past service at specific types of workplaces ("list II" category) and, thus, the pension plan is a defined benefit plan by its nature.

21. Cost of sales

	2020 $000	2019 $000
Operating costs	17,867	22,752
Depreciation, depletion and amortisation	17,130	18,512
Other production based taxes	13,783	23,518
	48,780	64,782
Exceptional item - production based taxes credit (Note 19)	(13,543)	(8,410)
	35,237	56,372

The cost of inventories (calculated by reference to production costs) expensed in cost of sales in 2020 was $2.8m (2019: $3.0m).

22. Finance income

	2020 $000	2019 $000
Interest income on deposits	487	857
	487	857

23. Finance costs

	2020 $000	2019 $000
Borrowing costs	224	1,183
Interest on lease liabilities	197	254
Unwinding of discount on site restoration (Note 19)	530	617
	951	2,054

24. Profit from operations - analysis of costs by nature

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

	2020 $000	2019 $000
Depreciation - other assets (Note 5. (a))	782	705
Depreciation, depletion and amortisation - oil and gas assets (Note 5. (a))	17,130	18,512
Staff costs (none was capitalised during the year (2019: nil), Note 25)	7,265	9,051
Foreign exchange (gain)/loss	(1,048)	615

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

	2020 $000	2019 $000
Audit of the parent company and consolidated financial statements	267	294
Fees payable to company's auditors for other services:		
- Audit of the Company's subsidiaries	170	231
- Audit related assurance services	92	80
	529	605

No non-audit services were provided in 2020 and 2019.

25. Staff costs

	2020 $000	2019 $000
Wages and salaries	7,265	8,741
UK social security costs	77	130
Other pension costs	142	166
Share based payments (equity-settled) (Note 26)	-	14
	7,484	9,051

No staff costs were capitalised for the year ended 31 December 2020.

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

	2020 Number	2019 Number
Management/operational	453	492
Administration support	77	82
	530	574

There is one Director on a service contract included within management/operational (2019: nil). Further details of the Directors and their remuneration are included are included in the Remuneration Report.

26. Share-based payments

According to the 2010 Performance Share Plan (PSP) that is currently in place, the Remuneration Committee has the ability to grant awards of nil-cost options annually to senior management of the Group, conditional on the Group's performance over a period of at least three years. No consideration is required to be paid for the grant or exercise of an Option. Vesting of the options is dependent upon certain criteria, including comparison of the Group's TSR against the FTSE Fledgling index and the All-Share Oil & Gas Producers index. Options lapse when certain criteria are not met and may be forfeited when employees cease to be employed by the Group. The plan rules are described in the Directors' Remuneration Report. All share-based payments are equity settled.

During 2019 180,525 share options were exercised at nil cost per share and 75,625 shares lapsed, none granted in accordance with the PSP. The weighted average share price at the date of exercise of these shares was 23 pence. There were no outstanding options under the PSP at 31 December 2019.

No share options were exercised or granted during 2020.

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

	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Outstanding at 1 January	-	-	151,250	0.00p
Exercisable at 1 January	-	-	104,900	0.00p
Lapsed/forfeited during the year	-	-	(75,625)	0.00p
Exercise of share options	-	-	(180,525)	0.00p
Outstanding and exercisable at 31 December	-	-	-	-

27. Taxation

Analysis of tax on loss	2020 $000	2019 $000
Current tax		
UK - current tax	-	-
Overseas - current year	3,303	6,561
Current tax expense	3,303	6,561
Deferred tax		
Overseas - prior year	-	-
Overseas - current year	678	3,645
Deferred tax benefit	678	3,645
Income tax expense	3,981	10,206

Factors that affect the total tax charge

The total tax charge for the year of $4.0m (2019: $10.2m charge) is lower (2019: lower) than the average rate of UK corporation tax of 19.00% (2019: 19.00%). The differences are explained below:

Total tax reconciliation	2020 $000	2019 $000
Profit before tax from continuing operations	24,851	30,415
(Loss)/profit before tax from discontinued operation	(1,002)	2,004
Tax calculated at 19.00% (2019: 19.00%)	4,722	5,779
Movement in recognised tax losses	368	474
Effect of tax rates in foreign jurisdictions	138	355
Rental fee provision	(1,904)	1,677
Other non-deductible expenses	812	1,745
Other	(155)	176
Total tax charge from continuing operations	3,981	10,206
Total taxation from discontinued operation	-	-

The total tax charge for the year was $4.0m (2019: $10.2m charge) comprising a current tax charge of $3.3m (2019: $6.6m charge) in respect of Ukraine, a deferred tax charge before exceptional items of $3.7m (2019: credit of $2.0m) and a deferred tax credit of $4.4m in respect of exceptional items (2019: credit of $1.7m). The increase in current tax charge reflects a lower profit in Ukraine. In Ukraine, the corporate tax rate for 2019 was 18% and remains at this level in 2020.

In May 2020 the Tax Code in Ukraine has changed introducing the clarification and amendment of tax differences used to increase the pre-taxed financial result, regarding the amount of fines, penalties imposed by the controlling bodies, and other public authorities for violations of the law. As a result of amendments, PPC recognised the total penalties in respect of rental cases provision accrued by the controlling bodies as permanent tax differences (previously deductible in future periods) amounted to $10.6m which led to reduction of deferred tax asset of $1.9m.

At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

The Company's profits for this accounting year are taxed at an effective rate of 19.00%.

Factors that may affect future tax charges

A significant proportion of the Group's income will be generated overseas. Profits made overseas will not be able to be offset by costs elsewhere in the Group. This could lead to a higher than expected tax rate for the Group.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 and Finance Bill 2016. These include a reduction to the main rate from 19% to 17% from 1 April 2020. The impact of the rate reduction is not expected to have a material impact on UK current taxation.

Taxation in Ukraine - production taxes

Since Poltava Petroleum Company's ('PPC's') inception in 1994 the Company has operated in a regime where conflicting laws have existed, including in relation to effective taxes on oil and gas production.

In order to avoid any confusion over the level of taxes due, in 1994, PPC entered into a licence agreement with the Ukrainian State Committee on Geology and the Utilisation of Mineral Resources ('the Licence Agreement') which set out expressly in the Licence Agreement that PPC would pay Rental Fees on production at a rate of only 5.5% of sales value for the duration of the Licence Agreement.

Pursuant to the Licence Agreement, PPC was granted an exploration licence and four 20-year production licences, each in respect of a particular field. In 2004, PPC's production licences were renewed and extended until 2024, Subsoil Use Agreements were signed and attached to the licences and operations continued as before.

In December 1994, a new fee on the production of oil and gas (known as a 'Rental Payment' or 'Rental Fee') was introduced through Ukrainian regulations. On 30 December 1995, JKX, together with its Ukrainian subsidiaries (including PPC), was issued with a Joint Decision of the Ministry of Economy, the Ministry of Finance and the State Committee for the Oil and Gas ('the Exemption Letter'), which established a zero rent payment rate for oil and natural gas produced in Ukraine by PPC for the duration of the Licence Agreement for Exploration and Exploitation of the Fields. Based on the Exemption Letter PPC did not expect to pay any Rental Fees until the new law on Rental Fees was enacted in 2011.

Rental Fees paid since 2011

In 2011 a new law was enacted which established new mechanisms for the determination of the Rental Fee. Notwithstanding the Exemption Letter, in January 2011 PPC began to pay the Rental Fee in order to avoid further issues with the Ukrainian authorities but without prejudice to its right to challenge the validity of the demands.

Rental fees paid have been recorded in cost of sales in each of the accounting periods to which they relate.

International arbitration proceedings

In 2015, the Company and its wholly-owned Ukrainian and Dutch subsidiaries commenced arbitration proceedings against Ukraine under the Energy Charter Treaty, the bilateral investment treaties between Ukraine and the United Kingdom and the Netherlands, respectively. In these proceedings, the Company sought repayment of more than $180 million in Rental Fees that PPC had paid on production of oil and gas in Ukraine since 2011, in addition to damages to the business.

During 2015 Rental Fees in Ukraine were increased to 55% and capital control restrictions were introduced. On 14 January 2015, an Emergency Arbitrator issued an Award ordering Ukraine not to collect Rental Fees from PPC in excess of 28% on gas produced by PPC, pending the outcome of the application to a full tribunal for the Interim Award. On 23 July 2015 an international arbitration tribunal issued an Interim Award requiring the Government of Ukraine to limit the collection of Rental Fees on gas produced by PPC to a rate of 28%.

The Interim Award was to remain in effect until final judgement was rendered on the main arbitration case, which was heard in early July 2016. A decision from the tribunal was awarded on 6 February 2017.

The tribunal did not find in favour of the Company in respect of the Rental Fees but awarded the Company damages of $11.8 million plus interest, and costs of $0.3 million in relation to subsidiary claims.

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

In October 2017 the High Court of the United Kingdom, ordered that the application brought by Ukraine seeking to set aside the recent arbitration award against Ukraine and in favour of JKX be dismissed. The Government of Ukraine is therefore still liable to pay to JKX the sum of USD11.8 million plus interest, and costs of USD0.3 million in relation to subsidiary claims, as previously ordered. The Judge also ordered that Ukraine should pay JKX's costs of $0.1 million.

The arbitration award has now been legally recognised in Ukraine and in December 2019 JKX filed for its collection. No recognition will be made in the financial statements of any possible future benefit that may result from this award until there is further clarity on the process for, and likely success of, enforcing collection.

Rental Fee demands

The Group currently has two claims (2019: two) for additional Rental Fees being contested through the Ukrainian court process. These arise from disputes over the amount of Rental Fees paid by PPC for certain periods since 2010, which in total amount to approximately $21.0million (2019: $41.3 million) (including interest and penalties), as detailed below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the year end rate of $1:UAH 28.27 (2019: $1: UAH 23.69).

- August - December 2010: approximately $13.8 million (2019: $15.9 million) (including $9.5 million (2019: $10.7 million) of interest and penalties). On 11 March 2014 PPC won the case in the Poltava Court. The tax office appealed and the Kharkiv Appellate Administrative Court reversed the earlier decision. PPC then lost an appeal in the High Administrative Court of Ukraine and the Supreme Court rejected PPC's application for the appeal. PPC has discovered that there were in fact certain procedures that were not followed regarding the tax notifications that formed the basis of the original claims against PPC. Certain documentation was found to be missing from the files of the tax authorities. In April 2017 the Poltava Circuit Administrative Court found in favour of PPC and cancelled the tax notification decisions on the grounds that due process had not been followed. On 1 June 2017 the Kharkiv Appellate Administrative Court upheld the judgment of the Poltava Circuit Administrative Court. In July 2017 the Poltava Joint State Tax Inspectorate ("PJSTI") filed a cassation complaint against the previous court judgements of lower courts in PPC's favour. This cassation hearing at the Supreme Court of Ukraine is expected in the 1st Q 2021. Whilst PPC has been successful in the April, June and July 2017 court hearings, the Board considers it appropriate to maintain a provision notwithstanding that PPC disputes the claim basis, given assessment of all relevant facts and circumstances.
- January - December 2015: approximately $7.2 million (2019: $25.4 million) (including $5.4 million (2019: $16.7 million) of interest and penalties). Following the commencement of international arbitration proceedings at the beginning of 2015 (see above), from July 2015 PPC reverted to paying a 28% Rental Fee for gas production (instead of the revised official rate of 55%) as a result of the awards granted under the arbitration. PPC also declared part of its Rental Fee payments at 55% for the first 6 months of 2015 as overpayments and consequently stopped paying the Rental Fee for gas in order to align the total payments made in 2015 with the 28% rate awarded made under the arbitration proceedings. The Ukrainian tax authorities have issued PPC with the series of claims for the difference between 28% and 55%, 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 on cases during 2019 and 2020 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.

- 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. PJSTI filed appellate complaint and the Kharkiv Appellate Administrative Court accepted it. The consideration is expected to be held in March 2021.
- Case No. 816/685/16 for $5.1m has already been suspended. PJSTI have filed cassation complaint with the Supreme Court to unsuspend it. The hearing is expected to take place in the 1st half of 2021.

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 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 $2.2m: 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.

Pending 2015 cases for which provisions released:

Notwithstanding that for the three cases below there are further cassation complaints from PJSTI, the Group's position that once there is a judgment of the first and appellate instance court in favour of PPC, tax notification decision in respective case is cancelled and the provision released.

- 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. PJSTI filed a cassation complaint, however on 19 November 2020 the Supreme Court returned it to the PJTI stating that it sees no grounds on reconsideration of the lower instance courts. PJTI, ignoring the ruling of the Supreme Court, refiled another cassation complaint. The Supreme Court accepted it and commenced the cassation proceedings. The consideration is expected at the end of 2021. The provision was released in 2020.
- Case No. 816/844/16 for $2.8m: 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 Kharkiv Appellate Administrative Court on 15 July 2020 turned down PJTI's appellate complaint on merits. PJSTI filed cassation complaint and the Supreme Court accepted it. The consideration is expected at the end of 2021. The provision was released in 2019.
- 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 recognizing them as illegal. We expect that PJSTI will file the cassation complaint against the above judgments within the following months. The provision was released in 2020.

Case 816/1191/16 amounting to $2.1m and related to January to December 2015 claims was reclassified from non-current to current at 31 December 2020. This case is expected to be considered on merits by the courts during the next twelve months.

It is expected that the process of hearings in respect of the remaining outstanding 2015 rental fee claims will continue into 2022 and possibly beyond. Full provisions are made for claim 816/1191/16, 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 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.

In 2020 the Group has released provisions totalling $15.1m (inclusive of interest and penalties) associated with the 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 2ndInstance Court has rejected appeals lodged by the tax authorities on the case merits. A cassation appeal for one case has now been filed and is 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 have been released.

In 2019 the Group has released provisions totalling $14.4m (inclusive of interest and penalties) associated with four of the 2015 cases, $0.6m in respect of Case No. 816/845/16, $4.8m in respect of Case No. 816/688/16, $5.3m in respect of Case No. 816/846/16 and $3.7m in respect of Case No. 816/844/16, as all four cases have been closed in PPC's favour.

An exceptional item of $13.5m has been credited to the Consolidated income statement in the year (2019: $8.4 million credit), being the net of provisions reversed for cases closed in PPC's favour and interest accrued on the remaining August - December 2010 and January - December 2015 claims (see Note 19).

28. Deferred tax

	Assets		Liability		Net	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Continuing operations						
Ukraine	2,576	8,108	(6,095)	(8,280)	(3,519)	(172)
Russia	12,312	12,033	(2,861)	(3,849)	9,451	8,184

The balance comprises temporary differences attributable to:

	Assets		Liability		Net	
	2020 $000	2019 $000	2020 $000	2019 $000	2020 $000	2019 $000
Property, plant and equipment	-	-	(8,956)	(12,128)	(8,956)	(12,128)
Inventory	539	614	-	-	539	614
Provision for disputed rental fees	1,099	6,528	-	-	1,099	6,528
Provision for site restoration	1,025	1,131	-	-	1,025	1,131
Tax losses	11,924	11,556	-	-	11,924	11,556
Other	301	311	-	(1)	301	310
Deferred tax asset /(liability) recognised	14,888	20,141	(8,956)	(12,129)	5,932	8,012

	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)	301
Net deferred tax	8,012	(1,402)	(678)	5,932

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

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

The deferred tax assets include an amount of $11.9m (2019: $11.6m) which relates to carried forward tax losses of our Russian subsidiary. The Group concluded that the deferred tax assets will be recoverable using the estimated future income based on the approved business plans and budgets for the subsidiary notwithstanding historic losses. The subsidiary is expected to generate taxable income from 2021 onwards.

Unprovided deferred taxation	2020 $000	2019 $000
Tax losses	(11,385)	(12,547)
Property, plant and equipment	-	-
Other temporary differences	-	-
	(11,385)	(12,547)

There is no expiry date on the remaining losses as at 31 December 2020. At Budget 2020, the government announced that the Corporation Tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

29. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the parent is based on the weighted average number of shares in issue during the year of 171,723,145 (2019 168,090,217), including shares purchased by the Company and held as treasury shares of 402,771 (2019: 402,771), shares held to satisfy the Group's employee share schemes, of which there were no remaining at the year end (2019: 3,632,928) and the profit for the relevant year.

Profit before exceptional items in 2020 of $11,016,481 (2019 profit: $13,246,738) is calculated from the 2020 profit of $19,867,727 (2019: $22,212,692) adjusted for exceptional items of $13,221,048 (2019: $10,642,954) and the related deferred tax on the exceptional items of $4,370,000 (2019: $1,677,000).

There are no dilutive instruments.

	2020 Cents	2019 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	12.15	12.02
-before exceptional items	6.81	8.02
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	(0.58)	1.19
-before exceptional items	(0.40)	(0.14)

Total earnings per share for profit attributable to the ordinary equity holders of the parent company:

Basic and diluted profit per 10p ordinary share		
-after exceptional items	11.57	13.21
-before exceptional items	6.41	7.88

Reconciliations of earnings used in calculating earnings per share	2020 $000	2019 $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	20,870	20,209
- Before exceptional item	11,696	13,475
(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	(1,002)	2,004
- Before exceptional item	(680)	(228)
Total profit for the purpose of basic and diluted earnings per share (profit for the year attributable to the owners of the parent):		
- After exceptional item	19,868	22,213
- Before exceptional item	11,016	13,247

Number of shares	2020	2019
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)	(5,000,000)
Sale of shares held by Employee Benefit Trust (Note 16)	3,632,928	1,186,547
Exercise of share options (Note 26)	-	180,525
Weighted average number of shares	171,723,145	168,090,217

30. Dividends

No interim dividend was paid or declared for 2020 (2019: nil). In respect of the full year 2020, the directors do not propose a final dividend (2019: no final dividend paid or declared).

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

	2020 $000	2019 $000
Profit from operations (continuing operations)	25,315	31,550
(Loss)/profit from operations (discontinued operations)	(1,002)	2,004
Depreciation, depletion and amortisation	17,912	19,217
Gain on disposal of fixed assets	(113)	(98)
Exceptional item -for production based taxes, including forex	(13,543)	(8,410)
Increase/(decrease) in provision for impairment of Hungary	322	(2,232)
Share-based payment charge	-	14
Cash generated from operations before changes in working capital	28,891	42,045
Decrease in operating trade and other receivables	272	1,156
(Decrease)/increase in operating trade and other payables	(3,794)	1,811
Decrease/(increase) in inventories	3,867	(3,802)
Net cash generated from continuing operations	28,938	41,386
Net cash generated from/ (used) in discontinued operations (Note 15)	300	(176)

Changes in liabilities from financing activities

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

	Borrowings $000	Leases $000
At 1 January 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

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

32. Capital commitments

Under the work programs for the Group's exploration and development licences the Group had committed $0.3m to future capital expenditure on drilling rigs and facilities at 31 December 2020 (2019: nil).

33. Related party transactions

Key management compensation

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

	2020 $000	2019 $000
Short-term employee benefits	1,156	1,141
Share-based payments charge	-	14
	1,156	1,155

Further information about the remuneration of individual Directors, together with the Directors' interests in the share capital of JKX Oil & Gas plc, is provided in the audited part of the Remuneration Report and in the Directors Report.

Three Non Executive Directors joined the Board during 2019 following removal of two Non Executive Directors at 2019 Annual General meeting (AGM) and resignations of the other two Non Executive Directors after 2019 AGM. Victor Gladun was appointed as an Executive Director of the Company at the AGM and on 20 September he was additionally appointed as the CEO of the JKX Group. Please refer to the Remuneration Report for the disclosure on the bonus awarded to the Group CEO for 2020 (2019: nil).

Share-based payments represents the expenses arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant (Note 26).

Transactions with related parties

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

PJSC "Mining Company Ukrnaftoburinnya" ("UNB"), a Ukrainian oil and gas company in which Group holds a 10% of the ordinary share capital was considered a related party at 31 December 2020. One of the Group's Non Executive Directors, Michael Bakunenko, a member of Audit and Nomination Committees, is also a Chairman of the Board of UNB.

The following transactions were carried out with UNB:

	2020 $000	2019 $000
Gas sales	2,498	1,330
Sale of property, plant and equipment (pipes)	-	135

	2020 $000	2019 $000
Natural gas liquids (NGLs) purchase	30	-

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.

34. Audit exemptions for subsidiary companies

The Group has elected to take advantage of the full extent of the exemptions available under Section 479A of the Companies Act 2006. Exemption from mandatory audit in section 479A of the act is available for qualifying subsidiaries that fulfil a set of conditions. As a result, statutory financial statements will not be audited for the following UK entities: JKX Services Limited, JKX Georgia Ltd, JKX (Ukraine) Ltd, Baltic Energy Trading Ltd, EuroDril Limited, JP Kenny Exploration & Production Limited, Page Gas Ltd, Trans-European Energy Services Limited, JKX Limited.

35. Events after the reporting date

On 12 March 2021 Kharkiv Appellate Administrative Court found in favour of PPC in case No. 816/686/16 and cancelled the tax notification decisions recognising them as illegal. Consequently the provision of $10.4m (including interest and penalties) was released to profit and loss account for the year ended 31 December 2020. Please refer to Note 27 for the full disclosure.

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