JKX OIL & GAS PLC ('JKX' OR THE 'COMPANY')

Half Year Report

For the six months ended 30 June 2020

Highlights to 30 June 2020

- Average daily production: 10,445 boepd (H1 2019: 10,132 boepd)
- Revenue: $35.1m (H1 2019: $45.3m)
- Cost of sales (excluding inventory movement, DD&A and production taxes): $8.4m (H1 2019: $10.6m)
- Administrative expenses: $4.4m (H1 2019: $5.7m)
- Exceptional costs: $1.1m (H1 2019: $2.3m)
- Net profit for the period: $1.5m (H1 2019: $2.2m)
- Earnings per share: 0.89 cents (H1 2019: 1.29 cents)
- Operating cash flow: $12.5m (H1 2019: $12.8m)
- Capital expenditure: $7.5m (H1 2019: $10.8m)
- Total unrestricted cash balance: $14.4m (31 Dec 2019: $20.6m)
- Following the final payment of $5.8m to bond holders in February 2020 the Group is debt free

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Chairman's statement

Dear Shareholder,

I am pleased to present the results for the six month period ended 30 June 2020.

We are once again reporting a profit for the period (H1 2020 profit $1.5m, H1 2019 profit $2.2m), although the H1 profit is less than for the same period in 2019. The decline in profit is a result of the significant reduction in oil and gas prices across our operations and in line with international trends.

Despite a slight increase in production rates, there has been a 23% reduction in half-year revenue to $35.1m, again reflecting the sharp decline in oil and gas sales' prices.

We made a final payment of $5.8m to bond holders in February 2020 and the Group is now debt free, increasing our financial resilience in an uncertain business environment.

I am pleased to report that despite our Ukrainian subsidiary, Poltava Petroleum Company ("PPC"), being unable to carry out any new well or side- track drilling activity since April 2020 due to the current pandemic, group average daily production in the first half of the year was 10,445 boepd, 3% higher than in the first half of 2019. Further details of our operational performance are set out in the CEO's statement.

Although three tax and legal issues remain outstanding in Ukraine, we continue to anticipate that the claim for underpayment of 2010 rental fees will be finally resolved later this year. So far, 4 out of the 8 cases on 2015 rental fees have been decided in the Company's favour and we expect the remaining four cases to be resolved in the next 24 months, although the timing of any final decisions cannot be precisely estimated. We have already achieved recognition in Ukraine of the international arbitration award made in the Company's favour in 2017 and we are now seeking to have this paid. Details of these three issues, including the provisions maintained in respect of rental fee claims, are given in the financial review.

I am pleased to be able to report that the Board appointed in the second half of last year - and of which I am Chairman - is now well established. The Board is focused on the identification of new opportunities for growth, whilst maintaining the highest standards of corporate governance and internal controls and continuing ongoing efforts to improve operational performance.

In closing I would like to take this opportunity to thank the Group's staff for their continued dedication and professionalism, despite difficulties the current Covid 19 pandemic poses.

Charles Valceschini
Chairman, Board of Directors.

11 August 2020

Chief Executive's statement

I am pleased to report that Group average daily production in the first half of the year was 10,445 boepd, 3% higher than in the first half of 2019.

Average daily production in Ukraine in the first half of 2020 was 5,162 boepd (H1 2019: 5,188 boepd), similar to production levels in the same period last year, despite no further new well or side-track drilling activity by PPC since April 2020. Russian production in the first half of 2020 was 5,283 boepd (H1 2019: 4,932 boepd) representing a 7% increase compared to the same period last year, with the loss of Well 20 in the first quarter of 2020 more than compensated for by production from the Wells 5 and 18 that have come on stream since the first half of 2019 after successful work-overs of those wells.

Despite the positive production performance our financial performance has been negatively impacted by the significant year-on-year fall in oil and gas prices, with average Ukrainian gas sales prices achieved having fallen from $247/Mcm in the first half of 2019 to $131/Mcm in the first half of this year and oil prices having decreased from $59/bbl in the first half of 2019 to $40/bbl in the first half of 2020.

Successful planned plant shutdowns have taken place at the end of the first half of 2020, both at the PPC Novomykolaivske complex and at the Russian field. The plant shutdown in Ukraine enabled the enhancement of a condensate stabilisation column to increase the LPG yield. The plant shutdown in Russia was the first one since 2016 and enabled essential maintenance to be carried out.

In response to the fall in oil and gas prices the Group implemented cost-cutting measures with effect from March 2020 and has adopted a revised 2020 Budget. The measures taken target operational and administrative expenses in the subsidiaries and the London office and most discretionary capital expenditure has been postponed until 2021, by which time it is hoped that prices will have strengthened.

Early in the first half of 2020, IG143 was drilled to further develop the Ignativske Devonian reservoir and due to ongoing success in the development of this area a follow-up well is planned for the second half of 2020.

Towards the end of the first half of 2020 PPC's own workover rig resumed operations in Ukraine. Two perforation jobs were carried out in Ukraine towards the end of the first half of 2020 which have added to production at a low cost. Acid jobs in Russia continue to be successful in maintaining production levels, with most wells now requiring less frequent intervention.

The revised 2020 Budget assumes one new well IG 146 drilling at the second half of 2020.

On the new business front I am pleased to report that PPC successfully negotiated the grant of a new special permit for the Zaplavska Field although the completion of the transfer of the Group's Hungarian interests remains outstanding as a result of the current pandemic.

In closing I would like to take this opportunity to thank all our staff and contractors for their continued loyalty and commitment during the ongoing pandemic. They have risen to the challenges presented in an exemplary fashion.

Victor Gladun
Chief Executive Officer
11 August 2020

Operations review

Group production

In 1H 2020 group average production was 10,445 boepd (1H 2019: 10,132 boepd), an overall increase in production of 3%. The increase in production year-on-year was a result of the drilling and workover program in Ukraine and Russia which continued through 2019 until April 2020.

	boepd		Workovers[1]		Sidetracks		New wells	
	H1 2020	H1 2019	**H1 2020**	H1 2019	**H1 2020**	H1 2019	**H1 2020**	H1 2019
Novomykolaivske complex	**3,824**	3,814	**5**	7	**2**	-	**2**	1
Elyzavetivske Licence	**1,338**	1,374	**-**	1	**-**	-	**-**	1
Total Ukraine	**5,162**	5,188	**5**	8	**2**	-	**2**	2
Russia	**5,283**	4,932	**-**	1	**-**	-	**-**	-
Hungary	**-**	12	**-**	-	**-**	-	**-**	-
Total Group	**10,445**	10,132	**5**	9	**2**	-	**2**	2

Ukraine

Novomykolaivske complex production and operations

	boepd		Workovers[1]		Sidetracks		New wells	
Field name	**H1 2020**	H1 2019	**H1 2020**	H1 2019	**H1 2020**	H1 2019	**H1 2020**	H1 2019
Ignativske	**2,701**	2,852	**3**	4	**1**	-	**1**	-
Molchanivske	**380**	329	**-**	2	**-**	-	**-**	-
Novomykolaivske	**510**	293	**1**	-	**-**	-	**1**	1
Rudenkivske	**233**	340	**1**	1	**1**	-	**-**	-
Novomykolaivske	**3,824**	3,814	**5**	7	**2**	-	**2**	1

[1] Excludes abandonments

Production across the Novomykolaivske complex has remained flat year on year with the most notable increase as a result of NN81 in the Novomykolaivske field and IG142 in the Ignativske field. R101 sidetrack was completed in the first half of 2020 but failed to reach its primary target and as such the H1 2020 production in Rudenkivske is lower than the same period the previous year.

A plant shutdown took place at the Novomykolaivske complex from the 22nd to the 25th June. The main achievement of this shutdown was the enhancement of the condensate stabiliser package to increase the LPG yield and the tie in of a new separator.

Outlook

An additional 26m of perforations have been added in IG142 at the start of July 2020 and this has increased production for this well from 475 boepd to 720 boepd.

It is planned to commence the drilling of IG146 in the second half of 2020 and this well will be drilled to target the Devonian near IG101 sidetrack and IG142.

A workover is planned of an old well in the Zaplavske license by the end of 2020. The Zaplavske license covers an area of 173 square kilometres and has now been successfully converted from an exploration license into a 20 year production license.

Elyzavetivske Licence production and operations

	boepd		Workovers		New wells	
Field name	**H1 2020**	H1 2019	**H1 2020**	H1 2019	**H1 2020**	H1 2019
Elyzavetivske	**809**	1,038	**-**	-	**-**	-
West Mashivska	**529**	336	**-**	1	**-**	1
Elyzavetivkse Licence	**1,338**	1,374	**-**	1	**-**	1

Operations review

The increase in production from the West Mashivske field compared to 1H 2019 is due to production from WM3 and WM4 drilled in 2019. The decrease in production from the Elyzavetivske field compared to 1H 2019 is the result of natural production decline.

Outlook

There are currently no immediate plans for workovers or new wells in the Elyzavetivske license.

Russia

Koshekhablskoye licence production and operations

	boepd		Workovers	
Well name	**H1 2020**	H1 2019	**H1 2020**	H1 2019
Well 5	**359**	16	**-**	1
Well 18	**1,474**	-	**-**	-
Well 20	**114**	1,445	**-**	-
Well 25	**1,719**	1,737	**-**	-
Well 27	**1,547**	1,663	**-**	-
Koshekhablskoye field[1]	**5,283**	4,932	**-**	1

[1] Includes Well 15

Production in H1 2020 from the Koshekhablskoye field is 7% higher than H1 2019 due to production from Well 5 and Well 18 which were both brought online in H2 2019. In the first half of 2020 Well 20 production declined rapidly and in the middle of February a slickline fishing operation was conducted which successfully recovered 3,928m of wire which had been left in the well since August 2016. This enabled a hole to be shot in the tubing at 3,900m and the well was successfully killed on the 13 March 2020. A workover will be required to replace the tubing and recover the remaining fish before production can be re-started from this well. There is currently no firm date for the timing of this workover.

A plant shutdown took place at the Koshekhablskoye field from the 12th to the 19th June 2020. This is the first shutdown of the plant in Russia since 2016 and as such has enabled many routine maintenance tasks to be completed and also to record shut-in wellhead pressure data in all the wells over a period of 7 days.

Outlook

In September 2020 it is planned to carry out an acidizing campaign in Well's: 5, 18 and 27.

Financial review

Operating results	First half 2020 (unaudited) $m	Second half 2019 (unaudited) $m	First half 2019 (unaudited) $m
Revenue			
Oil	8.1	15.2	9.8
Gas	24.4	36.5	32.5
Liquefied petroleum gas	2.2	3.7	2.9
Other	0.4	1.0	0.1
	35.1	56.4	45.3
Cost of sales			
Exceptional item – (provision for disputed production based taxes)/net reversal of provision	(1.1)	10.7	(2.3)
Other production based taxes	(7.0)	(10.8)	(12.7)
Depreciation, depletion and amortisation – oil and gas assets	(11.0)	(9.6)	(9.5)
Other cost of sales	(9.6)	(13.9)	(8.2)
Total cost of sales	(28.7)	(23.6)	(32.7)
Gross profit	6.4	32.8	12.6
Administrative expenses			
Other administrative expenses	(4.4)	(7.5)	(5.7)
Gain/(loss) on foreign exchange	0.3	(0.3)	(0.3)
Profit from operations before exceptional items	3.4	14.1	9.0
Profit from operations after exceptional items	2.3	24.9	6.7

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

Comparative information In respect of H1 2019 has been restated. Refer to note 2 for details.

Financial review

EARNINGS	First half 2020 (unaudited)	Second half 2019 (unaudited)	First half 2019 (unaudited)
Profit before tax ($m)	2.0	24.4	6.0
Net profit ($m)	1.5	20.0	2.2
Net profit before exceptional items ($m)	2.6	9.4	3.8
Basic weighted average number of shares in issue (m)	171.7	169.5	166.7
Profit per share after exceptional items (basic, cents)	0.89	6.56	1.29
Pre-exceptional earnings before interest, corporation tax, depreciation and amortisation[1] ($m)	14.7	24.1	18.8

COST OF PRODUCTION ($/BOE)	First half 2020 (unaudited)	Second half 2019 (unaudited)	First half 2019 (unaudited)
Production costs (excluding exceptional items)	$5.1	$6.7	$5.94
Depreciation, depletion and amortisation	$5.8	$4.7	$5.28
Production based taxes	$3.7	$5.2	$6.92

CASH FLOW	First half 2020 (unaudited)	Second half 2019 (unaudited)	First half 2019 (unaudited)
Cash generated from operations ($m)	12.5	29.2	12.8
Operating cash flow per share (cents)	7.3	17.3	7.7

STATEMENT OF FINANCIAL POSITION	As at 30 June 2020 (unaudited)	As at 30 June 2019 (unaudited)	As at 31 December 2019 (audited)
Total cash and cash equivalents[2] ($m)	14.4	10.6	20.6
Borrowings ($m)	-	(5.6)	(5.7)
Net cash[3] ($m)	14.4	5.0	14.9
Net cash to equity (%)	8.6	3.2	8.0
Return on average capital employed[4] (%)	1.7	2.9	14.4

	First half 2020 (unaudited)	Second half 2019 (unaudited)	First half 2019 (unaudited)
Additions to property, plant and equipment/intangible assets ($m)			
- Ukraine	6.5	12.7	7.8
- Russia	1.0	5.9	3.0
Total	7.5	18.6	10.8

1 Pre-exceptional earnings before interest, tax, depreciation and amortisation ('EBITDA') is a non-IFRS measure and calculated using profit from continuing operations and adding back depreciation, depletion and amortisation and exceptional items. EBITDA is an indicator of the Group's ability to generate operating cash flow that can fund its working capital needs, service debt obligations and fund capital expenditures. EBITDA and liquidity measures in the monthly internal reporting are used by the Board to monitor subsidiaries' performance.

The Group uses alternative performance measures, which are not defined by generally accepted accounting principles ('GAAP') such as IFRS, as additional performance measures. These measures are used by management, alongside the comparable GAAP measures, in evaluating the business performance. The measures are not intended as a substitute for GAAP measures and may not be comparable to similarly reported measures by other companies.

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

3 Net cash is cash and cash equivalents less Borrowings (excluding derivatives).

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

5 Comparative information in respect of H1 2019 has been restated. Refer to note 2 for details.

Financial review

Results for the period

The net profit for the period of $1.5m was lower compared to the profit of $2.2m in the first half of 2019. The Company's financial performance for the first half of 2020 has been impacted by the significant decline in oil and gas prices. Results for both periods include charges reflecting updated calculations for the provisions for the disputed production based taxes as for 2010 and 2015 in Ukraine ($1.1m in H1 2020 and $2.3m in H1 2019). No other exceptional charges have been reported.

Total revenue for the first half of 2020 is $35.1m, 22.5% lower than the $45.3m reported in 2019. The decrease is primarily due to the significantly lower commodity prices while total average daily Group production has slightly increased from 10,132 boepd in the first half of 2019 to 10,445 boepd in the first half of 2020.

Revenue

Group revenues	6 months 2020 $m	6 months 2019 $m	Change $m	% Change
Ukraine	**26.8**	37.1	(10.3)	(28%)
Gas	**16.4**	24.7	(8.3)	(34%)
Oil	**7.8**	9.4	(1.6)	(17%)
Liquefied Petroleum Gas ('LPG')	**2.2**	2.9	(0.7)	(24%)
Other	**0.4**	0.1	0.3	>100%
Russia	**8.3**	8.1	0.2	2%
Gas	**8.0**	7.8	0.2	3%
Condensate	**0.3**	0.3	-	-
Total	**35.1**	45.3	(10.2)	(22.5%)

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

Sales prices	6 months 2020	6 months 2019	Change	% Change
Ukraine				
Gas ($/Mcm)	**131**	247	(116)	(47%)
Oil ($/bbl)	**40**	59	(19)	(32%)
LPG ($/tonne)	**328**	443	(115)	(26%)
Russia				
Gas ($/Mcm)	**54**	56	(2)	(4%)

Ukraine revenues

The $10.3m decrease in total revenues was due to significantly lower sales prices partially offset by higher sales volumes.

The average gas sales price in dollar terms was 47% lower in the first half of 2020 than in the first half of 2019. This is in line with international market trends. Total gas sales volumes increased by 23% from 100,035 Mcm in the first half of 2019 to 123,210 Mcm in the first half of 2020, due to selling gas inventory which reduced from 14,041 Mcm in the beginning of the year to 5,573 Mcm at 30 June 2020 and compensated the gas production volume having decreased 4% from 131,282 Mcm in the first half of 2019 to 125,613 Mcm in the first half of 2020. For more detail on production trends please refer to the Operations review.

The average oil sales price decreased from $59/bbl in the first half of 2019 to $40/bbl in the first half of 2020 and total oil sales volumes for the period increased 25% from 152,748 barrels in the first half of 2019 to 190,280 barrels in the first half of 2020. Oil production volume increased 17% from 166,339 barrels in the first half of 2019 to 200,200 barrels in the first half of 2020, with the surplus being taken to inventory.

LPG sales volumes were 6,787 tonnes in the first half of 2020 compared to 6,483 tonnes in the first half of 2019, with sales prices being 26% lower in 2020 ($328/tonne in 2020 compared to $443/tonne in 2019).

Inventory held at 30 June 2020 (5.5 million cubic metres of gas and 32 thousand barrels of oil) had an estimated sales value of $1.7m using average sales prices for June 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.

Financial review

Russia revenues

The $0.2m increase in total revenues from $8.1m in the first half of 2019 to $8.3m in the first half of 2020 is mainly due to higher gas production volumes (H1 2019:149,868 Mcm, H1 2020: 161,519Mcm). A decrease of the average gas sales prices in dollar terms caused by the comparatively weaker rouble also had an impact despite a 1.4% rise in the average rouble gas sales price on 1 July 2019. An expected gas price increase of 3% is effective from 1 August 2020.

Cost of sales

The provision for claims for additional rental fees for the years 2010 and 2015, was increased by $1.1m ($2.3m in the first half of 2019), to reflect updated interest calculations.

Cost of sales before exceptional items for the first half of 2020 totalled $27.6m (H1 2019: $30.5m). This includes:

- $7.0m of production taxes[1], which were $5.7m lower than in the first half of 2019. In Ukraine, production tax expense (before exceptional charges) decreased by $5.7m from $11.8m to $6.1m mainly due to a decrease in the average border gas price which is the basis for calculating gas production taxes. Only $0.8m of the total production taxes relate to Russia (H1 2019: $0.8m) where the mineral extraction tax rate for wells deeper than 5,000m has remained at 330 Roubles/Mcm.
- $8.4m of operating costs, of which $5.1m relates to Ukraine (H1 2019:$7.2m), $3.2m relates to Russia (H1 2019:$3.1m) and $0.2m to London (H1 2019:$0.4m). The decrease in operating costs in Ukraine is mainly due to a $0.7m decrease in well lease costs (H1 2020:$0.9m, H1 2019:$1.6m) and lower labour costs (H1 2020: $1.7m, H1 2019: $2.1m). 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 $1.2m (H1 2019: gain $2.4m as a result of building up inventory), which was added to/ netted off these operating costs respectively, gives the $9.6m costs of sales reported in the condensed consolidated income statement.
- $11.0m of depreciation, depletion and amortisation charge (H1 2019:$8.9m), of which $7.5m relates to Ukraine (H1 2019: $6.3m) and Russia $3.5m (H1 2019: $3.2m). The charge in the first half of 2020 is higher due to changes in depletion rates as a result of the recent higher levels of capital expenditure.

General and administrative expenses

Administrative expenses were $4.4m in the first half of 2020, comparing favourably to those of $5.7m in the first half of 2019. The decrease is mainly due to staff cost reductions 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.

Net finance charges

Finance costs, mainly comprising convertible bond interest, decreased from $1.0m to $0.5m due to the full repayment of principal outstanding in February 2020. Finance income of $0.3m comprises income from bank deposits (H1 2019: $0.5m).

Taxation

The total tax charge for the half year is $0.1m (H1 2019: charge $3.5m) comprising a current tax charge of $1.6m (H1 2019: $2.9m) which relates to Ukraine and a deferred tax credit of $1.5m (H1 2019: charge $0.5m). The deferred tax credit relates to movements in various deferred tax assets and liabilities in Ukraine and Russia.

Discontinued operation

The discontinued operation is the Hungarian business. The related charge reported reflects the running costs incurred during 2020. The sale of the business was agreed in March 2020 however is currently delayed due to Covid-19 related restrictions.

Cash flows

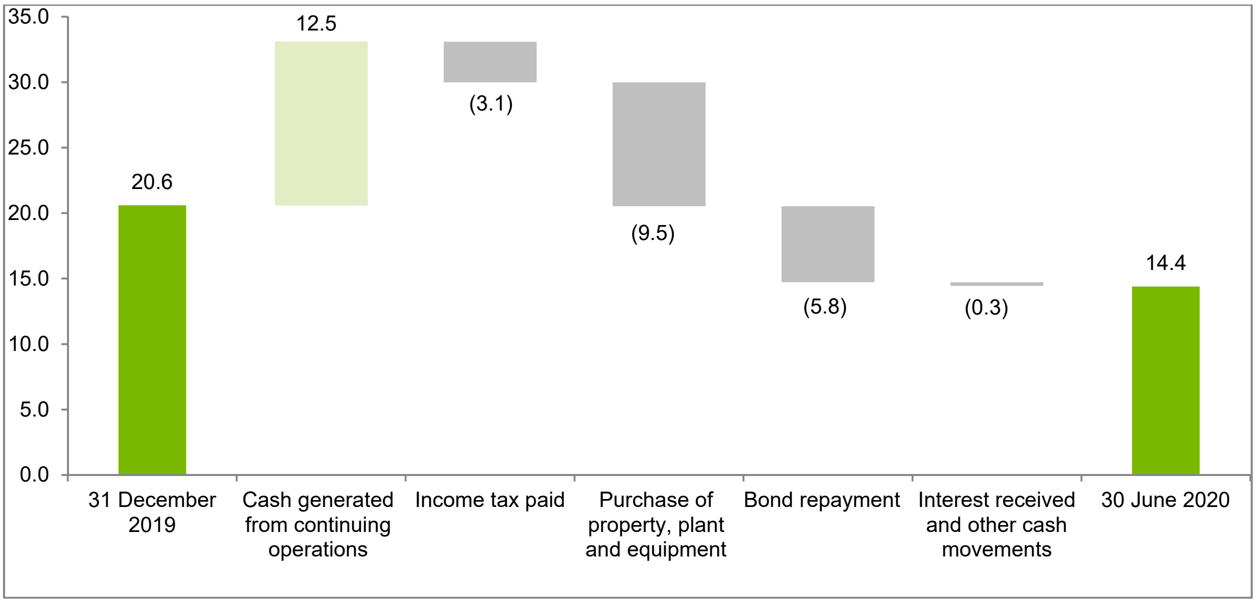
During the period, the available cash balances reduced from $20.6m to $14.4m due to repayment of the final bond borrowings of $5.8m and continuing investment in the fields.

Operating cash flow of $12.5m (H1 2019:$12.2m) from continuing operations remains strong despite the current challenging pricing environment and reflects the delivery against a revised 2020 Budget with cost-cutting measures targeting operational and administration costs plus deferral of the PPC work programme.

Use of cash during the period is as shown in the cash bridge below.

[1] 'Rental fees' and 'production based taxes' terminology interchangeably used throughout the report. Disputed production taxes refer to the 2010 and 2015 claims.

Financial review



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 ($10.5m) revolving credit line and a UAH50m ($1.9m) 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. For terms and conditions of this new facility please refer to Note 6 to these financial statements.

In addition, we have 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 ($14.4m and $23.3m 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 30 June 2021 and some will take place later, and 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 $23.3m for the 2015 rental fee claims, $12.8m has been reported under current liabilities and $10.5m 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 commodity prices drop. As a result of management actions to reduce costs and work programme deferral which are reflected into the revised 2020 budget, the Company generated sufficient cash to cover the Group's costs and investment programmes in the first half. 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 interim financial statements have been prepared on a going concern basis (see Note 2 to these financial statements).

Dmytro Piddubnyy
Chief Financial Officer
11 August 2020

Risks and uncertainties

The Group continuously monitors major strategic, operational, financial and external risks it faces and determines the appropriate course of action to manage these risks. Key risks and uncertainties which may impact the Group's performance have not changed significantly from those stated on pages 30 to 38 of the Group's 2019 Annual Report. However, the level of liquidity risk is considered to have reduced since the announcement of the Group's 2019 results due to the additional cash generation, trading successfully during the current challenging environment together with the Group having secured an additional loan facility.

Financial risk management

The main financial risk faced by the Group is non-availability of funds to meet business needs and rental fee payments (liquidity risk). The significant factors outside of management control that could adversely impact cash flows, profits and liquidity of the Group remain the ongoing legal disputes concerning Rental Fees in Ukraine, along with international oil and gas prices and risks associated with operating in Ukraine and Russia given the short-term economic outlook for these countries remains uncertain.

These are critical factors considered when assessing whether the Group is a going concern (see Note 2 to the condensed consolidated interim financial information).

To protect the liquidity of the Group, the management prepared a revised budget for 2020 with reduced CAPEX program, fully reviewed operational and staff costs and other measures to compensate for the low sale prices for hydrocarbons. The revised budget was approved by the Board in June.

Tax legislation

The taxation systems in emerging markets where Group companies operate are relatively new and are characterised by frequently changing legislation, which might be subject to interpretation. Taxes are subject to review and investigation by local authorities, who are enabled by law to impose substantial fines, penalties and interest charges. In Ukraine and the Russian Federation a tax year remains open for review by the tax authorities during subsequent three calendar years.

Management believes that it has adequately met and provided for tax liabilities based on its interpretation of existing tax legislation. However, the relevant tax authorities may have differing interpretations and the effects on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Company has persistently defended its position in Ukrainian courts regarding the Rental Fee claims for 2010 and 2015. We expect the claim for underpayment of rental fees for 2010 to be finally resolved later this year. Also 4 out of 8 cases on rental fees 2015 have been resolved in the Company's favour and we expect the remaining four cases to be resolved within the next two years The Company's Ukrainian subsidiary, PPC, has recognised total provisions of $37.7 million (including interest and penalties, see Note 9).

Reservoir and operational performance

The hydrocarbon reservoirs that we operate in Ukraine and Russia generate the cash flow that underpins the Group's growth. These reservoirs may not perform as expected, exposing the Group to lower profits and less cash to fund planned development.

Existing production from our mature fields at the Novomykolaivske Complex in Ukraine requires a high level of maintenance and intervention to minimise natural production decline. In Russia, acidization of producing wells and other well maintenance procedures are required from time to time to maintain stable production levels. In February 2020, Well 20 was shut in due to technical problems. As a result, total gas production at YGE reduced by 11% per day.

Our investment in development projects or workovers of old wells is subject to uncertainty inherent in exploring and developing hydrocarbon reserves and resources. Accurate reservoir performance forecasts are critical in achieving the desired economic returns and to determine the availability and allocation of funds. In modelling reservoir performance, we rely on multiple sources of data, some of which are decades old (reflecting the time when certain wells were originally drilled) and therefore may not be accurate.

Commodity prices - Russia and Ukraine

Company policy is not to hedge commodity price exposure on oil, gas, LPG or condensate and therefore any change in prices would have a direct effect on the Group's trading results. We are subject to risk of unfavourable international oil and gas price movements that can be affected by political developments in Russia and Ukraine. In Russia, the government sets certain gas tariffs to which the Company's Russian subsidiary, Yuzhgazenergie LLC ('YGE') has pegged its gas sales price. The tariff increasing by 3 have been declared by the responsible government authority starting from 1st of August. That tariff nominated in the local currency was flat throughout 2020 nominated in the local currency, but due to FX rate fluctuations, the natural gas price in USD felt down – average sale price for the 1HY 2020 is 12% lower than at the beginning of the year.

Ukrainian gas prices have recently been aligned with those across Europe that exhibit significant volatility and seasonality. Change in gas import flows had already had impact on gas prices in Ukraine, and a prolonged period of low gas prices would impact the Group's liquidity. Hydrocarbon prices were extremely low worldwide during the first half of 2020. The Ukrainian market generally followed the global trends. The lowest monthly average sale price for natural gas was $78/mcm in June 2020 and current spot market prices for July and August price are about $100/mcm. We, therefore, believe that gas prices have already passed through their lowest point.

Risks and uncertainties

Environmental, asset integrity, and safety incidents

Despite our continued focus on safety, and a successful period during which no incidents were reported, we suffered the fatality of a contractor whilst inspecting fire extinguishers at PPC. We are currently undertaking a full investigation to ensure that the root causes are identified and lessons are learnt and communicated to all relevant parties. A commission, overseen by the State Labour Service, has also been appointed to investigate the incident.

As we continue with the development of our oil and gas reserves, we are exposed to a wide range of significant health, safety, security and environmental risks that arise as a result of the geographic spread, operational diversity, regulatory environment and technical complexity of our exploration and production activities.

Technical failure, non-compliance with existing standards and procedures, accidents, natural disasters and other adverse conditions in our operational locations, 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, or loss of operating licence.

Health, safety and the environment is a priority of the Board who are involved in the planning and implementation of continuous improvement initiatives. Operations in Ukraine, Russia and Hungary all have dedicated HSECQ teams and HSE Management Systems modelled on the ISO 9000 series, OHSAS 18001 and ISO 14001. Appropriate insurances by reputable insurers are maintained to manage the financial exposure to any unexpected adverse events that would affect normal operations.

Corporate governance

The Group has major operations in Ukraine, Russia and the United Kingdom. Such a complex structure requires rigorous governance and control procedures to be in place to ensure an appropriate level of financial discipline and controls, as well as delegation of authority along the corporate and management structure.

Over the past few years, the Group has gone through several major Board and management changes, with subsequent revisions of strategy, changes of advisors and contractors, and a significant reduction of staff across its operations. These changes require additional efforts to ensure proper maintenance of governance, controls, and financial discipline procedures.

Global Covid-19 pandemic

The Group's oil and gas operations are located in Ukraine and Russia with a head office located in the United Kingdom. These countries, in common with many others, continue to face challenges associated with Covid-19 infection and in due course there may be increasing disruption of normal working patterns due to travel restrictions, workforce illness and challenges in the supply chain. The national and local governments in each of our locations have implemented restrictions in order to manage the situation – from a public transport ban in Ukraine to the temporary imposition of general non-working days in Russia (which has already been lifted). Although the recent quarantine restrictions have eased in certain jurisdictions, the number of infected people continues to increase worldwide, which may lead to a second wave of the pandemic. The protracted influence of the Covid-19 outbreak presents a variety of risks – health of the Group's employees, potential for volatility in commodity prices, reductions in demand and the potential for production volume being constrained due to lack of personnel or access to production materials.

In each of the Group's locations management designed and implemented procedures to protect worker health whilst maintaining production. Among them:

- establishment of a dedicated Commission, responsible for coordinating of all activities for reducing Covid-19 impact;
- introducing remote working arrangements and defining those employees who would work remotely under different scenarios. development of succession plans in case of key personnel disease;
- restricting access to the Company's premises, minimizing access of all contractors to the Company premises and facilities;
- limitation of business trips;
- wider usage of remote meetings;
- encouraging personnel to strictly follow the World Health Organization's recommendations to reduce the risks of the Covid-19 epidemic by periodic notifications;
- implementation of body temperature screening, enhanced disinfection measures and Covid-19 testing of employees.

The Group has conducted Covid-19 testing of employees as part of its protective measures. During the period 5 cases were detected at our Ukrainian operations and 4 employees were tested positive in our Russian operations. In line with our protocols, the affected persons and all employees and all their contacts within the office were isolated to avoid the virus spreading. These measures have helped the Group to maintain production with no significant business interruptions due to quarantine restrictions or other Covid-19 related factors in the first half of 2020. Management continuously monitors the situation to ensure that implemented measures are adequate and appropriate.

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union, and that the Interim Report includes a fair review of the information required by the Disclosure and Transparency Rules 4.2.7R and 4.2.8R, namely:

- an indication of important events that have occurred in the first six months of 2020 and their impact on the condensed set of financial information, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of 2020 and any material changes in related party transactions described in the last Annual Report.

A list of current Directors is maintained on the JKX Oil & Gas plc website www.jkx.co.uk.

Charles Valceschini
Victor Gladun
Tony Alves
Dr. Rashid Javanshir
Michael Bakunenko

The Board of Directors
11 August 2020

Independent review report to JKX Oil & Gas plc

Report on the condensed consolidated interim financial information

Introduction
We have been engaged by the Group to review the condensed set of financial statements in the Half Year Report for the six months ended 30 June 2020 which comprises the condensed consolidated income statement and condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the related explanatory notes.

We have read the other information contained in the Half Year Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities
The Half Year Report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the Half Year Report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half Year Report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report
Our report has been prepared in accordance with the terms of our engagement to assist the Group in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all liability.

BDO LLP
Chartered Accountants
London
United Kingdom
11 August 2020

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

GROUP FINANCIAL STATEMENTS

Condensed consolidated income statement

	Note	**Six months to 30 June 2020 (unaudited) $000**	Six months to 30 June 2019 (unaudited)* $000	Year to 31 December 2019 (audited) $000
Revenue	4	**35,092**	45,321	101,744
Cost of sales				
Exceptional item – (provision for production based taxes)/net reversal of provision	10	**(1,099)**	(2,292)	8,410
Production based taxes		**(6,978)**	(12,697)	(23,518)
Depreciation, depletion and amortisation		**(10,982)**	(9,489)	(18,512)
Other cost of sales		**(9,632)**	(8,225)	(22,752)
Total cost of sales		**(28,691)**	(32,703)	(56,372)
Gross profit		**6,401**	12,618	45,372
Administrative expenses		**(4,364)**	(5,673)	(13,207)
Gain/(loss) on foreign exchange		**250**	(281)	(615)
Profit from operations before exceptional items		**3,386**	8,956	23,140
Profit from operations after exceptional items		**2,287**	6,664	31,550
Finance income		**284**	459	857
Finance cost		**(543)**	(1,142)	(2,054)
Fair value movement on derivative liability		**-**	-	62
Profit before tax		**2,028**	5,981	30,415
Taxation – current		**(1,604)**	(2,908)	(6,561)
Taxation – deferred				
- before the exceptional items		**1,714**	(1,229)	(1,968)
- on the exceptional items		**(197)**	677	(1,677)
Total taxation		**(87)**	(3,460)	(10,206)
Profit from continuing operations		**1,941**	2,521	20,209
(Loss)/profit from discontinued operation (attributable to equity holders of the parent company)	7	**(420)**	(365)	2,004
Profit for the period/year attributable to equity shareholders of the parent company		**1,521**	2,156	22,213

*Comparative amounts for the six months to 30 June 2019 have been restated. Please refer to note 2.

GROUP FINANCIAL STATEMENTS

Condensed consolidated income statement

Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent company:		Six months to 30 June 2020 (unaudited) $000	Six months to 30 June 2019 (unaudited) $000	Year to 31 December 2019 (audited) $000
Basic profit per 10p ordinary share (in cents)				
-after exceptional items		1.13	1.51	12.02
-before exceptional items	12	1.89	2.48	8.02
Diluted profit per 10p ordinary share (in cents)				
- after exceptional items	12	1.13	1.48	12.02
- before exceptional items		1.89	2.44	8.02

(Loss)/earnings per share for profit/(loss) from discontinued operations attributable to the ordinary equity holders of the parent company:				
Basic profit/(loss) per 10p ordinary share (in cents)				
-after exceptional items		(0.24)	(0.22)	1.19
-before exceptional items	12	(0.24)	(0.22)	(0.14)
Diluted profit/(loss) per 10p ordinary share (in cents)				
- after exceptional items	12	(0.24)	(0.22)	1.19
- before exceptional items		(0.24)	(0.22)	(0.14)

Earnings per share for profit attributable to the ordinary equity holders of the parent company:				
Basic profit per 10p ordinary share (in cents)				
-after exceptional items	12	0.89	1.29	13.21
-before exceptional items		1.64	2.26	7.88
Diluted profit per 10p ordinary share (in cents)				
- after exceptional items	12	0.89	1.27	13.21
- before exceptional items		1.64	2.22	7.88

*Comparative amounts for the six months to 30 June 2019 have been restated. Please refer to note 2.

GROUP FINANCIAL STATEMENTS

Condensed consolidated statement of comprehensive income

	Six months to 30 June 2020 (unaudited) $000	Six months to 30 June 2019 (unaudited)* $000	Year to 31 December 2019 (audited) $000
Profit for the period/year	1,521	2,156	22,213
Other comprehensive income to be reclassified to loss or profit in subsequent periods when specific conditions are met			
- Currency translation differences	(21,434)	13,243	21,481
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods			
- Remeasurements of post-employment benefit obligations	-	-	(94)
- Changes in the fair value of equity investments at fair value through other comprehensive income	-	-	500
Other comprehensive income/(loss) for the period/year, net of tax	(21,434)	13,243	21,887
Total comprehensive income for the period/year attributable to equity shareholders of the parent company	(19,913)	15,399	44,100
- Continuing operations	(19,493)	15,764	42,096
- Discontinued operations	(420)	(365)	2,004

*Comparative amounts for the six months to 30 June 2019 have been restated. Please refer to note 2.

GROUP FINANCIAL STATEMENTS

Condensed consolidated statement of financial position

	Note	**As at 30 June 2020 (unaudited) $000**	As at 30 June 2019 (unaudited)* $000	As at 31 December 2019 (audited) $000
ASSETS				
Non-current assets				
Property, plant and equipment	5	**187,050**	192,449	215,728
Deferred tax assets		**8,604**	10,862	8,012
Investment		**500**	-	500
		196,154	203,311	224,240
Current assets				
Inventories		**4,819**	8,489	6,915
Trade and other receivables		**3,166**	4,733	3,931
Cash and cash equivalents		**14,371**	10,616	20,629
		22,356	23,838	31,475
Assets classified as held for sale	7	**3,212**	1,040	3,187
Total current assets		**25,568**	24,878	34,662
Total assets		**221,722**	228,189	258,902
LIABILITIES				
Current liabilities				
Current tax liabilities		**(362)**	(1,262)	(1,941)
Trade and other payables		**(7,877)**	(8,131)	(14,158)
Borrowings	6	**-**	(5,577)	(5,683)
Derivatives		**-**	(62)	-
Provisions	9	**(27,207)**	(20,286)	(15,861)
Lease liabilities		**(803)**	(1,166)	**(1,461)**
		(36,249)	(36,484)	(39,104)
Liabilities of disposal group classified as held for sale	7	**(312)**	(506)	(287)
Total current liabilities		**(36,561)**	(36,990)	(39,391)
Non-current liabilities				
Provisions	9	**(16,418)**	(32,776)	(31,769)
Defined pension benefit plan		**(744)**	(593)	(859)
Lease liabilities		**(372)**	(735)	(628)
		(17,534)	(34,104)	(33,256)
Total liabilities		**(54,095)**	(71,094)	(72,647)
Net assets		**167,627**	157,095	186,255
EQUITY				
Share capital	8	**26,666**	26,666	26,666
Share premium		**97,476**	97,476	97,476
Other reserves	13	**(172,170)**	(159,380)	(150,736)
Retained earnings		**215,655**	192,333	212,849
Total equity		**167,627**	157,095	186,255

*Comparative amounts for the six months to 30 June 2019 have been restated. Please refer to note 2.

GROUP FINANCIAL STATEMENTS

Condensed consolidated statement of changes in equity

	Share capital $000	Share premium $000	Retained earnings $000*	Other reserves $000	Total $000
At 1 January 2019	26,666	97,476	190,163	(172,623)	141,682
Profit for the period	-	-	2,156	-	2,156
Exchange differences arising on translation of overseas operations	-	-	-	13,243	13,243
Total comprehensive income attributable to equity shareholders of the parent	-	-	2,156	13,243	15,419
Transactions with equity shareholders of the parent					
Share-based payment charge	-	-	14	-	14
Total transactions with equity shareholders of the parent	-	-	14	-	14
At 30 June 2019 (unaudited)*	26,666	97,476	192,333	(159,380)	157,095
At 1 January 2020	26,666	97,476	212,849	(150,736)	186,255
Profit for the period	-	-	1,521	-	1,521
Exchange differences arising on translation of overseas operations	-	-	-	(21,434)	(21,434)
Total comprehensive income attributable to equity shareholders of the parent	-	-	1,521	(21,434)	(19,913)
Transactions with equity shareholders of the parent					
Sale of shares held by Employee Benefit Trust	-	-	1,285	-	1,285
Total transactions with equity shareholders of the parent	-	-	1,285	-	1,285
At 30 June 2020 (unaudited)	26,666	97,476	215,655	(172,170)	167, 627

*Comparative amounts for the six months to 30 June 2019 have been restated. Please refer to note 2.

GROUP FINANCIAL STATEMENTS

Condensed consolidated statement of cash flows

	Note	Six months to 30 June 2020 (unaudited) $000	Six months to 30 June 2019 (unaudited)* $000	Year to 31 December 2019 (audited) $000
Cash flows from operating activities				
Cash generated from continuing operations	14	12,492	12,847	41,386
Cash generated from/(used in) discontinued operations	7	19	(215)	(176)
Interest paid		(381)	(750)	(1,131)
Income tax paid		(3,110)	(3,922)	(7,090)
Net cash generated from operating activities		9,020	7,960	32,989
Cash flows from investing activities				
Interest received		273	459	818
Dividend received		-	-	27
Proceeds from sale of property, plant and equipment		16	64	47
Purchase of property, plant and equipment		(9,467)	(11,808)	(27,380)
Net cash used in investing activities		(9,178)	(11,285)	(26,488)
Cash flows from financing activities				
Restricted cash movement		-	211	211
Exercise of share options		-	-	17
Sale of shares held by Employee Benefit Trust		1,285	-	442
Repayment of borrowings		(5,440)	(5,280)	(5,280)
Lease liabilities		(756)	(834)	(1,776)
Net cash used in financing activities		(4,911)	(5,903)	(6,386)
(Decrease)/increase in cash and cash equivalents in the period/year		(5,069)	(9,228)	115
Effect of exchange rates on cash and cash equivalents		(1,183)	448	1,155
Cash and cash equivalents at the beginning of the period/year		20,725	19,455	19,455
Cash and cash equivalents from continuing operations at the end of the period/year		14,371	10,616	20,629
Cash and cash equivalents from discontinued operations at the end of the period/year	7	102	59	96

*Comparative amounts for the six months to 30 June 2019 have been restated. Please refer to note 2.

GROUP FINANCIAL STATEMENTS

Notes to the interim financial information

1. General information and accounting policies

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 office is 6 Cavendish Square, London, W1G 0PD and the principal activities of the Group are exploration, appraisal, development and production of oil and gas reserves. The registered number of the Company is 03050645.

The condensed consolidated interim financial information incorporates the results of JKX Oil & Gas plc and its subsidiary undertakings as at 30 June 2020 and was approved by the Directors for issue on 11 August 2020.

This condensed consolidated interim financial information does not constitute accounts within the meaning of section 434 and of the Companies Act 2006. Statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 31 March 2020 and delivered to the Registrar of Companies. The report of the auditors on those accounts while unqualified contained an emphasis of matter which drew attention to the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The auditors' report on those accounts did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

This condensed consolidated interim financial information has not been audited, but was the subject of an independent review carried out by the Company's auditors, BDO LLP.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019 which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. A copy of the annual financial statements is available on the Company's corporate website (www.jkx.co.uk) or from the Company's registered office.

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the operational and financial review sections of this report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial review section.

Comparative restatement

1. In the 2019 half year report certain items totalling \$1.9m held for well workovers were incorrectly included in inventories. At 30 June 2020 these items have been reclassified under property, plant and equipment to reflect their nature. This presentation confirms with the presentation applied at 31 December 2019. Accordingly, the comparatives for 30 June 2019 have been restated with the inventories balance reduced by \$1.9m from \$10.4m to \$8.5m whilst the property and the plant and equipment balance has been increased by \$1.9m from \$189.0m to \$190.9m.

2. Comparatives for the period ended 30 June 2019 were restated to record a right of use assetcapitalised under IFRS 16 and the associated lease liability which were identified and recorded during the preparation of the results for the year ended 31 December 2019 but which were previously omitted from 30 June 2019 results.

As a result, the property, plant and equipment balance was increased by \$1.5m from \$190.9m to \$192.4m and lease liabilities were increased by \$1.6m from \$0.3m to \$1.9m. The Group income statement was revised to include \$0.6m of depletion on the oil and gas asset capitalised with depletion increased from \$8.9m to \$9.5m; whilst other cost of sales decreased by \$0.6m from \$8.9m to \$8.2m and finance cost has been increased by \$0.1m from \$1.0m to \$1.1m. As a result of the revisions, net profit for the period to 30 June 2019 has decreased by an immaterial amount at \$0.04m. Earnings per share after exceptional item (basic, cents) decreased from 1.32 to 1.29.
Cash generated from operations increased by \$0.6m from \$12.2m to \$12.8m. A lease liability payment of \$0.8m is now included under cash flows from financing activities, out of which \$0.6m relates to the oil and gas asset and \$0.2m to non – oil and gas assets which were reclassified from purchase of property, plant and equipment within investing activities with the cash flow for that non-oil and gas asset lease having previously been included as an investing cash flow in error.

Going concern

The Directors note that the Group is debt free and has generated \$9m of operating cash flow in the first half of 2020 with \$14.4m of cash held at 30 June 2020. In addition, the Group benefits from an undrawn Tascombank loan facility of UAH280m (\$10.5m) and overdraft facility of UAH50m (\$1.9m) 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 traches are repayable 2 months from draw down.

In response to the reduced commodity prices the Group has taken measures to reduce operating costs and deferred discretionary capex whilst implementing rigorous policies and protocols to enable its Russian and Ukrainian operations to operate safely and effectively despite the Covid-19 pandemic. Production has continued without significant disruption through the period and the Board

GROUP FINANCIAL STATEMENTS

Notes to the interim financial information

notes that whilst oil and gas prices remain reduced compared to the pre-Covid-19 period the market stabilised after the pricing shocks in March - April 2020.

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 which assume deferral of discretionary capex and related production. Gas prices in the regulated Russian market have been forecast 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 11 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 undertaken 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 base case forecasts indicate that in the event that the payments fall due, based on the estimated earliest payment dates, the Group's forecast cash balances would be sufficient to meet such obligations as they fall due.

The Board further considered separate scenarios including; a) the effect of reductions in Ukrainian oil and gas prices of 10% and 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 forecasts demonstrate that significant cash balances are maintained under such scenarios.

The Board considered the events and circumstances that would be required to occur to create a liquidity shortfall and the probability of such a scenario arising. Such a scenario would require a combination of the disputed rental fee claims above becoming due for payment on the earliest possible estimated dates, together with a sustained reduction in prices across the forecast period or lengthy production stoppage of several months in addition to the Group being unable to draw on its banking facilities when needed. Having considered all facts and circumstances the likelihood of such a scenario occurring was considered to be sufficiently low.

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.

3. Accounting policies

The accounting policies adopted together with critical accounting estimates, assumptions and judgements are consistent with those used in the annual financial statements for the year ended 31 December 2019, except as noted below, and those expected to be applied in the 31 December 2020 annual financial statements. A number of new or amended standards became applicable for the current reporting period, none of which require a change in the Group's accounting policies, critical accounting estimates, assumptions and judgements. There were no retrospective adjustments as a result of adopting these standards. Taxes on income in the interim period are accrued using the tax rate that would be applicable on expected total annual earnings.

The following new standards became applicable for the current reporting period:

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

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.

GROUP FINANCIAL STATEMENTS

Notes to the interim financial information

There are four (2019: four) reportable operating segments which are based on the internal reports provided to the Chief Operating Decision Maker ('CODM'). Ukraine and Russia segments are involved with production and exploration; the 'Rest of World' are involved in exploration, development and production and the UK is the home of the head office and purchases material, capital assets and services on behalf of other segments.

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

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

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

First half 2020	UK $000	Ukraine $000	Russia $000	Rest of World $000	Sub total $000	Eliminations $000	Total $000
External revenue							
Revenue by location of asset							
- Oil	-	7,827	287	-	8,114	-	8,114
- Gas	-	16,366	8,013	-	24,379	-	24,379
- LPG	-	2,224	-	-	2,224	-	2,224
- Other	-	370	5	-	375	-	375
	-	26,787	8,305	-	35,092	-	35,092
Inter segment revenue							
- Management services/other	381	-	-	-	381	(381)	-
	381	-	-	-	381	(381)	-
Total revenue	381	26,787	8,305	-	35,473	(381)	35,092
Profit before tax							
(Loss)/profit from operations	(1,959)	3,909	215	(76)	2,089	198	2,287
Finance income	26	250	8	-	284	-	284
Finance cost	(152)	(265)	(126)	-	(543)	-	(543)
Profit before tax					1,830	198	2,028
Total assets[1]	3,547	115,998	96,012	2,953	218,510	-	218,510
Total liabilities[1]	(532)	(48,175)	(5,072)	(4)	(53,783)	-	(53,783)

[1] Total assets and liabilities exclude assets and liabilities of the Hungarian disposal group classified as held for sale. Please refer to Note 7 for details.

First half 2019	UK $000	Ukraine $000	Russia $000	Rest of World $000	Sub total $000	Eliminations $000	Total $000
External revenue							
Revenue by location of asset							
- Oil	-	9,443	314	-	9,757	-	9,757
- Gas	-	24,747	7,791	-	32,538	-	32,538
- LPG	-	2,906	-	-	2,906	-	2,906
- Other	-	112	8	-	120	-	120
	-	37,208	8,113	-	45,321	-	45,321
Inter segment revenue							
- Management services/other	732	-	-	-	732	(732)	-
	732	-	-	-	732	(732)	-
Total revenue	732	37,208	8,113	-	46,053	(732)	45,321

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Profit before tax							
(Loss)/profit from operations	(1,861)	8,642	328	(131)	6,978	(314)	6,664
Finance income					459	-	459
Finance cost					(1,142)	-	(1,142)
Profit before tax					6,295	(314)	5,981
Total assets[1]	4,224	112,236	108,671	2,018	227,149	-	227,149
Total liabilities[1]	(6,690)	(58,509)	(5,384)	(5)	(70,588)	-	(70,588)

1 Total assets and liabilities exclude assets and liabilities of the Hungarian disposal group classified as held for sale. Please refer to Note 7 for details.

5. Property, plant and equipment and other intangible assets

During the period the Group acquired $7.5m additional assets in Ukraine and Russia (2019: $10.8m in Ukraine, Russia), with 86% in respect of Group's oil and gas producing and development assets (2019: 96% in respect of Group's oil and gas producing and development assets).

At the reporting date a review of the carrying amounts of property, plant and equipment was undertaken to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review impairment triggers were noted in relation to the Ukrainian and Russian assets due to the carrying amount of the Group net assets exceeding the Company's market capitalisation and the impact on commodity pricing from Covid-19. An impairment test was performed in respect of assets in Ukraine and Russia.

Key Assumptions – Ukraine

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available information assessed internally.
- Economic life of field: it was assumed that the title to the licences is retained and that the licence term will be successfully extended beyond its current 2024 expiration date through to the economic life of the field (expected to be around 2038). The economic life of the Elyzavetivske field is currently expected to be around 2034 as per management's current expectation.
- Prices: gas and oil price assumptions have been adjusted to match forecasted average prices of $110/Mcm and $40/bbl in the second half of 2020. After that, a price curve has been applied with reference to market based information
- 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 new wells.
- Capital and operating costs: these were based on the revised budget for current operating and capital costs in Ukraine for both projects and the forecasts are based on such reduced cost profiles being sustained.
- Post tax nominal discount rate of 17.1%. This was based on a Capital Asset Pricing Model analysis.

Based on the key assumptions set out above the recoverable amounts for both cash generating units in Ukraine exceed their carrying amounts and therefore oil and gas assets were not impaired. It was also determined that no reversal of impairment charges made in prior periods was appropriate.

Based on the key assumptions set out above:

- the recoverable amount of Novomykolaivske Complex ('NNC') cash generating unit's oil and gas assets ($92.8m) exceeds its carrying amount of CGU's assets ($87.4m) by $5.4m and therefore NNC's oil and gas assets were not impaired.
- Elyzavetivske's recoverable amount (including the West Mashivska extension) ($13.8m) exceeds its carrying amount of CGU assets ($12.1m) by $1.7m, 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 and operating expenditure and post-tax discount rates, all other inputs remaining equal, would be as follows:

		NNC Increase/(decrease) in headroom of $5.4m for NNC CGU $m	**Elyzavetivske** Increase/(decrease) in headroom of $1.7m for Elyzavetivske CGU $m
Impact if gas and oil prices:	increased by 20%	34.6	4.6

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	reduced by 20%	(27.1)	(3.1)
Impact if gas and oil production volumes:	increased by 10%	19.8	2.2
	decreased by 10%	(19.9)	(2.2)
Impact if future capital expenditure:	increased by 20%	(14.3)	(1.1)
	decreased by 20%	14.3	1.1
Impact if operating expenditure:	increased by 20%	(11.1)	(0.7)
	decreased by 20%	11.1	0.7
Impact if post-tax discount rate:	increased by 2 percentage points to 19.1%	(10.9)	(1.0)
	decreased by 2 percentage points to 15.1%	12.8	1.1

Key Assumptions – Russia

The key assumptions used in the impairment testing were:

- Production profiles: these were based on the latest available information assessed internally.
- Economic life of field: it was assumed that YGE will be successful in extending the licence term beyond its current 2026 expiration to the economic life of the field.
- Gas prices: from 1 August 2020 and annually thereafter, the gas prices have been increased by 3.0% through to 2026 based on historical experience.
- Capital and operating costs: these were based on the revised budget for operating and capital costs in Russia, project estimates provided by third parties and supported by estimates from our own specialists, where necessary. It is assumed that the reduced cost levels can be delivered.
- Post tax nominal Rouble discount rate of 13.5%. This was based on a Capital Asset Pricing Model analysis.

Based on the key assumptions set out above YGE's recoverable amount ($90.9m) exceeds it carrying amount of CGU's assets ($89.2m) by $1.7m and therefore YGE's Koshekhablskoye gas field was not impaired.

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

		Increase/(decrease) in headroom of $1.7m for Yuzhgazenergie CGU $m
Impact of Adygean gas price:	growth rates increased by 10% annually	3.0
	growth rates reduced by 10% annually	(2.8)
Impact of production volumes:	Increased by 10%	16.0
	Decreased by 10%	(16.0)
Impact of future capital expenditure:	Increased by 20%	4.0
	Decreased by 20%	(4.1)
Impact of operating expenditure:	Increased by 20%	(8.2)
	Decreased by 20%	8.2
Impact of post-tax discount rate:	Increased by 1 percentage point to 14.5%	(6.7)
	Decreased by 1 percentage point to 12.5%	7.7

6. Borrowings

	30 June 2020 (unaudited) $000	30 June 2019 (unaudited) $000	31 December 2019 (audited) $000
Current			
Convertible bonds due 2020	-	5,577	5,683

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Term-loans repayable within one year	-	5,577	5,683

Convertible bonds due 2020

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

Please refer to Annual Group Consolidated financial statements for 2019 for the full disclosure on Borrowings in Note 11.

19 February 2017 the Company made the first payment to Bondholders in respect of prior accretion amounts of $1.9m (12.0% of the principal amount of the Bonds) and interest payment of $1.8m. 19 February 2018 the Company made a payment of the first instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with the final accretion payment of $0.5m (3.0% of the principal amount of the Bonds) and interest of $1.1m. On 19 February 2019 the Company made a payment of the second instalment to Bondholders of $5.3m (33% of the principal amount of the Bonds), together with $0.7m interest payment in accordance with the terms and conditions of the Bond. 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 2018, PPC, our subsidiary in Ukraine, renewed a 12 month revolving credit line from Tascombank for UAH280m (originally secured 15 December 2017 for UAH150 m). At 30 June 2020 the total short-term line of credit amounted to $10.5m at an exchange rate of $1: 26.69 (2019: $11.8m at an exchange rate of $1: 23.69 Hryvnia). The amount outstanding at 30 June 2020 was nil (2019: nil), so the undrawn portion totaled $10.5m (2019: $11.8m). The facility will be available through December 2021 (subject to planned renewal if required) and draw downs are subject to certain bank credit approvals. In addition PPC holds a UAH50m ($1.9m) 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 $3.4m at 30 June 2020 (31 December 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 $17.2m at 30 June 2020 (31 December 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 $10.5m (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.
- 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.

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;
- collateral shall be properly documented and provided in advance, the tranche cannot be granted otherwise;
- 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;

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- if the covenants are not met (for each case) an additional interest of 0.1% applies to the facility;
- 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:

- 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;
- 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.

7. Discontinued operations and assets classified as held for sale

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

The associated assets and liabilities were presented as held for sale in the financial statements at 31 December 2019 and remains as such at 30 June 2020. Prior to the reclassification assets were measured at the lower of carrying amount and fair value less costs to sell.

At the time the sale was agreed the consideration expected to be received was comprising of approximately $2.0m of consideration and a working capital adjustment anticipated to be $0.9m, with the actual consideration sum due to be determined and settled in full on completion. A reversal of impairment of $2.2m and $0.2m was recognised at 31 December 2019 and 30 June 2020 respectively. The amount of this reversal is exceeded by previous historical impairment charges, allowing for depreciation, made against the Hungarian assets. Due to Covid-19 travel restrictions the sale has not been finalised during the first half of 2020 and is expected in Q3 of 2020.

The financial performance and cash flow information presented are for periods ended 30 June 2020 and 30 June 2019.

	30 June 2020 $000	30 June 2019 $000
Revenue	-	103
Cost of sales		
Royalties	-	(25)
Other cost of sales	-	(470)
Total cost of sales	-	(495)
Administrative expenses	(490)	(13)
Reversal of provision for impairment of Hungary	173	-
Gain/(loss) on foreign exchange	(103)	40
Loss from operations before and after tax	(420)	(365)
Net cash inflow/(outflow) from operating activities	19	(215)
Effect of exchange rates on cash and cash equivalents	(13)	2
Net increase/(decrease) in cash used by the subsidiary	6	(213)
Basic and diluted loss per share from discontinued operations	(0.24)	(0.22)

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2020 and 31 December 2019.

Assets and liabilities of disposal group classified as held for sale	30 June 2020 $000	31 December 2019 $000
Assets classified as held for sale		
Property, plant and equipment	2,405	2,232
Trade and other receivables	705	859

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Cash	**102**	96
Total assets of disposal group held for sale	**3,212**	3,187
Liabilities of the disposal group classified as held for sale		
Trade and other payables	**(122)**	(87)
Abandonment provision	**(190)**	(200)
Total liabilities of disposal group held for sale	**(312)**	(287)
Net assets	**2,900**	2,900

8. Share capital

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

	30 June 2020 (unaudited) Number	**30 June 2020 (unaudited) £000**	**30 June 2020 (unaudited) $000**	31 December 2019 (audited) Number	31 December 2019 (audited) £000	31 December 2019 (audited) $000
Allotted, called up and fully paid						
Balance at 31 December and 30 June	**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 31 December and 30 June	**402,771**	**40**	**77**	402,771	40	77

Treasury shares and Employee Benefit Trust

The Company did not purchase any treasury shares during the period (2019: nil). There were no treasury shares used in the period (2019: nil) to settle share options.

JKX Employee Benefit Trust was established in 2013 and acquired 5,000,000 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 remaining 3,632,928 shares at an average price of £0.28 per share.

There are no shares reserved for issue under options or contracts.

9. Provisions

Refer to note 11 for details of the disputed production based taxes in respect of 2010 and 2015, also referred to interchangeably as rental fee claims through this report.

Current provisions	**Disputed production based taxes[1] $000**
At 1 January 2020	**15,861**
Foreign currency translation	**(1,788)**
Amount provided in the period	**341**
Reclassification from non-current provisions	**12,793**
At 30 June 2020	**27,207**

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Non-current provisions	Production based taxes[1] $000
At 1 January 2020	25,405
Foreign currency translation	(2,865)
Amount provided in the period	758
Reclassification to current provisions	(12,793)
At 30 June 2020	10,505

Current provisions	Production based taxes[1] $000	Onerous lease provision[2] $000	Total $000
At 1 January 2019	12,431	214	12,645
Foreign currency translation	761	-	761
Amount utilised in the period	-	(253)	(253)
Amount released in the period	-	39	39
Amount provided in the period	587	-	587
Reclassification from non-current provisions	6,507	-	6,507
At 30 June 2019	20,286	-	20,286

1. The provision for disputed 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. $1.1m was recognised as a charge in the half-year 2020 Consolidated income statement (30 June 2019:$2.3m charge), of which $0.3m charge relates to the August to December 2010 claim (30 June 2019:$0.6m) and $0.8m charge relate to January to December 2015 claims (30 June 2019:$1.7m). The outstanding claims are being contested in the Ukrainian courts (see Note 11). Four cases, 816/657/16, 816/686/16, 816/687/16 and 816/1191/16 totalling $12.8m inclusive of penalties and related to January to December 2015 claims were reclassified from non-current to current at 30 June 2020. These cases are expected to be considered on merits by the courts during the next twelve months. The provision is denominated in Ukrainian Hryvnia ('UAH') and is stated above at its US$-equivalent amount using the half-year 2020 rate of UAH26.69/$ (2019: UAH26.17/$). The provision for rental fee claims at 30 June 2020 includes estimated interest and penalties. Judgement is applied regarding application of relevant legislation to determine estimates of the interest and penalties, together with aspects of the underlying claims which are considered overstated based on the legislation on which the claims are based, should this legislation be applied, notwithstanding that the Group disputes the claims in their entirety. The Board believes that the claims are without merit under Ukrainian law and the Company will continue to contest them vigorously. Whilst provisions are held by the Group, additional contingent liabilities exist in respect of the rental fee claims given the judgments required in forming the provisions and alternative potential outcomes. The detailed nature and quantum of such additional contingent liabilities is not provided as the Group considers that it would be seriously prejudicial to the Group given the ongoing legal processes.

2. Onerous lease provision at 1 January 2019 concerned the Group's liability for onerous lease contracts relating to its London office. Following a reduction in London office staff in 2016, three out of the four floors of the occupied building became surplus to requirements. The provision was determined as the present value of the unavoidable costs relating to rents and rates to the end of the lease terms, net of the expected sub-lease income, discounted at 6.5%. The remaining life of the leases at 31 December 2018 was 3 years. Subsequently, three out of three floors have been assigned to new tenants which resulted in the release of the provision.

Non-current provisions	Disputed production based taxes[1] $000
At 1 January 2019	30,074
Foreign currency translation	1,725
Amount provided in the period	2,226
Amount released in the period	(521)
Reclassification to current provisions	(6,507)
At 30 June 2019	26,997

Provision on decommissioning

	30 June 2020 (unaudited) $000	30 June 2019 (unaudited) $000	31 December 2019 (audited) $000
Provision for site restoration	5,913	5,779	6,364

10. Exceptional items

During the period exceptional items as detailed below have been included in cost of sales in the income statement:

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	Cost of sales[1] $000
Movement in provision for disputed rental fees - amount provided in the period	1,099
	1,099

1 Please see Note 9 for details

11. Taxation

No UK tax liability has arisen during the six months ended 30 June 2020 (2019: $nil) due to the availability of tax losses. The current tax charged in the period relates to Ukrainian corporation tax which has arisen in the Group's subsidiary, Poltava Petroleum Company. Taxes charged on production of hydrocarbons in Ukraine, Russia and Hungary are included in cost of sales.

Factors that may affect future tax charges

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

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 and Finance Bill 2016. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. The impact of the rate reduction is not expected to have a material impact on UK current taxation.

The corporation tax rate in Ukraine for 2020 is 18% (2019: 18%).

Taxation in Ukraine – disputed 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 and operations continued as before.

In December 1994, a new fee on the production of oil and gas (known as a '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 rental fee 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 a new law on rental fees was enacted in 2011.

The new law enacted in 2011 established new mechanisms for the determination of the rental fees. Notwithstanding the Exemption Letter, in January 2011 PPC began to pay rental fees in order to avoid further issues with the Ukrainian authorities but without prejudice to its right to challenge the validity of rental fee demands.

During 2015 rental fees in Ukraine were increased to 55% and capital control restrictions were introduced.

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 m in rental fees that PPC had paid on production of oil and gas in Ukraine since 2011, in addition to damages to the business.

The tribunal decision, in February 2017, did not find in favour of the Company in respect of the rental fees but awarded the Company damages of $11.8 m plus interest, and costs of $0.3 m in relation to subsidiary claims.

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 claims

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 (2020: 2010), which in total amount to approximately $37.7 m (2019: $41.3 m) (including interest and penalties), as detailed below. All amounts are being claimed in Ukrainian Hryvnia ('UAH') and are stated below at their US$-equivalent amounts using the year end rate of $1:UAH26.69 (2019: $1: UAH 23.69).

- August – December 2010: approximately $14.4m including $9.8m of interest and penalties (2019: $15.9m including $10.7m of interest and penalties). On 11 March 2014 PPC won the case in the Poltava Court. The tax office appealed and the Kharkiv Appellate

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Administrative Court reversed the earlier decision. PPC then lost an appeal in the High Administrative Court of Ukraine and the Supreme Court rejected PPC's application for the appeal. PPC has discovered that there were in fact certain procedures that were not followed regarding the tax notifications that formed the basis of the original claims against PPC. Certain documentation was found to be missing from the files of the tax authorities. In April 2017 the Poltava Circuit Administrative Court found in favour of PPC and cancelled the tax notification decisions on the grounds that due process had not been followed. On 1 June 2017 the Kharkiv Appellate Administrative Court upheld the judgment of the Poltava Circuit Administrative Court. In July 2017 the Poltava Joint State Tax Inspectorate ("PJSTI") filed a cassation complaint against the previous court judgements of lower courts in PPC's favour. This cassation hearing at the Supreme Court of Ukraine is expected before the end of 2020. Whilst PPC has been successful in the April, June and July 2017 court hearings, the Board considers it appropriate to maintain a provision notwithstanding that PPC disputes the claim basis, given assessment of all relevant facts and circumstances.

- January – December 2015: approximately $23.3m including $15.6m of interest and penalties (2019: $25.4m including $16.7m 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 issued PPC with a series of claims for the difference between 28% and 55%, which were being contested in eight separate cases. Four of these cases has now been resolved in PPC's favour and the others continue to be contested with provisions maintained by the Group:

  Open cases for which provisions held:

  - On 4th May 2020 the Poltava Circuit Administrative Court found in favor of PPC in case No. 816/687/16 for a principal of $1.8m. The PJSTI filed the appeal and currently PPC is awaiting its acceptance by the Kharkiv Appellate Administrative Court, therefore provision is still considered to be necessary.
  - One case (No. 816/1191/16) for a total of $2.2m is suspended whilst economic & tax expert submissions are obtained by the first instance court. It is expected that the case would be unsuspended in the future and provision is considered appropriate.
  - Case No. 816/685/16 for a total principal of $1.9m was previously suspended. PJSTI have filed cassation complaint with the Supreme Court to unsuspend it. The hearing is expected to take place in the second half of 2020. If PJSTI is successful at these hearings, then the case will be considered by the first instance court of merits with potential for subsequent appeals and provision is considered to remain appropriate.
  - Case No. 816/686/16 for a total principal of $4.4m were previously confirmed as suspended by the Supreme Court. It is expected that PJSTI may file motions in the first instance court to renew these cases and provision is considered to remain appropriate.

  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.
  - Two cases (Nos. No. 816/846/16 and No. 816/844/16) for a total principal of $3.5m. On 14 November 2019 the Poltava Circuit Administrative Court found in favor of PPC in both cases as well as ruled that Tax Notification Decisions previously issued against PPC were illegal and were cancelled. PJSTI filed appellate complaints in both cases, however, failed to pay the court fee. The Kharkiv Appellate Administrative Court returned in January 2020 appellate complaints in both cases without consideration. PJSTI had time until mid-March 2020 to challenge the above return of appellate complaints, however they failed to do so. Thus, the cases are effectively closed in favour of PPC.

Four cases, 816/657/16, 816/686/16, 816/687/16 and 816/1191/16 totalling $12.8m inclusive of penalties and related to January to December 2015 claims were reclassified from non-current to current at 30 June 2020. These cases are 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 H2 2021 and possibly beyond. Full provisions are made for all these outstanding claims and classified as non-current.

In 2019 reversals were applied to the provisions (inclusive of interest and penalties) of $0.6m in respect of Case No. 816/845/16, $4.8m in respect of Case No. 816/688/16, $5.3m in respect of Case No. 816/846/16 and $3.7m in respect of Case No. 816/844/16, as all four cases were closed in PPC's favour.

An exceptional item of $1.1m has been charged to the Consolidated income statement in the period, being interest accrued on the remaining August – December 2010 and January – December 2015 claims (2019: $2.3 m charge) (see Note 9).

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12. Earnings per share

The calculation of earnings per ordinary share for the six months ended 30 June 2020 is based on the weighted average number of shares in issue during the period of 171,723,145 (30 June 2019: 166,723,145 and 31 December 2019: 168,090,217), including shares held to satisfy the Group's employee share schemes and shares purchased by the Company and held as treasury shares of 402,771 (30 June 2019: 5,402,771and 31 December 2019: 4,035,699), and the profit for the relevant period. The earnings and diluted earnings per share as previously presented in the 2019 half-year report was calculated based on a weighted average number of shares of 171,723,145.

The effects of dilutive potential have been included when calculating dilutive earnings per share for the period ended 30 June 2019. 2,812,080 (31 December 2019: Nil) potentially dilutive ordinary shares associated with the convertible bonds (Note 6) have been included as they were dilutive at 30 June 2019.

There were no outstanding share options at 30 June 2020 (30 June 2019: 256,150 of which 256,150 had a potentially dilutive effect).

The diluted earnings per share for the six months ended 30 June 2020 is based on 171,723,145 (30 June 2019: 169,791,375; 31 December 2019: 168,090,217) ordinary shares calculated as follows:

Profit	**30 June 2020 (unaudited) $'000**	30 June 2019 (unaudited) $'000	31 December 2019 (audited) $'000
Profit for the purpose of basic and diluted earnings per share:			
-After exceptional item	**1,521**	2,156	22,213
-Before exceptional item	**2,817**	3,771	13,247

Number of shares	**30 June 2020 (unaudited)**	30 June 2019 (unaudited)	31 December 2019 (audited)
Basic weighted average number of shares	**172,125,916**	172,125,916	172,125,916
Treasury shares	**(402,771)**	(402,771)	(402,771)
Shares held in Employee Benefit Trust (Note 8)	**3,632,928**	(5,000,000)	(5,000,000)
Sale of shares held by Employee Benefit Trust (Note 8)	**(3,632,928)**	-	1,186,547
Exercise of share options	**-**	-	180,525
Weighted average number of shares	**171,723,145**	166,723,145	168,090,217
Dilutive potential ordinary shares:			
-Share options	**-**	256,150	-
-Convertible bonds 2020 (see Note 6)	**-**	2,812,080	-
Weighted average number of shares for diluted earnings per share	**171,723,145**	169,791,375	168,090,217

13. 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 2019	30,680	587	(203,535)	(355)	-	(172,623)
Exchange differences arising on translation of overseas operations	-	-	13,243	-	-	13,243
At 30 June 2019	30,680	587	(190,292)	(355)	-	(159,380)
At 1 January 2020	**30,680**	**587**	**(182,054)**	**(449)**	**500**	**(150,736)**
Exchange differences arising on translation of overseas operations	**-**	**-**	**(21,434)**	**-**	**-**	**(21,434)**

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At 30 June 2020	**30,680**	**587**	**(203,488)**	**(449)**	**500**	**(172,170)**

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

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

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

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

During the first half of 2020, the Russian Rouble ('RR') weakened by approximately 13% from RR61.91/$ to RR69.95/$ (30 June 2019: strengthened by approximately by 9% from RR69.47/$ to RR63.08/$). Ukrainian Hryvnia ('UAH') weakened by approximately 14% from UAH 23.69/$ to UAH 26.69/$ (30 June 2019: strengthened by approximately 5% from UAH 27.69/$ to UAH 26.17/$). Currency translation differences of US$21.4m (2019: US$13.2m) included in the Consolidated statement of comprehensive income arose on the translation of property, plant and equipment denominated in RR and UAH and amounted to $12.6m and $8.8m respectively.

14. Reconciliation of profit from operations to net cash generated from operations

	Six months to 30 June 2020 $000	Six months to 30 June 2019 $000	Year to 31 December 2019 $000
Profit from continuing operations before tax	**2,287**	6,664	31,550
(Loss)/profit from discontinued operations before tax	**(420)**	(365)	2,004
Depreciation, depletion and amortisation	**11,278**	9,822	19,217
Exceptional item – increase/(decrease) in provision for production based taxes, including forex	**1,099**	2,292	(8,410)
Reversal of provision for impairment of Hungary	**(173)**	-	(2,232)
Increase in onerous lease provision, including forex	**-**	39	-
Loss/(profit) on disposal of fixed assets	**(15)**	658	(98)
Share-based payment charge	**-**	14	14
Cash generated from operations before changes in working capital	**14,056**	19,124	42,045
Decrease/(increase) in operating trade and other receivables	**874**	(32)	1,156
(Decrease)/increase in operating trade and other payables	**(5,202)**	(1,537)	1,811
Decrease/(increase) in inventories	**2,783**	(4,923)	(3,802)
Net cash generated from continuing operations	**12,492**	12,847	41,386
Net cash generated from/(used in) discontinued operations	**19**	(215)	(176)

15. Related-party transactions

Key management compensation amounted to $0.4m for the six months ended 30 June 2020 (2019: $0.5m).

The following transactions were carried out with PJSC "Mining Company Ukrnaftoburinnya" ("UNB") a Ukrainian oil and gas company in which Group holds a 10% of the ordinary share capital and which was considered a related party at 30 June 2020:

	30 June 2020 $000	30 June 2019 $000
Gas sales	**1,133**	1,323

	30 June 2020 $000	30 June 2019 $000
Gas condensate purchase	**30**	-

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

16. Events after the reporting date

In July 2020 our subsidiary in Ukraine signed a $5m loan facility agreement with Alfa-Bank. Please refer to Note 6 for the terms and conditions of the loan facility.

Glossary

2P reserves	Proved plus probable
3P reserves	Proved, probable and possible
P50	Reserves and/or resources estimates that have a 50 per cent probability of being met or exceeded
Boe	Barrel of oil equivalent
Boepd	Barrel of oil equivalent per day
Bopd	Barrel of oil per day
Bpd	Barrel per day
HHN	Riverside Energy Kft
Hryvnia	The lawful currency of Ukraine
HSECQ	Health, Safety, Environment, Community and Quality
KPI	Key Performance Indicator
LIBOR	London InterBank Offered Rate
LPG	Liquefied Petroleum Gas
Mbbl	Thousand barrels
Mboe	Thousand barrels of oil equivalent
MMboe	Million barrels of oil equivalent
MMcm	Million cubic metres
PPC	Poltava Petroleum Company
Roubles	The lawful currency of Russia
Sq. km	Square kilometre
TD	Total depth
$	United States Dollars
UAH	Ukrainian Hryvnia
US	United States
VAT	Value Added Tax
YGE	Yuzhgazenergie LLC

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Cautionary statement about forward looking statements

The Half Year Report contains certain forward looking statements with respect to the financial position, results of operations and business of the Group. Examples of forward looking statements include those regarding oil and gas reserves estimates, anticipated production or construction commencement dates, costs, outputs, demand, trends in commodity prices, growth opportunities and productive lives of assets or similar factors. The words "anticipate", "estimate", "plan", "believe", "expect", "may", "should", "will", "continue", or similar expressions, commonly identify such forward looking statements.

Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that are beyond the Group's control. For example, future oil and gas reserves will be based in part on long-term price assumptions that may vary significantly from current levels. These may materially affect the timing and feasibility of particular developments. Other factors include the ability to produce and transport products profitably, demand for products, the effect of foreign currency exchange rates on market prices and operating costs, activities by governmental authorities, such as changes in taxation or regulation, and political uncertainty.

Given these risks, uncertainties and assumptions, actual results could be materially different from any future results expressed or implied by these forward looking statements which speak only as at the date of this report. Except as required by applicable regulations or by law, the Group does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information or future events. The Group cannot guarantee that its forward looking statements will not differ materially from actual results.