CADOGAN
PETROLEUM PLC

ANNUAL FINANCIAL REPORT 2012

Cadogan Petroleum plc is an independent oil and gas exploration, development and production company with onshore gas, condensate and oil assets in Ukraine.

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Summary of 2012

Cadogan Petroleum plc is an independent oil and gas exploration, development and production company with onshore gas, condensate and oil assets in Ukraine.

Key developments during 2012:

- The completion of a major transaction between Eni S.p.A ('Eni'), NAK Nadra and Cadogan Petroleum plc ('Cadogan' or the 'Company') resulting in establishment of LLC Westgasinvest ('WGI'), which holds a portfolio of ten licences for unconventional gas covering a total area of 3,795 square kilometres, and subsequent farm-out to Eni of 50.01%. Cadogan retains 15% interest in WGI
- Sale of two gas plants for $29.5 million and settlement of all associated litigation with Global Process Systems ('GPS') completed in April 2013
- Total impairment of $86.3 million mainly related to the Zagoryanska licence
- The completion of the overhaul of internal technical team
- Total capital expenditure of $22.3 million (2011: $21.3 million) during the year of which $4.1 million was funded by the deferred consideration from the disposal of 30% of Cadogan's interest in the Pokrovskoe licence to Eni in 2011
- Net cash and cash equivalents at year-end of $42.4 million (2011: $65.0 million). Cash and cash equivalents at 24 April 2013 of $67.2 million

Group Overview

- Ukraine gas network input
- Ukraine gas network output
- Gas pipeline

Our Operations

The Group's assets are located in two of the three proven hydrocarbon basins in Ukraine, the Dniper-Donets basin and the Carpathian basin.

1. Zagoryanska field
The Zagoryanska licence covers an area of 49.6 square kilometres. Five wells have been drilled to date in the field. Wells in the field encountered gas in the Upper and Lower Visean and Tournaisian reservoirs, and in one well hydrocarbons have been encountered in the Devonian reservoir. Reservoir depths vary from 4,500 to 5,500 metres.

On 6 July 2011 Eni S.p.A ('Eni'), the major Italian integrated energy company acquired a 60% interest in the licence. During the year the work-over programme in the field continued and the well Zagoryanska 11 was drilled and tested. The field, with the Zagoryanska 3 well, is in pilot commercial development via the existing facilities of Cadogan and its subsidiaries (the 'Group').

As at 31 December 2012 the Group assessed the recoverability of the carrying value of the development and production assets related to the Zagoryanska licence. This has resulted in the impairment of the mentioned assets to nil.

2. Pokrovskoe field
The Pokrovskoe licence area covers 49.5 square kilometres and is located in the Dnieper-Donets basin. The Pokrovskoe field is approximately 10 kilometres from the UkrTransGas system.

On 6 July 2011 Eni acquired a 30% interest in the licence. The work obligations on the licence have been fulfilled through the deepening of Pokrovskoe 1 and the drilling of a new well Pokrovskoe 2a.

3. Pirkovskoe field
Pirkovskoe is located in the faulted transgression zone that forms the northern shoulder of the Dnieper-Donets Graben and is adjacent to the Group's Zagoryanska licence. The exploration and appraisal licence covers 71.6 square kilometres and holds 2.5 million barrels of oil equivalent ('mmboe') of Proved and Probable ('2P') Reserves. Cadogan owns the Krasnozayarska gas treatment plant, on the Pirkovskoe licence area, which is connected to the UkrTransGas system.

4. Borynya and Bitlya fields
The Bitlyanska exploration and development licence covers an area of 390 square kilometres, tectonically belonging to the Krosno zone of the folded Carpathians and includes the Bitlya, Borynya and Vovchenska areas. The Bitlya and Borynya areas are approximately 9 kilometres apart and both fields are close to the UkrTransGas pipeline at Turka, approximately 15 kilometres away.

5. Minor fields
Cadogan owns exploration, development and production licences either directly or through subsidiaries or joint ventures in several minor fields, of which two are currently in commercial production (Debeslavetska and Cheremkhivska) and one (Monastyretska) is in pilot commercial development.

Chairman's Statement

Introduction

2012 proved a challenging year for Cadogan. Revenue, largely reflecting production from the Group's Cheremkhivska and Debeslavetska fields, decreased to $5.7 million from $7.0 million in 2011. The loss before tax was $92.9 million, after a $83.6 million impairment taken largely as a result of the unsuccessful drilling and work-over programme at the Zagoryanska license.

At 31 December 2012 the Group had cash and cash equivalents of $42.4 million. Since the year end this has significantly improved due to the recently reported settlement with GPS, leaving the Group in a strong financial position, with $67.2 million cash and cash equivalents as at 24 April 2013, to achieve the ambitious targets it has set for itself in 2013.

Operations

As reported in the half year report, in the first half of 2012 the Group finalised a complete overhaul of its technical operations and sub-surface explorations teams, bringing in over 120 years combined experience in major Independent Oil Companies. Under their supervision, the Group has undertaken a thorough re-evaluation of all its assets, enabling the Group to revise its list of targets for its short to medium-term plan of activity. Whilst a principal focus for 2013 remains the reduction of risk and maximisation of existing production potential, we have identified new and economically viable exploration and production potential in most of our existing licences.

Shale gas

Within the framework of the Cooperation Agreement with Eni, signed in October 2011, Cadogan completed its Share Purchase Agreement in October 2012 with Nak Nadra Ukrayny ('Nadra') and Eni, for the exploration and development of unconventional gas in Ukraine, whereby Eni has acquired a stake in the joint venture company established by Nadra and Cadogan, Ukrainian company LLC Westgasinvest. Under the transaction, Eni acquires 50.01% of LLC Westgasinvest from the joint venture parties and will fund an initial exploration programme.

The Board

In January 2012, Adelmo Schenato joined the Board as Chief Operating Officer after a 35 year career at Eni, the Italian integrated energy business, where he served in senior global and regional positions. His global roles at Eni included Well Operations Research and Development ('R&D') and Technical Management, and Vice President Health Safety, Environment and Sustainability. His regional roles included General Manager for Tunisia, Gabon and Angola as well as CEO of Eni's Italian gas storage company. Since joining Cadogan, Adelmo has been responsible for recruiting a new technical team. The Chief Executive covers this in more detail in his review.

During the year both Alessandro Benedetti and Ian Baron resigned from the Board, although Mr Benedetti continues to advise the Company in a consulting capacity. I thank them both for their contribution to the Company.

Litigation

As previously announced, Cadogan has reached a settlement with GPS by way of an Agreement with GPS for the purchase of two gas processing plants for the sum of $29.5 million. The completed sale represents a full and final settlement of all claims and liabilities between the two parties, and marks the final part in a long running litigation around the Company that had proved a substantial distraction for management.

Annual General Meeting

I look forward to meeting shareholders at the Company's Annual General Meeting to be held at 10.30am on Thursday 27 June 2013 at Chandos House, 2 Queen Anne Street, London W1G 9LQ.

Strategy and prospects

Currently all Cadogan's assets are based in Ukraine. The programme approved for the current year concentrates on increasing production from existing licenses without the capital intensity necessitated by the drilling of the major wells such as Zagoryanska 11. Additional targets have been identified in Pokrovskoe. Furthermore, potential operations on the shale gas licenses that form our Joint Venture with Nadra Ukrayny and Eni S.p.A are under evaluation, whilst the Board continues to assess opportunities both in Ukraine, where our existing license base continues to prove attractive to companies wishing to get involved in the sector in Ukraine, and overseas in regions where the Company has existing relationships and can offer significant, existing expertise.

Zev Furst
Non-executive Chairman
24 April 2013

Chief Executive's Review

Since the recruitment of Adelmo Schenato in January 2012, much effort has been given to the recruitment and indeed overhaul of the Group's technical operations and sub-surface explorations teams. A review of the Group's past exploration and drilling campaigns suggests that results would be improved by a deeper understanding of the geology of our license areas and a more thorough technical preparation by way of seismic acquisition and interpretation. Taken together this will limit the risk of future disappointing results of the type seen in our most recent drilling activity.

As part of the refocusing of the Group's technical capabilities, Emidio Valmori has been recruited as Business Development Technical Adviser and Luciano Kovacic as Geology and Geophysics ('G&G') manager, heading technical teams that will assess future operations. Emidio headed Eni's geology team in Italy after stints in China, Senegal, Angola and Egypt. Luciano also comes from Eni with a strong technical background, having worked in Libya, Algeria and the UK and as part of that Group's R&D activities, introducing 4D technologies to that company. In addition, Giovanni Ferraro has been recruited as Production and Development ('P&D') Technical Consultant Adviser. His past experience has included the start-up of the Beniboye oil field (Nigerian Agip Oil Company Limited ('NAOC')) and management of two large oil fields (one onshore, one offshore) in Libya, with total production of over 300,000 bopd. Together this represents formidable technical capability at Cadogan as it seeks to put past frustrations behind it.

Operations at Pokrovskoe are currently suspended following disappointing results on Pokrovskoe 1 and 2a, the latter afflicted by mechanical problems. However the reassessment of the area by our new technical teams has identified residual hydrocarbon potential within the license area and operations might be resumed upon finalisation of a positive re-evaluation. The Group's Zagoryanska 1, 2 and 3 and 11 wells have all been suspended, with only Zagoryanska 3 having the potential for commercial production. At the Zagoryanska 11 well, a data acquisition programme is under way, the results of which will be used to refocus operations on the license. However, in order to reflect the disappointing outcome of the 2012 activity, the Board has decided to impair the carrying value of the assets related to the Zagoryanska license to nil.

On the Monastyretska license in Western Ukraine, operations at the Blazhiv 1 well are showing positive results and the re-entry of another two, existing wells is under evaluation. In the meantime work with our joint venture partner Eni on assessing the Zagoryanska, Pirkovskoe and Pokrovskoe licences continues.

More generally, Ukrainian operations in 2013 are expected to focus on shallow prospects in our western assets that do not require the capital intensity of our eastern, deep prospects.

Extremely promising gas shows are evident from logging and drilling data at Borynya 3. It is our intention to re-enter the well in June 2013 using the Group's Astro Service rig.

Other new and promising areas for investment are already under scrutiny and the Group will report on these in due course. The Group continues to assess opportunities in Ukrainian acreage in the Black Sea.

Shale gas

LLC Westgasinvest, in which Cadogan holds a 15% shareholding, currently holds subsoil rights to nine unconventional (shale) gas license areas in the Lviv Basin of Ukraine, totalling approximately 3,800 square kilometres of acreage. The Lviv Basin is considered to be one of the most attractive basins in Europe for the exploration of unconventional gas, being a continuation of the Lublin Basin in Poland which has already attracted substantial interest from the hydrocarbon industry. Studies are ongoing with the aim to defining the best area where to start the operations for the first exploration well. The potential for Shale Gas in Ukraine is underlined by the agreement, at the Davos Summit, between Shell and the Ukrainian government on acreage in the country.

Service business

The Ukrainian oil & gas sector currently lacks adequate investment in technical services. Partly in order to remedy this, Cadogan has invested limited amounts in oilfield services in Ukraine, in particular in agreements with Medes in Ukraine on the provision of mud treatment services and an Exclusive Cooperation agreement with AVA (Newpark Group) on drilling fluids services. This initiative is already generating so far limited, but positive, financial benefits and we expect this trend to continue and even increase over time.

Financial position

Cadogan remains in a strong financial position, despite recent disappointing drilling results and the impairment taken on our Zagoryanska license, with no debt and with substantial cash resources, particularly following the recent finalisation of the litigation with GPS. One feature of the Financial Review is the continuing cutting of costs, with cost of sales decreasing to $4.2 million in 2012 from $6.3 million in 2011 and other administrative expenses decreasing to $10.8 million in 2012 from $11.6 million in 2011. This is a continuing process as the Board seeks to reshape the Group.

Strategy

In my last Chief Executive's Review in the 2011 Annual Report I underlined the potential that Ukraine holds for oil & gas exploration and production, a factor that is being increasingly recognised by the entry of major oil companies to the Country. Not only Eni, with whom Cadogan shares joint ventures, but also Exxon, Chevron, Shell, OMV, Vitol have all entered Ukraine since last year's report.
As predicted, it should contribute to a significant re-rating of Ukraine's oil and gas sector and valuations over the next quarters and years. Against this background Cadogan, which is long established and highly regarded in Ukraine, is positioned to take advantage both through farm-ins to its acreage, which it continues to assess, but also on new ventures both on-shore and off-shore.

Bertrand des Pallieres
Chief Executive Officer
24 April 2013

Operations Review

In 2012 the Group held working interests in nine conventional (2011: nine) gas, condensate and oil exploration and production licences in the East and West of Ukraine. All these assets are operated by the Group and are located in either the Carpathian basin or the Dnieper-Donets basin, in close proximity to the Ukrainian gas distribution infrastructures. The Group's primary focus during 2012 was on the four most promising licences in which the main reserve and resource potential is located: Zagoryanska, Pokrovskoe, and Pirkovskoe in the Dnieper-Donets basin of East Ukraine and Bitlyanska, in the Carpathian Basin of West Ukraine.

Summary of the Group's licences (as at 31 December 2012)

Working interest (%)	Licence	Expiry	Licence type[1]
Major licences			
40.0	Zagoryanska	April 2014	E&D
70.0	Pokrovskoe	August 2016	E&D
100.0	Pirkovskoe	October 2015	E&D
99.8	Bitlyanska	December 2014	E&D
Minor licences			
99.2	Debeslavetska[2]	November 2026	Production
99.2	Debeslavetska[2]	September 2016	E&D
53.4	Cheremkhivska[2]	May 2018	Production
100.0	Slobodo-Rungerska	April 2016	E&D
99.2	Monastyretska	November 2014	E&D

1 E&D = Exploration and Development.
2 Debeslavetska and Cheremkhivska licences are held by WGI, in which the Group has a 15% interest. The Group has 99.2% and 53.4% of economic benefit in conventional activities in Debeslavetska and Cheremkhivska licences respectively through Joint Activity Agreements ('JAA').

In addition to above licences the Group has a 15% interest in WGI, which holds the Reklynetska, Zhuzhelianska, Cheremkhivsko-Strupkivska, Debeslavetska Exploration, Debeslavetska Production, Baulinska, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska licences for unconventional activities.

Operations Review 2012

Zagoryanska licence

The Group has a 40 per cent working interest in the Zagoryanska licence area. The Zagoryanska licence previously reported 96.4 mmboe of Contingent Resources in light of the results during the 2012 campaign, a thorough re-evaluation is ongoing.

The exploration and development licence covers 49.6 square kilometres and in 2009 the licence was extended until April 2014. The work obligations have been fulfilled.

Following the joint venture ('JV') formed with Eni in July 2011, under which Eni acquired a 60 per cent interest in the Zagoryanska licence, a work-over and drilling plan was implemented to verify and exploit the potentially productive intervals.

- The Zagoryanska 1 well work-over opened and tested the V19 and V18 intervals; the first produced no commercial gas and the second was found to be water bearing; the well is suspended.
- The Zagoryanska 2 well work-over tested the V25, V24 and V23 intervals with no commercial gas produced; the well is suspended.
- The Zagoryanska 8 well work-over, which was intended to test the V20, V18, V17 and V16 intervals, was unable to recover the previous fish-in-hole due to the very poor casing conditions; the well is suspended.
- Production from Zagoryanska 3 well is tied into the Group's Zagoryanska gas treatment plant. Average monthly production rates during 2012 were 28 mcm/day gas and 4.3 t/day condensate. At the end of 2012, the well was worked-over to retrieve the parted tubing, in order to open the V19 interval and the bottom of the producing V18 interval. V19 showed some gas but due to poor petro-physical properties production was not economically sustainable. The well is currently under monitoring to assess the possibility to recover production from V18.
- The Zagoryanska 11 well was spud-in on 7 March 2012. In spite of severe hole instability problems and multiple equipment failures, the well operations were successfully completed in 166 days versus 142 in Authorisation For Expenditure ('AFE'). The V24, V23, V19, and V18 intervals were tested with no commercial gas; the well is suspended.

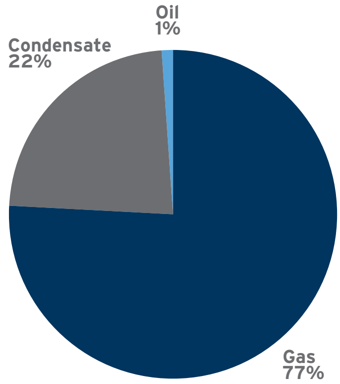
As at 31 December 2012 the Group assessed the recoverability of the carrying value of the development and production assets related to the Zagoryanska licence. This has resulted in the impairment of the mentioned assets to nil (for details refer to note 4(b) of the Consolidated Financial Statements).

An extensive revision and reinterpretation of the 3D seismic and Geological and Geophysical ('G&G') studies to value and price all the possible reserves potential is ongoing. Studies are in an early stage and not yet sufficiently mature to enable the Company to define future actions.

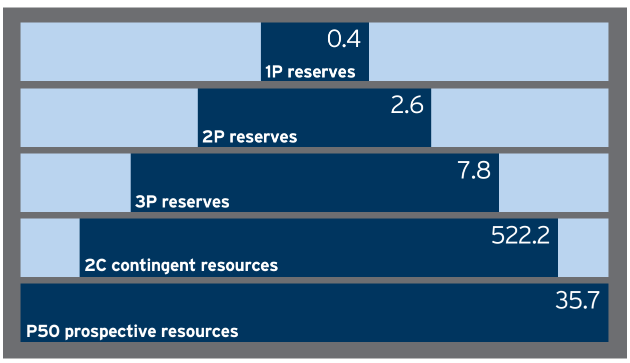
Pokrovskoe licence

The Group holds a 70 per cent working interest in the Pokrovskoe licence which holds 51.1 mmboe of Prospective Resources (2011: 51.1 mmboe). The exploration licence covers 49.5 square kilometres and the initial licence was extended until August 2016.

Portfolio composition
(2P case)



Reserves and resources
(mmboe)



Operations Review continued

The interpretation of the 3D seismic, completed early in 2010, confirmed the presence of a prospect with four-way closure at the Lower Visean and the deeper Tournasian levels, beneath both the Pokrovskoe 1 and Pokrovskoe 2 suspended well locations; both wells encountered strong indications of gas during drilling and logging.

After the JV with Eni that acquired 30 per cent of the Group's Pokrovskoe licence, the drilling of the Pokrovskoe 2a well indicated the presence of hydrocarbons but due to mechanical problems the well was suspended with a future option of re-entry.

On 9 March 2012 the Group was advised by Eni that, following their analysis of the results for the Pokrovskoe 1 and Pokrovskoe 2a wells, they did not intend to exercise the option to acquire the additional 30 per cent. Notwithstanding Eni's decision not to exercise the option, Eni continues to hold a 30 per cent share in the Pokrovskoe licence.

On the basis of the results and the clear indication of the presence of a positive hydrocarbons generation and migration system, it was decided to continue the investigation of the area. The preliminary 3D seismic reinterpretation has been successfully concluded. The Pokrovskoe licence shows several interesting objects and encouraging signs for a possible programme of activity that can be defined and eventually proposed for the Board's approval in the final quarter of 2013.

Pirkovskoe licence

The Group has a 100 per cent working interest in the Pirkovskoe licence which holds 2.5 mmboe of Proven and Probable Reserves (2011: 2.4 mmboe). This exploration and appraisal licence covers 71.6 square kilometres and has been renewed until October 2015. The remaining work programme includes: (a) the testing of Pirkovskoe 1; (b) deepening to 5,450 metres and testing of the suspended Pirkovskoe 2 well; (c) the drilling of a new well; and (d) calculation of the potential hydrocarbon reserves.

The Pirkovskoe 1 and Pirkovskoe 2 wells are currently suspended. An extensive revision and reinterpretation of the 3D seismic and G&G studies is ongoing to value and price all the possible reserves potential. Studies are in the early stage and not yet sufficiently mature to define future actions.

The Group owns the Krasnozayarska gas treatment plant located in the Pirkovskoe licence area, which is connected to the UkrTransGas system and is temporarily servicing a nearby local operator.

Bitlyanska licence area

The Bitlyanska exploration and development licence covers an area of 390 square kilometres with the Group's interest at 99.8 per cent. There are three hydrocarbon discoveries in this licence area, namely Bitlyanska, Borynya and Vovchenska. The Borynya and Bitlyanska fields hold 219.2 mmboe (gross) (2011: 219.2 mmboe) and 117.3 mmboe (gross) (2011: 117.3 mmboe) of Contingent Resources respectively, while no Reserves and Resources have been attributed to the depleted Vovchenska field.

In the 1970s drilling of the Borynya 1 resulted in a blow out and Borynya 2 reportedly tested gas at very high rates. In 2009 Cadogan drilled the Borynya 3 well, proximal to these two Soviet era wells. Several intervals showed very interesting evidence of gas during drilling which was confirmed by logging. Due to the difficult hole conditions and the increasingly high pore pressure gradient, three very limited open hole drill stem tests were run. In particular, from one of the secondary reservoir targets at around 3,600 metres gas was tested at a maximum flow rate of 128,000 cubic metres per day. At a drilled depth of 5,325 metres the well Borynya 3 was suspended for future evaluation having encountered several high-pressure gas bearing intervals that could not be tested with the equipment available at that time.

In 1994 the Bitlya 1 well tested non-commercial gas from several zones down to 3,200 metres. Although, at that time, the presence of an active hydrocarbon system was established, the recent 2D seismic data interpretation demonstrates that the well was poorly located in relation to any structural closure.

In 2010 a 2D survey was completed in the southern part of the licence area to complement the Soviet era 2D seismic data that had been reprocessed by Cadogan. This integrated data set has been interpreted with the benefit of recent surface geological mapping and balanced section generation, and a series of prospects for future exploration drilling have been identified.

Based on the new prospect structures model, an internal re-evaluation and estimate of the resources in Bitlyanska and Borynya areas was concluded.

Since the year end, the re-entry and testing of Borynya 3 well has been approved by the Board which also approved the purchase of existing seismic data on the Vovchenska area and the acquisition of 50 linear kilometres of 2D seismic lines to better access and re-estimate the existing potential.

The remaining work obligation for this licence was recently renegotiated.

Minor fields

The Group has a number of minor licence areas located in Western Ukraine. These include the following:

Debeslavetska Production licence area

A production licence, containing 0.2 mmboe of Proved, Probable and Possible ('3P') Reserves (2011: 0.2 mmboe). The field is currently producing 95.0 boepd (2011: 84.0 boepd). The new compressor unit and dehydration facilities for production optimisation have been delivered as per the programme.

Debeslavetska Exploration licence area

An exploration licence surrounding the Debeslavetska Production licence area which is considered quite promising in shallow gas production potential. Following the positive preliminary results (Amplitude Versus Offset ('AVO') and Inversion Analysis), the purchase of existing seismic data and the acquisition of 80 linear kilometres of 2D seismic lines to assess and estimate the reserves is forecast in 2013; in addition, one shallow well could be drilled by the year end. The satellite radar waves 'InSar' technology will be applied to understand and predict the gas reservoirs' behaviour.

Cheremkhivska Production licence area

A production licence containing 0.1 mmboe of 3P Reserves (2011: 0.1 mmboe). This licence is currently producing 23.9 boepd (2011: 32.8 boepd).

Potential gas production from shallow intervals seems to be challenging from this licence. Preliminary studies have not yet been conclusive but a contingent programme to purchase existing seismic data and the acquisition of 30 linear kilometres of 2D seismic lines to assess and estimate the reserves will be considered in 2013.

Slobodo-Rungerska licence area

An exploration and development licence, with no booked Reserves and Resources (2011: nil). Seismic data for this area was reprocessed in 2010 and the results indicate a deeper structure underlying the depleted and abandoned Slobodo-Rungerska Field. Ongoing re-evaluation is in its preliminary stage.

Monastyretska licence area

An exploration and development licence, with no booked Reserves or Resources (2011: nil). The Blazhiv 1 well was re-entered and a sucker rod pump was installed; the well is currently producing at a rate of 20-25 boepd and is being monitored to ensure that production is optimised.

Financial Review

Overview

In 2012 the Group focused on concluding drilling and testing of the Pokrovskoe 2a well on the Pokrovskoe field and, together with its joint venture partner Eni, the work-over campaign at the Zagoryanska field. In addition to the ground work on the JV fields (Zagoryanska and Pokrovskoe), an extensive reassessment of the Group's assets has been carried out by the sub-surface team which continues into 2013.

Revenue has decreased from $7.0 million in 2011 to $5.7 million in 2012. The unsuccessful programme on the Zagoryanska licence has resulted in a $83.6 million (2011: $nil) impairment of Property, Plant and Equipment ('PP&E') assets and a receivable from Eni that was treated as contingent consideration, which contributed to the loss for the year of $93.1 million (2011: $153.1 million profit). This loss was reflected by a corresponding decrease in the net asset position as at 31 December 2012 to $194.3 million from $283.0 million as at 31 December 2011. The cash position of $42.4 million at 31 December 2012 has decreased from $65.0 million at 31 December 2011 mainly as the result of capital expenditure on the Zagoryanska licence and ongoing costs.

Income statement

Loss before tax was $92.9 million (2011: profit of $152.6 million). Revenues of $5.7 million (2011: $7.0 million) comprised sales of gas from the Debeslavetska and Cheremkivska fields, the Zagoryanska 3 well and other revenue from the service business. Of the $1.3 million decrease in revenues, $2.4 million relates to a decrease from the Zagoryanska licence mainly due to the fact that the Group proportionately consolidated 40% of Zagoryanska revenues throughout whole of 2012 while revenues were fully consolidated into the Group's income statement during the first half of 2011. Revenues from sales of hydrocarbons from other licences have increased by $0.3 million, largely due to the gas price increase in 2012. In addition, $0.8 million from oil field services provided to third parties by the Group contributed to 2012 revenue. Cost of sales, which represents production royalties and taxes, depreciation and depletion of producing wells and direct staff costs decreased to $4.2 million in 2012 from $6.3 million in 2011 to give a gross profit of $1.5 million (2011: $0.7 million).

- Other administrative expenses of $10.8 million (2011: $11.6 million) comprise other staff costs, professional fees, Directors' remuneration and depreciation charges on non-producing property, plant and equipment. In addition to recurring administrative expenses, $0.5 million (2011: $1.2 million) of professional costs were incurred in relation to litigation, $0.1 million of professional fees were incurred in relation to the transaction with Eni on WGI (2011: $0.9 million in relation to the transaction with Eni on the Pokrovskoe and Zagoryanska licences).
- Impairment charges amounting to a total of $86.3 million (2011: $2.8 million) comprised: $58.9 million (2011: $nil) impairment of PP&E assets of which $47.1 million was recorded in respect of the fair value uplift of the Group's 40% non-controlling interest in Zagoryanskoe recorded after the disposal of 60% in 2011; $24.7 million (2011: $nil) impairment of contingent consideration from Eni recorded in 2011 in respect of obtaining the Zagoryanska production licence; and $2.7 million (2011: $2.8 million) net impairment charges comprised of $2.4 million impairment (2011: $3.2 million) of Ukrainian VAT and $0.3 million provision for inventory (2011: $0.3 million release of provision).
- Other gains of $5.4 million represents the profit on the contributions of licences, being the difference between the fair value of the licences contributed in return for the 15% interest in WGI and nil net book value of the licences in the Group's books at the date of contribution.
- Other operating expenses of $2.9 million (2011: $4.6 million income) includes $0.6 million income (2011: $2.1 million) related to recoveries from former management and suppliers and $3.6 million of net foreign exchange losses (2011: $2.4 million gain) related to revaluation of USD denominated monetary assets of the Group's UK entities which have a GBP as the functional currency.

Cash flow statement

The Consolidated Cash Flow Statement on page 38 shows expenditure of $6.2 million (2011: $16.9 million) on intangible Exploration and Evaluation ('E&E') assets and $15.7 million (2011: $4.4 million) on PP&E. In addition, the Group received $4.1 million (2011: $58.0 million) deferred consideration that had been outstanding as at 31 December 2011 in connection with the disposal of interest in Pokrovskoe BV to Eni in 2011.

Balance sheet

As at 31 December 2012, the Group had net cash and cash equivalents of $42.4 million (2011: $65.0 million). Intangible E&E assets of $78.2 million (2011: $66.0 million) represent the carrying value of the Group's investment in exploration and appraisal assets as at 31 December 2012, including $40.3 million of fair value uplift on the valuation of the 70% jointly-controlled interest in the former subsidiary which holds the Pokrovskoe licence, and $5.4 million of the associated fair value of the licences contributed in return for the 15% interest in WGI. The PP&E balance of $46.6 million at 31 December 2012 (2011: $99.4 million, including $40.0 million of the fair value uplift on the valuation of the 40% jointly-controlled interest in the former subsidiary which holds Zagoryanska licence), reflects the cost of developing fields with commercial reserves and bringing them into production. Trade and other receivables of $35.5 million (2011: $66.3 million) includes $30.0 million (2011: $30 million) receivables in respect of the settlement with GPS (refer to note 4(a) to the Consolidated Financial Statements), $3.1 million (2011: $1.7 million) as the non-consolidated portion of receivables from jointly controlled entities, and $0.9 million (2011: $4.3 million) in prepayments.

Key performance indicators

The Group monitors its performance in implementing its strategy with reference to clear targets set out for four key financial and one key non-financial performance indicators ('KPIs'):

- to increase oil, gas and condensate production measured on number of barrels of oil equivalent produced per day ('boepd');
- to increase the Group's oil and gas reserves by de-risking possible resources and contingent reserves into 2P Reserves. This is measured in million barrels of oil equivalent ('mmboe');
- to increase the realised price per 1,000 cubic metres;
- to increase the Group's basic and diluted earnings per share; and
- to reduce the number of lost time incidents.

The Group's performance in 2012 against these targets is set out in the table below, together with the prior year performance data. No changes have been made to the source of data or calculation used in the year.

	Unit	2012	2011
Financial KPIs			
Average production (working interest basis)[1]	boepd	**181**	297
2P reserves[2]	mmboe	**2.6**	2.6
Realised price per 1,000 cubic metres[3]	$	**486.0**	395.1
Basic and diluted earnings per share[4]	cents	**(40.3)**	65.6
Non-financial KPIs			
Lost time incidents[5]	incidents	**0**	2

1 Average production is calculated as the average daily production during the year.
2 Quantities of 2P reserves as at 31 December 2011 and 2012 are based on Gaffney, Cline & Associates' independent reserves report on 2P Reserves as at 31 December 2009, dated 16 March 2010, as adjusted for the actual production during 2011 and 2012 respectively.
3 This represents the average price received for gas sold during the year (including VAT).
4 Basic and diluted profit per Ordinary share is calculated by dividing the net profit for the year attributable to equity holders of the parent company by the weighted average number of Ordinary shares during the year.
5 Lost time incidents relate to injuries where an employee/contractor is injured and has time off work.

Related party transactions

Related party transactions are set out in note 31 to the Consolidated Financial Statements.

Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash and cash equivalent balances mainly in US dollars ('USD') held primarily in the UK and holds these mostly in term deposits depending on the Group's operational requirements. Production revenues from the sale of hydrocarbons are received in the local currency in Ukraine ('UAH') and to date funds from such revenues have been held in Ukraine for further use in operations rather than being remitted to the UK. Funds are transferred to the Company's subsidiaries in USD to fund operations at which time the funds are converted to UAH. Some payments are made on behalf of the subsidiaries from the UK.

Risks and Uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's long-term performance and could cause the actual results to differ materially from expected and historical results. Executive management review the potential risks and then classify them as having a high impact, above $5 million, medium impact above $1 million but below $5 million, and low impact below $1 million. They also assess the likelihood of these risks occurring. Risk mitigation factors are reviewed and documented based on the level and likelihood of occurrence. The Audit Committee reviews the risk register and monitors the implementation of improved risk mitigation procedures via Executive management.

The Group has analysed the following categories as key risks:

Operational risks

Risk	Mitigation
Health, Safety and Environment ('HSE') The oil and gas industry by its nature conducts activities which can be seriously impacted by health, safety and environmental incidents. Serious incidents can have not only a financial impact but can also damage the Group's reputation and the opportunity to undertake further projects.	The Group ensures that there is a proper HSE system in place and demands that management, staff and contractors adhere to it. The system ensures that the Group meets Ukraine legislative standards in full and achieves international standards to the maximum extent possible.
Drilling operations The technical difficulty of drilling wells in the Group's locations and equipment limitations can result in the unsuccessful completion of the well.	The incorporation of detailed sub-surface analysis into a robust engineered well design and work programme, with appropriate procurement procedures and on site management competence aims to minimise risk.
Production and maintenance Some of the Group's facilities have been inherited, and although fully checked were not installed under our supervision and there is a risk of plant failure. There is a risk that production or transportation facilities can fail due to poor performance of the Group's suppliers and control of some facilities being with other governmental or commercial organisations.	All plants are operated at standards above the Ukraine minimum legal requirements. Operative staff is chosen for its experience and receives supplemental training to ensure that facilities are operated and maintained at a high standard. Service providers are rigorously reviewed at the tender stage and are monitored during the contract period.
Work over and abandonment Certain of the Group's wells were drilled by the State and other private companies and will be worked over. There is a risk that Cadogan's activities fail because of problems inherited with these sites. Any well stock that is not considered satisfactory for purpose or poses an environmental hazard will need to be abandoned.	Work programmes are designed to assess the status of the wells and any work that is not safe or is not technically feasible will be abandoned. Qualified professionals will be used to design a step-by-step approach to re-entering old wells. All sites that are abandoned will be restored and recultivated to meet or exceed standards required by the relevant environmental control authorities and in compliance with recognised international standards.

Sub-surface risks

Risk	Mitigation
The success of the business relies on accurate and detailed analysis of the sub-surface. This can be impacted by poor quality data, either historic or recently gathered, and limited coverage. Certain information provided by external sources may not be accurate.	All externally provided and historic data is rigorously examined and discarded when appropriate. New data acquisition is considered and appropriate programmes implemented, but historic data can be reviewed and reprocessed to improve the overall knowledge base.
Some local contractors may not acquire data accurately, and there is frequently limited choice of locally available equipment or contractors of a desirable standard.	Detailed supervision of local contractors by Cadogan management is followed. Plans are discussed well in advance with both local and international contractors in an effort to ensure that appropriate equipment is available.
Data can be misinterpreted leading to the construction of inaccurate models and subsequent plans.	All analytical outcomes are challenged internally and peer reviewed. Interpretations are carried out on modern geological software. A staff training programme has been put in place.

Financial risks

Risk	Mitigation
The Group may not be successful in achieving commercial production from an asset and consequently the carrying values of the Group's oil and gas assets may not be recovered through future revenues.	The Group performs a review of its O&G assets for impairment on annual basis. The Group considers on an annual basis whether to commission a Competent Person's Report ('CPR') from an independent reservoir engineer. The CPR provides an estimate of the Group's reserves and resources by field/licence area. As no new production has been achieved during 2012, Management has decided not to commission a new CPR during 2012. As part of the annual budget approval process the Board considers and evaluates projects for the forthcoming year and considers the appropriate level of risk. The Board has approved a work programme for 2013. Further attempts to bring in partners and mitigate the Group's risk exposure are under way.
There is a risk that insufficient funds are available to meet development obligations to commercialise the Group's major licences.	The Group manages the risk by maintaining adequate cash reserves and by closely monitoring forecast and actual cash flow, as well as short and longer funding requirements. Management reviews these forecasts regularly and updates are made where applicable and submitted to the Board for consideration. The farm-out campaign to conserve cash and mitigate risk will continue through 2013.
The Group could be impacted by failing to meet regulatory reporting requirements in the UK, and statutory tax and filing requirements in both Ukraine and the UK.	These risks are mitigated by employing suitably qualified professionals who, working with advisers when needed, are monitoring regulatory reporting requirements, and who ensure that timely submissions are made.
The Group operates primarily in Ukraine, an emerging market, where certain inappropriate business practices may from time to time occur. This includes bribery, theft of Group property and fraud, all of which can lead to financial loss.	Clear authority levels and robust approval processes are in place, with stringent controls over cash management and the tendering and procurement process. Adequate office and site protection is in place to protect assets. Anti-bribery policies are in place.
The Group is at risk from changes in the economic environment both in Ukraine and globally, which can cause foreign exchange movements, changes in the rate of inflation and interest rates and lead to credit risk in relation to the Group's key counterparties.	Revenues are received in UAH and expenditure is made in UAH, but funds are transferred in US dollars to Ukraine. The Group continues to hold most of its cash reserves in the UK in US dollars with some GBP deposits. Cash reserves are placed with leading financial institutions which are approved by the Audit Committee. The Group is predominantly a US dollar denominated business. Foreign exchange risk is considered a normal and acceptable business exposure and the Group does not hedge against this risk. Refer to note 29 to the Consolidated Financial Statements for detail on financial risks.

Corporate risks

Risk	Mitigation
Should the Group fail to comply with licence obligations there is a risk that its entitlement to the licence will be lost.	The Group designs a work programme and budget to ensure that all licence obligations are met. The Group engages proactively with government to renegotiate terms and ensure that they are not onerous.
Ukraine is an emerging market and as such the Group is exposed to greater regulatory, economic and political risks than other jurisdictions. Emerging economies are generally subject to a volatile political environment which could adversely impact on Cadogan's ability to operate in the market.	The Group minimises this risk by maintaining the funds in international banks outside Ukraine and by continuously maintaining a working dialogue with the regulatory authorities.
The Group's success depends upon skilled management, technical and administrative staff. The loss of service of critical members from the Group's team could have an adverse effect on the business.	The Group periodically reviews the compensation and contract terms of its staff.

Statement of Reserves and Resources

The Group did not commission an independent Reserves and Resources Evaluation of the Group's oil and gas assets in Ukraine as at 31 December 2012, due to insufficient new information arising from operational activity before the year end. The summary of the Reserves and Resources below are based on the Independent Reserves and Resources Evaluation performed by Gaffney Cline and Associates as at 31 December 2009, adjusted for subsequent actual production.

Summary of Reserves as of 31 December 2012

	Working interest basis		
	Gas bcf	Condensate mmbbl	Oil mmbbl
Proved and Probable Reserves at 1 January 2012	**11.1**	**0.6**	**-**
Production	(0.2)[1]	–	–
Change in working interest	0.4	–	–
Proved and Probable Reserves at 31 December 2012	**11.3**	**0.6**	**-**
Possible Reserves at 1 January 2012 and 31 December 2012	**19.5**	**1.5**	**-**

1 During 2012 the Group produced an additional 0.1 bcf (2011: 0.6 bcf) of natural gas and 0.01 mmbl (2011: 0.02 mmbl) of condensate from the Zagoryanska field which were not included by Gaffney Cline and Associates in the Reserves balances at 31 December 2009 provided in the Reserves and Resources Evaluation Report as at that date.

Summary of Contingent Resources as of 31 December 2012

	Working interest basis			
	Gas bcf	Condensate mmbbl	Oil mmbbl	Total mmboe
Contingent Resources at 1 January 2012	**2,252.0**	**92.8**	**-**	**498.1**
Change in working interest	105.3	5.1	–	24.1
Contingent Resources at 31 December 2012	**2,357.3**	**97.9**	**-**	**522.2**

Reserves are assigned only to the Pirkovskoe, Debeslavetska and Cheremkhivska fields.

Although commercial production has been achieved at the Zagoryanska field, no 2P Reserves have been booked as at 31 December 2012 (2011: nil) as the Group did not receive an updated Competent Person's Report ('CPR') to independently confirm the Reserves quantities.

Contingent Resources are assigned to the Zagoryanska, Pirkovskoe, Borynya and Bitlya fields, where development is contingent on further appraisal.

Prospective Resources of 165.9 bcf (2011: 165.9 bcf) of gas and 5.9 mmbl (2011: 5.9 mmbl) of condensate are attributed to the Pokrovskoe field (reflecting Cadogan's working interest), where there has not yet been a production test.

Corporate Responsibility

The Group considers the sustainability of its business as a key and competitive element of its strategy. Meeting the expectations of our stakeholders is the way in which we secure our licence to operate, and to be recognised in the values we declare is the best added value we can bring in order to profitably prolong our business. The Board recognises that the health and safety of its employees and of the communities and protecting the environment it impacts are the key drivers for the sustainable development of the Company's activity. Our Code of Ethics and the adoption of internationally recognised best practices and standards are our and our employees' references for conducting our operations.

Our activities are carried out in accordance with a policy manual, endorsed by the Board, which has been disseminated to all staff. The manual includes policies on business conduct and ethics, anti-bribery, the acceptance of gifts and hospitality, and whistleblowing.

The Group's Health, Safety and Environment Manager reports directly to the Chief Operations Officer. His role is to ensure that the Group has developed suitable procedures and that operational management have incorporated them into daily operations, and he has the necessary level of autonomy and authority to discharge his duties effectively and efficiently.

The Board believes that health and safety procedures and training across the Group should be to the standard expected in any company operating in the oil and gas sector. Accordingly, it has set up a Committee to review and agree health and safety initiatives and report back on progress. The monthly management report to the Board contains a full report on both health and safety, and environmental issues, and key safety and environmental issues are discussed by the Executive Management. The Health, Safety and Environment Committee Report is on page 26.

Health, safety and environment

The Group has developed an integrated Health, Safety and Environmental ('HSE') management system. The system aims, by a continuous improvement programme, to ensure that a safety and environmental protection culture is embedded in the organisation. The HSE management system ensures that both Ukrainian and international standards can be met with the Ukrainian HSE legislation requirements taken as an absolute minimum although the international requirements are in the main met or exceeded. All the Group's local operating companies in East and West Ukraine have all the necessary documentation and systems in place to ensure compliance with Ukrainian legislation.

A proactive approach to the prevention of incidents has been in place throughout 2012, which relies on an observation cards system and reliable near-miss reporting. Staff training on HSE matters is recognised as the key factor to generate continuous improvement. In-house training is provided to help staff meet international standards and follow best practice. At present, special attention is being given to training on risk assessments, incident reporting and investigation, as well as hazard and operational ('HAZOP') studies to ensure that international standards are maintained even if they exceed those required by Ukrainian legislation.

The Board monitors lost time incidents as a key performance indicator of the business, to reasonably verify that the procedures in place are robust. The Board has benchmarked safety performance against the HSE performance index measured and published annually by the International Association of Oil & Gas Producers. In 2012, the Group recorded a total of 708,918 man hours worked. There were no Lost Time Incidents ('LTIs') recorded in 2012 and a total of over one million man hours have been worked without an LTI since the previous incident was recorded in July 2011.

Vehicle safety and driving conduct remain among the Company's priorities in controlling hazards and preventing injuries. As of the end of 2012, the Company has recorded almost 7.5 million kilometres driven without an LTI.

Corporate Responsibility continued

The European Bank for Reconstruction and Development ('EBRD') was, until February 2013, a substantial shareholder in the Company and closely monitored the environmental and community aspects of the Group's activities. An environmental report was submitted to the EBRD each year summarising the Group's compliance with local HSE regulation and standards. The EBRD required and reviewed the results of audits undertaken by external consultants which were used to generate an environmental action plan. The Group remains highly conscious of the need to optimise its activities in order to reduce their environmental impact of its operations. In 2012, a number of steps were taken in this direction, such as replacing the old compressor unit at the Debeslavetske Gas Treatment Facility, which benefited the environment by decreasing fuel consumption and air emissions while improving the overall efficiency of the plant.

Starting from 2013, the Company is committed to prepare a baseline to assess and monitor its environmental performance, namely, the consumption of electricity and industrial water and fuel consumption by cars, plants and other work sites. At the same time, development of procedures necessary for improving the Group's environmental performance will begin, taking into account the requirements of any applicable policies, such as forthcoming UK regulations on mandatory reporting of greenhouse gas emissions.

Employees

Certain of the Group's operations are undertaken by sub-contractors' specialists having the technical knowledge required for complex wells' drilling operations. Local interest is part of the Company's sustainable development policy and wherever possible local staff is recruited and procedures are in place to ensure that all recruitments are undertaken on a transparent and fair basis with no discrimination between applicants. Each operating company has its own Human Resources staff to ensure that the Group's employment policies are properly implemented and followed. As required by Ukrainian legislation, Collective Agreements are in place with the Group's Ukrainian subsidiary companies which provide an agreed level of staff benefits and other safeguards for employees. The Group's Human Resources policy covers key areas such as equal opportunities, wages, overtime and non-discrimination. All staff are aware of the Group's grievance procedures.

Sufficient levels of health insurance are provided by the Group to employees to ensure they have access to good medical facilities. Each employee's training needs are assessed on an individual basis to ensure that their skills are adequate to support the Group's operations, and to help them to develop.

Community

The Group's activities are carried out in rural areas of Ukraine and the Board is aware of its responsibilities to the local communities in which the Group operates and from which some of the employees are recruited. At current operational sites, management works with the local councils to ensure that the impact of operations is as low as practicable by putting in place measures to mitigate their effect. Key projects undertaken include improvement of the road infrastructure in the area, which provides easier access to the operational sites while at the same time minimising inconvenience for the local population and allowing improved road communications in the local communities. Specific charitable activities are undertaken for the direct benefit of local kindergartens, schools, sporting facilities and medical services, as well as other community-focused facilities. All activities are followed and supervised by managers who are given specific responsibility for such tasks. In 2012 the Group spent $37,000 (2011: $153,882) predominantly in contributions for road repairs, purchasing equipment and furniture for schools, local hospitals, housing and public utilities.

The Group's local companies see themselves as part of the community and are involved not only with financial assistance, but also with practical help and support. The recruitment of local staff generates additional income for areas that otherwise are predominantly dependent on the agricultural sector.

Board of Directors

Zev Furst, 65, American
Chairman
Appointed to the Board on 2 August 2011, Mr Furst is a leading global business and communications strategist who has advised political leaders, foreign principals and corporate executives of Fortune 100 companies. He is the Chairman and CEO of First International Resources, an international corporate and political consulting firm he founded in 1992. Mr Furst specialises in providing strategic counsel on crisis management, market entry, corporate positioning and personal reputational issues. In recent years, he has also advised and consulted with candidates running for national office in Israel, Japan, Mexico and Ukraine.

In 1986, Mr Furst was a founding partner of Meridian Resources and Development Ltd, an international commodities trading company specialising in chemicals and petroleum products.

Mr Furst currently serves as Chairman of the International Board of the Peres Center for Peace and is a member of the Advisory Board of the Kennan Institute in Washington, DC. He has written and lectured extensively on international affairs, business and political strategy and the role of media in politics and diplomacy.

Mr Furst is Chairman of the Company's Nomination Committee and a member of the Remuneration Committee.

Bertrand des Pallieres, 46, French
Chief Executive Officer
Mr des Pallieres was appointed as Chief Executive Officer on 1 August 2011, having joined the Board as a non-executive Director on 26 August 2010. Mr des Pallieres is also the CEO of SPQR Capital Holdings SA, a major shareholder of the Company.

Previously he was the Global Head of Principal Finance and member of the Global Market Leadership Group of Deutsche Bank from 2005 to 2007. From 1992 to 2005 he held various positions at JPMorgan including Global Head of Structured Credit, European Head of Derivatives Structuring and Marketing, and Co-head of sales for Europe, Middle East and Africa. He is a non-executive director of Versatile Systems Inc. listed on the Toronto and London Stock Exchanges and Equus Total return, Inc., listed on the NYSE.

Mr des Pallieres is a member of the Nomination Committee.

Adelmo Schenato, 61, Italian
Chief Operating Officer
Mr Schenato was appointed to the Board as Chief Operating Officer on 25 January 2012. He joined the Company after a 35 year career at Eni S.p.A ('Eni'), the Italian integrated energy business, where he served in senior global and regional positions.

His global roles at Eni included Well Operations Research and Development and Technical Management, and Vice President HSE & Sustainability. His regional roles include General Manager of Tunisia, Gabon and Angola as well as CEO of Eni's Italian gas storage company.

Gilbert Lehmann, 67, French
Senior Independent non-executive Director
Mr Lehmann was appointed to the Board on 18 November 2011. He is currently acting as an adviser to the Executive Board of Areva, the French nuclear energy business, having previously been its Deputy Chief Executive Officer responsible for finance. He is also a former Chief Financial Officer and deputy CEO of Framatone, the predecessor to Areva, and was CFO of Sogee, part of the Rothschild Group. Mr Lehmann is also Deputy Chairman and Chairman of the Audit Committee of Eramet, the French minerals and alloy business. He is Deputy Chairman and Audit Committee Chairman of Assystem SA, the French engineering and innovation consultancy. He was Chairman of ST Microelectronics NV, one of the world's largest semiconductor companies, from 2007 to 2009, and stepped down as Vice Chairman in 2011.

Mr Lehmann is currently Chairman of the Company's Audit Committee and a member of the Remuneration and Nomination Committees.

Enrico Testa, 61, Italian
Independent non-executive Director
Appointed to the Board on 1 October 2011, Mr Testa has a long and varied background in the energy market. He was Chairman of the Board of ACEA (the Rome electricity and water utility company) from 1996 to 2002. He was Chairman of the Board of Enel S.p.A, the major Italian electricity supplier, during its privatisation. From 2005 to 2009 he was Chairman of Roma Metropolitane, the Rome council-owned company constructing new underground lines. He was also Chairman of the Organising Committee for the 20th World Energy Congress held in Rome in November 2007, Senior Partner at the Franco Bernabè Group which owns several investments in the IT sector and, from 2002 to 2005, he was member of the Advisory Board of Carlyle Europe and Chairman of the Italian Nuclear Forum since 2010. In addition, between 2004 and August 2012 Mr Testa was Managing Director of Rothschild S.p.A.

He is currently Chairman of the AIM listed telecommunications company Telit Communications Plc, Vice Chairman of Intecs S.p.A and Chairman of E.VA – Energie Valsabbia S.p.A. – a company developing hydropower and solar generating plants.

Mr Testa is Chairman of the Company's Remuneration Committee and a member of the Audit and Nomination Committees.

Report of the Directors

Directors
The Directors who served during the year were as follows:

Non-executive Directors
Zev Furst (Chairman)
Gilbert Lehmann
Enrico Testa
Alessandro Benedetti (resigned 27 June 2012)

Executive Directors
Bertrand des Pallieres
Adelmo Schenato (appointed 25 January 2012)
Ian Baron (resigned 15 June 2012)

The Board has decided previously that all Directors must be subject to annual election by shareholders, in accordance with the UK Corporate Governance Code's best practice guidance for FTSE 350 companies. As such, all of the Directors will be seeking re-election at the Annual General Meeting to be held on 27 June 2013.

The biographies of the Directors at the date of this report are shown on page 17.

Directors' interests in shares
The beneficial interests of the Directors in office as at 31 December 2012 and their connected persons in the Ordinary shares of the Company at 31 December 2012 are set out below. Options granted under the 2008 Share Option Plan and the 2008 Approved Option Plan and shares awarded under the 2008 Performance Share Plan are shown on pages 58 and 59 of this report.

Shares as at December 31	**2012**	2011
Z Furst	**–**	–
B des Pallieres	**200,000**	200,000
G Lehmann	**–**	–
E Testa	**–**	–
A Schenato[1]	**–**	–

1 On date of appointment.

Dividends
The Directors do not recommend payment of a dividend for the year to 31 December 2012 (2011: £nil).

Principal Activity and Status
The Company is registered as a public limited company (registration number 05718406) in England and Wales. Its principal activity is oil and gas exploration, development and production.

Business Review
The Business Review, which is set out on pages 4 to 16 of this report, has been prepared in accordance with the requirements of section 417 of the Companies Act 2006 (the 'Act'). The purpose of the Business Review is to inform shareholders and help them to assess how the Directors have performed their duty under section 172 of the Act to promote the success of the Company for the benefit of the shareholders as a whole.

The Business Review provides shareholders with a summary of the business objectives of the Company, the Board's strategy to achieve those objectives, the risks and uncertainties faced, and the key performance indicators used to measure performance.

Structure of share capital
The authorised share capital of the Company is currently £30,000,000 divided into 1,000,000,000 Ordinary shares of 3 pence each. The number of shares in issue as at 31 December 2012 is 231,091,734 Ordinary shares of 3 pence each with a nominal value of £6,932,752. The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the 'Regulations') allow companies to hold shares in treasury rather than cancel them. Following the consolidation of the issued capital of the Company on 10 June 2008, there were 66 residual Ordinary shares which were transferred to treasury. No dividends may be paid on shares whilst held in treasury and no voting rights attach to shares held in treasury.

Rights and obligations of Ordinary shares
On a show of hands at a general meeting every holder of Ordinary shares present in person or by proxy and entitled to vote shall have one vote and, on a poll, every member present in person or by proxy, shall have one vote for every Ordinary share held. In accordance with the provisions of the Company's Articles of Association, holders of Ordinary shares are entitled to a dividend where declared and paid out of profits available for such purposes. On a return of capital on a winding up, holders of Ordinary shares are entitled to participate in such a return.

Exercise of rights of shares in employee share schemes
None of the share awards under the Company's incentive arrangements are held in trust on behalf of the beneficiaries.

Agreements between shareholders
The Board is unaware of any agreements between shareholders which may restrict the transfer of securities or voting rights.

Restrictions on voting deadlines
The notice of any general meeting of the Company shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote at a general meeting. It is the Company's policy at present to take all resolutions at a general meeting on a poll and the results of the poll are published on the Company's website after the meeting.

Significant direct and indirect holdings of securities

As at 31 December 2012 and 23 April 2013, the Company had been notified of the following voting rights attached to the Company's shares:

	31 December 2012		23 April 2013	
Major shareholder	Number of shares held	% of total voting rights	Number of shares held	% of total voting rights
SPQR Capital Holdings SA	67,298,498	29.12	67,298,498	29.12
P Salik	40,550,000	17.55	40,550,000	17.55
M Meeus	16,000,000	6.92	26,000,000	11.25
J Benaim	18,787,886	8.13	18,787,886	8.13
Damille Investments II Limited	*below notifiable level*		16,112,866	6.97
European Bank for Reconstruction and Development Ltd	11,632,866	5.03	0	0

Directors' indemnities and insurance

The Company continues to maintain Directors' and Officers' Liability Insurance. The Company's Articles of Association provide, subject to the provisions of the Companies Act 2006, an indemnity for Directors in respect of any liability incurred in connection with their duties, powers or office. Save for such indemnity provisions, there are no qualifying third party indemnity provisions.

Appointment and replacement of Directors

The Board may appoint any individual willing to act as a Director either to fill a vacancy or act as an additional Director. The appointee may hold office only until the next annual general meeting of the Company whereupon his or her election will be proposed to the shareholders.

The Company's Articles of Association prescribe that there shall be no fewer than three Directors and no more than 15.

Amendment of the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution of shareholders.

Payments to creditors

It is the Group's policy to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions. Creditor days for the Group for the year ended 31 December 2012 were an average of 55 days (2011: 62 days). The Company creditor days at 31 December 2012 were 42 days (2011: 53 days).

Charitable and political donations

The Group has made charitable donations of $37,000 (2011: $153,882) during the year principally to charities serving the local communities in which the Group operates in Ukraine. No payments were made to political parties (2011: nil).

Disclosure of information to auditors

As required by section 416 of the Companies Act 2006, each of the Directors as at 24 April 2013 confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(b) the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Words and phrases used in this confirmation should be interpreted in accordance with section 416 of the Companies Act 2006.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Consolidated and Company Financial Statements. For further detail refer to the detailed discussion of the assumptions outlined in note 3(b) to the Consolidated Financial Statements.

Powers of Directors

The Directors are responsible for the management of the business and may exercise all powers of the Company (including powers to issue or buy back the Company's shares), subject to UK legislation, any directions given by special resolution and the Articles of Association. The authority to buy back shares, granted at the 2012 Annual General Meeting, remains unused.

Change of control – significant agreements

The Company has no significant agreements containing provisions which allow a counterparty to alter and amend the terms of the agreement following a change of control of the Company.

Should a change in control occur then certain senior staff are entitled to a payment of salary and benefits for a period of six months.

Certain of the Company's long-term incentive arrangements contain provisions which permit awards or options to vest or become exercisable on a change of control in accordance with the rules of the plans.

Report of the Directors continued

Annual General Meeting
A notice for the Annual General Meeting (the 'AGM') to be held at 10.30 am on Thursday 27 June 2013 at Chandos House, 2 Queen Anne Street, London W1G 9LQ is set out on pages 70 to 72. The following notes provide an explanation of all of the Resolutions to be put to the AGM. Resolutions 1 to 10 will be proposed as ordinary resolutions requiring the approval of more than 50 per cent. of the votes cast at the meeting and Resolutions 11 to 14 will be proposed as special resolutions requiring the approval of at least 75 per cent of the votes cast at the meeting. The Board considers that the resolutions to be put to the meeting are in the best interests of the Company and the shareholders as a whole. Accordingly, the Directors unanimously recommend that you vote in favour of the proposed resolutions at the AGM, as they intend to do in respect of their own beneficial holdings.

Annual Financial Report (Resolution 1)
Shareholders are being asked to receive the Annual Financial Report of the Company for the financial year ended 31 December 2012. The Annual Financial Report comprises the Annual Accounts of the Group together with the Directors' Report, Directors' Remuneration Report and the auditor's report on those Accounts and the auditable part of the Directors' Remuneration Report.

Approval of Directors' Remuneration Report (Resolution 2)
Shareholders are being asked to approve the Directors' Remuneration Report for the financial year ended 31 December 2012, as set out on pages 29 to 31.

Re-election of Directors (Resolutions 3 to 7)
Under Article 118 of the Company's Articles of Association, every Director must seek re-election by members at least once every three years. However, it is now the Board's practice for every Director to seek re-election by shareholders every year as recommended by the UK corporate governance code. Accordingly, resolutions 3 to 7 deal with the re-election of each of the Company's Directors.

Biographies of each of the Directors seeking re-election are set out on page 17. All of the Directors proposed for re-election have wide ranging business knowledge and bring valuable skills and experience to the Board and the Board considers that each of the Directors continues to make an effective and valuable contribution and demonstrates commitment to the role. Accordingly, the Board recommends the re-election of each of these Directors.

Auditor (Resolutions 8 and 9)
Deloitte LLP have indicated that they are willing to continue in office as the Company's auditor. Resolution 8 seeks shareholders' approval to reappoint Deloitte LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which the Annual Financial Report is laid before the shareholders. Resolution 9 seeks shareholders' authorisation for the Directors to determine the auditor's remuneration.

Authority to Allot Shares (Resolution 10)
The Directors may allot or grant rights over Ordinary shares only if authorised to do so by a resolution of shareholders. Resolution 10 seeks a new authority under section 551 of the Companies Act 2006 to authorise the Directors to allot shares or grant rights to subscribe for, or convert any security into, shares in the Company. It will expire at the conclusion of next year's AGM or, if earlier, on 30 June 2014. Resolution 10 follows institutional investor guidelines regarding the authority to allot shares.

Paragraph (a) of resolution 10 would give the Directors authority to allot shares or grant rights to subscribe for, or convert any security into, shares ('Rights') up to a maximum nominal amount of £2,310,917, representing approximately one third of the Company's existing issued share capital. This maximum is reduced by the nominal amount of shares allotted or Rights granted pursuant to paragraph (b) of resolution 10 in excess of £2,310,917. Paragraph (b) of resolution 10 gives the Directors authority to allot shares or grant Rights in connection with a rights issue only up to a maximum nominal amount of £4,621,834 representing approximately two-thirds of the Company's existing issued share capital. This maximum is reduced by the nominal amount of shares allotted or Rights granted pursuant to paragraph (a) of resolution 10.

Therefore, the maximum nominal amount of shares allotted or Rights granted under resolution 10 is £4,621,834, representing approximately two-thirds of the Company's existing issued share capital.

As at close of business on 23 April 2013, the Company did not hold any treasury shares (aside from the 66 residual Ordinary shares arising from the consolidation in June 2008 of the Company's issued share capital, as disclosed on page 18).

The Directors do not currently intend to use this authority. However, if they do use it, then they intend to follow best practice (including as regards standing for re-election in certain cases), as recommended by institutional investor guidelines.

Disapplication of Pre-Emption Rights (Resolution 11)
If the Directors wish to allot any shares or grant rights over shares or sell treasury shares for cash (other than under an employee share scheme) they are required by the Companies Act 2006 to offer them to existing shareholders pro rata. In certain circumstances, it may be in the interests of the Company to raise capital without such a pre-emptive offer. Resolution 11 therefore seeks a waiver of shareholders' pre-emptive rights and (aside from rights issues or other pro rata offers), the authority will be limited to the issue of securities for cash up to a maximum aggregate nominal value of £346,637 – approximately five per cent of the Company's issued Ordinary share capital as at 23 April 2013 (being the latest practicable date prior to the date of the Notice of AGM).

The Directors confirm their intention to adhere to the provisions in the Pre Emption Group Statement of Principles regarding cumulative usage of authorities over more than 7.5 per cent of the Company's issued Ordinary share capital in any three-year period.

This resolution also seeks a disapplication of the pre-emption rights on a rights issue to permit such arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas shareholders. The authority will expire at the conclusion of next year's AGM or, if earlier, on 30 June 2014.

Directors' Authority to Purchase Shares (Resolution 12)
The Company may wish to purchase its own shares and resolution 12 seeks authority to do so. If passed, the Company would be authorised to make market purchases up to a total of 23,109,173 shares – just under ten per cent of the Company's issued Ordinary share capital as at 23 April 2013. The Directors will generally only exercise this power when the effect of such purchases is expected to increase earnings per share and will be in the best interests of shareholders generally. Shares purchased may be cancelled and the number in issue will be reduced accordingly. The Company may hold in treasury any of its own shares that it purchases in this manner.

As at 23 April 2013, the Company has 541,040 outstanding share warrants, exercisable at the subscription price of £1.23. These share warrants will expire on 13 May 2013. The Company does not have any outstanding share options.

Notice of General Meetings (Resolution 13)
The purpose of resolution 13 is to allow the Company to continue to call general meetings (other than AGMs) on 14 clear days' notice. The Directors do not expect to use this power unless urgent action is required on the part of the shareholders. If resolution 13 is passed, the approval will be effective until the Company's next AGM when it is expected that a similar resolution will be proposed.

It should be noted that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

Amendment of Articles of Association (Resolution 14)
As the Company's shares are admitted to the standard, rather than the premium, segment of the Official List of the UK Listing Authority (the 'Official List'), Listing Rule 5.2.5R (Cancellation of listing of equity shares), which requires a Cancellation of Listing (as defined below) to be authorised by a special resolution of the Company, would not apply to it. As a result, no shareholder approval would currently be required before the Company could apply for cancellation of: (i) the listing of its shares on the Official List; and (ii) the trading of its shares on the London Stock Exchange plc ((i) and (ii) together, a 'Cancellation of Listing').

A Cancellation of Listing would significantly reduce the liquidity and marketability of the Company's shares. In order to protect shareholders' interests and in the interests of good corporate governance, resolution 14 seeks to amend the Articles of Association of the Company so that, except in the circumstances specified in Listing Rule 5.2.7R (Cancellation in relation to a proposed transaction which is necessary to ensure the survival of the Company), Listing Rule 5.2.10R (Cancellation in relation to takeover offers) and Listing Rule 5.2.12R (Cancellation as a result of schemes of arrangement etc) (each of which is an exception to the general requirement for shareholder authorisation contained in Listing Rule 5.2.5R), a Cancellation of Listing will be subject to prior authorisation by ordinary resolution of the Company.

This Directors' Report comprising pages 4 to 32 has been approved by the Board and signed on its behalf by:

Laurence Sudwarts
Company Secretary
24 April 2013

Registered Office:
2nd Floor, Ibex House, 42-47 Minories, London, EC3N 1DX
Company registered in England and Wales – No 5718406

Corporate Governance Statement

This Corporate Governance Statement forms part of the Directors' Report

The Board of Cadogan Petroleum plc is committed to the highest standards of corporate governance and bases its actions on the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council ('FRC') in June 2010 (the 'Code'). The Code can be found on the FRC's website at www.frc.org.uk. The Board has noted the publication of a revised UK Corporate Governance Code which is applicable for accounting periods beginning on or after 1 October 2012. The Board will review the revisions to the Code and make changes to its corporate governance arrangements if appropriate.

This statement describes how the Group applies the principles of the Code. On 20 December 2011 the Company's listing category on the London Stock Exchange was transferred from 'Premium Listing' to 'Standard Listing'. Although companies with a standard listing are subject to less stringent corporate governance requirements, the Board has decided that the Group will continue to govern itself in accordance with the principles of the Code and explain why it has chosen not to comply with any of the provisions of the Code.

During the year under review, the Group has complied with the Code's provisions with the following exceptions:

- Code provision A.4.2 – During the year, the Chairman did not hold meetings with the non-executive Directors without the executives present
- Code provision E.1.1 – The Senior Independent Director has not attended meetings with major shareholders

The reasons for these two areas of non-compliance are as follows:

- Although the Chairman did not hold formal meetings of the non-executive Directors during the year, regular discussions took place by telephone and email.
- The Senior Independent Director, Mr Lehmann, did not attend meetings with major shareholders as this responsibility was undertaken by the Chairman and the Executive Directors. Mr Lehmann is available to shareholders who have concerns that they feel would be inappropriate to raise via the Chairman or Executive Directors.

Board

The Board provides leadership and oversight. The Board comprises a non-executive Chairman, Chief Executive Officer, Chief Operating Officer and two independent non-executive Directors. The membership of the Board and biographical details for each of the Directors are incorporated into this report by reference and appear on page 17.

On his appointment on 2 August 2011, the Chairman had no significant commitments that might affect his ability to allocate sufficient time to the Company to discharge his responsibilities effectively and, as at the date of this report, that remains the case.

Under the Company's Articles of Association, all Directors must seek re-election by members at least once every three years. However, the Board has agreed that all Directors will be subject to annual election by shareholders, as recommended by the Code in respect of FTSE 350 companies. Accordingly, all members of the Board will be standing for re-election at the Annual General Meeting to be held on 27 June 2013.

The Board has a formal schedule of matters specifically reserved for it to decide, including approval of acquisitions and disposals, major capital projects, financial results, Board appointments, dividend recommendations, material contracts and Group strategy. Four Board meetings took place during 2012.

The Chairman, in conjunction with the Company Secretary, plans the programme for the Board during the year. The agenda for Board and Committee meetings is considered by the relevant Chairman and issued with supporting papers during the week preceding the meeting. For each Board meeting, the Directors receive a Board pack including detailed monthly management accounts, briefing papers on commercial and operational matters and major capital projects including acquisitions. The Board also receives briefings from key management on specific issues. The attendance of those Directors in place at the year end at Board and Committee meetings during the year was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
No. Held	4	4	–	1
No. Attended:				
Z Furst	4	n/a	–	1
B des Pallieres	4	n/a	–	n/a
G Lehmann	4	4	–	1
E Testa	4	4	–	1
A Schenato	4	n/a	n/a	n/a

A procedure exists for the Directors, in the furtherance of their duties, to take independent professional advice if necessary, under the guidance of the Company Secretary and at the Company's expense. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Chairman for ensuring that Board procedures are complied with and that applicable rules and regulations are followed.

Board independence

The roles and responsibilities of Chairman and Chief Executive Officer are separate. A formal division of each individual's responsibilities has been agreed and documented by the Board. Mr Lehmann is the Senior Independent Director.

The non-executive Directors bring an independent view to the Board's discussions and the development of its strategy. Their range of experience ensures that management's performance in achieving the business goals is challenged appropriately. The three non-executive Directors, Messrs Furst, Lehmann and Testa, are considered by the Board, in accordance with the

Code, to be independent. The letters of appointment for the independent non-executive Directors are available for review at the Registered Office and prior to the Annual General Meeting. For information regarding the Annual General Meeting please refer to the Notice of Meeting on pages 70 to 72.

Responsibilities and membership of Board Committees
The Board has agreed written terms of reference for the Nomination Committee, Remuneration Committee and Audit Committee. The terms of reference for all three Board Committees are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. A review of the terms of reference, membership and activities of all Board Committees is provided on pages 24 to 28.

Board performance evaluation
Principle B.6 of the Code recommends that boards undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The Board is mindful that it needs to continually monitor and identify ways in which it might improve its performance and recognises that board evaluation is a useful tool for enhancing a board's effectiveness. For the year ended 31 December 2012, the Board opted to undertake self-evaluation by way of a questionnaire designed specifically to assess the strengths of the Board and identify any areas for development.

The process was led by Mr Furst as Chairman and the evaluation of the Chairman's performance was led by Mr Lehmann as the Senior Independent Director. The Board discussed the evaluation questionnaire findings, which were also used by the Nomination Committee in its annual assessment of the Board's composition. The Directors are committed to ensuring that the Board continues to represent a broad balance of skills, experience, independence and knowledge and that there is sufficient diversity within the composition of the Board. All appointments are made on merit against objective criteria – which include gender and diversity generally – in the context of the requirements of the business and the overall balance of skills and backgrounds that the Board needs to maintain in order to remain effective.

Internal control
The Directors are responsible for the Group's system of internal control and for maintaining and reviewing its effectiveness. The Board has delegated responsibility for the review of the Group's internal controls to the Audit Committee. The Group's systems and controls are designed to safeguard the Group's assets and to ensure the reliability of information used both within the business and for publication.

Systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The key features of the internal control systems which operated during 2012 and up to the date of signing the accounts are documented in the Group's Corporate Governance Policy Manual and Finance Manual. These manuals have been circulated throughout the Group. In addition, the Company's joint venture entities adopted policies that mirror the Company's own, except WGI, where ENI's policies are adopted.

Day-to-day responsibility for the management and operations of the business has been delegated to the Chief Executive Officer and senior management.

Certain specific administrative functions are controlled centrally. Taxation, treasury and insurance functions report to the Director of Group Finance who reports directly to the Chief Executive Officer. The legal function is managed by the General Counsel who reports to the Board and also attends all Board meetings. The Health and Safety and Environment functions report to the Chief Operating Officer. An overview of the Group's treasury policy is set out on page 11.

The Group does not have an internal audit function. Due to the small scale of the Group's operations at present, the Board do not feel that it is appropriate or economically viable to have this function in place. The Audit Committee will continue to consider the position annually.

The Board has reviewed the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 (the 'Turnbull Guidance'). During the course of its review of the risk management and internal control systems, the Board has not identified nor been advised of any failings or weaknesses which it has deemed to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Relations with shareholders
The Chairman and Executive Directors of the Company have a regular dialogue with analysts and substantial shareholders. The outcome of these discussions are reported to the Board and discussed in detail. Mr Lehmann, as the Senior Independent Director, is available to shareholders who have concerns that they feel would be inappropriate to raise via the Chairman or Executive Directors.

The Annual General Meeting is used as an opportunity to communicate with all shareholders. In addition, financial results are posted on the Company's website, www.cadoganpetroleum.com, as soon as they are announced. The Notice of the Annual General Meeting is contained in this report on pages 70 to 72. It is intended that the Chairmen of the Nomination, Audit and Remuneration Committees will be present at the Annual General Meeting. The results of all resolutions will be published on the Company's website, www.cadoganpetroleum.com.

Board Committee Reports

Audit Committee Report

The Audit Committee (the 'Committee') is appointed by the Board, on the recommendation of the Nomination Committee, from the non-executive Directors of the Group. The Committee's terms of reference include all matters indicated by the Code. They are reviewed annually by the Committee and any changes are then referred to the Board for approval. The terms of reference of the Committee are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum.

Responsibilities

- To monitor the integrity of the annual and interim financial statements, the accompanying reports to shareholders, and announcements regarding the Group's results.
- To review and monitor the effectiveness and integrity of the Group's financial reporting and internal financial controls.
- To review the effectiveness of the process for identifying, assessing and reporting all significant business risks and the management of those risks by the Group.
- To oversee the Group's relations with the external auditor and to make recommendations to the Board, for approval by shareholders, on the appointment and removal of the external auditor.
- To consider whether an internal audit function is appropriate to enable the Committee to meet its objectives.
- To review the Group's arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Governance

Mr Testa and Mr Lehmann, who are both independent non-executive Directors under provision B.1.1 of the Code, are the members of the Committee. The Committee is chaired by Mr Lehmann who has recent and relevant financial experience as a former finance director of major European companies as well as holding several non-executive roles in major international entities.

At the invitation of the Committee, the Group Director of Finance and external auditor regularly attend. The Company Secretary attends all meetings of the Committee.

The Audit Committee also meets the external auditor without management being present.

Activities of the Audit Committee

During the year, the Committee discharged its responsibilities as follows:

Financial statements

The Committee examined the Group's consolidated and Company's financial statements and, prior to recommending them to the Board, considered the appropriateness of accounting policies adopted and whether the financial statements represented a true and fair view.

Internal controls and risk management

The Committee reviews and keeps under review financial and control issues throughout the Group including the Group's key risks and the approach for dealing with them.

External auditor

The Committee is responsible for recommending to the Board, for approval by the shareholders, the appointment of the external auditor.

The Committee considers the scope and materiality for the audit work, approves the audit fee, and reviews the results of the external auditor's work. Following the conclusion of each year's audit, it considers the effectiveness of the external auditor during the process. The Audit Committee periodically reviews if it is necessary to retender the audit engagement.

Deloitte LLP was first appointed in 2005. Having satisfied itself as to their qualifications, expertise, resources and independence and the effectiveness of the audit process, the Committee has recommended to the Board, for approval by shareholders, the reappointment of Deloitte LLP as the Company's external auditor.

There is an agreed policy on the engagement of the external auditor for non-audit services to ensure that their independence and objectivity are safeguarded. Work closely related to the audit, such as taxation or financial reporting matters, can be awarded to the external auditor by the executive Directors provided the work does not exceed £50,000 in fees per item. Work exceeding £50,000 requires approval by the Committee. All other non-audit work either requires Committee approval or forms part of a list of prohibited services, where it is felt the external auditor's independence or objectivity may be compromised.

A breakdown of the non-audit fees is disclosed in note 10 to the notes to the Consolidated Financial Statements. The Company's external auditor, Deloitte LLP, has provided non-audit services (excluding audit related services) which amounted to $122,000 (2011: $322,000). The Audit Committee has reviewed the level of these services in the course of the year and is confident that the objectivity and independence of the auditor are not impaired by the reason of such non-audit work.

Internal audit
The Committee considers annually the need for an internal audit function and believes that, due to the size of the Group and its current stage of development, an internal audit function will be of little benefit to the Group.

The Group's whistleblowing policy encourages employees to report suspected wrongdoing and sets out the procedures employees must follow when raising concerns. The policy, which was implemented during 2008, was refreshed in 2012 and recirculated to staff as part of a manual that includes the Company's policies on anti-bribery, the acceptance of gifts and hospitality, and business conduct and ethics.

Overview
As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor. A formal review of the Committee's performance was undertaken after the year end and concluded that the Committee is effective in its scrutiny of the accounts and financial reporting process, its oversight of risk management systems and its monitoring of internal control testing.

The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Board Committee Reports continued

Health, Safety and Environment Committee Report

The Health, Safety and Environment Committee (the 'Committee') is appointed by the Board, on the recommendation of the Nomination Committee. The Committee's terms of reference are reviewed annually by the Committee and any changes are then referred to the Board for approval. The terms of reference of the Committee are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum, one of whom must be a Director.

Responsibilities

- To develop a framework of the policies and guidelines for the management of health, safety and environment issues within the Group.
- Evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operation.
- Assess the policies and systems within the Group for ensuring compliance with health, safety and environmental regulatory requirements.
- Assess the performance of the Group with regard to the impact of health, safety, environmental and community relations decisions and actions upon employees, communities and other third parties and also assess the impact of such decisions and actions on the reputation of the Group and make recommendations to the Board on areas for improvement.
- On behalf of the Board, receive reports from management concerning any fatalities and serious accidents within the Group and actions taken by management as a result of such fatalities or serious accidents.
- Evaluate and oversee, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning health, safety, environmental and community relations issues.
- Where it deems it appropriate to do so, appoint an independent auditor to review performance in regard to health, safety, environmental and community relations matters and review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning the same.

Governance

The Committee was in place throughout 2012. Members of the Committee as of April 2013 are Mr Adelmo Schenato (Chief Operating Officer and HSE Committee Chairman), Mr Oleg Sybira (HSE Manager), Mr Luciano Kovacic (Exploration Manager) and Mr Giovanni Ferraro (Operations Manager). The Company Secretary attends meeting of the Committee. The Committee meets monthly to monitor continuously progress by management.

Activities of the Health, Safety and Environment Committee

During the year the Committee discharged its responsibilities as follows:

- The ongoing review of existing HSE policies and procedures, as well as development of new ones, was regularly discussed at the Committee meetings in relation to the current activities.
- Compliance with HSE regulatory requirements was ensured through discussion of any inspections, both internal ones and those carried out by the Authorities.
- HSE statistics were a standing item on the agenda, allowing the Committee to assess the Company performance by analysing any lost-time incidents (of which there were none during 2012), near misses, HSE training and other indicators.
- Interaction with contractors, Authorities, local communities and other stakeholders was discussed among other HSE activities.

Overview

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference.

Remuneration Committee Report

The Remuneration Committee (the 'Committee') is appointed by the Board from the non-executive Directors of the Group. The Committee's terms of reference include all matters indicated by the UK Corporate Governance Code. They are reviewed annually by the Committee and any changes are then referred to the Board for approval. The terms of reference of the Committee are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum.

Responsibilities

In summary, the Committee's responsibilities, as set out in its terms of reference, are as follows:

- To determine and agree with the Board the policy for the remuneration of the executive Directors, the Company Secretary and other members of executive management as appropriate.
- To consider the design, award levels, performance measures and targets for any annual or long-term incentives and approve any payments made and awards vesting under such schemes.
- Within the terms of the agreed remuneration policy, to determine the total individual remuneration package of each executive Director and other senior executives including bonuses, incentive payments and share options or other share awards.
- To ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

Governance

The Remuneration Committee consists of Mr Enrico Testa (the Committee's Chairman), Mr Zev Furst and Mr Gilbert Lehmann. At the discretion of the Committee, the Chief Executive Officer is invited to attend meetings when appropriate, but is not present when his own remuneration is being discussed. The Committee is also supported by the Company Secretary.

PricewaterhouseCoopers LLP ('PwC') continued to act as Remuneration Committee adviser throughout the year.

Activities of the Remuneration Committee

During the year, the Committee:

- Approved the outline structure of a Long-Term Incentive Plan (as recommended by PwC) and directed management to develop a detailed proposal for the Committee's consideration.
- Reviewed and confirmed the Company's remuneration policy, as set out in the Directors' Remuneration Report on pages 29 to 31.

No awards or payments were made under incentive schemes during 2012. No new incentive schemes were introduced during the period.

Oversight of the negotiation between the Company and Mr Baron on compensation to be paid upon the termination in June 2012 of Mr Baron's consultancy agreement (as disclosed in the Directors' Remuneration Report on pages 29 to 31) was provided by the full Board rather than the Committee.

Overview

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference. The Chairman of the Remuneration Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

The Remuneration Committee unanimously recommends that shareholders vote to approve the Directors' Remuneration Report at the 2013 Annual General Meeting.

Board Committee Reports continued

Nomination Committee Report

The Nomination Committee (the 'Committee') is appointed by the Board predominantly from the non-executive Directors of the Group. The Committee's terms of reference include all matters indicated by the UK Corporate Governance Code. They are reviewed annually by the Committee and any changes are then referred to the Board for approval. The terms of reference of the Committee are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum.

Responsibilities

- To regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes.
- Be responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise.
- Before appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee shall use open advertising or the services of external advisers to facilitate the search and consider candidates from a wide range of backgrounds on merit, taking care that appointees have enough time available to devote to the position.

The Committee shall also make recommendations to the Board concerning:

- Formulating plans for succession for both executive and non-executive Directors and in particular for the key roles of Chairman and Chief Executive Officer.
- Membership of the Audit and Remuneration Committees, in consultation with the Chairmen of those committees.
- The reappointment of any non-executive Director at the conclusion of their specified term of office, having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.
- The re-election by shareholders of any Director having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.

Any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an executive Director as an employee of the Company subject to the provisions of the law and their service contract.

Governance

Mr Zev Furst (Board and Committee Chairman), Mr Bertrand des Pallieres (Chief Executive Officer), and Messrs Gilbert Lehmann and Enrico Testa (independent non-executive Directors) are the members of the Committee.

The Company Secretary attends all meetings of the Committee.

Activities of the Nomination Committee

The Committee carried out a review of the size, structure and composition of the Board after the year end and concluded that it had the appropriate balance of skills, knowledge, independence and experience. The appointment of Mr Adelmo Schenato in January 2012 was dealt with by the full Board and, as such, the services of the Committee were not utilised.

Overview

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference. The Chairman of the Nomination Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

Directors' Remuneration Report

This report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and an Ordinary resolution will be submitted to the shareholders seeking their approval of the report at the Annual General Meeting of the Company.

Information not subject to audit:
Remuneration Committee
The members of the Remuneration Committee (the 'Committee') and its responsibilities are set out on page 27. The Committee is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the principles and provisions of the Code. In designing performance-related remuneration schemes for executive Directors, the Committee has considered and applied Schedule A of the UK Corporate Governance Code.

PricewaterhouseCoopers LLP ('PwC') and MM & K Limited acted as remuneration advisers during the year. PwC provides independent advice to the Committee on remuneration issues in accordance with the Committee's terms of reference.

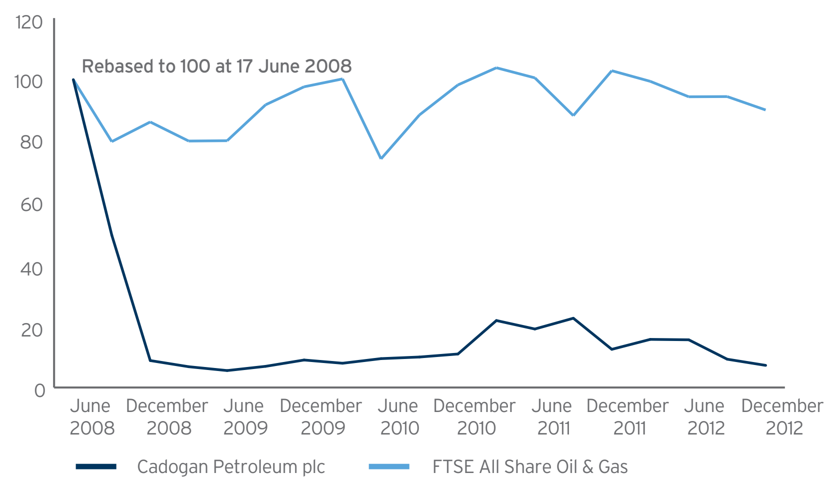
Remuneration policy and package for executive Directors
The Committee's philosophy is that remuneration arrangements should be appropriately positioned to support the Group's business strategy over the longer term and create value for shareholders. In this context the following key principles are considered to be important:
- remuneration arrangements should align executive and employee interests with those of shareholders;
- remuneration arrangements should help retain key executives and employees; and
- remuneration arrangements should incentivise executives to achieve short, medium and long-term business targets which represent value creation for shareholders. Targets should relate to the Group's performance in terms of overall revenue and profit and the executive's own performance. Individual targets should reflect the role of the executive in question but might relate, for example, to the generation of new revenue streams and the promotion of the Company's business interests. Exceptional rewards should only be delivered if there are exceptional returns.

Arrangements for existing Directors
During 2012, Mr Bertrand des Pallieres continued as Chief Executive Officer. Mr des Pallieres' salary is £246,000 ($389,935) per annum, comprising £216,000 ($342,382) per annum under a consultancy agreement (the terms of which are reviewed by the Remuneration Committee annually) and £30,000 ($47,553) per annum under a services agreement. Any bonus to be awarded to Mr des Pallieres is at the discretion of the Board. In addition, Mr des Pallieres is entitled to participate in an incentive scheme, the performance conditions for which are set by the Remuneration Committee.

Adelmo Schenato joined the Company as Chief Operating Officer on 25 January 2012. Mr Schenato's basic salary is £194,809 ($308,849) comprising €225,000 per annum under a consultancy agreement and £21,000 under a services agreement. Any bonus to be awarded to Mr Schenato is at the discretion of the Board. In addition, Mr Schenato is entitled to participate in an incentive scheme, the performance conditions for which are set by the Remuneration Committee.

Arrangements for past Directors
Mr Ian Baron resigned as a Director on 15 June 2012 and received compensation of £80,000 for termination of his consultancy agreement without notice. Whilst a Director, Mr Baron was entitled to a payment of 10 per cent of his base salary into a suitable pension arrangement as long as he could demonstrate that he had made a contribution equating to 5 per cent of salary to the arrangement. A payment relating to the accrued value from February 2011 to February 2012 to be made in 2013.

Performance graph
The graph below highlights the Company's total shareholder return ('TSR') performance since listing compared to the FTSE All Share Oil & Gas Producers index. This index has been selected on the basis that it represents a sector specific group which is an appropriate group for the Company to compare itself against. TSR is the return from a share or index based on share price movements and notional reinvestment of declared dividends.



Directors' Remuneration Report continued

Service agreements

The Company's policy on service agreements is that executive Directors' agreements should, following any necessary initial notice period, be terminable by either the Company or the Director on not more than six months' notice. The service agreements contain provision for early termination, among other things, in the event of a breach by the executive but make no provision for any termination benefits except in the event of a change of control of the Company where the executive becomes entitled to 12 months' salary on termination by the Company. The service agreements contain restrictive covenants for a period of 12 months following termination of the agreement. Details of service agreements in place as at the date of this report are set out below:

Director	Current agreement start date	Notice period
B des Pallieres	1 August 2011	Six months
A Schenato	25 January 2012	Six months

Non-executive Directors

Independent non-executive Directors

The payment policy for independent non-executive Directors is to pay the market rate to secure persons of a suitable calibre. The remuneration of the non-executive Directors is determined by the Board. External benchmarking data and specialist advisers are used when setting fees, which will be reviewed at appropriate intervals.

In May 2011 the Board agreed that the Chairman's fee be set at £85,000 ($131,714) and that the fee for acting as an independent non-executive Director be set at £35,000 ($55,479) with an additional £10,000 ($15,851) for acting as Chairman of the Audit Committee. There has been no increase in non-executive Directors' fees in the meantime.

The non-executive Directors' fees are non-pensionable. The non-executive Directors are not eligible to participate in any incentive plans. All non-executive Directors have a letter of appointment that appoints them to the Board for an initial three year period. Under the Company's Articles of Association, they are subject to retirement and reappointment by shareholders at the first Annual General Meeting following appointment, and then at least once every three years thereafter. The Board has agreed, however, that all Directors should stand for annual re-election by the shareholders. Appointments can be terminated by the Company on three months' notice or immediately due to a breach.

Other non-executive Directors

Mr Benedetti, who continued to act as a non-executive Director until his resignation on 27 June 2012, waived the right to a fee and did not have a letter of appointment. His expenses associated with the business of the Group were met by the Group. SPQR Capital Holdings SA which, as the Company's largest shareholder, had in 2010 requested the appointment of Mr Benedetti as a non-executive Director, received no payment or non-cash benefits from the Company for making available the services of Mr Benedetti.

The dates of the non-executive Directors' original appointment and expiry of current term in accordance with their letters of appointment are:

Non-executive Director	Date of appointment	Expiry of current term
Z Furst	2 August 2011	1 August 2014
E Testa	1 October 2011	1 October 2014
G Lehmann	18 November 2011	18 November 2014

Mr des Pallieres is a non-executive Director of Versatile Systems Inc. and Equus Total Returns Inc. Any fees paid are retained by Mr des Pallieres.

Information subject to audit:

2012 Directors' emoluments

Director	$ Salary/fees	$ Pension	$ Loss of office	$ Total	$ 2011
Z Furst	131,714	–	–	131,714	56,823
B des Pallieres[1]	389,935	–	–	389,935	273,201
A Schenato (appointed 25 January 2012)	308,849	–	–	308,849	–
A Benedetti (resigned 27 June 2012)	–	–	–	–	–
G Lehmann	71,330	–	–	71,330	8,902
E Testa	55,479	–	–	55,479	13,778
I Baron (resigned 15 June 2012)	121,524	31,966	126,808	280,298	395,984
TOTAL	**1,078,831**	**31,966**	**126,808**	**1,237,605**	**748,688**

1 The remuneration of the highest paid Director, Mr des Pallieres, was $389,935 (2011: Mr Stein $460,062).

There were no performance payments or benefits in kind paid in 2012 (2011: $nil).

Share Incentive Arrangements
The Company currently operates the following incentive plans:
- 2008 Performance Share Plan; and
- 2008 Share Option Plan with a corresponding HMRC approved plan.

The Company made no awards in 2012 under the 2008 Share Option Plan. There were no outstanding options as at 31 December 2012.

2008 Performance Share Plan ('PSP')
The PSP offers the opportunity to earn shares in the Company subject to the achievement of stretching performance targets. Awards can be made under the PSP at the direction of the Remuneration Committee with a value of up to a maximum of 200 per cent of base salary (400 per cent in exceptional circumstances).

No Directors who held office during the year have received any awards under the PSP.

Share options
The Company operates two share option plans: the 2008 Share Option Plan (unapproved for HMRC purposes) and the 2008 Approved Option Plan ('CSOP') (which is an HMRC approved plan). On 3 February 2011 the Company made an option grant under the 2008 Share Option plan to Mr I Baron and one other senior manager at a price of 35 pence a share, the mid-market closing price for the trading day prior to the date of grant. The award to Mr Baron lapsed upon his entering into a consultancy arrangement with the Company in March 2012. The award to the other senior manager also lapsed upon his entering into a consultancy agreement in June 2012.

No options have been exercised under any Option Scheme and thus no gain on exercise has been realised.

There are no options outstanding at 31 December 2012 (refer to note 26 to the Consolidated Financial Statements).

This Directors' Remuneration Report comprising pages 29 to 31 has been approved by the Board and signed on its behalf by:

Zev Furst
Chairman
24 April 2013

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required under that law to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS regulation and have also elected to prepare the Parent Company financial statements under IFRSs as adopted by the European Union. Under Company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing the Company and Group's financial statements, International Accounting Standards ('IAS') Regulation requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's and Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including Business Review), Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, www.cadoganpetroleum.com. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in respect of the Annual Report
We confirm to the best of our knowledge:

(1) the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and

(2) the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Zev Furst
Chairman
24 April 2013

Independent Auditor's Report to Members of Cadogan Petroleum plc

We have audited the financial statements of Cadogan Petroleum plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 44. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 3(a) to the group financial statements, the group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to Members of Cadogan Petroleum plc continued

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matter
Although not required to do so, the Directors have voluntarily chosen to make a Corporate Governance Statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed:

- the Directors' statement contained within note 3(b) to the Consolidated Financial Statements in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Graham Hollis ACA
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
24 April 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 $'000	2011 $'000
CONTINUING OPERATIONS			
Revenue	5	**5,653**	6,981
Cost of sales		**(4,158)**	(6,264)
Gross profit		**1,495**	717
Administrative expenses:			
Other administrative expenses		**(10,783)**	(11,634)
Impairment of oil and gas assets	8	**(83,584)**	–
Impairment of other assets	8	**(2,684)**	(2,818)
		(97,051)	(14,452)
Gain on acquisition of jointly controlled entity/disposal of subsidiaries	28	**5,417**	164,945
Other losses	28	**-**	(3,299)
Other operating (expenses)/income	6	**(2,940)**	4,552
Operating (loss)/profit		**(93,079)**	152,463
Investment revenue	12	**128**	155
Finance income/(costs)	13	**67**	(11)
(Loss)/Profit before tax		**(92,884)**	152,607
Tax (charge)/credit	14	**(252)**	473
(Loss)/Profit for the year	9	**(93,136)**	153,080
Attributable to:			
Owners of the Company		**(93,106)**	151,549
Non-controlling interest		**(30)**	1,531
		(93,136)	153,080

(Loss)/Profit per Ordinary share		**cent**	cent
Basic and diluted	15	**(40.3)**	65.6

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 $'000	2011 $'000
(Loss)/Profit for the year	**(93,136)**	153,080
Unrealised currency translation differences	**4,384**	(2,067)
Total comprehensive (loss)/profit for the year	**(88,752)**	151,013
Attributable to:		
Owners of the Company	**(88,722)**	149,482
Non-controlling interest	**(30)**	1,531
	(88,752)	151,013

Consolidated Balance Sheet

As at 31 December 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	16	**78,231**	65,972
Property, plant and equipment	17	**46,627**	99,373
		124,858	165,345
Current assets			
Inventories	20	**5,177**	6,556
Trade and other receivables	21	**35,537**	66,251
Cash and cash equivalents	21	**42,404**	65,039
		83,118	137,846
Total assets		**207,976**	303,191
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	22	**(4,553)**	(11,538)
Long-term provisions	24	**(414)**	(548)
		(4,967)	(12,086)
Current liabilities			
Trade and other payables	23	**(7,793)**	(7,552)
Current provisions	24	**(939)**	(524)
		(8,732)	(8,076)
Total liabilities		**(13,699)**	(20,162)
NET ASSETS		**194,277**	283,029
EQUITY			
Share capital	25	**13,337**	13,337
Retained earnings		**298,290**	389,734
Cumulative translation reserves		**(119,400)**	(123,784)
Other reserves		**1,682**	3,344
Equity attributable to owners of the Company		**193,909**	282,631
Non-controlling interest		**368**	398
TOTAL EQUITY		**194,277**	283,029

The consolidated financial statements of Cadogan Petroleum plc, registered in England and Wales no. 5718406, were approved by the Board of Directors and authorised for issue on 24 April 2013. They were signed on its behalf by:

Bertrand des Pallieres
Chief Executive Officer
24 April 2013

The notes on pages 40 to 63 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Net cash outflow from operating activities	27	**(5,609)**	(7,885)
Investing activities			
Disposal of subsidiaries (note 28)		**4,142**	57,954
Purchases of property, plant and equipment		**(15,749)**	(4,402)
Purchases of intangible exploration and evaluation assets		**(6,239)**	(16,893)
Proceeds from sale of property, plant and equipment		**688**	87
Interest received		**128**	155
Net cash (used in)/from investing activities		**(17,030)**	36,901
Financing activities			
Proceeds from short-term borrowings		**-**	(371)
Net cash used in financing activities		**-**	(371)
Net (decrease)/increase in cash and cash equivalents		**(22,639)**	28,645
Effect of foreign exchange rate changes		**4**	(25)
Cash and cash equivalents at beginning of year		**65,039**	36,419
Cash and cash equivalents at end of year		**42,404**	65,039

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital $'000	Retained earnings $'000	Cumulative translation reserves $'000	Other reserves: Share-based payment $'000	Other reserves: Reorganisation $'000	Non-controlling interest $'000	Total $'000
As at 1 January 2011	13,337	237,963	(121,717)	1,131	1,589	(1,133)	131,170
Share-based payments (note 26)	–	222	–	624	–	–	846
Net income for the year	–	151,549	–	–	–	1,531	153,080
Exchange translation differences on foreign operations	–	–	(2,067)	–	–	–	(2,067)
As at 1 January 2012	13,337	389,734	(123,784)	1,755	1,589	398	283,029
Share-based payments (note 26)	–	1,662	–	(1,662)	–	–	–
Net loss for the year	–	(93,106)	–	–	–	(30)	(93,136)
Exchange translation differences on foreign operations	–	–	4,384	–	–	–	4,384
As at 31 December 2012	**13,337**	**298,290**	**(119,400)**	**93**	**1,589**	**368**	**194,277**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. General information

Cadogan Petroleum plc (the 'Company', together with its subsidiaries the 'Group'), is registered in England and Wales under the Companies Act. The address of the registered office is Ibex House 42-47 Minories, London EC3N 1DX. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 6 to 9 and the Financial Review on pages 10 and 11.

2. Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations are effective but have not had any significant impact on the financial statements:

IFRS 3 (amended)	*Business Combinations*
IAS 24 (amended)	*Related Party Disclosures*
IAS 32 (amended)	*Classification of Rights Issues*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 14 (amended)	*Prepayments of a Minimum Funding Requirement*

At the date of authorisation of the financial statements, the following Standards and Interpretations which have not been applied in the financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 (amended)	*Disclosures – Transfers of Financial Assets and offsetting of Financial Assets and Financial Liabilities*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IAS 1 (amended)	*Presentation of Items of Other Comprehensive Income*
IAS 12 (amended)	*Deferred Tax: Recovery of Underlying Assets*
IAS 19 (revised)	*Employee Benefits*
IAS 27 (revised)	*Separate Financial Statements*
IAS 28 (revised)	*Investments in Associates and Joint Ventures*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosures of financial instruments;
- IFRS 10 may impact the amounts reported in the consolidated financial statements as it provides a single basis for consolidation with a new definition of control;
- IFRS 11 may result in changes in the accounting of the Group's jointly-controlled entities that are currently accounted for using proportionate consolidation. Under IFRS 11, a joint arrangement is classified as either a joint operation or a joint venture, and the option to proportionately consolidate joint ventures has been removed. Interests in joint ventures must be equity accounted;
- IFRS 12 will impact the disclosure of interests Cadogan Petroleum plc has in other entities such as subsidiaries, joint arrangements, associates and/or unconsolidated structured entities;
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures; and
- IAS 1 (amendment) requires to be grouped in other comprehensive income based on whether those items are subsequently reclassified to profit or loss.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

3. Significant accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU'), and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost convention basis, except for share-based payments, accounting for the WGI transaction, and other financial assets and liabilities, which have been measured at fair values, and using accounting policies consistent with IFRS.

The principal accounting policies adopted are set out below:

(b) Going concern

The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Business Review on pages 4 to 16. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 10 and 11.

The Group's cash balance at 31 December 2012 was $42.4 million (2011: $65.0 million) with no external debt (2011: $nil) and the Directors believe that the funds available at the date of the issue of these financial statements is sufficient for the Group to manage its business risks successfully.

The Group's forecasts and projections, taking into account reasonably possible changes in operational performance, start dates and flow rates for commercial production and the price of hydrocarbons sold to Ukrainian customers, show that there are reasonable expectations that the Group will be able to operate on funds currently held and those generated internally, for the foreseeable future, without taking into account receivables from litigation and without the requirement to seek external financing.

As the Group engages in oil and gas exploration and development activities, the most significant risk faced by the Group is delays encountered in achieving commercial production from the Group's major fields. The Group also continues to pursue its farm-out campaign, which, if successful, will enable it to farm-out a portion of its interests in its oil and gas licences to spread the risks associated with further exploration and development.

After making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and consider the going concern basis of accounting to be appropriate. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired of or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

3. Significant accounting policies continued

(d) Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 *Non-Current Assets* held for sale *and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

(e) Investments in jointly-controlled entities

A jointly-controlled entity is an entity in which the Group holds a long-term interest and shares joint control over the operating and financial decisions with one or more other venturers under a contractual arrangement. Jointly-controlled entities are accounted for using proportionate consolidation, which combines the Group's share of the results of the jointly-controlled entity on a line-by-line basis with similar items in the Group's financial statements.

When a Group entity transacts with its jointly-controlled entity, profits and losses resulting from the transactions with the jointly-controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly-controlled entity that are not related to the Group.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for hydrocarbon products and services provided in the normal course of business, net of discounts, value added tax ('VAT') and other sales-related taxes.

Sales of hydrocarbons are recognised when the title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

To the extent that revenue arises from test production during an evaluation programme, an amount is charged from evaluation costs to cost of sales, so as to reflect a zero net margin.

(g) Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the Company is pounds sterling. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency of each Group company ('foreign currencies') are recorded in the functional currency at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into the functional currency at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the results and financial position of each entity of the Group are translated into US dollars as follows:

i. assets and liabilities of the Group's foreign operations are translated at the closing rate on the balance sheet date;
ii. income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used; and
iii. all resulting exchange differences arising, if any, are recognised in other comprehensive income and accumulated equity (attributed to non-controlling interests as appropriate), transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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

3. Significant accounting policies continued

The relevant exchange rates used were as follows:

	Year ended 31 Dec 2012 1US$ = £
Closing rate	0.6185
Average rate	0.6597

(h) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(i) Property, plant and equipment and other intangible assets

Property, plant and equipment ('PP&E') and other intangible assets are carried at cost less accumulated depreciation and any recognised impairment loss.

Depreciation and amortisation is charged so as to write off the cost or valuation of assets, other than land, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	4 per cent
Fixtures and equipment	10 per cent to 30 per cent

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

(j) Impairment of tangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

3. Significant accounting policies continued

(k) Intangible exploration and evaluation assets

The Group applies the full cost method of accounting for intangible exploration and evaluation ('E&E') expenditure as set out in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Under the full cost method of accounting, expenditure made on exploring for and evaluating oil and gas properties is accumulated and initially capitalised as an intangible asset, by reference to appropriate cost centres being the appropriate oil or gas property. E&E assets are then assessed for impairment on a cost pool basis as described below.

E&E assets comprise costs of (i) E&E activities which are in progress at the balance sheet date, but where the existence of commercial Reserves has yet to be determined (ii) E&E expenditure which, whilst representing part of the E&E activities associated with adding to the commercial Reserves of an established cost pool, did not result in the discovery of commercial Reserves.

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as incurred.

Exploration and Evaluation costs

E&E expenditure is initially capitalised as an E&E asset. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are also capitalised as intangible E&E assets.

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment) are normally classified as PP&E. However, to the extent that such assets are consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of PP&E items utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

E&E assets are not amortised prior to the conclusion of appraisal activities.

Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each exploration property are carried forward, until the existence (or otherwise) of commercial Reserves has been determined. If commercial Reserves have been discovered, the related E&E assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified to the development and production assets within PP&E.

Intangible E&E assets that relate to E&E activities that are determined not to have resulted in the discovery of commercial Reserves remain capitalised as intangible E&E assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below. Such E&E assets are amortised on a unit-of-production basis over the life of the commercial Reserves of the pool to which they relate.

Impairment of E&E assets

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include, but are not limited to, those situations outlined in paragraph 20 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* and include the point at which a determination is made as to whether or not commercial Reserves exist.

Where there are indications of impairment, the E&E assets concerned are tested for impairment. Where the E&E assets concerned fall within the scope of an established full cost pool, they are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit.

The aggregate carrying value of the relevant assets is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial Reserves from that pool. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial Reserves and the E&E assets concerned will generally be impaired in full.

Impairment losses are recognised in the income statement as additional depreciation and amortisation and are separately disclosed.

The Group considers the whole of Ukraine to be one cost pool and therefore aggregates all Ukrainian assets for the purposes of determining whether impairment of E&E assets has occurred.

(l) Development and production assets

Development and production assets are accumulated on a field-by-field basis and represent the cost of developing the commercial Reserves discovered and bringing them into production, together with E&E expenditures incurred in finding commercial Reserves transferred from intangible E&E assets.

The cost of development and production assets comprises the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

3. Significant accounting policies continued

Depreciation of producing assets

Depreciation is calculated on the net book values of producing assets on a field-by-field basis using the unit of production method. The unit of production method refers to the ratio of production in the reporting year as a proportion of the proved and probable Reserves of the relevant field, taking into account future development expenditures necessary to bring those Reserves into production.

Producing assets are generally grouped with other assets that are dedicated to serving the same Reserves for depreciation purposes, but are depreciated separately from producing assets that serve other Reserves.

Impairment of development and production assets

Development and production assets are assessed for impairment whenever events and circumstances arising during both the development and production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

The carrying value of the asset is compared with its expected recoverable amount of the asset, by reference to the present value of the future cash flows expected to be derived from production of commercial Reserves from it. The cash-generating unit applied for impairment test purpose is normally the field or group of fields if the cash flow of the relevant fields is interdependent.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is allocated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(n) Financial instruments

Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for the amount it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expired.

Financial assets

The Group classifies its financial assets in the following categories: loans and receivables; available-for-sale financial assets; held to maturity investments; and financial assets at fair value through profit or loss ('FVTPL'). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which will then be classified as non-current assets. Loans and receivables are classified as 'other receivables' and 'cash and cash equivalents' in the balance sheet.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on-demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash with three months or less remaining to maturity and are subject to an insignificant risk of changes in value.

Financial assets at FVTPL

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss which is included in the 'Other gains and losses' line item in the consolidated income statement. Fair value is determined in the manner described in note 28.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

3. Significant accounting policies continued

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount of the financial asset and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss and is included in the 'Other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 28.

Trade payables and short-term borrowings

Trade payables and short-term borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(p) Decommissioning

A provision for decommissioning is recognised in full when the related facilities are installed. The decommissioning provision is calculated as the net present value of the Group's share of the expenditure expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the production, storage and transportation facilities currently in place. The cost of recognising the decommissioning provision is included as part of the cost of the relevant asset and is thus charged to the income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included within finance costs.

q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

(r) Share-based payments

The Group issues equity-settled share-based payments to certain parties in return for services or goods. The goods or services received and the corresponding increase in equity are measured directly at the fair value of the goods or services received at the grant date. The fair value of the services or goods received is recognised as an expense except in so far as they relate to the cost of issuing or acquiring its own equity instruments. The costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

3. Significant accounting policies continued

The Group also issues equity-settled share-based payments to certain Directors and employees. Equity settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date for each tranche of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions.

The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

For those equity-settled share-based payments with market-based performance conditions, fair value is measured by use of the Stochastic model. For those which are not subject to any market based performance conditions, fair value is measured by use of the Black-Scholes model. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

The following are the critical judgements and estimates that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

(a) Other receivable recognised in relation to settlement with Global Process Systems LLC ('GPS')

An amount of $30.0 million has been recognised in current other receivables as at 31 December 2012, representing receivables from a settlement agreement reached with GPS (2011: $30.0 million).

During October 2009, a settlement was reached with GPS resolving previous disputes which existed between the Group and GPS concerning the manufacture and delivery of two gas treatment plants for a total purchase price of $54.5 million.

The key commercial terms of the settlement provided for GPS exclusively to market the two gas plants for a 10 month period and, if a sale was achieved, for the Group to receive in stage payments an aggregate cash consideration of $38.5 million. If the plants were not sold within this period, then GPS agreed to take the plants to stock and the Group would receive stage payments for an aggregate cash consideration of $37.5 million.

The settlement also provided for the release by GPS of a potential $10.9 million contractual claim against the Group for the unpaid balance of the consideration for the plants. The amounts of $43.5 million paid to GPS in respect of the gas plants had previously been recognised as prepayments, as title to the gas plants was to pass on delivery. As a result of the settlement, these prepayments were then reclassified as receivables included within other receivables at 31 December 2009. An impairment charge of $6.0 million was provided in the year ended to 31 December 2009 to reduce the carrying value of the original prepayments to their fair value, being the expected proceeds from the settlement.

GPS were not able to sell the plants within the stipulated period, and so the stage payments' terms apply. During the years to 31 December 2011 and 2012, $3.0 million each year were received from GPS respectively.

The first payment of $10.0 million of the remaining $30.0 million was due to be paid to the Group on 14 February 2011 but was not received. A cure period subsequently expired on 18 April 2011 and on 19 July 2011 the Group rescinded the exclusive right of sale of GPS and as such are able to market the gas plants themselves.

During February 2013 the High Court in London awarded judgment in favour of the Group in the sum of just over $21,000,000 inclusive of interest (the 'Judgment Debt'), to be paid by 4 March 2013. GPS' counterclaim for the sum of approximately $7,500,000 million was dismissed. At the request of the Group, a decision by the Court on further damages estimated at approximately up to $10,500,000 was adjourned pending sale of the plants. In the meantime the Company continued to retain legal title to the plants. GPS did not pay by 4 March 2013 however on 12 April the Group reached an agreement concerning the purchase of two gas processing plants by GPS for the sum of $29.5 million. The sale completed on 18 April 2013 following receipt in full by Cadogan of the agreed consideration. In accordance with the terms of the settlement documentation, the parties are now taking appropriate steps to dismiss the legal proceedings commenced in England against GPS and all other claims and liabilities have been released.

Notes to the Consolidated Financial Statements continued
For the year ended 31 December 2012

4. Critical accounting judgements and key sources of estimation uncertainty continued

(b) Impairment of E&E, PP&E and contingent consideration
IAS 36 *Impairment of Assets* and IFRS 6 *Exploration for and Evaluation of Mineral Resources* require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As a result of the negative results of the drilling and work over programme at Zagoryanska licence, the Directors believed it appropriate to assess the carrying value of the Group's PP&E assets for impairment as at 31 December 2012. The Group assessed the present value of the future cash flows attributable to the Group's PP&E assets as at 31 December 2012 using discounted cash flows method.

For PP&E assets the aggregate carrying value of each cash generating unit ('CGU') was compared against the expected recoverable amount of the related asset, by reference to the net present value of the future cash flows expected to be derived from the production of commercial Reserves (2P Reserves) of that unit. On this basis, an impairment of PP&E related to the Zagoryanska license of $66.0 million (2011: $nil) of which $47.1 million relates to the fair value uplift recognised in 2011 as the result of revaluation of non-controlling interest, with the respective decrease in the deferred tax liability of $7.1 million has been provided as at 31 December 2012 resulting in the impairment charge to profit and loss of $58.9 million. In addition $24.7 million ($35.0 million unrisked and undiscounted) of impairment has been charged to the profit and loss which represents the bonus from Eni on obtaining the production licence on Zagoryanska licence which formed part of the consideration on disposal of 60% in the Zagoryanska licence to Eni in 2011 (note 28).

The Group considers the whole of Ukraine to be one cost pool and therefore aggregates all Ukrainian assets for the purposes of determining whether impairment of E&E assets has occurred. E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include, but are not limited to, those situations outlined in paragraph 20 of IFRS 6 Exploration for and Evaluation of Mineral Resources and include the point at which a determination is made as to whether or not commercial Reserves exist. In 2012, the Group has performed significant volume of work which it continues in 2013, including the re-interpretation of the existing 3D seismic, in order to evaluate the remaining potential of the full Pokrovskoe licence.

The recoverable amounts are determined with reference to value-in-use calculations. The key assumptions for the value in use calculations are those regarding the production flow rates, discount rates, relevant elements of Ukraine fiscal regime for petroleum operators, and expected changes to selling prices and direct cost during the year. These assumptions reflect management's best estimates and have been revised in the year in light of the current economic environment which has resulted in more conservative estimates about the future. Management estimates discount rates that reflect the current market assessments of the time value of money and the risks specific to the CGUs. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The key assumptions used to forecast cash flows from Ukraine operations are as follows:
- production flow rates confirmed by experienced in-house geologists and engineers, supported by report produced in 2009 by an independent reservoir engineer, Gaffney, Cline & Associates Ltd;
- pre-tax discount rate of 17.86 per cent (post-tax of 15 per cent);
- inclusion of relevant elements of Ukraine fiscal regime for petroleum operators (such as production and royalty tax relevant to each licence and future expected corporate income tax of 16 per cent);
- expected future selling prices based on current and anticipated market conditions for oil, condensate and gas;
- costs based on best estimates with consideration to previous experience and inflation; and
- cash flows projected up to 2033 depending on the field to which they relate and an assumption has been made that the relevant licences will be extended.

(c) Reserves
Commercial Reserves are proven and probable ('2P') oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable Reserves will be more than the amount estimated as proven and probable Reserves and a 50 per cent statistical probability that it will be less.

Commercial Reserves used in the calculation of depreciation and for impairment test purposes are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. Management base their estimate of oil and gas Reserves and Resources upon the Report provided by independent advisers.

(d) Recoverability of VAT
The Group has significant receivables from the State Budget of Ukraine relating to reimbursement of VAT arising on purchases of goods and services from external service and product providers. Although $2.8 million of Ukrainian VAT was recovered in the year to 31 December 2010, largely through a bond scheme initiated by the Government of Ukraine, the Directors consider that this scheme was one-off in nature. Management anticipates no significant cash settlements of receivables from the State Budget.

The Group therefore recognises recoverable VAT only to the extent that it is probable that VAT payable arising on the sales of gas production will be sufficient to offset the VAT due from the State within a reasonable period. Estimating the recoverability of VAT requires management to make an estimate of the future revenues in order to calculate amounts and timing of the VAT payable available for offset. The Group will continue to use an approach consistent with prior years by impairing Ukrainian VAT and recognising the recovery in the period it has been made. A cumulative provision of $20.6 million (2011: $18.2 million) against Ukrainian VAT receivable has thus been recognised as at 31 December 2012.

4. Critical accounting judgements and key sources of estimation uncertainty continued

(e) Accounting for the WGI transaction

As a consequence of the WGI transaction, outlined in note 28, 2 areas of significant judgement were identified by the Group, being the accounting treatment of the WGI transaction and the valuation of the Group's contribution of the two licenses to WGI. After considering the requirements per IAS 31 *Interest In Joint Ventures*, the Directors have deemed the criteria under this standard to have been met, and have therefore accounted for WGI as a joint venture, specifically a jointly controlled entity.

In accounting for the contribution of the licenses, the Group have applied IAS 31 and SIC Interpretation 13 – *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*, which states that any profit or loss arising on the contribution of non-monetary assets in exchange for an equity interest should be recognised to the extent they are attributable to the equity interests of the other venturers. Whilst the licenses contributed had a nil NBV in the books of the Group at the date of contribution, the associated fair value of the licenses contributed in return for the 15.0 per cent interest in WGI has been estimated at $6.4 million. The resultant profit recognised in the income statement is $5.4 million which represents the un-eliminated 84.9 per cent share of the gain on contribution of these licenses. The Group has accordingly recognised an intangible asset of $5.4 million as its share of the licenses.

5. Revenue

	2012 $'000	2011 $'000
Sale of hydrocarbons	**5,653**	6,981
Investment revenue (note 12)	**128**	155
	5,781	7,136

Information about major customers

Included in revenues for the year ended 31 December 2012 are revenues of $3.8 million (2011: $5.0 million) which arose from sales to the Group's largest customer, which is the only customer that individually accounts for more than 10 per cent of the Group's revenues.

6. Other operating (expenses)/income

	2012 $'000	2011 $'000
Out of court settlements	**597**	2,144
Transactions with JV partner	**81**	–
Net foreign exchange (losses)/gains	**(3,618)**	2,408
	(2,940)	4,552

Out-of-court settlements in the amount of $0.6 million includes recovery of $0.5 million from a supplier who had received prepayment in 2008 and not supplied the goods.

Net foreign exchange loss of $3.6 million mainly relates to the revaluation of the USD-denominated monetary assets of the Group's UK entities which have GBP as a functional currency.

7. Business and geographical segments

The Directors continue to consider there to be only one business segment, the exploration and development of oil and gas revenues and only one geographical segment, being Ukraine.

8. Impairment

	2012 $'000	2011 $'000
Impairment of oil and gas assets (note 17)	**(83,584)**	–
Inventories (note 20)	**(291)**	344
VAT recoverable (note 4(d))	**(2,393)**	(3,162)
Impairment of other assets	**(2,684)**	(2,818)

Total impairment of oil and gas assets of $83.6 million comprises of impairment of $66.0 million of PP&E with the respective decrease in the deferred tax liability of $7.1 million and $24.7 million ($35 million undiscounted) impairment of the bonus to be received from Eni on obtaining the production licence on Zagoryanska licence which formed part of the consideration on disposal of 60 per cent in the Zagoryanska licence to Eni in 2011 (note 28).

The carrying value of inventory as at 31 December 2012 and 2011 has been impaired to reduce it to net realisable value (see note 20). During 2012 the Group gross sales of inventory to third parties comprised $1.6 million (2011: $0.5 million).

During the year a net impairment of $2.4 million (2011: $3.2 million) in respect of Ukrainian VAT was provided which comprised VAT impairment on new programme capital expenditure and VAT recovery of historical balances through offset of VAT liabilities arising on sales.

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Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

9. (Loss)/Profit for the year

The (loss)/profit for the year has been arrived at after charging/(crediting):

	2012 $'000	2011 $'000
Depreciation of property, plant and equipment	**(1,967)**	(2,411)
Loss on disposal of property, plant and equipment	**(52)**	(13)
Impairment of other assets (note 8)	**(2,684)**	(2,818)
Impairment of oil and gas assets (note 8)	**(83,584)**	-
Staff costs	**(4,304)**	(4,587)
Net foreign exchange (losses)/gains	**(3,618)**	2,408

In addition to the depreciation of PP&E of $2.0 million (2011: $2.4 million) in the year ended 31 December 2012, depreciation of $0.5 million (2011: $0.7 million) was capitalised to E&E assets being depreciation of tangible assets used in E&E activities.

10. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2012 $'000	2011 $'000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**232**	186
Fees payable to the Company's auditor and their associates for other services to the Group:		
The audit of the Company's subsidiaries	**27**	32
Total audit fees	**259**	218
Non-audit fees		
Audit-related assurance services	**21**	53
– Taxation compliance services	**101**	72
– Other taxation advisory services	**-**	197
Non-audit fees	**122**	322

11. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2012 Number	2011 Number
Executive Directors	**2**	2
Other employees	**162**	128
	164	130
Total number of employees at 31 December	**164**	148

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	**5,893**	3,196
Loss of office	**-**	144
Other pension costs	**36**	123
Social security costs	**857**	749
Share-based payments	**-**	846
	6,786	5,058

Within wages and salaries $0.8 million (2011: $0.9 million) relates to amounts paid and accrued to executive Directors for services rendered.

Included within wages and salaries, is $0.4 million (2011: $0.4 million) capitalised to intangible E&E assets and $0.4 million (2011: $0.4 million) capitalised to development and production assets.

12. Investment revenue

	2012 $'000	2011 $'000
Interest on bank deposits	**128**	155

No additional investment revenue earned from loan and receivables (including cash and bank balances) have been recognised other than interest on bank deposits.

13. Finance income/(costs)

	2012 $'000	2011 $'000
Unwinding of discount on decommissioning provision (note 24)	**67**	(11)

No additional gains or losses have been recognised on financial liabilities measured at amortised cost. In 2012 inflation rate in Ukraine has decreased. That has positively influenced the discounting of decommissioning provision resulting in finance income of $67 thousand.

14. Tax

	2012 $'000	2011 $'000
Current tax	**122**	132
Deferred tax (note 22)	**130**	(605)
	252	(473)

The Group's operations are conducted primarily outside the UK. The most appropriate tax rate for the Group is therefore considered to be 21 per cent (2011: 23 per cent), the rate of profit tax in Ukraine which is the primary source of revenue for the Group. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The taxation charge/(credit) for the year can be reconciled to the (loss)/profit per the income statement as follows:

	2012 $'000	2012 %	2011 $'000	2011 %
(Loss)/Profit before tax				
Continuing operations	**(92,883)**	**100%**	152,607	100
Tax (credit)/charge at Ukraine corporation tax rate of 21% (2011: 23%)	**(19,505)**	**21**	35,100	23.0
Permanent differences	**18,499**	**(20)**	(34,987)	(22.9)
Foreign exchange on operating activities	**733**	**(0.8)**	(387)	(0.3)
Tax losses generated in the year not yet recognised	**798**	**(0.8)**	128	0.2
Other temporary differences	**57**	**(0.2)**	(566)	(0.4)
Utilisation of deferred tax asset not previously recognised on losses	**6**	**-**	136	0.1
Effect of different tax rates	**(336)**	**0.4**	103	0.1
Tax credit and effective tax rate for the year	**252**	**(0.4)**	(473)	(0.3)

15. (Loss)/Profit per Ordinary share

Basic profit per Ordinary share is calculated by dividing the net (loss)/profit for the year attributable to owners of the Company by the weighted average number of Ordinary shares outstanding during the year. The calculation of the basic and diluted profit per share is based on the following data:

(Loss)/Profit attributable to owners of the Company	2012 $'000	2011 $'000
(Loss)/Profit for the purposes of basic profit per share being net (loss)/profit attributable to owners of the Company	**(93,106)**	151,549

Number of shares	2012 Number '000	2011 Number '000
Weighted average number of Ordinary shares for the purposes of basic profit per share	**231,092**	231,092
Effect of dilutive potential ordinary shares:		
Options and warrants outstanding	**93**	95
Weighted average number of Ordinary shares for the purposes of diluted profit per share	**231,185**	231,187

	2012 cent	2011 cent
(Loss)/Profit per Ordinary share		
Basic	**(40.3)**	65.6
Diluted	**(40.3)**	65.6

Diluted loss (profit in 2011) per Ordinary share equals basic loss per Ordinary share as there is no dilutive effect from the outstanding share warrants.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

16. Intangible exploration and evaluation assets

Cost	$'000
At 1 January 2011	63,288
Additions	17,387
Acquisition of jointly-controlled entities (note 28)	49,181
Disposal of subsidiaries (note 28)	(33,955)
Change in estimate of decommissioning assets (note 24)	301
Disposals	(9)
Exchange differences	(280)
At 1 January 2012	95,913
Additions	6,745
Fair value of non-monetary assets contributed to jointly controlled entity (note 28)	5,454
Change in estimate of decommissioning assets (note 24)	(92)
Transfer to property, plant and equipment (note 17)	(38)
Disposals	(1)
Exchange differences	417
At 31 December 2012	**108,398**

Impairment	
At 1 January 2011	57,125
Disposal of subsidiaries (note 28)	(26,984)
Exchange differences	(258)
At 1 January 2012	29,941
Exchange differences	226
At 31 December 2012	**30,167**

Carrying amount	
At 31 December 2012	**78,231**
At 31 December 2011	65,972

Additions during the year include $0.4 million (2011: $0.5 million) of capitalised depreciation of development and production assets used in exploration and evaluation activities.

17. Property, plant and equipment

Cost	Other $'000	Development and production assets $'000	Total $'000
At 1 January 2011	3,524	67,435	70,959
Additions	465	4,645	5,110
Acquisition of jointly-controlled entities (note 28)	72	49,522	49,594
Disposal of subsidiaries (note 28)	(421)	(7,248)	(7,669)
Transfer between property, plant and equipment	(1)	1	–
Change in estimate of decommissioning assets (note 24)	–	107	107
Disposals	(439)	(811)	(1,250)
Exchange differences	(19)	(331)	(350)
At 1 January 2012	3,181	113,320	116,501
Additions	303	15,704	16,007
Transfer between property, plant and equipment	34	3	37
Change in estimate of decommissioning assets (note 24)	–	434	434
Disposals	(168)	(1,855)	(2,023)
Exchange differences	40	583	623
At 31 December 2012	**3,390**	**128,189**	**131,579**

Accumulated depreciation and impairment			
At 1 January 2011	1,802	15,234	17,036
Disposal of subsidiaries (note 28)	(313)	(1,955)	(2,268)
Charge for the year	583	2,513	3,096
Disposals	(365)	(279)	(644)
Exchange differences	(13)	(79)	(92)
At 1 January 2012	1,694	15,434	17,128
Impairment	–	66,017	66,017
Charge for the year	438	2,010	2,448
Disposals	(65)	(1,034)	(1,099)
Exchange differences	32	426	458
At 31 December 2012	**2,099**	**82,853**	**84,952**

Carrying amount			
At 31 December 2012	**1,291**	**45,336**	**46,627**
At 31 December 2011	1,487	97,886	99,373

Total impairment of oil and gas assets of $83.6 million comprises of impairment of $66.0 million of PP&E with the respective decrease in the deferred tax liability of $7.1 million and $24.7 million ($35.0 million undiscounted) impairment of the bonus to be received from Eni on obtaining the production licence on Zagoryanska licence which formed part of the consideration on disposal of 60 per cent in the Zagoryanska licence to Eni in 2011 (note 28).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

18. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2012, which principally affected the profits and net assets of the Group:

Name	Country of incorporation and operation	Proportion of voting interest %	Activity
Directly held			
Cadogan Petroleum Holdings Ltd	UK	100	Holding company
Ramet Holdings Ltd	Cyprus	100	Holding company
Indirectly held			
Rentoul Ltd	Isle of Man	100	Holding company
Cadogan Petroleum Holdings BV	Netherlands	100	Holding company
Cadogan Bitlyanske BV	Netherlands	100	Holding company
Cadogan Delta BV	Netherlands	100	Holding company
Cadogan Astro Energy BV	Netherlands	100	Holding company
Cadogan Pirkovskoe BV	Netherlands	100	Holding company
Momentum Enterprise (Europe) Ltd	Cyprus	100	Holding company
Cadogan Ukraine Holdings Limited	Cyprus	100	Holding company
Cadogan Momentum Holdings Inc	Canada	100	Holding company
USENCO International Inc.	USA	100	Holding company
Radley Investments Ltd	UK	100	Holding company
LLC AstroInvest -Ukraine	Ukraine	100	Exploration
LLC Astro Gas	Ukraine	100	Exploration
DP USENCO Ukraine	Ukraine	100	Exploration
LLC USENCO Nadra	Ukraine	95	Exploration
JV Delta	Ukraine	100	Exploration
LLC Astro-Service	Ukraine	100	Service Company
OJSC AgroNaftoGasTechService	Ukraine	79.9	Construction services
LLC Cadogan Ukraine	Ukraine	100	Corporate services

During the year ended 31 December 2012, the Group structure continued to be rationalised both so as to reduce the number of legal entities inside Ukraine and also to replace the structure of multiple jurisdictions with one based on a series of sub-holding companies incorporated in the Netherlands for each licence area.

19. Jointly controlled entities

The Group holds the following interests in jointly controlled entities in 2012:

Name	Country of incorporation and operation	Ownership share %	Activity
LLC Westgasinvest	Ukraine	15	Exploration
LLC Industrial Company Gazvydobuvannya	Ukraine	70	Exploration
LLC Astroinvest-Energy	Ukraine	40	Exploration
Pokrovskoe Petroleum BV	Netherlands	70	Holding company
Zagoryanska Petroleum BV	Netherlands	40	Holding company

According to the shareholders' agreements, which regulate activities of jointly controlled entities, all key decisions require unanimous approval from the shareholders, therefore these entities are jointly controlled.

19. Jointly controlled entities continued

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation as at 31 December 2012 and 2011:

	2012 $'000	2011 $'000
Intangible exploration and evaluation assets	**69,532**	63,788
Property, plant and equipment	**435**	54,206
Non-current assets	**69,967**	117,994
Inventories	**1,686**	2,795
Trade and other receivables	**714**	3,612
Cash and cash equivalents	**1,927**	745
Current assets	**4,327**	7,152
Deferred tax liabilities	**(4,045)**	(11,543)
Long-term provisions	**(195)**	(155)
Non-current liabilities	**(4,240)**	(11,698)
Trade and other payables	**(3,637)**	(3,958)
Current provisions	**(486)**	(388)
Current liabilities	**(4,123)**	(4,346)
Net assets	**65,931**	109,102

	2012 $'000	2011[1] $'000
Revenue	**1,885**	1,591
Cost of sales	**(991)**	(1,245)
Other administrative expenses	**(1,019)**	(691)
Impairment of other assets	**(3,293)**	(3,250)
Impairment of property, plant and equipment (note 4(b))	**(18,365)**	-
Investment revenue	**10**	15
Finance income/(costs)	**62**	(2)
Loss for the period	**(21,711)**	(3,582)
Other comprehensive loss	**(206)**	(402)
	(21,917)	(3,984)

1 2011 figures are shown for the period from 6 July to 31 December.

20. Inventories

	2012 $'000	2011 $'000
Cost	**6,309**	8,476
Impairment provision	**(1,132)**	(1,920)
Carrying amount	**5,177**	6,556

The impairment provision as at 31 December 2012 and 2011 is made so as to reduce the carrying value of the inventories to net realisable value.

21. Other financial assets

Trade and other receivables

	2012 $'000	2011 $'000
Other receivables	**34,594**	61,816
VAT recoverable	**88**	127
Prepayments	**855**	4,308
	35,537	66,251

All sales are made on a prepayment basis, so there are no trade debtors.

Out of $34.6 million of other receivables $30.0 million as at 31 December 2012 (2011: $30.0 million) represent receivables from the settlement agreement with GPS (note 4(a)). In 2011 the Group recognised in other receivables the bonus to be received from Eni for the receiving production licence on Zagoryanska licence in the amount of $35 million discounted to $24.7 million. As a result of the negative results of the drilling and work over programme at Zagoryanska licence the probability of receiving the bonus has decreased which resulted in full provision of the amount as at 31 December 2012.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

21. Other financial assets continued

VAT recoverable of $0.1 million (2011: $0.1 million) relates to the UK VAT recoverable.

$0.9 million prepayments (2011: $4.3 million) mostly relate to prepayments made to drilling contractors in Ukraine and long lead materials for the drilling and work over campaign.

The Directors consider that the carrying amount of the remaining other receivables approximates their fair value and none of which are past due except for the amounts due from GPS which were settled in April 2013 (see note 4(a)).

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2012 of $42.4 million (2011: $65.0 million) comprise cash held by the Group and the Company. The Directors consider that the carrying amount of these assets approximates to their fair value.

22. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period:

	Temporary differences $'000
Liability as at 1 January 2011	982
Acquisition of jointly-controlled entities (note 28)	11,153
Deferred tax credit	(605)
Exchange differences	8
Liability as at 1 January 2012	11,538
Impairment of property, plant and equipment (note 17)	(7,108)
Deferred tax expense	130
Exchange differences	(7)
Liability as at 31 December 2012	**4,553**

At 31 December 2012, temporary differences of $6.3 million (2011: $6.0 million) existed in respect of foreign exchange gains arising on net investments in foreign subsidiaries for which deferred tax liabilities have not been recognised. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2012, the Group had the following unused tax losses available for offset against future taxable profits:

	2012 $'000	2011 $'000
UK	**9,486**	5,557
Ukraine	**69,628**	66,410
	79,114	71,967

Deferred tax assets have not been recognised in respect of these tax losses owing to the uncertainty that profits will be available in future periods against which they can be utilised.

The Group's unused tax losses of $9.5 million (2011: $5.6 million) relating to losses incurred in the UK are available to shelter future non-trading profits arising within Cadogan Petroleum plc. These losses are not subject to a time restriction on expiry.

Unused tax losses incurred by Ukraine subsidiaries amount to $69.6 million (2011: $66.4 million). Under general provisions, these losses may be carried forward indefinitely to be offset against any type of taxable income arising from the same company of origination. Tax losses may not be surrendered from one Ukraine subsidiary to another. However, in the past, Ukrainian legislation has been imposed which restricted the carry forward of tax losses. During 2011 a new tax legislation in Ukraine was implemented which resulted in the restriction to recognition of accumulated losses at 1 April 2011. Starting 1 January 2012 only 25 per cent of accumulated losses as at this date are allowed to be utilised each year for the period from 2012 till 2015 in the calculation of taxable income of the Company. Tax losses accumulated after 1 January 2012 have no restrictions.

There are further temporary differences arising on assets in Ukraine for which deferred tax assets of $8.3 million (2011: $6.3 million) have not been recognised due to the uncertainty of future recovery.

23. Other financial liabilities
Trade and other payables

	2012 $'000	2011 $'000
Trade creditors	**5,206**	3,877
Other taxes and social security	**31**	18
Other creditors and payables	**171**	258
Accruals	**2,385**	3,399
	7,793	7,552

Trade creditors and accruals principally comprise amounts outstanding for capital work programme purchases and ongoing costs. The average credit period taken for trade purchases is 55 days (2011: 62 days). The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. No interest is generally charged on balances outstanding.

24. Provisions

	Decommissioning $'000	Other $'000	Total $'000
At 1 January 2011	875	19	894
Change in estimate (note 16 and 17)	408	–	408
Utilisation of provision	–	(19)	(19)
Unwinding of discount on decommissioning provision (note 13)	11	–	11
Disposal of subsidiaries (note 28)	(588)	–	(588)
Acquisition of jointly-controlled entities (note 28)	367	–	367
Exchange differences	(1)	–	(1)
At 1 January 2012	1,072	–	1,072
Change in estimate (note 16 and 17)	342	–	342
Unwinding of discount on decommissioning provision (note 13)	(67)	–	(67)
Exchange differences	6	–	6
At 31 December 2012	**1,353**	**–**	**1,353**
At 1 January 2011	875	19	894
Included in long-term provisions	548	–	548
Included in current provisions	524	–	524
At 1 January 2012	1,072	–	1,072
Included in long-term provisions	414	–	414
Included in current provisions	939	–	939
At 31 December 2012	**1,353**	**–**	**1,353**

In accordance with the Group's environmental policy and applicable legal requirements, the Group intends to restore the sites it is working on after completing exploration or development activities.

A short-term provision of $0.9 million (2011: $0.5 million) has been made for decommissioning costs, which are expected to be incurred within the next year as a result of the demobilisation of drilling equipment and respective site restoration.

The long-term provision recognised in respect of decommissioning reflects management's estimate of the net present value of the Group's share of the expenditure expected to be incurred in this respect. This amount has been recognised as a provision at its net present value, using a discount rate that reflects the market assessment of time value of money at that date, and the unwinding of the discount on the provision has been charged to the income statement. These expenditures are expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the facilities currently in place (currently estimated to be between one and 17 years). The effect of discounting on provisions would be immaterial.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

25. Share capital

Authorised and issued equity share capital

	2012 Number '000	2012 $'000	2011 Number '000	2011 $'000
Authorised				
Ordinary shares of £0.03 each	**1,000,000**	**57,713**	1,000,000	57,713
Issued				
Ordinary shares of £0.03 each	**231,092**	**13,337**	231,092	13,337

Authorised but unissued share capital of £30 million has been translated into US dollars at the average exchange rate of the issued share capital.

The Company has one class of Ordinary shares which carry no right to fixed income.

Issued equity share capital

	Ordinary shares of £0.03 Number
At 31 December 2011 and 2012	**231,091,734**

26. Share-based payments

Equity-settled share-based payments

Under the terms of an agreement dated 17 February 2006, which was subsequently updated on 20 September 2006 and 8 May 2007, the Company's then broker and financial adviser Fox-Davies Capital ('Fox-Davies') were granted 5.1 million warrant rights, to be exercisable at an average price of £0.82 and £1.23 and to be exercisable at any time within the five year period following completion of the placing. In 2012 $1.0 million (2011: $0.2 million) previously recognised in other reserves in respect of equity-settled share-based payments (2012 3.6 million, 2011: 1.0 million warrant rights) that have expired during the year were transferred to retained earnings from other reserves. As at 31 December 2012, there were 541,040 outstanding share warrants, exercisable at the subscription price of £1.23.

Equity-settled share option scheme

The Company has two Share Option schemes, the 2007 and 2008 Share Option Plans, under which options to subscribe for the Company's shares have been granted to certain Executive Directors and employees of the Group. Options are exercisable at various prices and vest on achieving certain performance criteria. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the Executive Director or employee leaves the Group before the options vest. All 2007 share option plans have been restated to Ordinary shares of £0.03.

Details of the share options outstanding at the end of the year were as follows:

	2007 Share Option Plan		2008 Share Option Plan		Total	
	Number of share options '000	Weighted Average price £	Number of share options '000	Weighted average price £	Number of share options '000	Weighted average price £
Outstanding at 1 January 2011	–	–	–	–	–	–
Granted during the year	–	–	1,943	0.35	1,943	0.35
Outstanding at 1 January 2012	–	–	1,943	0.35	1,943	0.35
Lapsed during the year	–	–	(1,943)	(0.35)	(1,943)	(0.35)
Outstanding at 31 December 2012	**–**	**–**	**–**	**–**	**–**	**–**
Exercisable at						
1 January 2011	–	–	–	–	–	–
1 January 2012	–	–	1,943	0.35	1,943	0.35
31 December 2012	–	–	–	–	–	–

No share options were exercised during the year (2011: nil). Options were granted under the 2007 Share Option Plan on 11 September 2007 and 19 February 2008, and under the 2008 Share Option Plan, on 9 October 2008 and 3 February 2011.

The options were split into three tranches with each tranche subject to certain performance conditions. Only the below tranches were outstanding either as at 31 December 2011 and 2012.

Under the 2007 Share Option Plan, options vest immediately upon grant date.

26. Share-based payments continued

Under the 2008 Share Option Plan, granted in 2011, options vest (but do not become exercisable) if and when the share price of an Ordinary share in the Company achieves a mid-market closing price of not less than 50 pence over a continuous period of ten trading days during the period from the Grant Date of the Option and ending on 3 February 2014. Trading days means the days on which the London Stock Exchange is open for business. The Option shall become exercisable, but only to the extent vested, on 3 February 2014. No options were outstanding at 31 December 2012.

The fair values of the options have been calculated using the following models:

- 2007 Share Option – not subject to any market-based performance conditions, and therefore the Black-Scholes model has been used.
- 2008 Share Option – market-based performance conditions must be included in the calculation of fair value and therefore the Stochastic and Binomial model has been considered the most appropriate.

The inputs into the models were as follows:

	2007 Share Option Plan	2008 Share Option Plan
	Black-Scholes	Binomial
Year of grant	2007	2011
Weighted average share price (£)	1.23	0.35
Weighted average exercise price (£)	0.82	0.35
Expected volatility (%)	55	70.0
Expected term (years)	2.5	10
Risk free rate (%)	4.99	3.88
Expected dividend yield (%)	–	–

As the Company has listed shares, the expected volatility was determined by considering the historical volatility of other similar entities. Similar entities have been chosen as the FTSE AIM Oil & Exploration constituents (with a market capitalisation of greater than £100 million) for the 2007 Share Option Plan and the FTSE All Share Oil & Exploration sector (with a market capitalisation between £40 million and £500 million) for the 2008 Share Option Plan at the grant date.

The exercise price was established in accordance with the terms included within the share option scheme.

The aggregate of the estimated fair values of the options granted under the two share option plans at 31 December 2012 is $nil (2011: $0.8 million), all related to 2008 Share Option. Due to certain employees and Directors resigning from their duties to the Company in 2009, share options granted under Option Tranche 1 were forfeited in 2010.

27. Notes to the cash flow statement

	2012 $'000	2011 $'000
Operating (loss)/profit	**(93,078)**	152,463
Adjustments for:		
Depreciation of property, plant and equipment	**1,967**	2,411
Impairment of oil and gas assets (note 8)	**83,584**	–
Share-based payment charge (note 26)	**-**	846
Gain on acquisition of jointly controlled entity disposal of subsidiaries (note 28)	**(5,454)**	(164,945)
Other losses (note 28)	**-**	3,299
Impairment of inventories (note 8)	**291**	(344)
Impairment of VAT recoverable (note 8)	**2,393**	3,162
Loss on disposal of property, plant and equipment	**52**	13
Effect of foreign exchange rate changes	**4,014**	(1,691)
Operating cash flows before movements in working capital	**(6,231)**	(4,786)
Decrease/(Increase) in inventories	**1,269**	(2,563)
Increase in receivables	**(766)**	(3,027)
Increase in payables and provisions	**241**	1,589
Decrease in restricted cash	**-**	1,035
Cash used in operations	**(5,487)**	(7,752)
Income taxes paid	**(122)**	(133)
Net cash outflow from operating activities	**(5,609)**	(7,885)

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28. Disposal of subsidiaries and acquisition of jointly-controlled entities

2012 transactions: LLC Westgasinvest

In February 2012 the Group set up a joint venture LLC Westgasinvest ('WGI') with a Ukrainian state-owned company, NAK Nadra Ukrainy. As part of the transaction the Group contributed two unconventional licenses, the Debeslavetske production license and the Debeslavetske exploration license to WGI, while keeping all the economic benefit from the existing conventional activities on these licenses.

Whilst the licenses contributed had a nil NBV in the books of the Group at the date of contribution, the associated fair value of the licenses contributed in return for the 15 per cent interest in WGI has been estimated at $6.4 million. The resultant profit recognised in the income statement is $5.4 million which represents the un-eliminated 85 per cent share of the gain on contribution of these licenses. The Group has accordingly recognised an intangible asset of $5.4 million.

The Group's resultant equity holding, post this transaction was 15.0 per cent, with Nadra owning the remaining 84.9 per cent.

On 3 October 2012 50.01 per cent of ownership in WGI was sold by Nadra and Cadogan to ENI completing the current ownership structure of WGI.

2011 transactions: Eni

On 6 July 2011 the Group completed the transaction with Eni, selling a 30 per cent interest in the share capital of Pokrovskoe Petroleum BV (the parent company of the holder of the Pokrovskoe licence), and a 60 per cent interest in the share capital of Zagoryanska Petroleum BV (the parent company of the holder of the Zagoryanska licence). Both licences relate to the Group's operations in eastern Ukraine.

The consideration received comprised a cash payment of $38.1 million for its interest in Zagoryanska Petroleum BV and $0.2 million as the working capital adjustment for both the Zagoryanska and Pokrovskoe licences. Eni is also committed to finance the Pokrovskoe appraisal work programme to an amount of up to $36 million (including VAT).

Under the terms of the sale and purchase agreement and subject to successful results from the Pokrovskoe appraisal work programme, Eni also had the option under the agreement to acquire a further 30 per cent of Pokrovskoe Petroleum BV for an additional payment of $40 million (the 'Pok Option'). Eni was also committed to pay additional amounts of $15 million and $35 million (the 'Contingent Consideration') should the Group successfully acquire production licences on each of the Pokrovskoe and Zagoryanska fields respectively. The Pokrovskoe Contingent Consideration was only payable if the Pok Option is exercised.

A total gain on disposal of $165.0 million was recognised in profit and loss in 2011 relating to the above transaction.

In March 2012, Eni informed the Group that they will not exercise the Pok Option. The exercise of the option was a pre-requisite for the contingent payment of $15.0 million on obtaining the Pokrovskoe production license. In addition, in light of the results of the drilling and work over campaign on the Zagoryanska license in 2012 the probability of obtaining the production license on Zagoryanskoe field and receiving a contingent payment of $35.0 million ($24.7 million risked and discounted) has significantly decreased and therefore the receivable has been impaired in full as at 31 December 2012.

29. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while maximising the return to shareholders.

The capital resources of the Group consists of cash and cash equivalents arising from equity attributable to owners of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the Consolidated Financial Statements.

Categories of financial instruments

	2012 $'000	2011 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**42,404**	65,039
Other receivables (current and non-current)	**34,594**	61,816
	76,998	126,855
Financial liabilities – measured at amortised cost		
Trade creditors	**5,206**	3,877
Other creditors and payables	**171**	258
	5,377	4,135

29. Financial instruments continued

Financial risk management objectives

Management provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group in Ukraine through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include commodity price risks, foreign currency risk, credit risk, liquidity risk and cash flow interest rate risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

As the Group has no committed borrowings, the Group is not exposed to any significant risks associated with fluctuations in interest rates on loans. A five per cent fluctuation in interest rates applied to cash balances held at the balance sheet date would impact the Group by approximately $2.1 million (2011: $3.3 million) over a twelve month period.

The Audit Committee of the Board reviews and monitors risks faced by the Group through meetings held throughout the year.

Commodity price risk

The commodity price risk related to Ukrainian gas and condensate prices and, to a lesser extent, prices for crude oil are the Group's most significant market risk exposures. World prices for gas and crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments, including actions taken by the Organisation of Petroleum Exporting Countries.

These fluctuations may have a significant effect on the Group's revenues and operating profits going forward. The principal factor in the current Ukrainian gas price is bilateral negotiations with Gazprom to establish the price of gas imports from Russia. The price for Ukrainian gas is based on the current price of these gas imports from Russia, which are nonetheless influenced by world prices. Management continues to expect that the Group's principal market for gas will be the Ukrainian domestic market.

The Group does not hedge market risk resulting from fluctuations in gas, condensate and oil prices, and holds no financial instruments which are sensitive to commodity price risk.

Foreign exchange risk and foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group to date has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
US dollars ('$')	**162**	106	**68,297**	116,533

Foreign currency sensitivity analysis

The Group is exposed primarily to movements in currencies against the US dollar as this is the presentation currency of the Group. In order to fund operations, US dollar funds are converted to UAH just before being contributed to the Ukrainian subsidiaries. Sensitivity analyses have been performed to indicate how the profit or loss would have been affected by changes in the exchange rate between the GBP and US dollar. The analysis is based on a weakening of the US dollar by ten per cent against GBP, a functional currency in the entities of the Group which have significant monetary assets and liabilities at the end of each respective period. A movement of ten per cent reflects a reasonably possible sensitivity when compared to historical movements over a three to five year timeframe. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a ten per cent change in foreign currency rates.

A number below indicates a decrease in profit where US dollar strengthens ten per cent against the other currencies. For a ten per cent weakening of the US dollar against the other currencies, there would be an equal and opposite impact on the profit or loss, and the balances would be negative.

The Group is not exposed to significant foreign currency risk in other currencies.

Inflation risk management

The following table details the Group's sensitivity to a ten per cent decrease in the US dollar against the GBP.

	2012 $'000	2011 $'000
Income statement	**(8,791)**	(10,987)

Inflation in Ukraine and in the international market for oil and gas may affect the Group's cost for equipment and supplies. The Directors expect that the Group's practices of keeping deposits in US dollar accounts until funds are needed and selling its production in the spot market, coupled with the linkage of the currency in Ukraine to the US dollar, to enable the Group to manage the risk of inflation.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2012

29. Financial instruments continued

Credit risk management

The credit risk on other receivables due from GPS is mostly mitigated as the Company maintains title of the assets throughout the settlement period (refer to note 4(a)).

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not have any significant credit risk exposure on trade receivables as the normal terms for sales of gas and condensate to the Group's customers require payment before delivery.

The Group makes allowances for impairment of receivables where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings, assigned by international credit-rating agencies in the UK and Ukraine respectively.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows.

The following tables set out details of the expected contractual maturity of financial liabilities.

	Within 3 months $'000	3 months to 1 year $'000	More than 1 year $'000
At 31 December 2012	7,322	471	–
Trade and other payables	7,322	471	–
At 31 December 2011	7,552	–	–
Trade and other payables	7,552	–	–

30. Commitments and contingencies

Joint activity agreements

The Group has working interests in nine licences for the conduct of its exploration and development activities within Ukraine. Each licence is held with the obligation to fulfil a minimum set of exploration activities within its term and is summarised on an annual basis, including the agreed minimum amount forecasted expenditure to fulfil those obligations. The activities and proposed expenditure levels are agreed with the government licensing authority.

The required future financing of exploration and development work on fields under the licence obligations are as follow:

	2012 $'000	2011 $'000
Within one year	**18,717**	7,440
Between two and five years	**27,601**	44,469
	46,318	51,909

Licence obligations within one year amounting to $18.7 million include $13.4 million related to Pirkovskoe licence. The Group currently is in the process of negotiating decrease in the work programme activities with the licensing authorities.

31. Related party transactions

All transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures.* Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 29 to 31.

	Purchase of services		Amounts owing	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Short-term employee benefits	**1,048**	852	**973**	476
Share-based payments	**(695)**	695	**-**	-
	353	1,547	**973**	476

The total remuneration of the highest paid Director was $0.4 million in the year (2011: $0.5 million).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received and no provisions have been made for doubtful debts in respect of the amounts owed by related parties.

32. Events after the balance sheet date

GPS

During February 2013 the High Court in London awarded judgment in favour of the Group in the sum of just over US$21,000,000 inclusive of interest (the 'Judgment Debt'), to be paid by 4 March 2013. GPS' counterclaim for the sum of approximately US$7,500,000 million was dismissed. At the request of the Group, a decision by the Court on further damages estimated at approximately up to US$10,500,000 was adjourned pending sale of the plants. In the meantime the Company continued to retain legal title to the plants. GPS did not pay by 4 March 2013 however on 12 April the Group reached an agreement concerning the purchase of the two gas processing plants by GPS for the sum of $29.5 million. The sale completed on 18 April 2013 following receipt in full by Cadogan of the agreed consideration. In accordance with the terms of the settlement documentation, the parties are now taking appropriate steps to dismiss the legal proceedings commenced in England against GPS and all other claims and liabilities have been released.

Company Balance Sheet
As at 31 December 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Non-current assets			
Investments	35	**-**	-
Receivables from subsidiaries	36	**97,289**	95,091
		97,289	95,091
Current assets			
Trade and other receivables	36	**102**	63
Cash and cash equivalents	36	**32,092**	30,856
		32,194	30,919
Total assets		**129,483**	126,010
LIABILITIES			
Current liabilities			
Trade and other payables	37	**(1,290)**	(666)
		(1,290)	(666)
Total liabilities		**(1,290)**	(666)
Net assets		**128,193**	125,344
EQUITY			
Share capital	38	**13,337**	13,337
Retained earnings		**212,497**	212,428
Cumulative translation reserves	39	**(97,734)**	(102,176)
Share-based payment reserve	40	**93**	1,755
Total equity		**128,193**	125,344

The financial statements of Cadogan Petroleum plc, registered in England and Wales no. 5718406, were approved by the Board of Directors and authorised for issue on 24 April 2013.

They were signed on its behalf by:

Bertrand des Pallieres
Chief Executive Officer
24 April 2013

The notes on pages 67 to 69 form part of these financial statements.

Company Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 $'000	2011 $'000
Net cash outflow from operating activities	41	**(1,007)**	(1,965)
Investing activities			
Interest received		**13**	32
Settlement received		**1,070**	–
Loans to subsidiary companies		**(1,037)**	16,953
Net cash from investing activities		**46**	16,985
Net (decrease)/increase in cash and cash equivalents		**(961)**	15,020
Effect of foreign exchange rate changes		**2,197**	(30)
Cash and cash equivalents at beginning of year		**30,856**	15,865
Cash and cash equivalents at end of year		**32,092**	30,856

Company Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital $'000	Retained earnings $'000	Cumulative translation reserves $'000	Share-based payment reserve $'000	Total $'000
As at 1 January 2011	13,337	214,970	(102,146)	1,131	127,292
Share-based payment (note 40)	–	222	–	624	846
Net loss for the year	–	(2,764)	–	–	(2,764)
Exchange translation differences	–	–	(30)	–	(30)
As at 1 January 2012	13,337	212,428	(102,176)	1,755	125,344
Share-based payment (note 40)	–	1,662	–	(1,662)	–
Net loss for the year	–	(1,593)	–	–	(1,593)
Exchange translation differences	–	–	4,442	–	4,442
As at 31 December 2012	**13,337**	**212,497**	**(97,734)**	**93**	**128,193**

Notes to the Company Financial Statements
For the year ended 31 December 2012

33. Significant accounting policies
The separate financial statements of the Company are presented as required by the Companies Act 2006 (the 'Act'). As permitted by the Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 3 to the Consolidated Financial Statements except as noted below.

As permitted by section 408 of the Act, the Company has elected not to present its profit and loss account for the year. Cadogan Petroleum plc reports a loss for the financial year ended 31 December 2012 of $1.6 million (2011: $2.8 million).

Investments
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

Critical accounting judgements and key sources of estimation uncertainty
The Company's financial statements, and in particular its investments in and receivables from subsidiaries, are affected by certain of the critical accounting judgements and key sources of estimation uncertainty described in note 4 to the Consolidated Financial Statements.

34. Auditor's remuneration
The auditor's remuneration for audit and other services is disclosed in note 10 to the Consolidated Financial Statements.

35. Investments
The Company's subsidiaries are disclosed in note 18 to the Consolidated Financial Statements. The investments in subsidiaries are all initially stated at cost. As a result of significant impairment losses provided by the Group in 2009 the carrying value of the Company's investments in Ukraine subsidiaries were reassessed for recoverable value. No additional investments were made directly by the Company during 2011 and 2012.

36. Financial assets
Receivables from subsidiaries
At the balance sheet date gross amounts receivable from the fellow Group companies were $363.0 million (2011: $349.1 million). No impairment was recognised in 2011 or 2012. The carrying value of the receivables from the fellow Group companies as at 31 December 2012 was $97.3 million (2011: $95.1 million). There are no past due receivables.

Trade and other receivables

	2012 $'000	2011 $'000
Other receivables	**30**	7
VAT recoverable	**-**	43
Prepayments	**71**	13
	101	63

The Company's principal financial assets are bank balances and cash and cash equivalents and receivables from related parties none of which are past due. The Directors consider that the carrying amount of receivables from related parties approximates to their fair value.

Cash and cash equivalents
Cash and cash equivalents comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value.

37. Financial liabilities
Trade and other payables

	2012 $'000	2011 $'000
Trade creditors	**321**	299
Other creditors and payables	**969**	367
	1,290	666

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 42 days (2011: 53 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. No interest is charged on balances outstanding.

38. Share capital
The Company's share capital is disclosed in note 25 to the Consolidated Financial Statements.

Notes to the Company Financial Statements continued

For the year ended 31 December 2012

39. Cumulative translation reserve

The functional currency of the Company is pounds sterling. The financial statements of the Company are expressed in US dollars, which is its presentation currency. Cumulative translation reserve represents the effect of translating into US dollars the results and financial position of the Company.

40. Share-based payments

The Company's share-based payments information is disclosed in note 26 to the Consolidated Financial Statements.

41. Notes to the cash flow statement

	2012 $'000	2011 $'000
Operating loss from continuing operations	**(1,593)**	(2,796)
Adjustments for:		
Share-based payments	**-**	846
Operating cash flows before movements in working capital	**(1,593)**	(1,950)
(Increase) in receivables	**(38)**	(4)
Increase/(Decrease) in payables	**624**	(11)
Cash used in operations	**(1,007)**	(1,965)
Income taxes paid	**-**	-
Net cash outflow from continuing operations	**(1,007)**	(1,965)

42. Financial instruments

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to shareholders. Refer to note 29 for the Group's overall strategy and financial risk management objectives.

The capital resources of the Group consists of cash and cash equivalents arising from equity, comprising issued capital, reserves and retained earnings.

Categories of financial instruments

	2012 $'000	2011 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**32,092**	30,856
Amounts due from subsidiaries	**97,289**	95,091
	129,381	125,947
Financial liabilities – measured at amortised cost		
Trade creditors	**(321)**	(299)
	(321)	(299)

Interest rate risk

All financial liabilities held by the Company are non-interest bearing. As the Company has no committed borrowings, the Company is not exposed to any significant risks associated with fluctuations in interest rates. A five per cent fluctuation in interest rates applied to cash balances held at the balance sheet date would impact the Company by approximately $1.6 million (2011: $1.5 million) over a twelve month period.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. For cash and cash equivalents, the Company only transacts with entities that are rated the equivalent to investment grade and above. Other financial assets consist of amounts receivable from related parties.

The Company's credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the Company financial statements, which is net of any impairment losses, represents the Company's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company maintains adequate reserves, by continuously monitoring forecast and actual cash flows.

The Company's financial liabilities are not significant and therefore no maturity analysis has been presented.

42. Financial instruments continued

Foreign exchange risk and foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Company holds a large portion of its foreign currency denominated monetary assets and monetary liabilities in US dollars. More information on the foreign exchange risk and foreign currency risk management is disclosed in note 29 to the Consolidated Financial Statements.

43. Related parties

Amounts due from subsidiaries

The Company has entered into a number of unsecured related party transactions with its subsidiary undertakings. The most significant transactions carried out between the Company and its subsidiary undertakings are mainly for short and long-term financing. Amounts owed from these entities are detailed below:

	2012 $'000	2011 $'000
Cadogan Petroleum Holdings Limited	**97,289**	95,091
	97,289	95,091

Refer to note 36 for a discussion on the Company's receivables due from subsidiaries.

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 29 to 31.

	Purchase of services		Amounts owing	
	2012 $'000	2011 $'000	**2012 $'000**	2011 $'000
Short-term employee benefits	**296**	852	**476**	224
Share-based payments	**–**	695	**–**	–
	296	1,547	**476**	224

The total remuneration of the highest paid Director was $0.4 million in the year (2011: $0.5 million).

44. Events after the balance sheet date

Events after the balance sheet date are disclosed in note 32 to the Consolidated Financial Statements.

Notice of Annual General Meeting

This document is important and requires your immediate attention
If you are in any doubt as to the action you should take, you are recommended to seek your own personal finance advice immediately from your stockbroker, bank manager, fund manager, solicitor, accountant or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all of your shares in Cadogan Petroleum plc, please send this document and the accompanying documents to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice of Annual General Meeting
NOTICE IS HEREBY GIVEN that the Annual General Meeting (the 'AGM') of Cadogan Petroleum plc (the 'Company') will be held at Chandos House, 2 Queen Anne Street, London W1G 9LQ on Thursday 27 June 2013 at 10.30am to consider the following resolutions, of which resolutions 1 to 10 will be proposed as ordinary resolutions and resolutions 11 to 14 as special resolutions.

1. To receive the Annual Financial Report of the Company for the financial year ended 31 December 2012.

2. To approve the Directors' Remuneration Report contained in the Annual Financial Report for the financial year ended 31 December 2012.

3. To re-elect Zev Furst as a Director of the Company.

4. To re-elect Gilbert Lehmann as a Director of the Company.

5. To re-elect Enrico Testa as a Director of the Company.

6. To re-elect Bertrand des Pallieres as a Director of the Company.

7. To re-elect Adelmo Schenato as a Director of the Company.

8. To re-appoint Deloitte LLP as auditors of the Company to hold office from the conclusion of this AGM until the conclusion of the next meeting at which the Annual Financial Report is laid before the Company.

9. To authorise the Directors to determine the remuneration of the auditors.

10. That the Directors be and are hereby generally and unconditionally authorised, in substitution for any such existing authority, for the purposes of section 551 of the Companies Act 2006 (the 'Act') to exercise any power of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company ('Rights'):
    (a) up to an aggregate nominal amount of £2,310,917, including within such limit the aggregate nominal amount of any shares allotted and Rights granted under paragraph (b) below in excess of £2,310,917; and
    (b) comprising equity securities (as defined in section 560(1) of the Act) up to an aggregate nominal amount of £4,621,834, including within such limit the aggregate nominal amount of any shares allotted and Rights granted under paragraph (a) above, in connection with an offer by way of a rights issue:
        (i) to Ordinary shareholders in proportion (as nearly as may be practicable) to their respective existing holdings; and
        (ii) to holders of other equity securities (as defined in section 560(1) of the Act) as required by the rights of those securities or as the Directors otherwise consider necessary,

        and so that the Directors may impose limits or restrictions and make arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any jurisdiction or other matter,

    such authority to apply until the earlier of the conclusion of the Company's next Annual General Meeting and 30 June 2014 but, in each case, so that the Company may make offers and enter into agreements during the relevant period which would, or might, require shares to be allotted or Rights to be granted after the authority expires and the Directors may allot shares or grant Rights under any such offer or agreement as if the authority had not expired.

11. That, in substitution for all existing powers, and subject to the passing of resolution 10 above, the Directors be given the general power under section 570 of the Act to allot equity securities (as defined in section 560(1) of the Act) for cash under the authority granted by such resolution, and/or where the allotment is treated as an allotment of equity securities under section 560(3) of the Act, as if section 561(1) of the Act did not apply to any such allotment, such power to be limited:
    (a) to the allotment of equity securities in connection with an offer of equity securities (but, in the case of the authority granted under paragraph (b) of resolution 10 above, by way of a rights issue only):
        (i) to Ordinary shareholders in proportion (as nearly as may be practicable) to their respective existing holdings; and
        (ii) to the holders of other equity securities, as required by the rights of those securities or as the Directors otherwise consider necessary,

        and so that the Directors may impose limits or restrictions and make arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any jurisdiction or other matter; and

(b) in the case of the authority granted under paragraph (a) of resolution 10 above and/or in the case of a transfer of treasury shares which is treated as an allotment of equity securities under section 560(3) of the Act, to the allotment (otherwise than under paragraph (a) of this resolution 11) of equity securities up to an aggregate nominal amount of £346,637,

such authority to expire at the conclusion of the next Annual General Meeting or, if earlier, the close of business on 30 June 2014, unless previously renewed, varied or revoked by the Company, save that the Company may make offers and enter into agreements before such authority expires which would, or might, require equity securities to be allotted after the authority expires and the Directors may allot equity securities under any such offer or agreement as if the authority had not expired.

12. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) of Ordinary shares with a nominal value of 3 pence each in the capital of the Company, subject to the following terms:
    (a) the maximum aggregate number of Ordinary shares hereby authorised to be purchased is 23,109,173;
    (b) the minimum price (excluding expenses) which may be paid for any such Ordinary share is 1 pence per share;
    (c) the maximum price (excluding expenses) which may be paid for any such Ordinary share shall be the higher of:
        (i) the amount equal to 105 per cent of the average of the closing middle market quotations for an Ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is purchased; and
        (ii) the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case excluding expenses); and
    (d) the authority conferred by this resolution shall, unless previously revoked or varied, expire at the conclusion of the next Annual General Meeting of the Company, or if earlier, the close of business on 30 June 2014 save in relation to any purchase of Ordinary shares, the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry, where the Company may make a purchase of Ordinary shares under such contract.

13. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice during the period from the date of the passing of this resolution 13 until the conclusion of the next Annual General Meeting of the Company.

14. That the Articles of Association of the Company be amended to include the following new Article 204 with effect from the end of this AGM:

    'Cancellation of Admission to Listing and Trading

    204 (A) This Article 204 shall only have effect for so long as the Company's ordinary shares are: (i) admitted to the standard listing segment of the Official List of the UK Listing Authority (the '**admission to Listing**'); and (ii) admitted to trading on the Main Market of the London Stock Exchange plc (the '**admission to Trading**'). References to the '**Listing Rules**' in this Article 204 are to the listing rules made by the Financial Conduct Authority pursuant to Part VI of the Financial Services and Markets Act 2000 and, for the purposes of this Article 204, it shall be assumed that those Listing Rules referenced in (B) below apply to the Company.

    (B) Save in the circumstances set out in Listing Rule 5.2.7R (Cancellation in relation to a proposed transaction which is necessary to ensure the survival of the company), Listing Rule 5.2.10R (Cancellation in relation to takeover offers) and Listing Rule 5.2.12R (Cancellation as a result of a scheme of arrangement etc), the board may not, unless so authorised by an ordinary resolution of the Company, apply, or resolve for the Company to apply, to: (i) the Financial Conduct Authority for the cancellation of the admission to Listing; or (ii) the London Stock Exchange plc for the cancellation of the admission to Trading.'

By order of the Board

Laurie Sudwarts
Company Secretary
24 April 2013

Registered Office:
2nd Floor,
Ibex House,
42-47 Minories,
London EC3N 1DX

Notice of Annual General Meeting continued

Notes

1. A member entitled to attend and vote at the AGM is also entitled to appoint one or more proxies to attend, and on a poll, vote instead of them. A proxy need not also be a member of the Company.
2. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power of authority) must be deposited with the Company's registrars, Capita Registrars, at The Registry, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time fixed for the AGM. A proxy form is enclosed with this Notice. Completion and return of the proxy form will not preclude a shareholder from attending or voting at the meeting in person if they wish.
3. You may, if you wish, appoint more than one proxy, but each proxy must be appointed in respect of a specified number of shares within your holding. If you wish to do this, each proxy must be appointed on a separate proxy form. Please photocopy the enclosed proxy form the required number of times before completing it. When appointing more than one proxy you must indicate the number of shares in respect of which the proxy is appointed.
4. As at 23 April 2013, being the latest practicable date before the publication of this Notice, there have been no changes to the details of substantial shareholdings set out on page 19 of the Annual Financial Report 2012, nor to the Directors' interests in the Ordinary shares of the Company detailed on page 18 of the report.
5. All of the non-executive Directors have a letter of appointment that appoints them to the Board for an initial three year period. These appointments can be terminated by the Company by giving three months' notice or immediately if there is a breach of their terms.
6. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the 'Act') to enjoy information rights (a 'Nominated Person') may, under an agreement between them and the shareholder by whom they were nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, they may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the rights of shareholders in relation to the appointment of proxies of paragraphs 1, 2 and 3 above and paragraph 8 below does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service to attend the AGM and any adjournment(s) of the AGM may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') may be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the Notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members, and where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular to those sections of the CREST Manual concerning practical limitation of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. The Company, under Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members entered in the register of members of the Company at 6.00pm on 25 June 2013, or if the AGM is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the AGM in respect of the number of Ordinary shares registered in their name at the time. Changes to the entries in the register of members after 6.00pm on 25 June 2013 or, if the AGM is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the AGM.
9. Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so using the following means: 1) by writing to the Company Secretary at the Company's registered office, 2nd Floor, Ibex House, 42-47 Minories, London, EC3N 1DX; or 2) by writing to the Company's registrars, Capita Registrars, at The Registry, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. No other methods of communication will be accepted, in particular you may not use any electronic address provided either in this Notice or in any related documents (including the proxy form).
10. As at 23 April 2013, being the latest practicable date before the publication of this Notice, the Company's issued share capital consisted of 231,091,734 Ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company at that date were 231,091,734.
11. The Annual Financial Report incorporating this Notice and other information required by section 311A of the Act will be available on the Company's website, www.cadoganpetroleum.com.
12. Under section 527 of the Act, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
    a. the audit of the Company's Accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or
    b. any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which the Annual Accounts and Reports were laid in accordance with section 437 of the Act.

    The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Act to publish on a website.

    Under section 319A of the Act, the Company must cause to be answered at the AGM any question relating to the business being dealt with which is put by a member attending the AGM, but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

Glossary

IPO	Initial public offering
IFRSs	International Financial Reporting Standards
JAA	Joint activity agreement
UAH	Ukrainian hryvnia
GBP	Great Britain pounds
$	United States dollars
bbl	Barrel
boe	Barrel of oil equivalent
mmboe	Million barrels of oil equivalent
mboe	Thousand barrels of oil equivalent
mboepd	Thousand barrels of oil equivalent per day
boepd	Barrels of oil equivalent per day
bcf	Billion cubic feet
mmcm	Million cubic metres
mcm	Thousand cubic metres
Reserves	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves include proved, probable and possible reserve categories.
Proved Reserves	Those additional Reserves which analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from reservoirs and under defined economic conditions, operating methods and government regulations.
Probable Reserves	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved Resources but more certain to be recovered than possible Reserves.
Possible Reserves	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable Reserves.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
Prospective Resources	Those quantities of petroleum which are estimated as of a given date to be potentially recoverable from undiscovered accumulations.
1P	Proved Reserves
2P	Proved plus probable Reserves
3P	Proved plus probable plus possible Reserves
Carboniferous	A geological period 295 million to 354 million years before present
Devonian	A geological period between 417 million and 354 million years before present
Visean	Geological period within the early to middle Carboniferous
Spud	To commence drilling, once the cement cellar and conductor pipe at the well-head have been constructed
TD	Target depth
Workover	The process of performing major maintenance or remedial treatment of an existing oil or gas well
LWD	Logging while drilling

Shareholder Information

Enquiries relating to the following administrative matters should be addressed to the Company's registrars: Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

Telephone number:	UK: 0871 664 0300 (calls cost 10p per minute plus network extras.) International: +44 (0) 208 639 3399 Lines are open 9am – 5.30pm, Monday – Friday, excluding public holidays.

- Loss of share certificates.
- Notification of change of address.
- Transfers of shares to another person.
- Amalgamation of accounts: if you receive more than one copy of the Annual Financial Report, you may wish to amalgamate your accounts on the share register.

You can access your shareholding details and a range of other services at the Capita website www.capitashareportal.com.

Information concerning the day-to-day movement of the share price of the Company can be found on the Group's website www.cadoganpetroleum.com or that of the London Stock exchange www.prices.londonstockexchange.com.

Boiler room scams

Over the last year, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority ('FSA') has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited advice:

- make sure you get the correct name of the person and organisation;
- check that they are properly authorised by the Financial Conduct Authority ('FCA') before getting involved by checking the Financial Services Register: www.fsa.gov.uk/register/home.do;
- report the matter to the FCA either by calling +44 (0)800 111 6768 or visiting: www.fca.org.uk/consumers/scams; and
- if the call persists, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

Unsolicited mail

As the Company's share register is, by law, open to public inspection, shareholders may receive unsolicited mail from organisations that use it as a mailing list. To reduce the amount of unsolicited mail you receive, contact: The Mailing Preference Service, FREEPOST 22, London W1E 7EZ. Telephone: 0845 703 4599. Website: www.mpsonline.org.uk.

Financial calendar 2013/2014

Interim Management Statement	May 2013
Annual General Meeting	27 June 2013
Half Yearly Report	August 2013
Interim Management Statement	November 2013
Results announcement for 2013	April 2014

Investor relations
Enquiries to: info@cadoganpetroleum.com

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Registered in England and Wales no. 5718406

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Notes

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