CADOGAN
PETROLEUM PLC

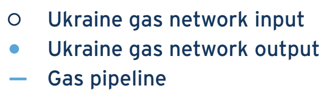
ANNUAL FINANCIAL REPORT 2014

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 2014:

- Management continued the optimisation of administrative and operational costs in 2014. Significant cost cutting initiatives have been implemented resulting in a decrease of administrative expenses from $8.9 million in 2013 to $7.0 million in 2014. Management have taken the decision to continue with the structure optimisation throughout 2015.
- In 2014, the Group started trading energy products in Ukraine, such as natural gas and diesel. Trading operations include the importing of gas from European countries, local purchasing and sales operations with physical delivery of natural gas and diesel.
- A new exploration well at Debeslavetskoe area was drilled.
- The Group has recorded significant impairment charges in 2014, including $40.2 million relating to the Group's share of $57.4 million impairment of the assets of the Pokrovskoe joint venture and $5.1 million of Oil and Gas Assets relating to the Pirkovskoe and Debeslavetskoe fields.
- Net cash and cash equivalents at year-end total $48.9 million (2013: $56.5 million) excluding $0.5 million (2013: $0.2 million) of Cadogan's share of cash and cash equivalents in joint ventures. Cash and cash equivalents at 30 April 2015 is $49.7 million, including $20 million of restricted cash.

Group Overview



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

1. Zagoryanska field

The Zagoryanska licence covers an area of 49.6 square kilometres and is located in the Dnieper-Donets basin. As at year-end, five wells have been drilled in this field with gas being discovered in the Upper and Lower Visean and Turnaisian reservoirs, at depths varying from 4,500 to 5,500 metres.

The licence expired on 24 April 2014 and, thus, the abandonment plans for the wells have been prepared. At the same time Cadogan, via its subsidiary, requested the 20 years production licence and the extension of the stratigraphic exploration intervals to the Upper Carboniferous and Permian. ENI has no interest to enter into the production phase with Cadogan. All assets on the Group's Balance Sheet related to this licence were impaired in full in 2013.

2. Pokrovskoe field

The Pokrovskoe licence area covers 49.5 square kilometres and is located in the Dnieper-Donets basin. It has prospective resources in the Permian, Upper and Lower Carboniferous. Facilities in the Pokrovskoe area are approximately 10 kilometres away from the UkrTransGas system. The work programme obligation for the licence has been fulfilled.

Following the 3D seismic stratigraphic interpretation of the block, new prospects have been identified in the Upper Carboniferous and Permian formations. Given this, a licence extension for those stratigraphic intervals has been requested and obtained in 2014. The Group has assessed the Pokrovskoe licence for impairment and recognised $40.2 million of impairment as at 31 December 2014.

3. Pirkovskoe field

Pirkovskoe is adjacent to the Group's Zagoryanska licence. The exploration and appraisal licence covers 71.6 square kilometres and had 2.26 million barrels of oil equivalent (mmboe) of "2P"reserves. The proved reserves in Pirk 1, tested by a third party company, produced an inconclusive result due to damaged formation and therefore, those reserves have been reclassified from reserves to contingent resources together with corresponding assets.

Prospective net interest recoverable resources of 63.85 mmboe have been identified in the Permian horizons, based on in-house assessment, following the 3D interpretation of the area. In 2014 Cadogan received the stratigraphic exploration extension to the Upper Carboniferous and Permian horizons.

Cadogan owns the Krasnozayarska gas treatment plant on the Pirkovska licence area which is connected to the UkrTransGas system. The plant is presently providing services to the third party operator and is included in the reportable service segment.

4. Borynya and Bitlyanska 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 Borynya and Bitlyanska fields hold 276.8 mmboe of recoverable resources including condensate (in house evaluation). No reserves and resources have been associated to the depleted Vovchenska field.

Borynya 3 well was re-entered and tested Krosno 1 interval with promising results in 2013. The well is monitored, routinely bled-off, fluid samples extracted, measured and kept on hold for an eventual fracturing job and possible re-entry to the deeper intervals.

5. Minor fields

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

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

Strategic Report

The Strategic Report has been prepared in accordance with Section 414A of the Companies Act 2006 (the "Act"). Its purpose is to inform members of the Company and help them assess how the Directors have performed their legal duty under Section 172 of the Act to promote the success of the Company.

Our consistent business model

We aim to increase value through:

- Our unique expertise and knowledge of both the Ukrainian market and best Western practices;
- Having a very disciplined investment process with capital used as underwriting capital to farm-out;
- Focusing our stand-alone drilling or workover activities to lower risk initiatives with limited capital commitment until we obtain success in generating new or increased production; and
- Obtaining a proper return on cash to achieve material impact on the Company's profitability or cash flow focusing on yield-generating fixed income investments, within the Company's or its management's areas of expertise.

Principal activity and status of the Company

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.

The Company's shares have a standard listing on the Official List of the UK Listing Authority and are traded on the main market of the London Stock Exchange.

Chairman's Statement

In 2014 the Company pursued its strategy of furthering the evaluation, de-risking and promotion of its assets in the east and the west of the country. The unstable local situation was not supportive of pursuing business development initiatives. Instead, decisive actions to optimise our activities and redue our cost base were implemented to strengthen the Company's position to maintain its financial resilience pending results from operations. The activities as a Service Contractor and Gas Trading were further developed with a very positive impact on improving the Company's financial standing.

Revenue this year has increased from $3.8 million in 2013 to $32.6 million in 2014 primarily thanks to the trading operations, which represent $29.4 million of total revenues; revenues from production and service business have slightly declined to $2.4 million (2013: $2.5 million) and $0.8 million (2013: $1.2 million) respectively.

The cash position at 31 December 2014 remained strong at $48.9 million, including restricted cash of $20 million.

Despite the new revenue generation activities and cost optimisation during the year, the Group has recorded a significant loss in 2014 due to the impairment of its oil and gas assets and investments in joint ventures. Loss before tax was $59.1 million (2013: $14.4 million) reflecting $54.7 million (2013: $6.6 million) share of losses of joint ventures and $5.1 million (2013: $nil) impairment of oil and gas assets. Share of losses in joint ventures mainly include the impairment of oil and gas assets in joint ventures and losses arising on translation of Balance Sheet items from UAH to USD, being the presentation currency of the Group.

Operations

As anticipated, the principal focus for 2014 was to reduce the risk of present and anticipated operations while maximising the existing production potential. Our exploration department identified new drillable prospects in Pokrovskoe and Pirkovskoe, following the continuous refinement process of the 3D seismic interpretation. The shallow well Debeslavetska 15 was drilled with no commercial result. Due to surface logistic constraints the location had to be moved few hundred metres apart and did not hit the planned target as a result. The area's exploration potential is confirmed. The work-over activity in Pirkovskoe 1 well run by a local contractor continues. It confirms the hydrocarbon potential but so far has not achieved commercial results. Local contractors confirmed their interest in the other suspended deep wells in the eastern licences. The total production has marginally increased in the year. Gas production in Debeslavetska and Cheremkhivska was kept constant while in Monastyretska the Blazh 1 well production increased to 45 bopd.

The re-evaluation of the Group's assets continues and our outlook remains positive.

The Board

The Company is committed to acting professionally, fairly and with integrity in all of its dealings and relationships wherever it operates, and to implementing and enforcing effective systems to counter bribery and corruption in all its forms. All policies included into the "Working with Integrity" documents have been disseminated to the staff and are available to view on the Company's website. Our adherence to the principles contained in these policy documents remains unshakeable and have been the focus in our way of conduct.

Recent Political Developments

Strategy and Prospects

The political situation in Ukraine continues to be unstable, as the fast deterioration that followed the events at the end of 2013 made the year 2014 the most challenging and unpredictable in the country's recent history. Despite our optimism on the continuation of the progress experienced in the last months, we remain cautious on the challenges ahead and how much they will continue to create a remaining level of unpredictability in the political and economical environment. This challenge has obviously been aggravated by the recent oil price collapse which, even though favourable for the country's balance is unfavourable for the Exploration and Production ("E&P") industry. The strategy reassessment by the International Oil Companies ("IOC") present in Ukraine will also keep affecting our Ukrainian operations. The local market instability gave to us the opportunity to quickly implement adequate measures to increase its competitive value and readdressed its focus to the local operators and possible partners and aggressively develop the gas and oil trading activity, which represents a valuable contribution to the financial integrity of the Company.

The Board continues to develop further relationships and opportunities overseas, our established presence in Ukraine, our skilled staff both in Kiev and also in the east and west of the country, and our adherence to the highest standards of corporate governance gives us the opportunity to act as a beacon for the western industry and industry standards. We believe that the Company is uniquely placed to create value from any emerging opportunity.

We continuously work to make 2015 an exciting and successful year for both the Company and the people of Ukraine.

Annual General Meeting

I look forward to meeting shareholders at the Company's Annual General Meeting to be held on 25 June 2015 at Chandos House, 2 Queen Anne Street, London W1G 9LQ.

Zev Furst
Non-executive Chairman
30 April 2015

Strategic Report continued

Chief Executive Review

In spite of an extremely challenging political and economic situation in the Ukraine, with significant instability brought by fighting between Government forces and rebels most of the year in the Eastern part of the country, as well as continued disappointments in the exploration and appraisal activities, Cadogan reached a major milestone in 2014 which culminates years of focus on protecting shareholder value in the face of adverse events: For the last months of 2014 as well as the beginning of 2015 the Company has operated at above cash flow breakeven, primarily as a result of its successful launch of a trading activity. Given the non-core nature of the trading business and its critical reliance on key executives in the management, it should not be seen as a strategic development yet but instead as a significant tactical achievement to support the Company's turnaround at a difficult time, by turning geopolitical adversity into an opportunity to monetise market dislocations.

Continued discipline in cost management has also played a key part in bringing Cadogan to a situation where it has the financial flexibility to manage its options from a position of strength, with general and administrative ("G&A") expenses at an annual run rate below $4.5 million for 2015 after another round of material costs reduction at the beginning of the year.

Core Operations

The Company's announced strategy to protect cash flows by rightsizing its operation and limiting upstream activity to the strict minimum necessary in order to facilitate farm-outs has been pursued throughout the year, without yet delivering significant progress. The unstable environment has made it difficult to progress on potential partnerships as the majority of operators, foreign or domestic, have remained on the side-lines for most of the year. The drop in energy prices at the end of 2014 has further depressed the attractiveness of our assets in the short term. However we believe that Ukraine is about to turn the corner in 2015 and we are confident that the partnership opportunities will keep on expanding.

Our limited well operations have yielded mixed results. The disappointing drilling result of Debeslavetska 15, the first well of our program targeting shallow horizons, does not invalidate the program in our opinion. Other activities include a successful increase in the oil production of the Blaz-1 well as a result of our activities on the well, the stabilisation of the gas production in the Debeslavetska and Cheremkhivska licences, as well as continued work-over activities in Pirkoskoe via a farm-out to a local operator, although with no result so far.

The most promising achievement in the geological and geophysical ("G&G") area has been the identification of new sizeable drillable prospects in Pokrovskoe and Pirkovskoe from the extensive re-interpretation of the 3D seismic data. These targets present attractive economics that we believe enhance the value of our overall asset portfolio.

Non-Core Operations

As anticipated in last year's CEO statement, non-core operations are now playing a key role in strengthening the Company's financial position. Making Cadogan able to withstand even a temporary failure of exploration and appraisal activities has been a key focus since I took over as CEO in 2011, this ability being a critical advantage for an intrinsically high-risk Junior E&P company. In fact, despite more than $70 million of unproductive capital expenditures and more than $50 million of cumulative G&A expenses over the period, the Company has a material increase in its cash position since I took over. Initial achievements in asset recovery and monetisation of stale assets on the balance sheet are progressively giving way to revenue generation from new businesses. So far these businesses have grown under the constraint that no material investment would be made to support them given their non-core nature. As the Company redesigns its E&P strategy, a decision will have to be made whether to make the investments necessary to support the growth of these activities or whether they should be discontinued or sold.

The service activity has made a positive contribution, albeit smaller than in 2013 and below expectations for 2014, mainly as a result of the postponement of work programs caused by the political instability. Foreign IOCs, which remain our core customer base, have been particularly defensive with operations being brought to a standstill. We remain optimistic on the next year's activity as the country normalises.

Investments in fixed income have generated a little short of $1 million despite being conservatively kept to within 10% of the Company's cash position. This comes in addition to the benefit of our strategy of shifting the majority of our cash to US$ which allowed Cadogan to benefit from the current US$ rise against most currencies.

The trading activity, mostly in gas and to a limited extend in diesel, has been able to capture opportunities arising from dislocated gas and currency markets as well as the unpredictable political and regulatory environment and the complex access to transport and storage infrastructure. It now represents the large majority of our turnover and gross profit, and has been developed within a disciplined risk management environment under my direct oversight. The challenge of a volatile and depreciating Hryvna, approximately 48% down against the US$ during 2014 and 65% down as at 1 April 2015 with limited convertibility throughout most of 2014, as well as an unpredictable series of short-term gas supply deals between Russia and Ukraine have played to our sophistication and conservative management of risk.

Outlook

Cadogan remains better positioned than ever to exploit Ukraine's rebound as, helped by its upcoming IMF-led debt restructuring and the stabilisation of the East Ukraine region, the country restarts its progress towards increased transparency and lower energy dependency of imported gas. In support of our ability to exploit local opportunities the Company has continued the execution of its strategy of "Ukrainisation" of its staff by attracting, promoting and developing outstanding local human resources. I am proud to announce the appointment of Marta Halabala as a Company Secretary this year, in the continuation of the appointment of Volodymyr Pogrebniak as Finance Director in 2011.

The Company will also continue to assess opportunities outside of Ukraine in order to balance its portfolio, keeping a very strict risk/return hurdle.

I am proud of how Cadogan's employees have risen to the challenge of the last years, and am excited in our ability to leverage the financial flexibility we created for ourselves to exploit the opportunities that we have ahead of us.

Bertrand des Pallieres
Chief Executive Officer
30 April 2015

Strategic Report continued

Operations Review

In 2014 the Group held working interests in nine conventional (2013: 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.

Summary of the Group's licences (as at 31 December 2014)

Working interest (%)	Licence	Expiry	Licence type[1]
Major licences			
40.0	Zagoryanska	April 2014[4]	E&D
70.0	Pokrovskoe	August 2016[5]	E&D
100.0	Pirkovskoe	October 2015[5]	E&D
99.8	Bitlyanska	December 2014[3]	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-Rungurska	April 2016	E&D
99.2	Monastyretska	November 2014[3]	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").
(3) Licence extension process is ongoing and is expected to be completed in Q2 2015.
(4) Obtaining 20 years production licence is in process.
(5) Extension to the upper Permian interval was obtained in 2014.

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

Recent developments of political and economic turmoil in Ukraine have had a low impact on the Group licences as the Group has assets in three regions:

- Western Ukraine (Lviv and Ivano-Frankivsk regions), which is not an area of conflict;
- Kyiv – the capital, where there was a low level of instability throughout 2014 year; and
- Central Ukraine, represented by the Poltava region, which is not under the anti-terrorist operation.

Zagoryanska licence
The Zagoryanska licence covered 49.6 square kilometres and expired on 24 April 2014. The Group held a 40 per cent working interest in the Zagoryanska licence area. The wells abandonment plans have been prepared in agreement with the joint venture partner, ENI. At the same time Cadogan, via its subsidiary LLC Zagvydobuvannya, requested the 20 years production licences and the extension of the stratigraphic exploration intervals to the Upper Carboniferous and Permian for the same area. ENI has no interest to enter into the production phase with Cadogan.

To value and price all the possible remaining resources in the block, a stratigraphic re-interpretation of the 3D seismic data is currently ongoing.

Pokrovskoe licence
The Group holds a 70 per cent working interest in the Pokrovskoe licence. The Pokrovskoe licence area covers 49.5 square kilometres. It has prospective resources in the Permian, Upper and Lower Carboniferous.

On the basis of the previous results and the clear indication of the presence of a positive hydrocarbons generation and migration system, it was decided to continue the seismic and geological investigation of the area. The thorough 3D seismic re-interpretation has been successfully concluded for the relative shallow horizons. One drillable prospect in the Permian formation (at about 2,200m-2400m depth) and one in the Upper Carboniferous (at about 2,200m depth) have been identified with two other leads in the Upper Carboniferous under evaluation. The extension to the new stratigraphic exploration intervals in the Upper Carboniferous and Permian have been requested and granted to Cadogan along with the change of the previous work programme.

Pirkovska licence
The Group holds a 100 per cent working interest in the Pirkovska licence which had 2.26 mmboe of Proved and Probable Reserves of gas and condensate (2013: 2.26 mmboe). The proved reserves in Pirk 1, tested by a third party company, produced an inconclusive result due to damaged formation; therefore those reserves have been reclassified from reserves to contingent resources.

This exploration and appraisal licence covers 71.6 square kilometres and expires in October 2015; the necessary steps to renew the licence have already started.

On the basis of the previous results and the clear indication of the presence of a positive hydrocarbons' generation and migration system, it was decided to continue the seismic and geological investigation of the area. The thorough 3D seismic re-interpretation has been successfully concluded for the relatively shallow horizons. The total prospective net interest recoverable resources after the 3D stratigraphic interpretation and attribute analysis performed in-house on the Permian reservoir are estimated in 383.11 Bcf (63.85 mmboe). The extension to the new stratigraphic exploration intervals in the Upper Carboniferous and Permian have been requested and granted to Cadogan in 2014 along with the change of the previous work programme.

The Group owns the Krasnozayarska gas treatment plant, located in the Pirkovska licence area, which is connected to the UkrTransGas system and is continuing the service contract with 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 276.89 mmboe (2013: 336.5 mmboe) of contingent recoverable resources including condensates. After initial in-house evaluation, no reserves or resources have been allocated to the depleted Vovchenska field.

Borynya 3 well, after having been re-entered and tested in 2013, was kept on hold, monitored and routinely bled-off for an eventual fracturing job and way forward evaluation, which also considered the deeper horizons.

The planned vintage seismic lines in the Vovchenska area were purchased and interpreted; a new additional seismic programme has been prepared to define possible prospective exploration areas to investigate; the survey was postponed. The work programme and obligations for this licence have been changed and we are awaiting the licence renewal.

Reserves and resources (mmboe)

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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 2P reserves 0.766 mmboe of Proved Reserves (2013: 0.79 mmboe). The field is currently producing 64.8 boepd (2013: 65.73 boepd). The new compressor unit and the dehydration facilities for production optimisation were successfully performed and contributed to the energy and emissions saving as per the programme.

- Debeslavetska Exploration licence area

In the exploration licence, surrounding the Debeslavetska Production area, an Amplitude Versus Offset ("AVO") and Inversion analysis was successfully carried out with existing seismic data. In order to confirm and evaluate those findings about 100 km of 2D seismic lines were recorded. The seismic acquisition started on December 2013 and ended in April 2014. Following the processing and interpretation of the old and new data, three prospects have been identified. The location of the best promising prospect was selected on the basis of i) nearby facilities, ii) multiple targets and iii) non-depleted areas, also by using the InSar data. The expected well drilling spud-in was in July 2014. It was delayed to December 2014 due to longer than forecasted procedures for land allotment and complications with the well location, meaning that it had to be offset from the selected coordinates. The exploration drilling result has been negative; the Cretaceous formations did not provide the expected sealing (missing shale on top of Cretaceous limestone) for the main producing levels that were in truncation and over-lapping the Cretaceous formation.

- Cheremkhivska Production licence area

A production licence containing 0.19 mmboe of 2P reserves (2013: 0.203 mmboe). This licence is currently producing 17.4 boepd (2013: 20.73 boepd). Potential gas production from shallow intervals seems to be promising for this licence. Preliminary amplitude versus offset ("AVO") studies on the only available line were positive but the planned 30 km of seismic lines to be acquired in 2014 were postponed.

- Slobodo-Rungurska licence area

An exploration and development licence with no booked reserves (2013: nil). The current evaluation of the block has allowed us to identify prospective gross oil resources in shallow reservoir levels (Old Sloboda reservoirs) of 5.75 mmboe and 27.9 mmboe in the relatively deeper reservoir levels (1600m). Additional petrophysical and reservoir studies are currently underway.

- Monastyretska licence area

A new exploration and development licence for this block has been requested to the competent authority and we are awaiting the renewal. No booked reserves/ resources have been considered in 2014 (2013: nil). To enhance the Blazhiv 1 well production, a chemical treatment was implemented bringing about positive results with production increasing from 25 boepd to 45 boepd. Currently the production is on hold as we await the formal licence renewal approval.

Financial Review

Overview

In 2014 in addition to performing the E&P work programme the Group focused on managing the cost base by implementing a number of cost optimisation initiatives as well as starting an energy trading business.

Trading operations include the importing of gas from Slovakia and local purchasing and sales operations with physical delivery of natural gas and diesel. Also, the Group continued to operate its service business which includes drilling, construction and other services provided to E&P companies.

Revenue has increased from $3.8 million in 2013 to $32.6 million in 2014 due to gas and diesel trading operations, which represent $29.4 million of total revenues; revenues from production have slightly declined to $2.4 million (2013: $2.5 million).

Revenue from the service business, which includes drilling and construction services, decreased to $0.8 million (2013: $1.2 million) mainly due to the postponement of service contracts by clients as a result of the situation in Ukraine.

The cash position of $48.9 million at 31 December 2014, including restricted cash of $20 million, has decreased from $56.5 million at 31 December 2013.

Income statement

Loss before tax was $59.1 million (2013: $14.4 million), of which $54.7 million (2013: $6.6 million) is a share of losses of joint ventures and $5.1 million (2013: $nil) is an impairment of oil and gas assets. Share of losses in Joint Ventures mainly include the impairment of oil and gas assets in joint ventures and losses arising on translation of Balance Sheet items from UAH to USD, being the presentation currency of the Group.

Revenues of $32.6 million (2013: $3.8 million) are comprised of $29.4 million in gas and diesel sales of trading reportable segment, $2.4 million gas sales of E&P reportable segment and $0.8 million sales of service reportable segment. Cost of sales represents $26.8 million of purchases of gas for trading operating segment, $2.9 million of production royalties and taxes, depreciation and depletion of producing wells and direct staff costs for exploration and development and service segment. Gross profit has increased to $2.8 million (2013: $0.8 million).

- Other administrative expenses of $7.0 million (2013: $8.9 million) comprise other staff costs, professional fees, Directors' remuneration and depreciation charges on non-producing property, plant and equipment.
- Impairment of oil and gas assets of $5.1million (2013: $nil) represents impairment charge for Debeslavetske and Cheremkhivske assets as a result of an impairment assessment of its recoverability as at 31 December 2014 and certain obsolete property, plant and equipment ("PP&E") assets at Pirkovska licence.
- Reversal of impairment of other assets of $0.9 million (2013: $0.2 million) comprised of $0.3 million provision for inventory (2013: release $0.1 million) and $1.1 million release in relation to an impairment of Ukrainian VAT (2013: $0.1 million).
- Share of losses in joint ventures of $54.7 million (2013: $6.6 million) comprised of loss of: i) $40.2 million in relation to Pokrovska licence, of which $44.2 million is non-cash impairment offset by $4.0 deferred tax liability, $12.7 million (2013: $nil) of translation loss which arose mainly on translation of non-current assets of Gazvydobuvannya LLC (Pokrovskoe licence) from UAH to USD, being the presentation currency of the Group $0.2million profit from operations (mainly as the result of VAT recovery which were previously impaired), ii) $1.3 million in relation to Zagoryanska licence; and iii) loss of $0.7 million from operations of Westgasinvest LLC.
- Net foreign exchange gain of $3.0 million (2013: loss of $0.3 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.

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Cash flow statement

The Consolidated Cash Flow Statement on page 54 shows operating cash outflow before movements in working capital of $3.9 million (2013: $8.7 million). Cash outflows from movements in working capital in 2014 of $16.1 million mostly represent an increase in trading receivables and prepayments of $13.6 million (note 21), increase in trading inventories of $8.4 million (note 20), offset by increase in prepayments received and trading payables of $2.8 million (note 25) in relation to trading reportable segment and $3.1 million of change in working capital for other reportable segments. In addition, the Group has incurred capital expenditure of $0.5 million (2013: $3.0 million) on intangible Exploration and Evaluation ("E&E") assets and $1.6 million (2013: $0.8 million) on PP&E. In 2014 the Group invested $3.0 million (2013: $4.7 million) into joint ventures, mainly to repay the operating service charges to Cadogan for prior years.

In 2014 the Group financed its trading operations with short-term borrowings (note 24) and as at 31 December 2014 the outstanding amount was $17.3 million (2013: $nil), which decreased to $7.8 million as at 30 April 2015. Borrowings are represented by credit line drawn in UAH at Ukrainian bank, 100% subsidiary of UK bank. Credit line is secured by $20 million of cash balance placed at UK bank.

Balance sheet

The cash position of $48.9 million at 31 December 2014, including restricted cash of $20 million, has decreased from $56.5 million at 31 December 2013.

Intangible E&E assets of $18.3 million (2013: $6.0 million) represent the carrying value of the Group's investment in E&E assets as at 31 December 2014. The PP&E balance of $3.8 million at 31 December 2014 (2013: $43.9 million) reflects the cost of developing fields with commercial reserves and bringing them into production. Due to unsuccessful testing of Pirk-1 well, $14.6 million of PP&E assets have been reclassified to E&E so as to use them in further exploration and evaluation works. Management reassessed classification of capital expenditures following the impairment test and the production and development assets. As a result, $14.6 million were reclassified to E&E as the Group expects to continue exploration at Pirkovskoe field and targets other geological horizons. Cadogan plans to use the existing assets at Pirkovskoe field in their exploration activities. As a result of the impairment assessment of PP&E assets as at 31 December 2014, the Group has recognised $5.1 million impairment including $2.9 million at Pirkovskoe field and $2.2 million of Debeslavetska and Cheremkhivska.

Investments in joint ventures of $14.3 million (2013: $65.9 million) mainly represent the carrying value of the Group's investments into Pokrovska licences and Westgasinvest LLC (costs related to Zagoryanska licence have been fully impaired as well as impairment on Pokrovska licence assets (note 19).

Trade and other receivables of $17.9 million (2013: $6.9 million) include $13.6 million trading prepayments and receivables, $1.9 million receivable from joint ventures in respect of management charges (2013: $4.1 million) and VAT recoverable of $1.8 million (2013: $0.3 million) in respect to VAT arising on gas trading purchases.

In October 2014 the Group started to use the short-term facility in Ukraine for its trading operations. The $17.3 million outstanding as of 31 December 2014 (7.8 million as at 30 April 2015) represents UAH 278.9 million borrowed in UAH to purchase natural gas and diesel (UAH 174.7 million as at 30 April 2015).

The $5.1 million of trade and other payables as of 31 December 2014 (2013: $3.4 million) represent $2.5 million (2013: $nil) worth of advances received from clients for future supplies of natural gas and $2.3 million (2013: $3.4 million) of other creditors and accruals.

Key performance indicators

The Group monitors its performance in implementing its strategy with reference to clear targets set out through 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 decrease administrative expenses;
- to increase the Group's basic earnings per share; and
- to maintain no lost time incidents.

The Group's performance in 2014 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	2014(3)	2013
Financial KPIs			
Average production (working interest basis)(1)	boepd	99	88
2P reserves(2)	mmboe	0.6	2.6
Administrative expenses	$	7.0	8.9
Basic loss per share(4)	cents	(25.6)	(40.1)
Non-financial KPIs			
Lost time incidents(5)	incidents	0	0

(1) Average production is calculated as the average daily production during the year.
(2) Quantities of 2P reserves as at 31 December 2013 and 2014 are based on Gaffney, Cline & Associates' ("GCA") independent reserves report on 2P reserves as at 31 December 2009, dated 16 March 2010, as adjusted for the actual production during 2013 and actual production and reclassification to contingent resources.
(3) One of the KPI's in previous years was realised price per 1,000 cubic metres. The Group decided to remove it from the list as the price is outside of management's control. Realised price is often market-driven but capped by Ukrainian authorities at a certain maximum level subject to periodic revisions. Management intention is always to negotiate the selling price which will be as close as possible to the upper limit approved by government.
(4) Basic loss per Ordinary share is calculated by dividing the net loss 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.

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The Group will continue exploration efforts in 2015, particularly at the Pirkovskaya and Pokrovskaya fields. If successful, management plan to reassess reserves based using independent petroleum engineer.

In 2014 the Group has made impairment assessment at all material gas and oil fields. As a result Cadogan recognised a number of impairment losses directly and through their share in losses of joint ventures. Management believes that impairment losses are non-recurring and the Group will maintain healthy financial performance in 2015.

Related party transactions

Related party transactions are set out in note 30 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. Production revenues from the sale of hydrocarbons are received in the local currency in Ukraine however the hydrocarbon prices are linked to the USD denominated gas and oil prices. To date, funds from such revenues have been held in Ukraine for further use in operations rather than being remitted to the UK.

Strategic Report continued

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 maintains a 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 robustly engineered well design and work programme, with appropriate procurement procedures and competent on site management, 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 are experienced and receive 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 wells owned by the Group 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 re-cultivated to meet or exceed standards required by the relevant environmental control authorities and in compliance with recognised international standards.
Sub-surface risks 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.
Area available for drilling operations is limited by logistics, infrastructures and moratorium. This increases the risk for setting optimum well coordinates.	If not covered by 3D seismic or fitting over 2D seismic lines, the eventual well's dislocation will not be accepted.

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 oil and gas 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 2014, management has decided not to commission a new CPR during 2014. 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 2015. Further attempts to bring in partners and mitigate the Group's risk exposure are underway.
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 forecasted 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 maintain current cash balances and mitigate risk will continue through 2015.
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 ensuring 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 processes. Adequate office and site protection is in place to protect assets. Anti-bribery policies are also 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 in Ukraine are received in UAH and expenditure is made in UAH, however the prices for hydrocarbons are implicitly linked to USD prices. The Group continues to hold most of its cash reserves in the UK mostly in USD. Cash reserves are placed with leading financial institutions which are approved by the Audit Committee. The Group is predominantly a USD denominated business. Foreign exchange risk is considered a normal and acceptable business exposure and the Group does not hedge against this risk for its E&P operations. For trading operations, the Group matches the revenues and the source of financing. Refer to note 28 to the Consolidated Financial Statements for detail on financial risks.
The Group is at risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group.	We monitor the credit quality of our counterparties and seek to reduce the risk of customer non-performance by limiting the title transfer to product until the payment is received, prepaying only to known credible suppliers
The Group is at risk that fluctuations in gas prices will have a negative result for the trading operations resulting in a financial loss to the Group.	The Group mostly enters into back-to-back transactions where the price is known at the time of committing to purchase and sell the product. Sometimes the Group takes exposure to open inventory positions when justified by the market conditions in Ukraine.

Strategic Report continued

Risks and Uncertainties continued

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 re-negotiate 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, more than other jurisdictions. Emerging economies are generally subject to a volatile political environment which could adversely impact 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 as well as 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 2014 due to insufficient new information arising from operational activity before the year end. The summary of the Reserves and Resources below is based on the Independent Reserves and Resources Evaluation performed by Gaffney Cline and Associates as at 31 December 2009. These have been adjusted for subsequent actual production and expert review and studies have been performed with an external firm both in Kiev and in-house.

Summary of Reserves as of 31 December 2014

	Working interest basis		
	Gas bcf	Condensate mmbbl	Oil mmbbl
Proved and Probable Reserves at 1 January 2014	**11.1**	**0.6**	**–**
Production	(0.2)	–	–
Reclassification	(10.3)	(0.6)	–
Proved and Probable Reserves at 31 December 2014	**0.6**	**–**	**–**
Possible Reserves at 1 January 2014 and 31 December 2014	**19.5**	**1.5**	**–**

Summary of Contingent Resources as of 31 December 2014

	Working interest basis			
	Gas bcf	Condensate mmbbl	Oil mmbbl	Total mmboe
Contingent Resources at 1 January 2014	**2,357.3**	**97.9**	**–**	**522.2**
Change in working interest	–	–	–	–
Reclassification	10.3	0.6	–	2.2
Contingent Resources at 31 December 2014	**2,367.6**	**98.5**	**–**	**524.4**

Reserves are assigned only to the Debeslavetska and Cheremkhivska fields; adjusted to consider the dry gas production only. The proved reserves in Pirk 1, tested by a third party company, produced an inconclusive result due to damaged formation; therefore those reserves have been reclassified from Reserves to Contingent Resources.

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 (2013: 165.9 bcf) of gas and 5.9 mmbl (2013: 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.

Strategic Report continued

Corporate Responsibility

The Board recognises the requirement under Section 414C of the Companies Act 2006 (the "Act") to detail information about employees, human rights and community issues, including information about any policies it has in relation to these matters and the effectiveness of these policies.

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 it has an obligation to protect the health and safety of its employees and communities as well as the environment it impacts; these 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 that 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 health and safety, environmental and key safety and environmental issues which are discussed by the Executive Management. The Health, Safety and Environment Committee Report is on page 31.

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 2014, 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, emergency response, incident prevention, 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 2014, the Group recorded a total of 400,000 man hours worked. There were no Lost Time Incidents ("LTIs") recorded in 2014 and close to two 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 2014, the Company has recorded over nine million kilometres driven without an LTI.

The year 2013 was the baseline year for the Company in terms of greenhouse gas emissions reporting, as well as Company-wide collection of statistical data related to consumption of electricity and industrial water and fuel consumption by cars, plants and other work sites. Comparing the baseline figures with the data for 2014 will allow the assessment of the Company's environmental performance and identify the areas for improvement.

Employees
Certain of the Group's operations are undertaken by sub-contracting 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 are recruited and procedures are in place to ensure that all recruitments are undertaken on a transparent and fair basis with no discrimination against 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.

Gender diversity
The Board of Directors of the Company comprised of six male Directors throughout the year to 31 December 2014. The appointment of any new Director is made on the basis of merit. See page 20 for more information on the composition of the Board. There were no females holding Senior Manager[1] positions as at 31 December 2014.

As at 31 December 2014, the Company comprised a total of 96 employees, as follows:

	Male	Female
Non-executive directors	4	0
Executive directors	2	0
Other employees	66	24
All employees	72	24

Human rights
Cadogan's commitment to the fundamental principles of human rights is embedded in our HSE polices and throughout our business processes. We promote the core principles of human rights pronounced in the UN Universal Declaration of Human Rights. Our support for these principles is embedded throughout our Code of Conduct, our employment practices and our relationships with suppliers wherever we do business.

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.

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.

Approval
The Strategic Report was approved by the Board of Directors on 30 April 2015 and signed on its behalf by:

Marta Halabala
Company Secretary
30 April 2015

1 Senior Managers are directors of subsidiary companies or who otherwise have responsibility for planning, directing or controlling the activities of the company or a strategically significant part of it.

Board of Directors

Zev Furst, 67, American
Independent Non-executive 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, 48, 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, 63, 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, 69, 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.

Michel Meeùs, 62, Belgian
Non-Independent non-executive Director
Mr Meeùs was appointed as a Non-executive Director on 23 June 2014. Mr. Meeùs is currently acting as Chairman of the Board of Directors of Theolia, an independent international developer and operator of wind energy projects, of which he is a major shareholder. Since 2007, he has been a director within the Alcogroup SA Company (which gathers the ethanol production units of the homonymous group), as well as within some of its subsidiaries. Before joining Alcogroup, Mr Meeùs carried out a career in the financial sector, at Chase Manhattan Bank in Brussels and London, then at Security Pacific Bank in London, then finally at Electra Kingsway Private Equity in London.

Enrico Testa, 63, 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 from 2002 to 2005 he was member of the Advisory Board of Carlyle Europe and has been 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 in office during the year and at the date of this report are as shown below:

Non-executive Directors
Zev Furst (Chairman)
Gilbert Lehmann
Michel Meeùs
Enrico Testa

Executive Directors
Bertrand des Pallieres
Adelmo Schenato

Directors' re-election
The Board has decided previously that all Directors must be subject to annual election by shareholders, in accordance with the best practice guidance for FTSE 350 companies contained in the UK Corporate Governance Code that was issued in September 2014 by the Financial Reporting Council (the "Code"). As such, all of the Directors will be seeking re-election at the Annual General Meeting to be held on 25 June 2015.

The biographies of the Directors in office at the date of this report are shown on page 20.

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 fifteen.

Directors' interests in shares
The beneficial interests of the Directors in office as at 31 December 2014 and their connected persons in the Ordinary shares of the Company at 31 December 2014 are set out below.

Director	Number of Shares
Z Furst	–
B des Pallieres	200,000
G Lehmann	–
M Meeùs	26,000,000
A Schenato	–
E Testa	–

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.

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 authorities to issue and buy back shares, granted at the 2014 Annual General Meeting, remains unused.

Dividends
The Directors do not recommend payment of a dividend for the year to 31 December 2014 (2013: 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.

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 2014 was 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 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. Total voting rights amount to 231,091,668.

Report of the Directors continued

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.

Substantial shareholdings
As at 31 December 2014 and 30 April 2015, the Company had been notified of the following interests in voting rights attached to the Company's shares:

	31 December 2014		30 April 2015	
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
Mr Pierre Salik	40,550,000	17.55	40,550,000	17.55
Mr Michel Meeùs	26,000,000	11.25	26,000,000	11.25
Credit Agricole Indosuez (Suisse) SA	15,133,000	6.55	15,133,000	6.55
Kellet Overseas Inc.	14,002,696	6.06	14,002,696	6.06
Credit Suisse Private Banking	9,629,091	4.17	9,629,091	4.17
Cynderella Trust	7,657,886	3.31	7,657,886	3.31

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

Disclosure of information to auditors

As required by section 418 of the Companies Act 2006, each of the Directors as at 30 April 2015 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.

This confirmation is given and should be interpreted in accordance with section 418 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.

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.

Global greenhouse gas emissions
This section contains information on greenhouse gas ("GHG") emissions required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "Regulations").

Reporting year
The reporting year coincides with the Company's fiscal year, which is 1 January 2014 to 31 December 2014. This is the first year in which GHG reporting has been conducted by the Company, and it will be used as the baseline year for comparison in future years.

Methodology
The principal methodology used to calculate the emissions is drawn from the 'Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance (June 2013)', issued by the Department for Environment, Food and Rural Affairs ("DEFRA"). Additionally, 'Petroleum Industry Guidelines for Reporting Greenhouse Gas Emissions (2nd edition, May 2011)' were used to cover issues specific for the petroleum industry. DEFRA GHG conversion factors for company reporting were utilised to calculate the CO2 equivalent of emissions from various sources. In certain limited cases, where information was available only for a part of the reporting period, the total emissions were extrapolated by extending the available information to cover the full reporting period. This occurred where it was not possible to retrieve information on the amount of heating supplied to one of the Company's office buildings, due to an office move.

The Company has reported on all of the emission sources required under the Regulations.

The Company does not have responsibility for any emission sources that are not included in its consolidated statement.

Consolidation approach and organisation boundary
An operational control approach was used to define the Company's organisational boundary and responsibility for GHG emissions. All material emission sources within this boundary have been reported upon, in line with the requirements of the Regulations.

Scope of reported emissions
Emissions data from the sources within Scope 1 and Scope 2 of the Company's operational boundaries is detailed below. This includes direct emissions from assets that fall within the Company's organisational boundaries (Scope 1 emissions), as well as indirect emissions from energy consumption, such as purchased electricity and heating (Scope 2 emissions).

Intensity ratio
In order to express the GHG emissions in relation to a quantifiable factor associated with the Company's activities, wellhead production of crude oil, condensates and natural gas has been chosen as the normalisation factor for calculation of the intensity ratio. This will allow comparison of the Company's performance over time, as well as with other companies in the Company's peer group.

Total greenhouse gas emissions data for period from 1 January 2014 to 31 December 2014

Greenhouse gas emissions source	2014	2013
Scope 1 Direct emissions, including combustion of fuel and operation of facilities (tonnes of CO2 equivalent)	842	1,313
Scope 2 Indirect emissions from energy consumption, such as electricity and heating purchased for own use (tonnes of CO2 equivalent)	778	705
Total (Scope 1 & 2)	1,620	2,018
Normalisation factor Barrels of oil equivalent	41,363	35,331
Intensity ratio Emissions reported above normalised to tonnes of CO2e per total wellhead production of crude oil, condensates and natural gas, in thousands of BOE	39.15	57.24

Annual General Meeting
A notice for the Annual General Meeting (the "AGM") to be held at 10.30 am on 25 June 2014 at Chandos House, 2 Queen Anne Street, London W1G 9LQ is set out on pages 86 to 88. The following notes provide an explanation of all of the Resolutions to be put to the AGM. Resolutions 1 to 12 will be proposed as ordinary resolutions requiring the approval of more than 50 per cent of the votes cast at the meeting and Resolutions 13 to 15 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.

Report of the Directors continued

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 2014. The Annual Financial Report comprises the Annual Accounts of the Group together with the Strategic Report, Directors' Report, Annual Report on Remuneration and the auditor's report on those Accounts and the auditable part of the Annual Report on Remuneration.

Approval of Annual Report on Remuneration (Resolution 2)
Shareholders are being asked to provide an advisory vote on the Annual Report on Remuneration for the financial year ended 31 December 2014, as set out on pages 33 to 36.

Approval of Directors' Remuneration Policy (Resolution 3)
A new directors' remuneration reporting regime came into effect on 1 October 2013. Shareholders will now have an annual advisory vote on the report on Directors' remuneration and a binding vote, to be held at least every three years, on the remuneration policy of the Directors. Shareholders are being requested to vote on the approval of the Directors' Remuneration Policy as set out on pages 37 to 44.

Re-election of Directors (Resolutions 4 to 9)
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 4 to 9 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 pages 20. 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 10 and 11)
Deloitte LLP have indicated that they are willing to continue in office as the Company's auditor. Resolution 9 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 10 seeks shareholders' authorisation for the Directors to determine the auditor's remuneration.

Authority to Allot Shares (Resolution 12)
The Directors may allot or grant rights over Ordinary shares only if authorised to do so by a resolution of shareholders. Resolution 12 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 2016. Resolution 12 follows institutional investor guidelines regarding the authority to allot shares.

Paragraph (a) of resolution 12 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 (excluding shares in treasury). This maximum is reduced by the nominal amount of shares allotted or Rights granted pursuant to paragraph (b) of resolution 12 in excess of £2,310,917. Paragraph (b) of resolution 12 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 (excluding shares held in treasury). This maximum is reduced by the nominal amount of shares allotted or Rights granted pursuant to paragraph (a) of resolution 12.

Therefore, the maximum nominal amount of shares allotted or Rights granted under resolution 12 is £4,621,834, representing approximately two-thirds of the Company's existing issued share capital.

As at close of business on 30 April 2015, the Company held 66 Ordinary shares in treasury, representing 0.00002% of issued share capital.

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 13)
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 13 therefore seeks a waiver of shareholders' pre-emption 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 (excluding shares held in treasury) as at 30 April 2015 (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 2016.

Directors' Authority to Purchase Shares (Resolution 14)
The Company may wish to purchase its own shares and resolution 14 seeks authority to do so. If passed, the Company would be authorised to make market purchases up to a total of 23,109,166 shares – just under ten per cent of the Company's issued Ordinary share capital (excluding shares held in treasury) as at 30 April 2015. 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.

The Company does not have any outstanding share options.

Notice of General Meetings (Resolution 15)
The purpose of resolution 15 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 15 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.

This Report of Directors comprising pages 21 to 27 has been approved by the Board and signed on its behalf by:

Marta Halabala
Company Secretary
30 April 2015

Corporate Governance Statement

This Corporate Governance Statement forms part of the Directors' Report

The Board of the Company is committed to the highest standards of corporate governance and bases its actions on the principles set out in the Code issued by the Financial Reporting Council ('FRC') in September 2012 (the "Code"). The Code can be found on the FRC's website at www.frc.org.uk.

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 an independent non-executive Chairman, Chief Executive Officer, Chief Operating Officer, two independent non-executive Directors and one non-executive Director who is not deemed independent. The membership of the Board and biographical details for each of the Directors are incorporated into this report by reference and appear on page 20.

As at the date of this report, the Chairman had no significant commitments that might affect his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

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 25 June 2015.

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.

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. Six Board meetings took place during 2014.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	6	3	1	2
No. Attended:				
Z Furst	4	n/a	n/a	n/a
B des Pallieres	6	n/a	1	n/a
G Lehmann	6	3	1	2
M Meeùs*	2	n/a	n/a	n/a
A Schenato	6	n/a	n/a	n/a
E Testa	5	3	n/a	1

*Michel Meeùs was appointed on 23 June 2014.

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 the 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. Three non-executive Directors, Messrs Furst, Lehmann and Testa are considered by the Board in accordance with the Code, to be independent. Michel Meeùs, who is a significant shareholder, is not considered 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 86 to 88.

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 28 to 32.

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 2014, 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 2014 and up to the date of signing the Financial Statements 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 Westgasinvest LLC ("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 Group Director of Finance who reports directly to the Chief Executive Officer. The legal function is managed by the Company Secretary 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 13.

The Group does not have an internal audit function. Due to the small scale of the Group's operations at present, the Board does 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 is 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 86 to 88. 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 is appointed by the Board, on the recommendation of the Nomination Committee, from the non-executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by the Code. They are reviewed annually by the Audit 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.

Assessment of the effectiveness of the external auditor

The Committee has assessed the effectiveness of the external audit process. They did this by:

- Reviewing the 2014 external audit plan;
- Discussing the results of the audit including the auditor's views on material accounting issues and key judgements and estimates, and their audit report;
- Considering the robustness of the audit process;
- Reviewing the quality of the service and people provided to undertake the audit; and
- Considering their independence and objectivity.

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

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

Activities of the Audit Committee

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

Financial statements

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

Significant issues relating to the 2014 financial statements

For the year ended 31 December 2014 the Audit Committee identified the significant issues that should be considered in relation to the financial statements, being areas which may be subject to heightened risk of material misstatement.

Impairment of E&E

The Audit Committee considered the Group's intangible exploration and evaluation assets and interests in exploration and evaluation assets held through joint ventures individually for any indicators of impairment, including those indicators set out in IFRS 6 Exploration for and Evaluation of Mineral Resources. The political situation in Ukraine and impact on the Group's active exploration programme, the absence of material improvements to the reserves base and limited investment of the Group's cash on exploration activities represent indicators that E&E assets might be impaired as at 31 December 2014. The Audit Committee agreed to the identified indicators of impairment and recognised impairment charge in the financial statements as at 31 December 2014. The Audit Committee has discussed the Group's exploration and evaluation assets with both management and the auditors and concur with the treatment adopted.

Following discussions with management and the auditor, including discussing the range of sensitivities, the Committee is satisfied with results of the assessment of the recoverable amount of production assets. The recoverability assessment involves the use of significant judgment both in the review of impairment indicators and, in any subsequent impairment test, the consideration of estimates which are dependent on assumptions about the future.

Impairment of PP&E

During 2014 the Group has assessed PP&E assets associated with Pirkovskoe field for obsolescence, and as a result $2.9 million was written off as unrecoverable. Further, due to the absence of the commercial production of gas and the latest independent assessment of reserves for the Pirkovskoe field, the Group decided to reclassify the remaining carrying value of the related wells and assets to exploration and evaluation assets as at 31 December 2014. There is an expectation that further work overs will be completed in 2015 but at different geological levels which are believed to be productive.

Reserves

The Group estimates of oil and gas reserves have a significant impact on the financial statements, in particular in relation to depletion, depreciation and decommissioning ("DD&D") and impairment. Oil and gas reserves, as discussed in the Statement of Reserves and Resources, 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 and expert review and studies performed with an external firm in Kiev and in-house.

However, reserves estimates are inherently uncertain, especially in the early stages of a field's life, and are routinely revised over the producing lives of oil and gas fields as new information becomes available and as economic conditions evolve. The Audit Committee acknowledges that such revisions may impact the Group's future financial position and results, in particular, in relation to DD&D and impairment testing of oil and gas property, plant and equipment.

Recoverability of investments in joint ventures

Recoverability of the Group's investments in joint ventures is based on assessment of exploration and evaluation assets impairment which constitute most of the investments in joint ventures cost. As of 31 December 2014 impairment assessment of the joint ventures' exploration and evaluation assets was based on the value in use of the assets held by each individual joint venture company.

Going concern

After making enquiries and considering the uncertainties described above, the Committee has 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.

Political and economic uncertainty in Ukraine

Recent political turmoil in Ukraine has made it necessary for management to assess the extent of its impact on the Group's operations and assets.

The Committee reviewed reports from management which considered whether adjustments are required to the carrying values of assets and the appropriateness of the going concern assumption. As a result management have concluded that there were no significant adverse consequences in relation to the Group's operations, cash flows and assets that impact the 2014 financial statements, apart from continuous uncertainty related to key assumptions used by management in assessment of the recoverable amount of production assets including the gas price and the discount factor in particular. Any further escalations of the political crisis may impact the Group's normal business activities, and increase the risks relating to its business operations, financial status and maintenance of its Ukrainian production licences.

In discussion with management, the Committee acknowledged the inherent difficulty in making any assessment as to the eventual outcome of the present political situation and, as a consequence, the difficulty of making a reliable judgement as to the future impact, if any, on the Group's business. The Committee concurs with conclusions reached by management summarised in Note 4 and in Note 31 to the financial statements.

Internal controls and risk management

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

The Audit 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. An assessment of the effectiveness of the audit process was made, giving consideration to reports from the auditor on its internal quality procedures. The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditor, including the scope of services associated with audit-related regulatory reporting services. Additionally, auditor independence and objectivity were assessed, giving consideration to the auditor's confirmation that its independence is not impaired, the overall extent of non-audit services provided by the external auditor and the past service of the auditor.

We have also taken account of the latest recommendations of the Code in relation to the regular tendering of the external audit appointment.

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Board Committee Reports continued

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 Audit 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 its 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 Audit Committee. All other non-audit work either requires Audit 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 $63,000 (2013: $105,000). 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.

The Company is aware that, as a result of the EU Audit Directive and Regulation, companies where the auditor was appointed between 17 June 2003 and 16 June 2006 will need to conduct a tender and either reappoint the existing auditor or appoint new auditors so that the new audit engagement takes effect on or before 16 June 2016. Accordingly, the Company intends to conduct a tender following the Annual General Meeting to be held on 25 June 2015.

Internal audit
The Audit 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 2013 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 Audit 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 Audit 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 Audit Committee.

Gilbert Lehmann
Chairman of the Audit Committee
30 April 2015

Health, Safety and Environment Committee Report
The Health, Safety and Environment Committee (the "HSE Committee") is appointed by the Board, on the recommendation of the Nomination Committee. The HSE Committee's terms of reference are reviewed annually by the HSE 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 HSE Committee was in place throughout 2014. Members of the HSE Committee are Mr Adelmo Schenato (Chief Operating Officer and HSE Committee Chairman), Mr Oleg Sybira (HSE Manager), Mr Luciano Kovacic (Exploration Manager). The Company Secretary attends meetings of the HSE Committee. The HSE Committee meets monthly to monitor continuously progress by management.

Activities of the Health, Safety and Environment Committee
During the year, the HSE 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 HSE Committee to assess the Company performance by analysing any lost-time incidents (of which there were none during 2013 and 2014), 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 HSE Committee has concluded that it has acted in accordance with its terms of reference.

Nomination Committee Report
The Nomination Committee is appointed by the Board predominantly from the non-executive Directors of the Group. The Nomination Committee's terms of reference include all matters indicated by the Code. They are reviewed annually by the Nomination Committee and any changes are then referred to the Board for approval. The terms of reference of the Nomination 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.

Board Committee Reports continued

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 Nomination 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 Nomination 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 Nomination 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 Nomination Committee. The Company Secretary attends all meetings of the Nomination Committee.

Activities of the Nomination Committee

The Nomination 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 Nomination Committee recommends the re-election of each of the Directors at the AGM.

Overview

As a result of its work during the year, the Nomination 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 Nomination Committee.

Zev Furst
Chairman
30 April 2015

Annual Report on Remuneration 2014

Statement from the Chairman
I am pleased to present the Annual Report on Remuneration for the year ended 31 December 2014.

During 2014 there were no substantial changes made to the composition of directors' remuneration, and there was no increase to executive and non-executive directors' salary and fees in base currency.

Shareholders will be aware that new rules for the reporting of directors' remuneration came into effect on 1 October 2013.

Given the challenging political situation in Ukraine, the Company's aim to develop a revised, long-term and balanced Remuneration Policy aligned to strategy and performance and linked to shareholder preferences took second precedence last year to other pressing matters. In my statement last year, I explained that the Company would maintain its current approach to remuneration, already long-term, balanced and aligned to strategy and performance.

I am pleased to now present for shareholders' approval the Company's Remuneration Policy. Shareholders will be asked to approve the Remuneration Policy every three years, unless there is a need to amend the Policy in the interim.

Remuneration Committee Report
The Remuneration 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 Remuneration Committee considers fully the principles and provisions of the Code. In designing performance-related remuneration schemes for executive Directors, the Remuneration Committee has considered and applied Schedule A of the Code.

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

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

Responsibilities
In summary, the Remuneration 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.

Overview
As a result of its work during the year, the Remuneration 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 Chairman and Executive Directors of the Company have a regular dialogue with analysts and substantial shareholders, which includes the subject of Directors' Remuneration. The outcome of these discussions are reported to the Board and discussed in detail both there and during meetings of the Remuneration Committee. 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 Remuneration Committee unanimously recommends that shareholders vote to approve the Annual Report on Remuneration at the 2015 Annual General Meeting.

Remuneration consultants
The Remuneration Committee did not take any advice from external remuneration consultants.

Annual Report on Remuneration 2014
continued

Single total figure of remuneration for executive and non-executive directors (audited)

	$ Salary and fees		$ Taxable benefits		$ Annual bonus		$ Long-term incentives		$ Pension		$ Total	
Executive Directors	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
B des Pallieres	**405,433**	384,941	**20,734**	–	–	–	–	–	–	–	**426,167**	384,941
A Schenato	**333,703**	331,728	**18,195**	–	–	–	–	–	–	–	**351,898**	331,728
Non-executive Directors												
Z Furst	**140,089**	133,008	–	–	–	–	–	–	–	–	**140,089**	133,008
G Lehmann	**74,165**	70,416	–	–	–	–	–	–	–	–	**74,165**	70,416
E Testa	**57,684**	54,768	–	–	–	–	–	–	–	–	**57,684**	54,768
M Meeùs	–	–	–	–	–	–	–	–	–	–	–	–

In 2014 there was no increase in executive and non-executive directors' salary in base currency. The difference in pay represents the change in exchange rate between the base currency and USD as a reporting currency.

Notes to the table

During 2014, Mr Bertrand des Pallieres continued as Chief Executive Officer. Mr des Pallieres' salary is £246,000 ($405,433) per annum, comprising £216,000 ($355,990) per annum under a consultancy agreement (the terms of which are reviewed by the Remuneration Committee annually) and £30,000 ($49,443) 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 continued as Chief Operating Officer of the Company throughout 2014. Mr Schenato's basic salary is £202,485 ($333,703) 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.

In May 2011 the Board agreed that the Chairman's fee be set at £85,000 ($140,089) and that the fee for acting as an independent non-executive Director be set at £35,000 ($57,684) with an additional £10,000 ($16,481) for acting as Chairman of the Audit Committee. There has been no increase in non-executive Directors' fees since that time.

Mr Michel Meeùs was appointed as a non-executive director in June 2014, with the appropriate remuneration as set out against his name in the table above for 2014. However, he did not receive payment of these fees from the Company during 2014 due to being unable to sign his letter of appointment. He has received $nil in respect of his service until the year end.

Benefits may be provided to the executive directors, in the form of private medical insurance and life assurance.

Scheme interests awarded during the financial year (audited)
There were no scheme interests awarded during the year.

Payments to past directors (audited)
In 2014 Ian Baron was paid $476,463 in accordance with his termination agreement.

Payments for loss of office (audited)
No payments were made to directors for loss of office in 2014.

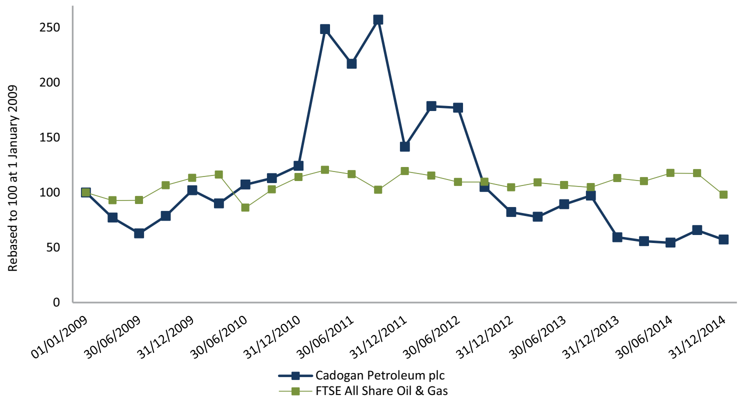
Directors' interests in shares (audited)
The beneficial interests of the Directors in office as at 31 December 2014 and their connected persons in the Ordinary shares of the Company at 31 December 2014 are set out below.

Shares as at 31 December	**2014**	2013
Z Furst	–	–
B des Pallieres	**200,000**	200,000
G Lehmann	–	–
M Meeùs	**26,000,000**	–
A Schenato	–	–
E Testa	–	–

The Company does not currently operate formal shareholding guidelines.

The Company's performance

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.



Historic Remuneration of Chief Executive

	$ Salary	$ Taxable benefits	$ Annual bonus	$ Long-term incentives	$ Pension	$ Loss of office	$ Total
2010	547,067	–	–	–	–	–	547,067
2011	669,185	–	–	–	–	–	669,185
2012	511,459	–	–	–	31,966	126,808	670,233
2013	384,941	–	–	–	–	–	384,941
2014	405,433	20,734	–	–	–	–	426,167

Percentage change in the remuneration of the Chief Executive

The following table shows the percentage change in the remuneration of the Chief Executive in 2014 and 2013 compared to that of all employees within the Group.

		2014 $'000	2013 $'000	Change %
Base salary	CEO	405	385	5.32
	All employees	4,423	5,704	(22.46)
Taxable benefits	CEO	20	–	100.00
	All employees	91	122	(25.41)
Total remuneration	CEO	426	385	10.71
	All employees	4,515	5,827	(22.52)

In 2014 there was no increase in executive and non-executive directors' salary in base currency. The difference in pay represents the change in exchange rate between the base currency and USD as a reporting currency. The decrease in employee remuneration is due to a reduction in employees as at 31 December 2014 to 90 (2013: 116).

Relative importance of spend on pay

The table below compares shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure of the Group for the financial years ended 31 December 2013 and 31 December 2014.

	2014 $'000	2013 $'000	Year-on-year change, %
All-employee remuneration	4,515	5,827	(22.52)
Distributions to shareholders	–	–	N/A

Annual Report on Remuneration 2014
continued

Shareholder voting at the Annual General Meeting
The Directors' Remuneration Report for the year ended 31 December 2013 and the Director's Remuneration Policy were approved by shareholders at the Annual General Meeting held on 23 June 2014. The votes cast by proxy were as follows:

Director's Remuneration Report	Number of votes	% of votes cast
For	148,836,293	99.99
Against	7,000	0.01
Total votes cast	148,843,293	100.00
Number of votes withheld	0	

Director's Remuneration Policy	Number of votes	% of votes cast
For	148,836,293	99.99
Against	7,000	0.01
Total votes cast	148,843,293	100.00
Number of votes withheld	0	

Implementation of Remuneration Policy in 2015
The Remuneration Committee proposes to implement a new Remuneration Policy, as set out below, with approval sought from the shareholders at the 2015 AGM.

The Company in undergoing a transition year in 2015 during which its strategy and 3-year plan will be agreed by the Board. Any performance measures and targets used for incentive awards during 2015 will be in keeping with the overall approach of the Company.

Approval
The Directors' Remuneration Report was approved by the Board on 30 April 2015 and signed on its behalf by:

Enrico Testa
Chairman of the Remuneration Committee
30 April 2015

Directors' Remuneration Policy

1. Introduction

This Directors' Remuneration Policy (the "Policy") contains the information required to be set out as the directors' remuneration policy for the purposes of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Policy is included for binding shareholder approval at the 2015 AGM of the Company. The effective date of this Policy is the date on which the Policy is approved by shareholders.

The Policy will apply in respect of all executive officers appointed to the Board of Directors ("executive directors") and non-executive directors.

The Remuneration Committee will keep the Policy under review to ensure that it continues to promote the long-term success of the Company by giving the Company its best opportunity of delivering on the business strategy. It is the Remuneration Committee's intention that the Policy be put to shareholders for approval every three years, unless there is a need for the Policy to be approved at an earlier date.

The Company aims to provide sufficient flexibility in the Policy for unanticipated changes in compensation practices and business conditions to ensure the Remuneration Committee has appropriate discretion to retain its top executives and manage its business. The Remuneration Committee reserves the right to make any payments that may be outside the terms of this Policy, where the terms of that payment were agreed before the Policy came into effect, or before the individual became a director of the Company.

Maximum caps are provided to comply with the required legislation and should not be taken to indicate an intent to make payments at that level. All monetary amounts are in USD, unless otherwise indicated.

2. Remuneration policy table: executive directors

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Salary and Fees	To provide fixed remuneration at an appropriate level, to attract and retain directors as part of the overall compensation package.	Salary is paid on a monthly basis. The Remuneration Committee takes into account a number of factors when setting salaries including: › scope and difficulty of the role; › skills and experience of the individual; › salary levels for similar roles within the international industry; and › pay and conditions elsewhere in the Group. Salaries are reviewed on an annual basis, but are not necessarily increased at each review. Executive directors may be paid under a consultancy agreement as well as a services agreement.	The maximum annual base combined salary and fees for any individual is $500,000. The Remuneration Committee will consider the factors set out under the "Operation" column when determining the appropriate level of base salary within the formal Policy maximum.	None.

Annual Report on Remuneration 2014
continued

Directors' Remuneration Policy continued

2. Remuneration policy table: executive directors continued

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Annual Bonus	To incentivise and reward the achievement of individual and business objectives which are key to the delivery of the Company's business strategy.	The payment of any bonus is at the discretion of the Board. Annual bonus awards are based on individual and Company performance measures, and may include both a cash component and an equity component.	The maximum award is 200% of combined base salary and fees.	Currently there are no performance measures; the payment of any bonus is at the discretion of the Board.
Share Incentive Arrangements	To incentivise, retain and reward eligible employees and align their interests with those of the shareholders of the Company.	The Company operates the following incentive plans: 2008 Performance Share Plan ("PSP") and a 2008 Share Option Plan with a corresponding tax-advantaged share option 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, in the form of nil-cost options, contingent share awards or restricted share awards. Option plans The Company operates two share option plans: the 2008 Share Option Plan and the 2008 Approved Option Plan ("CSOP") (which is a UK tax-advantaged plan). Operation of the plans is governed by the rules of the respective plans. The Company is considering establishing a Long-Term Incentive Plan.	Awards can be made under the PSP with a value of up to a maximum of 200% of base salary and fees or 400% in exceptional circumstances. The maximum award permitted under the share option plans is an award over shares valued at 200% of combined base salary and fees.	There are no share awards outstanding under the Plans. The Company is undergoing a transition year during which its strategy and 3-year plan will be agreed by the Board. A critical question will be to determine whether E&P will remain the only strategic focus or whether activities currently considered non-core will be part of the long-term strategy. Until these strategic questions are answered, the Company will have to keep its framework as flexible as its need for tactical reactivity. Any performance measures and targets used for incentive awards during 2015 will be relevant and stretching in line with the overall direction of the Company.

2. Remuneration policy table: executive directors continued

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Pension	To provide a retirement benefit that will foster loyalty and retain experienced executive directors.	No pension benefits are currently provided to executives. However, the Remuneration Committee may in the future decide to provide pension benefits commensurate with the market.	Any pension benefits will be set at an appropriate level in line with market practice, and in no event will the contributions paid by the Company exceed 15% of combined base salary and fees.	None.
Benefits	To provide a market competitive level of benefits to executive directors.	The executive directors are entitled to private medical insurance and life assurance cover (of four times the combined salary and fee). The Company does not, at present, provide other taxable benefits to the executive directors. However, the Remuneration Committee may in the future decide to provide benefits commensurate with the market.	Any benefits will be set at an appropriate level in line with market practice, and in no event will the value of the benefits exceed 15% of combined base salary and fees.	None.

Notes to the Policy Table

The Remuneration 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 protection of the Company's existing tangible and intangible assets and the promotion of the Company's business interests. Exceptional rewards should only be delivered if there are exceptional returns.

The Remuneration Committee reserves the right to make any remuneration payments (including satisfying awards of variable remuneration) and payments for loss of office notwithstanding that they are not in line with the Policy set out above, where the terms of that payment were agreed before the Policy came into effect, or before the individual became a director of the Company (provided the payment was not in consideration for the individual becoming a director).

Annual Report on Remuneration 2014
continued

Directors' Remuneration Policy continued

2.1 Performance measures and targets
(a) Annual Bonus
The performance measures for executive directors comprise of financial measures and business goals linked to the Company's strategy, which could include financial and non-financial measures. The business objectives are tailored to reflect each executive director's role and responsibilities during the year. The performance measures were chosen to enable the Remuneration Committee to review the Company's performance against the Company's business strategy and appropriately incentivise and reward the executive directors.

Annual bonus targets are set by the Remuneration Committee each year. They are stretching targets which reflect the most important areas of strategic focus for the Company. The factors taken into consideration include the Company's Key Performance Indicators, and the extent to which they are under the control or influence of the executive whose remuneration is being determined. The biggest challenge faced by the Company today is the complete redesign of its core strategy in Exploration & Production as a result of the difficulties faced over the last years. Long-term traditional measures such as increase in reserves or production are not possible to calibrate today. However compensation for non-core activities, trading in particular, will be benchmarked to gross profit adjusted for risk and capital employed.

(b) Share Plans
The Remuneration Committee may make the vesting of a Plan award conditional upon the satisfaction of performance conditions.

If performance conditions are attached to an award, they are determined at the time of grant by the Remuneration Committee. The performance measures are chosen to align the performance of participants with the attainment of financial performance targets over the vesting period of the award. The targets are set by the Remuneration Committee by reference to the Company's strategy and business plan.

Under the Plan rules, the Board may vary a performance target where it considers that any performance target to which an award is subject is no longer a true or fair measure of the participant's performance, provided that the Board must act fairly and reasonably and that the new performance target is materially no more difficult and no less difficult to satisfy than the original performance target.

2.2 Malus and clawback
(a) Annual Bonus
There are no malus or clawback provisions included in the operation of the annual bonus. The Remuneration Committee retains the flexibility to introduce this in the future.

(b) Share Plan
The share plans do not contain provisions for the recovery of sums paid or the withholding of the payment of any sum in particular circumstances.

2.3 Remuneration throughout the Group
Differences in the Company's pay policy for executive directors from that applying to employees within the Group generally reflect the appropriate market rate for the individual executive roles.

3. Remuneration policy table: non-executive directors

Component	Purpose and Link to Strategy of the Group	Operation	Maximum Opportunity	Performance Measures
Fees	To provide an appropriate reward to attract and retain high-calibre individuals with the relevant skills, knowledge and experience.	Non-executive directors receive a standard annual fee, which is paid on a quarterly basis in arrears. Additional fees may also be paid to recognise the additional work performed by members of any committees set up by the Board, and for the role of chair of a committee. Fees are reviewed on an annual basis, but are not necessarily increased at each review. The remuneration of the non-executive directors is a matter for the Board to consider and decide upon.	The maximum annual fees paid to any individual is £45,000 for a non-executive director role, and £100,000 for the role of Chairman. An additional £10,000 will be paid to the individual acting as Chairman of the Audit Committee. Fees are set at a rate that takes into account: › market practice for comparative roles; › the time commitment and duties involved; and › the requirement to attract and retain the quality of individuals required by the Company.	None.

Notes to the Policy Table

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.

Expenses reasonably and wholly incurred in the performance of the role of non-executive director of the Company may be reimbursed or paid for directly by the Company, as appropriate, and may include any tax due on the expense.

The non-executive directors' fees are non-pensionable. The non-executive directors have not to date been eligible to participate in any incentive plans (such as bonuses or share plans); however, the Board considers that it may be appropriate in the future to enable such participation, subject to suitably stretching performance thresholds.

Non-executive directors may receive professional advice in respect of their duties with the Company which will be paid for by the Company. They will also may be covered by the Company's insurance policy for directors.

4. Recruitment

The Company's policy on the recruitment of directors is to pay a fair remuneration package for the role being undertaken and the experience of the individual being recruited. The Remuneration Committee will consider all relevant factors, which include the abilities of the individual, their existing remuneration package, market practice, and the existing arrangements for the Company's current directors.

The Remuneration Committee will determine that any arrangements offered are in the best interests of the Company and shareholders, and will endeavour to pay no more than is necessary.

The Remuneration Committee intends that the components of remuneration set out in the policy tables, and the approach to the components as set out in the policy tables, will be equally applicable to new recruits, i.e. salary, annual bonus, share plan awards, pension and benefits for executive directors, and fees for non-executive directors. However, the Company acknowledges that additional flexibility may be required to ensure the Company is in the best position to recruit the best candidate for any vacant roles.

Annual Report on Remuneration 2014
continued

Directors' Remuneration Policy continued

4.1 Flexibility

The salary and compensation package designed for a new recruit may be higher or lower than that applying for existing directors. The Remuneration Committee may decide to appoint a new executive director to the Board at a lower than typical salary, such that larger and more frequent salary increases may then be awarded over a period of time to reflect the individual's growth in experience within the role.

Remuneration will normally not exceed those set out in the policy table above. However, the Remuneration Committee reserves discretion to provide a sign-on payment or benefits in addition to those set out in the policy table (or mentioned in this section) where the Remuneration Committee considers it reasonable and necessary to do so.

To ensure that the Company can sufficiently compete with its competitors, the Remuneration Committee considers it important that the recruitment policy has sufficient flexibility in order to attract and appropriately remunerate the high-performing individuals that the Company requires to achieve its strategy. Accordingly:

- The Remuneration Committee reserves the right to provide a one-off bonus of up to 30% of base salary if this is required to secure an external appointment (separate to the annual bonus described in the policy table).
- The maximum level of variable remuneration which may be granted to a new recruit, in addition to the components of pay described in the policy table and excluding any buy-out of forfeited awards, shall be 10% of base salary.

This flexibility will only be used when the Remuneration Committee believes it is essential to recruit and motivate a particular candidate.

4.2 Buy-out arrangements

To facilitate recruitment, the Remuneration Committee retains the discretion to compensate new hires for incentive awards forfeited in joining the Company. The Remuneration Committee will use its discretion in setting any such compensation, which will be decided on a case-by-case basis and likely on an estimated like-for-like basis.

Compensation for awards forfeited may take the form of a bonus payment or a share award. For the avoidance of doubt, the maximum amounts of compensation contained in the policy table will not apply to such awards. The Company has not placed a maximum value on the compensation that can be paid under this section, as it does not believe it would be in shareholders' interests to set any expectations for prospective candidates regarding such awards.

In deciding the appropriate type and quantum of compensation to replace existing awards, the Remuneration Committee will take into account all relevant factors, including the type of award being forfeited, the likelihood of any performance measures attached to the forfeited award being met, and the proportion of the vesting period remaining. The Remuneration Committee will appropriately discount the compensation payable to take account of any uncertainties over the likely vesting of the forfeited award to ensure that the Company does not, in the view of the Remuneration Committee, pay in excess of what is reasonable or necessary.

5. Payments for loss of office

Any compensation payable in the event that the employment of an executive director is terminated will be determined in accordance the terms of the service contract between the Company and the executive, as well as the relevant rules of the share plan and this Policy, and in accordance with the prevailing best practice.

The Remuneration Committee will consider a variety of factors when considering leaving arrangements for an executive director and exercising any discretions it has in this regard, including (but not limited to) individual and business performance during the office, the reason for leaving, and any other relevant circumstances (for example, ill health).

In addition to any payment that the Remuneration Committee may decide to make, the Remuneration Committee reserves discretion as it considers appropriate to:

- pay an annual bonus for the year of departure;
- continue providing any benefits for a period of time; and
- provide outplacement services.

Non-executive directors are subject to one month notice periods prior to termination of service and are not entitled to any compensation on termination.

5.1 Share plan awards

The treatment of any outstanding share award is governed by the Plan rules.

Under the 2008 Approved Share Option Plan, options held by an individual who ceases to be a director or employee of the Company will lapse, unless the cessation is due to death, illness, injury or disability, redundancy, retirement, the Company ceasing to be a member of the Group or the transfer of an undertaking or part of an undertaking to a person who is not a member of the Group, or the Board exercises its discretion otherwise.

Under the 2008 Performance Share Plan, outstanding share awards held by an individual who ceases to be a director or employee of the Company will lapse, unless the cessation is due to death, illness, injury or disability, redundancy, retirement, the Company ceasing to be a member of the Group or the transfer of an undertaking or part of an undertaking to a person who is not a member of the Group, or the Board exercises its discretion otherwise.

Under both Plans, the Board has discretion to decide the period of time for which the award will continue, and whether any unvested award shall be treated as vesting on the date of cessation of employment or in accordance with the original vesting schedule, in both cases have regard to the extent to which the performance targets have been satisfied prior to the date of cessation.

6. Executive director service agreements

This section contains the key employment terms and conditions of the executive directors that could impact on their remuneration or loss of office payments.

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

Directors' service contracts are available for inspection at the Company's registered office and at 27A Taras Shevchenko Boulevard, 01032 Kyiv, Ukraine.

7. Non-executive directors' letters of appointment

This section contains the key terms of the appointments of non-executive directors that could impact on their remuneration.

Each of the non-executive Directors is appointed by letter of appointment for an initial term of three years. As per the letters of appointment, non-executive Directors are typically expected to serve two three-year terms although the Board may invite a non-executive Director to serve for an additional term. All of the non-executive Directors are now in their second three-year term with the exception of Michel Meeùs. Non-executive Directors are subject to annual re-election by the Company's shareholders and their appointments may be terminated earlier with one month's prior written notice. The dates of the non-executive Directors' original appointment and expiry of current term are:

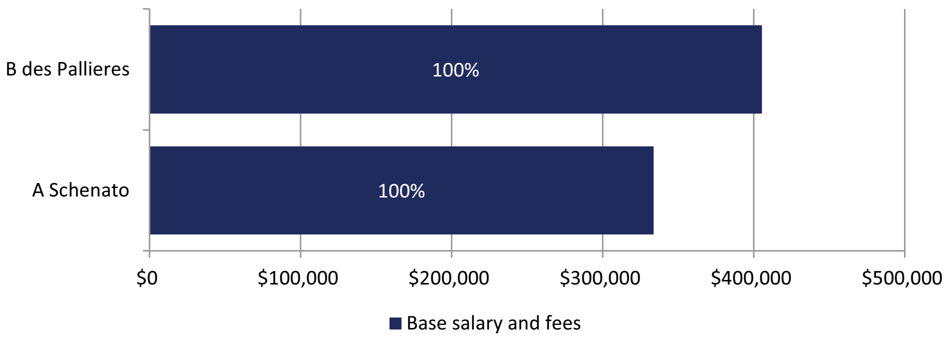
Non-executive Director	Date of appointment	Expiry of current term
Z Furst	2 August 2011	2 August 2017
E Testa	1 October 2011	1 October 2017
G Lehmann	18 November 2011	18 November 2017
M Meeùs	23 June 2014	23 June 2017

Annual Report on Remuneration 2014
continued

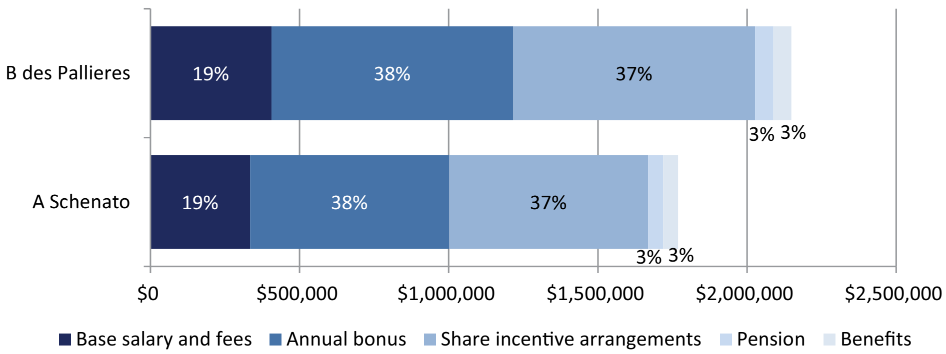
Directors' Remuneration Policy continued

8. Illustration of the Remuneration Policy
The bar charts below show the levels of remuneration that each executive director could earn over the coming year under the Policy.

Minimum remuneration



Maximum remuneration



* the bar chart shows future possible maximum remuneration.

No pension entitlements were provided in 2014. However, the Remuneration Committee may in the future decide to provide pension benefits commensurate with the market.

9. Consideration of shareholder views
The Chairman and Executive Directors of the Company have a regular dialogue with analysts and substantial shareholders, which includes the subject of directors' remuneration. The outcome of these discussions are reported to the Board and discussed in detail both there and during meetings of the Remuneration Committee.

The Remuneration Committee will take into account the results of the shareholder vote on remuneration matters when making future remuneration decisions.

The Remuneration Committee remains mindful of shareholder views when evaluating and setting ongoing remuneration strategy.

10. Consideration of employment conditions within the Group
When determining remuneration levels for its executive directors, the Board considers the pay and employment conditions of employees across the Group. The Committee will be mindful of average salary increases awarded across the Group when reviewing the remuneration packages of the executive directors.

11. Minor changes
The Remuneration Committee may make, without the need for shareholder approval, minor amendments to the Policy for regulatory, exchange control, tax or administrative purposes or to take account of changes in legislation.

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 by 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 International Accounting Standards ("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 Financial Statements 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, 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 Company's and Group'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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Annual Report on Remuneration, Directors' Remuneration Policy 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 Strategic 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; and
(3) the annual report and the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Group's performance, business model and strategy.

On behalf of the Board

Zev Furst
Chairman
30 April 2015

Independent Auditor's Report to the Members of Cadogan plc

Opinion on financial statements of Cadogan Petroleum plc

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 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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 Regulations.

The financial statements comprise the Consolidated Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1–42.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the Report of Directors on page 21 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Political and economic turmoil in Ukraine All the Group's business activities and assets are located in Ukraine. The potential future impact of the political and economic situation on the business operations is highly uncertain. Consideration is required whether the carrying values of tangible and intangible assets of $36.4 million and receivables of $17.9 million remain recoverable, whether assumptions include future gas prices, foreign currency exchange rates and inflation assumptions used in impairment assessments are reasonable, whether the going concern assumption is appropriate and whether appropriate disclosures have been made. Details of the Group's assessment of the operating environment in Ukraine and uncertainties about key assumptions made by management in assessing the recoverable amount of oil and gas assets are disclosed in notes 4 and 35.	Using sensitivity analysis we have assessed the potential impact of ongoing political instability in Ukraine on the key assumptions used by management in the calculation of the recoverable amount of development and exploration assets and investments in associates, including gas prices, the discount factor and currency exchange rates. We also assessed the potential impact of the ongoing crisis on the going concern assumption by modelling the impact of various downside scenarios, including inflation caused by depreciation of the national currency, potential difficulties with the upcoming extension of licences and potential issues related to the protection of assets. We considered the adequacy of the disclosures made in the financial statements and the annual report.

Risk	How the scope of our audit responded to the risk
Recoverability of intangible exploration and evaluation (E&E) assets Exploration and evaluation ("E&E") assets of $18.3m must be carefully assessed for indicators of impairment, as prescribed by IFRS 6 Exploration for and Evaluation of Mineral Assets. Assessment of the carrying value of E&E assets requires significant judgement, including the Group's intention and ability to proceed with a future work programme for a prospect or licence, the likelihood of licence renewal or extension, and the expected or actual success of drilling and geological analysis. The Group has assessed its portfolio also in the context of the uncertain political and economic situation in Ukraine. Details of the Group's policy on E&E assets are disclosed in note 3 and note 16.	We evaluated management's assessment of indicators of impairment and recoverability assessment for the Group's E&E assets prepared in accordance with IFRS 6 requirements. We analysed the reasonableness of the estimates such as oil and gas resources, future oil and gas prices, future costs and performed the benchmarking of inflation and discount rates to estimates used by the peer companies. We also considered actual facts and circumstances of the operating environment of the Group. Our work included discussion of the latest status and future appraisal plans on each licence with operational staff and Group management. We gathered evidence such as budgets, field development plans, contracts for future drilling and geological and geophysical activities to verify that management intention to continue exploration efforts is supported by funding commitments. We have also obtained and reviewed documentary evidence, such as budgets, field working programmes, contracts for future geological and geophysical activities, and licence documents.
Recoverability of development and producing oil and gas properties within property, plant and equipment Management is required to assess whether there are any indications of impairment, and if so test for impairment by measuring the recoverable amount of the $5.2 million of the property, plant and equipment assets. In forming their judgements as to whether indications of impairment are present, management considers estimates involving oil and gas reserves, future oil and gas prices, inflation, future costs and discount rates. During 2014 management has assessed assets associated with the Pirkovskoe field for obsolescence, and as a result $3 million was written off as unrecoverable. Further, due to the absence of the commercial production of gas and the latest independent assessment of reserves for the Pirkovskoe field, management reclassified the remaining carrying value of the wells and assets to exploration and evaluation assets at 31 December 2014. Management remains committed to continue exploration efforts at the Pirkovskoe field using the existing wells. The Bitlyanska and Monastyretska licences expired in December 2014, although negotiations were ongoing. Subsequent to the balance sheet date, management of the Group has completed the negotiation process with the government and obtained a written consent from the relevant government authority for the extension of the Bitlyanska and Monastyretska licences. Details of the Group's policy on impairment and the reclassification of the Pirkovskoe field assets are disclosed in note 3 and note 4.	We have challenged management's assessment of potential impairment indicators outlined in IAS 36 and in light of the performance of each asset, future development plans and external factors such as the outlook for gas and oil prices and the social and political unrest in the country. We have obtained and reviewed management's assessment of Pirkovskoe field assets for obsolescence. For remaining assets reclassified from development and producing oil and gas properties to exploration assets, we have obtained documents supporting management's intention to continue exploration and agreements with third parties confirming exploration expenses. We have considered the reclassification decision by reference to available geological data from the work performed and discussion of the Groups future plans on exploration of the Pirkovskoe field. Our audit procedures for the Debeslavetska and Cheremkhivska assets included reviewing management's calculation of the fair value of assets based on the anticipated future cash flows. We assessed the assumptions and management estimates used in the forecast such as oil and gas reserves, future oil and gas prices, inflation, future costs and discount rates as set out in response to the risk related to the recoverability of exploration and evaluation assets. We also verified licence consent received subsequent to the year end.

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

Risk	How the scope of our audit responded to the risk
Recoverability of investments in joint ventures Investments in joint ventures LLC Astroinvest-Energy, LLC Industrial Company Gazvydobuvannya and LLC Westgasinvest amounted to $14m at 31 December 2014. Those have decreased during 2014 as a result of the share of losses in joint ventures in the amount of $55m recognised during the year, largely due to the exploration and evaluation asset impairment recognised by the joint ventures, caused by the planned relinquishment of their interest by the Group's joint venture partner. All joint ventures of the Group are involved in the development of exploration and evaluation of oil and gas assets, therefore management, in forming their judgements as to whether indicators of impairment are present, considers estimates involving the future committed capital spending of joint venture partners, assessment of recoverability of accumulated capital spending and the ability to meet licence requirements. Details of the Group's policy on joint ventures are disclosed in note 3.	We evaluated management's assessment of whether there were any indicators of impairment for the Group's interests in joint ventures, taking into consideration the impairment indicators outlined in IFRS 6 for the purpose of impairment assessment of exploration and evaluation assets within the joint ventures. We held discussions on the latest status and future appraisal plans on each licence with operational staff and Group management and compared these plans with approved budgets. We undertook a detailed analysis and challenge of the significant judgements and estimates used in management's impairment tests of the Pokrovskya E&E assets, the largest joint venture of the Group. Our analysis included comparison of gas price assumptions to publicly available forecasts and the discount rate applied by management, and the comparison of future cost estimates against actual historic cost levels and budgets.

While we still consider going concern to be significant risk, in the current year it has not been an area which has had a major impact on our audit strategy because of the current funding position of the Group.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee and discussed on pages 14 to 16.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

When setting materiality, among other factors we considered the Group's pre-tax loss in the current period as well as in recent periods; the occurrence of any non-recurring or fluctuating gains and losses (such as exploration and evaluation assets impairments) and the level of consolidated shareholders equity. We determined materiality for the Group to be $2,700,000 (2013: $4,000,000), which is 3% of consolidated shareholders' equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $54,000 (2013: $80,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we have included in the Group audit scope the full audit of all significant entities in Ukraine and in the UK. These businesses account for over 90% (2013: over 90%) of the Group's net assets, revenue and loss before tax. Our audit work used individual levels of materiality applicable to significant entities in the Ukraine and the UK which were lower than Group materiality. The joint group audit team was led by the Deloitte UK Senior Statutory Auditor and managers and included junior audit members and senior tax specialists from Deloitte Ukraine as all assets are located there and appropriate knowledge of local legislation and tax regulations is required.

The Senior Statutory Auditor and managers from the Deloitte UK visited the Ukraine during the fieldwork stage of the audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining balances not subject to audit or audit of specified account balances.

Opinion on other matter 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made, or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

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 part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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/or those further matters we have expressly agreed to report to them on in our engagement letter 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.

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

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy Biggs FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
30 April 2015

Consolidated Income Statement

For the year ended 31 December 2014

	Notes	2014 $'000	Restated 2013 $'000
CONTINUING OPERATIONS			
Revenue	6	**32,623**	3,772
Cost of sales		**(29,813)**	(3,019)
Gross profit		**2,810**	753
Administrative expenses:			
Other administrative expenses		**(7,002)**	(8,919)
Impairment of oil and gas assets	8	**(5,134)**	-
Reversal of impairment of other assets	8	**877**	234
		(11,259)	(8,685)
Share of losses in joint ventures	19	**(54,664)**	(6,630)
Net foreign exchange gains/(losses)		**3,036**	(271)
Other operating income, net	7	**547**	5
Operating loss		**(59,530)**	(14,828)
Investment income	12	**852**	434
Finance costs	13	**(468)**	(6)
Loss before tax		**(59,146)**	(14,400)
Tax charge	14	**(166)**	(289)
Loss for the year	9	**(59,312)**	(14,689)
Attributable to:			
Owners of the Company		**(59,271)**	(14,660)
Non-controlling interest		**(41)**	(29)
		(59,312)	(14,689)

Loss per Ordinary share		**cents**	cents
Basic	15	**(25.6)**	(6.3)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 $'000	2013 $'000
Loss for the year	**(59,312)**	(14,689)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Unrealised currency translation differences	**(28,153)**	(3,551)
Other comprehensive loss	**(28,153)**	(3,551)
Total comprehensive loss for the year	**(87,465)**	(18,240)
Attributable to:		
Owners of the Company	**(87,424)**	(18,211)
Non-controlling interest	**(41)**	(29)
	(87,465)	(18,240)

Consolidated Balance Sheet

As at 31 December 2014

	Notes	2014 $'000	2013 $'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	16	**18,289**	5,958
Property, plant and equipment	17	**3,846**	43,886
Investments in joint ventures	19	**14,325**	65,965
		36,460	115,809
Current assets			
Inventories	20	**9,940**	2,951
Trade and other receivables	21	**17,891**	6,879
Cash and cash equivalents	22	**48,927**	56,484
		76,758	66,314
Total assets		**113,218**	182,123
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	23	**(288)**	(675)
Provisions	26	**(55)**	(195)
		(343)	(870)
Current liabilities			
Short-term borrowings	24	**(17,327)**	–
Trade and other payables	25	**(5,068)**	(3,442)
Provisions	26	**(647)**	(513)
		(23,042)	(3,955)
Total liabilities		**(23,385)**	(4,825)
NET ASSETS		**89,833**	177,298
EQUITY			
Share capital	27	**13,337**	13,337
Retained earnings		**223,600**	282,871
Cumulative translation reserves		**(148,991)**	(120,838)
Other reserves		**1,589**	1,589
Equity attributable to owners of the Company		**89,535**	176,959
Non-controlling interest		**298**	339
TOTAL EQUITY		**89,833**	177,298

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 30 April 2015. They were signed on its behalf by:

Bertrand Des Pallieres
Chief Executive Officer
30 April 2015

The notes on pages 56 to 85 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	2014 $'000	Restated 2013 $'000
Operating loss	**(59,530)**	(14,828)
Adjustments for:		
Depreciation of property, plant and equipment	**938**	1,201
Impairment of oil and gas assets	**5,134**	–
Share of losses in joint ventures	**54,664**	6,630
Charge/(release) of impairment of inventories (note 8)	**253**	(97)
Reversal of impairment of VAT recoverable (note 8)	**(727)**	(137)
Loss on disposal of property, plant and equipment	**211**	103
Effect of foreign exchange rate changes	**(4,892)**	(1,571)
Operating cash flows before movements in working capital	**(3,949)**	(8,699)
(Increase)/decrease in inventories	**(7,242)**	628
(Increase)/decrease in receivables	**(10,285)**	32,879
Increase/(decrease) in payables and provisions	**1,424**	(645)
Cash (used in)/from operations	**(20,052)**	24,163
Interest paid	**(218)**	–
Income taxes paid	**(373)**	(169)
Net cash (outflow)/inflow from operating activities	**(20,643)**	23,994
Investing activities		
Investments in joint ventures	**(3,024)**	(4,687)
Purchases of property, plant and equipment	**(1,611)**	(783)
Purchases of intangible exploration and evaluation assets	**(468)**	(3,069)
Proceeds from sale of property, plant and equipment	**84**	127
Interest received	**852**	434
Net cash used in investing activities	**(4,167)**	(7,978)
Financing activities		
Proceeds from short-term borrowings	**17,327**	–
Net cash from financing activities	**17,327**	–
Net (decrease)/increase in cash and cash equivalents	**(7,483)**	16,016
Effect of foreign exchange rate changes	**(74)**	(9)
Cash and cash equivalents at beginning of year	**56,484**	40,477
Cash and cash equivalents at end of year	**48,927**	56,484

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	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 2013	**13,337**	**297,438**	**(117,287)**	**93**	**1,589**	**368**	**195,538**
Net loss for the year	–	(14,660)	–	–	–	(29)	(14,689)
Other comprehensive loss	–	–	(3,551)	–	–	–	(3,551)
Total comprehensive loss for the year	**-**	**(14,660)**	**(3,551)**	**-**	**-**	**(29)**	**(18,240)**
Share-based payments	–	93	–	(93)	–	–	–
As at 1 January 2014	**13,337**	**282,871**	**(120,838)**	**-**	**1,589**	**339**	**177,298**
Net loss for the year	–	(59,271)	–	–	–	(41)	(59,312)
Other comprehensive loss	–	–	(28,153)	–	–	–	(28,153)
Total comprehensive loss for the year	**-**	**(59,271)**	**(28,153)**	**-**	**-**	**(41)**	**(87,465)**
As at 31 December 2014	**13,337**	**223,600**	**(148,991)**	**-**	**1,589**	**298**	**89,833**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. General information

Cadogan Petroleum plc (the "Company", together with its subsidiaries the "Group"), is registered in England and Wales under the Companies Act 2006. The address of the registered office is 1st Floor, 40 Dukes Place, London, EC3A 7NH. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 8 to 10 and the Financial Review on pages 11 to 13.

2. Adoption of new and revised Standards

Adoption of new and revised International Financial Reporting Standards

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and have no impact on the Group:

- Amendments to IFRS 10, IFRS 11 and IFRS 12 – "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"
- Amendment to IAS 27 "Separate Financial Statements" (revised 2011) – Investment entities
- Amendments to IAS 32 "Financial instruments: Presentation" – Application guidance on the offsetting of financial assets and financial liabilities
- Amendments to IAS 36 "Recoverable amounts disclosures for non-financial assets"
- Amendments to IAS 39 "Novation of derivatives and continuation of hedge accounting"
- IFRIC 21 "Levies"

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

In general, the amendments require retrospective application, with specific transitional provisions.

As the reporting entity is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or other amounts recognised in the Group's consolidated financial statements.

The adoption of other new or revised standards did not have any effect on the consolidated financial position or performance of the Group and any disclosures in the Group's consolidated financial statements.

Standards and Interpretations in issue but not effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations, as well as amendments to the Standards were in issue but not yet effective:

Standards and Interpretations	Effective for annual period beginning on or after
Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contribution	Not yet adopted in the EU
Amendments to IAS 1: Disclosure Initiative	Not yet adopted in the EU
Amendments to IAS 27: Equity Method in Separate Financial Statements	Not yet adopted in the EU
Amendments to IAS 16 and IAS 41: Bearer plants	Not yet adopted in the EU
Amendments to IAS 16 and IAS 38: Classification of Acceptable Methods of Depreciation and Amortisation	Not yet adopted in the EU
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet adopted in the EU
Amendments to IFRS 11: Accounting for acquisitions of Interests in Joint Ventures	Not yet adopted in the EU
Amendments to IFRSs – "Annual Improvements to IFRSs 2010-2012 Cycle"	Not yet adopted in the EU
Amendments to IFRSs – "Annual Improvements to IFRSs 2011-2013 Cycle"	Not yet adopted in the EU
Amendments to IFRS 7 "Financial instruments: Disclosures" – Disclosures about the initial application of IFRS	1 January 2015

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 Strategic Report on pages 5 to 19. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 11 to 13.

The Group's cash balance at 31 December 2014 was $48.9 million (2013: $56.5 million) excluding $0.5 million (2013: $0.2 million) of Cadogan's share of cash and cash equivalents in joint ventures. It includes $20 million of restricted cash held in UK bank which represent security of borrowings (note 24). The Directors believe that the funds available at the date of the issue of these financial statements are 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.

As the Group engages in oil and gas exploration and development activities, the most significant financial 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 and, thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In making its statement the Directors have considered the recent political and economic uncertainty in Ukraine, as described further in the note 4 (f).

(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. IFRS 10 defines control to be investor control over an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to control those returns through its power over the investee.

The results of subsidiaries acquired or disposed 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

3. Significant accounting policies continued

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.

(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. These are recognised and measured at fair value less costs to sell.

(e) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture firm recognises its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.

Under the equity method, the investment is carried on the balance sheet at cost plus changes in the Group's share of net assets of the entity, less distributions received and less any impairment in value of the investment. The Group Consolidated Income Statement reflects the Group's share of the results after tax of the equity-accounted entity, adjusted to account for depreciation, amortisation and any impairment of the equity accounted entity's assets. The Group Statement of Comprehensive Income includes the Group's share of the equity-accounted entity's other comprehensive income.

Financial statements of equity-accounted entities are prepared for the same reporting year as the Group. The Group assesses investments in equity-accounted entities for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs of disposal and value in use. If the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

The Group ceases to use the equity method of accounting from the date on which it no longer has joint control over the joint venture or significant influence over the associate, or when the interest becomes classified as an asset held for sale.

(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. Revenue from services is recognised in the accounting period in which services are rendered. The main types of services provided by the Group are drilling and construction services.

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.

3. Significant accounting policies continued

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. This forms part of the net investment in a foreign operation which is recognised in the foreign currency translation reserve and 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.

The relevant exchange rates used were as follows:

	Year ended 31 December 2014		Year ended 31 December 2013	
	GBP/USD	USD/UAH	GBP/USD	USD/UAH
Closing rate	1.5534	16.0960	1.6491	8.3920
Average rate	1.6481	12.1705	1.5648	8.2545

(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 consolidated 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. This 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

3. Significant accounting policies continued

(i) Property, plant and equipment

Property, plant and equipment ('PP&E') 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%
Fixtures and equipment	10% to 30%

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 property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its PP&E 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.

(k) Intangible exploration and evaluation assets

The Group applies the modified full cost method of accounting for intangible exploration and evaluation ('E&E') expenditure which complies with requirement set out in IFRS 6 Exploration for and Evaluation of Mineral Resources. Under the modified 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 geographical cost pool basis.

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. Upon approval of a development programme, the carrying value, after any impairment loss, of the relevant E&E assets is reclassified to the development and production assets within PP&E.

3. Significant accounting policies continued

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.

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 assets fall into an area that does not have an established pool or if there are no producing assets to cover the unsuccessful exploration and evaluation costs, those assets would fail the impairment test and be written off to the income statement in full.

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

Reclassification from development and production assets back to exploration and evaluation

Where development efforts are unsuccessful in the target geological formation of the license area but the Company see a potential for oil and gas discoveries in other geological formations of the same license area, reclassification of recoverable amount of assets from development and production assets back to exploration and evaluation is appropriate following the impermanent assessment.

(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.

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.

(m) Inventories

Raw materials and oil and gas stock 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

3. Significant accounting policies continued

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 twelve 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.

Restricted cash balances represent components of cash and cash equivalents that are not available for use by the Group.

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.

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 re-organisation.

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.

3. Significant accounting policies continued

(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) Share-based payments

The Group issued 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.

The Group also issued 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) Impairment of E&E

The outcome of ongoing exploration, and therefore the recoverability of the carrying value of intangible exploration and evaluation assets, is inherently uncertain. Management makes the judgements necessary to implement the Group's policy with respect to exploration and evaluation assets and considers these assets for impairment at least annually with reference to indicators in IFRS 6.

(b) Impairment of PP&E

IAS 36 Impairment of Assets require that a review for impairment to be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

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

Management assessed whether any impairment triggers were present at 31 December 2014 and concluded that the following impairment indicators existed for the Pirkovska licence area:

- High uncertainty about the impact of political and economic turmoil in Ukraine on Group operations;
- Significant market capitalization discount to the carrying amount of the net assets of the entity; and
- Lack of production at Pirkovska licence area since 2009.

Carrying the analysis on the Pirkovska licence area management identified assets which have been reclassified to exploration and evaluation and obsolete assets which as of 31 December 2014 were used in production and development. Further details are provided in note 17.

(c) Impairment of investments in joint ventures

The Group's investments in joint ventures are accounted for using the equity method. The carrying value of the Group's investments is reviewed at each balance sheet date. This review requires estimation of the future cash flows expected to be received by the Group mainly from the joint ventures' exploration and evaluation assets. As of 31 December 2014 exploration and evaluation assets of the joint venture entity LLC Industrial Company Gazvydobuvannya have been assessed for impairment through calculation of the recoverable amount as a fair value less cost to sell. As a result impairment has been recognised in the accounts of the joint venture and the Group's share was included in the consolidated financial statements as share of losses in joint ventures. Further details are provided in note 19.

(d) 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.

(e) 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. Due to the budgetary problems of Ukraine, the recovery of VAT has been an issue for most companies operating in Ukraine. In the past the Group has taken a conservative view in relation to VAT and has impaired outstanding balances as appropriate due to the uncertainty of the recovery of these balances in cash from the State Budget of Ukraine and uncertainty of future production, VAT on which would be offset against the VAT recoverable amounts the Group has.

VAT receivable that has been generated through gas purchases in 2014 is considered by the Group as recoverable through future sales of gas. For all other VAT the Group will continue to use an approach consistent with prior years by impairing Ukrainian VAT as appropriate and then recognising the recovery in the period it has been made. A cumulative provision of $4.4 million (2013: $9.5 million) against Ukrainian VAT receivable has thus been recognised as at 31 December 2014, excluding VAT recoverable balances in the JV which are reported under equity method in these financial statements.

(f) Assessment of political and economic turmoil in Ukraine impact on Group operations

Since November 2013, Ukraine has been in a political and economic turmoil. The Ukrainian Hryvnia devalued against major world currencies and significant external financing is required to maintain stability of the economy. In February 2014, Ukraine's sovereign rating has been downgraded to CCC with a negative outlook. This situation continued through 2014 and also in 2015. However the Government already received in 2015 significant funding from the international creditors, with International Monetary Fund ("IMF") being the largest. In March 2015 IMF approved $17.5billion loan to Ukrainian government, which is part of $40 billion package, including contributions from the U.S. and European Union and a prospective $15 billion in savings to be negotiated with Ukraine's bondholders.

In May 2014 Ukraine had its presidential elections and a new government has been formed. In March 2014, Crimea, an autonomous republic of Ukraine, was effectively annexed by the Russian Federation. Escalation of conflict continued through 2014 up until now at the east of the country. Further political developments are currently unpredictable and may adversely affect the Ukrainian economy.

Management is monitoring how the political and economic situation is affecting the Group operations, and has considered whether adjustments are required to the carrying values of assets and the appropriateness of the going concern assumption. As a result management have concluded that there were no significant adverse consequences in relation to the Group's operations, cash flows and assets that impact the 2014 financial statements, apart from continuous uncertainty related to key assumptions used by management in assessment of the recoverable amount of production assets as described above. Management noted that none of the Group's assets are located in areas of current conflict. Any further escalations of the political crisis may impact the Group's normal business activities, and increase the risks relating to its business operations, financial status and maintenance of its Ukrainian production licences.

5. Segment information

Segment information is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports provided to the Group's chief operating decision maker ("CODM"). The Group has identified its top management team as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Segment information is analysed on the basis of the type of activity, products sold or services provided.

The majority of the Group's operations are located within Ukraine.

Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions. The Group's reportable segments under IFRS 8 are therefore as follows:

Exploration and Production

- E&P activities on the production licences for natural gas, oil and condensate

Service

- Drilling services to exploration and production companies
- Construction services to exploration and production companies

Trading

- Import of natural gas and diesel from European countries
- Local purchase and sales of natural gas operations with physical delivery of natural gas

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Sales between segments are carried out at market prices. The segment result represents operating profit under IFRS before unallocated corporate expenses. Unallocated corporate expenses include management remuneration, representative expenses, and expenses incurred in respect of the maintenance of office premises. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

The Group does not present information on segment assets and liabilities as the CODM does not review such information for decision-making purposes.

As of 31 December 2014 and for the year then ended the Group's segmental information was as follows:

	Exploration and Production $'000	Service $'000	Trading $'000	Consolidated $'000
Sales of hydrocarbons	1,291	–	30,253	31,544
Other revenue	–	846	233	1,079
Sales between segments	1,077	–	(1,077)	–
Total revenue	**2,368**	**846**	**29,409**	**32,623**
Cost of sales	(2,579)	(386)	(26,848)	(29,813)
Other administrative expenses	(1,347)	–	(379)	(1,726)
Interest on short-term borrowings (Note 13)	–	–	(420)	(420)
Segment results	**(1,558)**	**460**	**1,762**	**664**
Unallocated other administrative expenses				(5,276)
Other income, net				2,228
Impairment(1)				(5,134)
Share of losses in joint ventures(1)				(54,664)
Net foreign exchange gains				3,036
Loss before tax				**(59,146)**

(1) Impairment loss recognised in 2014 of $5.1 million related to exploration and production segment.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

5. Segment information continued

As of 31 December 2013 and for the year then ended the Group's segmental information was as follows:

	Exploration and Production $'000	Service %	Trading $'000	Consolidated %
External sales	2,619	–	–	2,619
Other revenue	–	1,153	–	1,153
Total revenue	**2,619**	**1,153**	**-**	**3,772**
Cost of sales	(2,324)	(695)	–	(3,019)
Other administrative expenses	(1,404)	–	–	(1,404)
Segment results	**(1,109)**	**458**	**-**	**(651)**
Unallocated other administrative expenses				(7,515)
Other income, net				667
Share of losses in joint ventures				(6,630)
Net foreign exchange losses				(271)
Loss before tax				**(14,400)**

6. Revenue

	2014 $'000	2013 $'000
Sale of hydrocarbons	**31,544**	2,619
Other revenues	**1,079**	1,153
	32,623	3,772

Other revenues include revenues from services provided to third parties of $0.8 million (2013: $1.2 million).

Information about major customers

Included in revenues for the year ended 31 December 2014 are revenues of $25.3 million (2013: $2.0 million) which arose from sales to the Group's two largest customers. None other single customers contributed 10% or more to the Group revenue for both 2014 and 2013 years.

7. Other operating expenses, net

	2014 $'000	2013 $'000
Transactions with JV partner	**510**	(60)
Other income	**37**	65
	547	5

8. Impairment

	2014 $'000	2013 $'000
Impairment of oil and gas assets (note 17)	**(5,134)**	–
Inventories	**(253)**	97
VAT recoverable (note 4(e))	**1,130**	137
Reversal of impairment of other assets	**877**	234

The carrying value of inventory as at 31 December 2014 and 2013 has been impaired to reduce it to net realisable value (see note 20). During 2014, the Group gross sales of inventory to third parties comprised $0.1 million (2013: $0.4 million).

During the year VAT impairment in the amount of $1.1 million (2013: $0.1 million) has been released as a result of receiving VAT bonds by several subsidiaries and VAT recovery of historical balances through offset of VAT liabilities arising on sales.

9. Loss for the year

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

	2014 $'000	2013 $'000
Depreciation of property, plant and equipment	**(938)**	(1,201)
Loss on disposal of property, plant and equipment	**(211)**	(227)
Reversal of impairment of other assets (note 8)	**877**	234
Impairment of oil and gas assets (note 17)	**(5,134)**	–
Staff costs	**(4,039)**	(4,790)
Net foreign exchange gain/(losses)	**3,036**	(271)

In addition to the depreciation of PP&E of $0.9 million (2013: $1.2 million) in the year ended 31 December 2014, depreciation of $0.04 million (2013: $0.2 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:

	2014 $'000	2013 $'000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**194**	201
Fees payable to the Company's auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	**30**	13
Total audit fees	**224**	214
Non-audit fees		
– Audit-related assurance services	**38**	20
– Taxation compliance services	**25**	45
– Other taxation advisory services	**-**	40
Non-audit fees	**63**	105

11. Staff costs

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

	2014 Number	2013 Number
Executive Directors	**2**	2
Other employees	**98**	116
	100	118
Total number of employees at 31 December	**100**	118
	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	**4,012**	5,102
Social security costs	**455**	725
	4,467	5,827

Within wages and salaries $0.8 million (2013: $0.7 million) relates to amounts accrued and paid to executive Directors for services rendered.

Included within wages and salaries is $0.4 million (2013: $0.3 million) capitalised to intangible E&E assets and $nil million (2013: $0.1 million) capitalised to development and production assets.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

12. Investment revenue

	2014 $'000	2013 $'000
Interest on bank deposits	**27**	283
Interest on loans issued	**825**	151
	852	434

13. Finance costs

	2014 $'000	2013 $'000
Interest on short-term borrowings	**(420)**	–
Unwinding of discount on decommissioning provision (note 24)	**(48)**	(6)
	(468)	(6)

Starting October 2014 the Group used short-term borrowings in UAH (note 24) for the financing of gas trading which resulted in $0.4 million of interest for 2014.

14. Tax

	2014 $'000	2013 $'000
Current tax	**11**	169
Prior year tax	**362**	–
Deferred tax (benefit)/charge (note 23)	**(207)**	120
	166	289

The Group's operations are conducted primarily outside the UK. The most appropriate tax rate for the Group is therefore considered to be 18 per cent (2013: 19 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 for the year can be reconciled to the loss per the income statement as follows:

	2014 $'000	2014 %	2013 $'000	2013 %
Loss before tax	**(59,146)**	**100**	(14,400)	100
Tax credit at Ukraine corporation tax rate of 18% (2013: 19%)	**(10,646)**	**18**	(2,736)	19
Tax credit related to the Joint venture losses	**9,292**	**(15.7)**	3,004	(21.0)
Foreign exchange on operating activities	**1,543**	**(2.6)**	(552)	3.8
Tax (gains)/losses generated in the year not yet recognised	**(839)**	**1.4**	857	(6.0)
Effect of different tax rates	**454**	**(0.8)**	(284)	2.0
	(196)	**0.3**	289	(2.2)
Adjustments recognised in the current year in relation to the current tax of prior years	**362**	**–**	–	–
Income tax expense recognised in profit or loss	**166**	**–**	289	–

15. Loss per Ordinary share

Basic loss per Ordinary share is calculated by dividing the net loss 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 loss per share is based on the following data:

Loss attributable to owners of the Company	2014 $'000	2013 $'000
Loss for the purposes of basic loss per share being net loss attributable to owners of the Company	**(59,271)**	(14,660)

Number of shares	2014 Number '000	2013 Number '000
Weighted average number of Ordinary shares for the purposes of basic loss per share	**231,092**	231,092

	2014 Cent	2013 Cent
Loss per Ordinary share		
Basic	**(25.6)**	(6.3)

The Group has no potentially dilutive instruments in issue. Therefore no diluted loss per share is presented above.

16. Intangible exploration and evaluation assets

Cost	$'000
At 1 January 2013	**33,049**
Additions	3,276
Change in estimate of decommissioning assets (note 26)	16
Transfer from property, plant and equipment (note 17)	34
Disposals	(118)
Exchange differences	(1,362)
At 1 January 2014	**34,895**
Additions	468
Change in estimate of decommissioning assets (note 26)	95
Transfer from property, plant and equipment (note 17)	18,467
Disposals	(1)
Exchange differences	(16,743)
At 31 December 2014	**37,181**

Impairment	
At 1 January 2013	**30,032**
Exchange differences	(1,095)
At 1 January 2014	**28,937**
Transfer from property, plant and equipment (note 17)	3,826
Exchange differences	(13,871)
At 31 December 2014	**18,892**

Carrying amount	
At 31 December 2014	**18,289**
At 31 December 2013	5,958

During the year additions to the exploration and evaluation assets include $0.1 million (2013: $0.2 million) of capitalised depreciation of development and production assets used in exploration and evaluation activities.

As of 31 December 2014 the Group has reclassified carrying value of assets of $14.6 million related to the Pirkovska licence from development and production to exploration and evaluation (note 17). The 2P reserves of the Pirkovska licence have been reclassified to contingent resources.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

17. Property, plant and equipment

Cost	Development and production assets $'000	Other $'000	Total $'000
At 1 January 2013	53,324	9,603	62,927
Additions	585	217	802
Transfer to intangible exploration and evaluation assets	(34)	–	(34)
Transfer between property, plant and equipment	(80)	80	–
Change in estimate of decommissioning assets (note 26)	42	–	42
Disposals	(416)	(138)	(554)
Exchange differences	(2,479)	(112)	(2,591)
At 1 January 2014	50,942	9,650	60,592
Additions	1,235	376	1,611
Transfer to intangible exploration and evaluation assets	(18,467)	–	(18,467)
Transfer between property, plant and equipment	(54)	54	–
Change in estimate of decommissioning assets (note 26)	201	–	201
Disposals	(587)	(89)	(676)
Exchange differences	(24,492)	(4,801)	(29,293)
At 31 December 2014	**8,778**	**5,190**	**13,968**
Accumulated depreciation and impairment			
At 1 January 2013	13,511	3,038	16,549
Charge for the year	1,062	326	1,388
Disposals	(360)	(82)	(442)
Exchange differences	(724)	(65)	(789)
At 1 January 2014	13,489	3,217	16,706
Impairment	5,134	–	5,134
Charge for the year	614	359	973
Transfer to intangible exploration and evaluation assets	(3,826)	–	(3,826)
Disposals	(188)	(76)	(264)
Exchange differences	(6,787)	(1,814)	(8,601)
At 31 December 2014	**8,436**	**1,686**	**10,122**
Carrying amount			
At 31 December 2014	**342**	**3,504**	**3,846**
At 31 December 2013	39,122	4,764	43,886

As a result of the latest geological works and the 3D seismic assessments performed during 2014 on the Pirkovska licence the Group did not identify viable 2P reserves in the geological levels indicated by the GCA report. However, the results of the 3D seismic assessment indicated that gas reserves are located on other geological levels and require additional exploration and evaluation work to be performed. Due to the above findings management performed the impairment assessment of the development and production assets of the Pirkovska licence.

Management identified that the cost of the licence and the carrying value of the existing wells of $14.6 million are to be used in further exploration and evaluation works. Management identified that as of 31 December 2014 the assets previously used in production and development of the Pirkovska licence with carrying value of $2.9 million were obsolete and therefore were written off. As a result of the production and development assets value assessment the Group has reclassified the carrying value of assets in amount of $14.6 million to exploration and evaluation (note 16) and written off certain obsolete assets of $2.9 million for the year ended 31 December 2014 (note 9).

As of 31 December 2014 management of the Group carried out the assessment of the Debeslavetska and Cheremkhivska licences value in use and recognised an additional impairment of these oil and gas assets of $2.2 million (note 9). Recoverable amount was assessed at $0.4 million as at 31 December 2014. Key assumptions used in the impairment assessment were as follows:

- Future gas price was assumed to be flat $300, real per m3;
- The pre-tax discount rate used was 15%, real; and
- The growth rate used for the future costs projections was estimated based on inflation level in Ukraine for 2014 of 30% with a steady decline over the next 10 years. Foreign exchange effects were assumed to be flat.

During the year ended 31 December 2014 the depreciation charge of $0.1 million (2013: $0.2 million) of development and production assets used in exploration and evaluation activities has been capitalised and accounted as additions to the exploration and evaluation assets (note 16).

18. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2014, 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
Cadogan Zagoryanske Production 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
Radley Investments Ltd	UK	100	Holding company
Cadogan Petroleum Trading SAGL	Switzerland	100	Trading company
LLC AstroInvest-Ukraine	Ukraine	100	Exploration
LLC Zagvydobuvannya	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 WestGasInvest	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 2014, 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. Joint ventures

Details of each Group's joint ventures at the end of the 2014 and 2013 reporting periods are as follows:

Company name	Licenses held	Country of incorporation and operation	Ownership share %	Activity
LLC Astroinvest-Energy	Zagoryanska exploration licence	Ukraine	40	Exploration
LLC Industrial Company Gazvydobuvannya	Pokrovska exploration licence	Ukraine	70	Exploration
LLC Westgasinvest	Reklynetska, Zhuzhelianska, Cheremkhivsko-Strupkivska, Baulinska, Filimonivska, Kurinna, Sandugeyivska, Yakovlivska, and Debeslavetska Exploration, Debeslavetska Production licence	Ukraine	15	Exploration

All of the above joint ventures are accounted for using the equity method in these consolidated financial statements. According to the shareholders' agreements, which regulate the activities of the jointly controlled entities, all key decisions require unanimous approval from the shareholders, therefore these entities are jointly controlled.

Summarised financial information in respect of each of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

19. Joint ventures continued

LLC Astroinvest-Energy

	2014 $'000	2013 $'000
Non-current assets	**886**	34
Current assets	**1,234**	3,001
Non-current liabilities	**(598)**	(1,194)
Current liabilities	**(4,742)**	(4,288)
Revenue	**-**	-
Loss for the period	**(3,058)**	(6,997)
Other comprehensive (loss)/income	**(73)**	111
Total comprehensive loss	**(3,131)**	(6,886)
Net deficit of the joint venture	**(3,220)**	(2,447)

LLC Industrial Company Gazvydobuvannya

	2014 $'000	2013 $'000
Non-current assets	**26,047**	101,041
Current assets	**2,106**	1,041
Non-current liabilities	**(6,086)**	(8,484)
Current liabilities	**(2,821)**	(2,617)
Revenue	**-**	-
Loss for the period	**(56,559)**	(4,899)
Other comprehensive income/(loss)	**(18,727)**	71
Total comprehensive loss	**(75,286)**	(4,828)
Net assets of the joint venture	**19,246**	90,981

As of 31 December 2014 joint venture LLC Industrial Company Gazvydobuvannya conducted an impairment assessment of its exploration and evaluation assets. The impairment charge of $57.4 million recognised as the result of exploration and evaluation assets value recoverability assessment was included in the loss for the period.

LLC Westgasinvest

	2014 $'000	2013 $'000
Non-current assets	**73**	164
Current assets	**123**	662
Non-current liabilities	**-**	-
Current liabilities	**(2,893)**	(2,672)
Revenue	**-**	-
Loss for the period	**(3,717)**	(3,364)
Other comprehensive income	**(1,024)**	55
Total comprehensive loss	**(4,741)**	(3,309)
Net assets of the joint venture	**(2,697)**	(1,846)

The carrying amounts of the Group's interest in joint ventures recognized in the financial statements of the Group using the equity method are set out in the tables below:

	LLC Astroinvest Energy $'000	LLC Industrial company Gazvydobuvannya $'000	LLC Westgasinvest $'000	Total $'000
(Deficit)/ net assets recognised as at 31 December 2013	(1,240)	62,283	4,922	65,965
Investments during the year	224	2,800	-	3,024
Loss for the year	(1,253)	(52,700)	(711)	(54,664)
Carrying amount of Group's interest as at 31 December 2014	**(2,269)**	**12,383**	**4,211**	**14,325**

19. Joint ventures continued
The Group's share of loss for the year includes the amount of impairment of $40.2 million recognised as the result of exploration and evaluation assets value recoverability assessment; $12.7 million (2013: nil) of translation loss which arose mainly on translation of non-current assets from UAH to USD being the presentation currency of the Group and $0.2million profit from operations (mainly as the result of VAT recovery which were impaired in the prior period).

Key assumptions used in the impairment assessment were as follows:

- Future gas price was assumed to be flat $300, real per m3;
- The pre-tax discount rate used was 15%, real; and
- The growth rate used for the future costs projections was estimated based on inflation level in Ukraine for 2014 of 30% with a steady decline over the next 10 years. Foreign exchange effects were assumed to be flat.

The Group is committed together with ENI to fund LLC Astroinvest-Energy subsequently to the year end with the necessary amount of $2.3 million in order to close current liabilities of the joint venture. Most of the funds will be used to repay the costs charged by the partners.

20. Inventories

	2014 $'000	2013 $'000
Natural gas	**8,124**	–
Diesel	**258**	–
Other inventories	**1,751**	3,846
Impairment provision for obsolete inventory	**(193)**	(895)
Carrying amount	**9,940**	2,951

The impairment provision as at 31 December 2014 and 2013 is made so as to reduce the carrying value of the obsolete inventories to net realisable value. During 2014 impairment charge $0.3 million (2013: $0.1 million release) has been recognised in respect of other inventories.

21. Trade and other receivables

	2014 $'000	2013 $'000
Other receivables	**8,584**	–
Receivable from joint venture	**5,060**	–
Loans issued	**1,938**	4,077
Loans issued	**1,674**	251
Loans issued	**166**	401
VAT recoverable	**-**	1,559
Prepayments	**469**	591
	17,891	6,879

Trading prepayments represent actual payments made by the Group to suppliers for the January 2015 gas supply.

Trading receivables represent current receivables from customers that have been paid in January 2015. As of 31 December 2014 there were no past due receivables and no related impairment provision. The Group considers that the carrying amount of receivables approximates their fair value.

VAT Receivable is presented net of the cumulative provision of $4.4 million (2013: $9.5 million) against Ukrainian VAT receivable has been recognised as at 31 December 2014. Ageing of VAT receivable varies from 2 months to 2 years.

Receivable from joint ventures comprise $1.2 million from Astroinvest-Energy LLC (2013: $1.6 million) and $0.7 million from Gazvydobuvannya LLC (2013: $2.5 million).

Loans issued of $1.6 million as at 31 December 2013 represent loan issued in June 2013 to Oil and Gas Management Services Group Limited ("OAGSG") as part of $3 million Loan Facility on a fully secured basis against receivables due to OAGSG with the term of loan of 24 months and annual interest of 15%. It was fully repaid on 9 July 2014. In July 2014 the agreement was cancelled and the loan was settled by the counterparty in full amount.

22. Cash and cash equivalents
Cash and cash equivalents as at 31 December 2014 of $48.9 million (2013: $56.5 million) comprise cash held by the Group. The Directors consider that the carrying amount of these assets approximates to their fair value.

As of 31 December 2014 part of the cash and cash equivalents in amount of $20 million related to security of borrowings and held at UK bank is considered to be restricted cash balance (note 24).

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23. 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 2013	**586**
Deferred tax expense	120
Exchange differences	(31)
Liability as at 1 January 2014	**675**
Deferred tax benefit	(207)
Exchange differences	(180)
Liability as at 31 December 2014	**288**

At 31 December 2014, the Group had the following unused tax losses available for offset against future taxable profits:

	2014 $'000	2013 $'000
UK	**10,274**	13,623
Netherlands	**-**	938
Ukraine	**69,010**	46,719
	79,284	61,280

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 $10.3 million (2013: $13.6 million) relating to losses incurred in the UK are available to shelter future non-trading profits arising within the Company. These losses are not subject to a time restriction on expiry.

Unused tax losses incurred by Ukraine subsidiaries amount to $69.0 million (2013: $46.7 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% 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.

24. Short-term borrowings

In October 2014 the Group started to use short-term borrowings as a financing facility for its trading activities. Borrowings are represented by credit line drawn in UAH at Ukrainian bank, 100% subsidiary of UK bank. Credit line is secured by $20 million of cash balance placed at UK bank.

Outstanding amount as at 31 December 2014 was $17.3 million with average effective interest rate 16%p.a. Interest is paid monthly and as at 31 December 2014 accrued interest amounted to $0.2 million.

25. Trade and other payables

	2014 $'000	2013 $'000
Prepayments received	**2,470**	–
Trade creditors	**723**	1,125
Accruals	**631**	1,148
Taxes and social security	**425**	21
Trading payables	**312**	–
Payables to joint ventures	**159**	801
Other payables	**348**	347
	5,068	3,442

Prepayments received represent payments from the customers for the natural gas to be supplied in January 2015.

Trading payables represent liability to suppliers for the natural gas supply in December 2014.

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 91 days (2013: 70 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 outstanding balances.

26. Provisions

	$'000
At 1 January 2013	671
Change in estimate (note 16 and 17)	58
Unwinding of discount on decommissioning provision (note 13)	6
Exchange differences	(27)
At 1 January 2014	708
Change in estimate (note 16 and 17)	296
Unwinding of discount on decommissioning provision (note 13)	48
Exchange differences	(350)
At 31 December 2014	**702**
At 1 January 2013	671
Non-current	195
Current	513
At 1 January 2014	708
Non-current	55
Current	647
At 31 December 2014	**702**

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 $0.6 million (2013: $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 1 and 17 years).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

27. Share capital

Authorised and issued equity share capital

	2014 Number		2013 Number	
	'000	$'000	'000	$'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 historic 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 2013 and 2014	**231,091,734**

28. 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.

Categories of financial instruments

	2014 $'000	2013 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**48,927**	56,484
Trading receivable	**5,060**	–
Receivable from joint venture	**1,938**	4,077
Loans issued	**–**	1,559
Other receivables	**469**	590
	56,394	62,710
Financial liabilities – measured at amortised cost		
Short-term borrowings	**17,327**	–
Trade creditors	**723**	1,125
Accruals	**631**	1,148
Other payables	**348**	347
Trading payables	**312**	–
Payables to joint ventures	**159**	801
Taxes and social security	**425**	21
	19,925	3,442

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.

28. Financial instruments continued

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group is not exposed to interest rate risk because entities of the Group borrow funds at fixed interest rates.

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	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
GBP ('£')	**105**	106	**-**	–

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 10 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 10 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 10 per cent change in foreign currency rates.

A number below indicates a decrease in profit where US dollar strengthens 10 per cent against the other currencies. For a 10 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.

The following table details the Group's sensitivity to a 10 per cent decrease in the US dollar against the GBP.

	2014 $'000	2013 $'000
Income statement	**(4,473)**	(4,587)

Inflation risk management

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

28. Financial instruments continued

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit management process includes the assessment, monitoring and reporting of counterparty exposure on a regular basis. Credit risk with respect to receivables and advances is mitigated by active and continuous monitoring the credit quality of its counterparties through internal reviews and assessment. Trading receivables as at 31 December 2014 have been paid in January 2015.

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 sets 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	Total $'000
At 31 December 2014				
Short-term borrowings	17,327	–	–	17,327
Trade and other payables	1,683	915	–	2,598
At 31 December 2013				
Trade and other payables	1,192	2,250	–	3,442

29. Commitments and contingencies

Joint activity agreements

The Group has working interests in nine licences to conduct its exploration and development activities in 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:

	2014 $'000	2013 $'000
Within one year	**580**	1,258
Between two and five years	**520**	1,863
	1,100	3,121

The Group has revised its minimum working programmes and resubmitted the required documentation to the government authorities; updated commitments have decreased for all licences from $3.1 million to $1.1 million. Licence obligations of the joint ventures as at 31 December 2014 amounted to $0.5 million (2013: $0.4 million) of obligations within one year and $0.4 million (2013: $0.1 million) of obligations between two and five years.

In addition to licence commitments, the Group is committed together with ENI to fund LLC Astroinvest-Energy subsequently to year end with the necessary amount of $2.3 million in order to close current liabilities of the joint venture.

29. Commitments and contingencies continued

Tax contingent liabilities

The Group assesses its liabilities and contingencies for all tax years open for audit by UK tax authority based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Group records its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to complexities of interpretation and changes in tax laws.

Whilst the Group believes it has adequately provided for the outcome of these matters, certain periods are under audit by the UK tax authority, and therefore future results may include favourable or unfavourable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved. The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

30. 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. The application of IFRS 11 has resulted in the existing joint ventures LLC Astroinvest-Energy, LLC Gazvydobuvannya and LLC Westgasinvest being accounted for under the equity method and disclosed as related parties.

During the period, Group companies entered into the following transactions with joint ventures who are considered as related parties of the Group:

	2014 $'000	2013 $'000
Revenues from services provided and sales of goods	**597**	1,892
Purchases of goods	**87**	22
Amounts owed by related parties	**1,938**	4,077
Amounts owed to related parties	**159**	801

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 Annual Report on Remuneration 2014 on pages 33 and 34.

	Purchase of services		Amounts owing	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Short-term employee benefits	**1,148**	911	**137**	**69**

The total remuneration of the highest paid Director was $0.4 million in the year (2013: $0.4 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.

31. Events after the balance sheet date

Political and economic turmoil in Ukraine

We are monitoring the current political situation in Ukraine carefully and there have been no disruptions to the Company's operations in either of our operating locations.

As a result of the recent political and economic turmoil in Ukraine, there has been a further significant devaluation of the Ukrainian Hryvnia against the US Dollar which is likely to affect the carrying value of the Group's assets in the future. Since 1 January 2015, the Ukrainian Hryvnia has devalued against the US Dollar by approximately 45%.

We have reassessed the key judgements and critical accounting estimates as at the date of this report and, based on the current status of operations, no adjustments have been made.

Company Balance Sheet
As at 31 December 2014

	Note	2014 $'000	2013 $'000
ASSETS			
Non-current assets			
Investments	34	**-**	-
Receivables from subsidiaries	35	**73,750**	77,506
		73,750	77,506
Current assets			
Trade and other receivables	35	**3,333**	1,763
Cash and cash equivalents	35	**46,634**	50,280
		49,967	52,043
Total assets		**123,717**	129,549
LIABILITIES			
Current liabilities			
Trade and other payables	36	**(370)**	(1,211)
		(370)	(1,211)
Total liabilities		**(370)**	(1,211)
Net assets		**123,347**	128,338
EQUITY			
Share capital	37	**13,337**	13,337
Retained earnings		**212,902**	210,297
Cumulative translation reserves	38	**(102,892)**	(95,296)
Share-based payment reserve		**-**	-
Total equity		**123,347**	128,338

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 30 April 2015.

They were signed on its behalf by:

Bertrand Des Pallieres
Chief Executive Officer
30 April 2015

The notes on pages 56 to 85 form part of these financial statements.

Company Cash Flow Statement
For the year ended 31 December 2014

	Note	2014 $'000	2013 $'000
Net cash inflow/(outflow) from operating activities	39	**194**	(4,034)
Investing activities			
Interest received		**827**	258
Repayment of loans to subsidiary companies		**-**	19,783
Net cash from investing activities		**827**	20,041
Net increase in cash and cash equivalents		**1,021**	16,007
Effect of foreign exchange rate changes		**(4,667)**	2,181
Cash and cash equivalents at beginning of year		**50,280**	32,092
Cash and cash equivalents at end of year		**46,634**	50,280

Company Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital $'000	Retained earnings $'000	Cumulative translation reserves $'000	Share-based payment reserve $'000	Total $'000
As at 1 January 2013	**13,337**	**212,497**	**(97,734)**	**93**	**128,193**
Share-based payment	–	93	–	(93)	–
Net loss for the year	–	(2,293)	–	–	(2,293)
Exchange translation differences	–	–	2,438	–	2,438
As at 1 January 2014	**13,337**	**210,297**	**(95,296)**	**-**	**128,338**
Net income for the year	–	2,605	–	–	2,605
Exchange translation differences	–	–	(7,596)	–	(7,596)
As at 31 December 2014	**13,337**	**212,902**	**(102,892)**	**-**	**123,347**

Notes to the Company Financial Statements

For the year ended 31 December 2014

32. 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 profit for the financial year ended 31 December 2014 of $2.6 million (2013: loss $2.3 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.

33. Auditor's remuneration

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

34. Investments

The Company's subsidiaries are disclosed in note 18 to the Consolidated Financial Statements. The investments in subsidiaries are all stated at cost less any provision for impairment.

35. Financial assets

The Company's principal financial assets are bank balances and cash and cash equivalents, prepayments 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.

Receivables from subsidiaries

At the balance sheet date gross amounts receivable from the fellow Group companies were $329.0 million (2013: $348.5 million). No impairment was recognised in 2014 or 2013. The carrying value of the receivables from the fellow Group companies as at 31 December 2014 was $73.8 million (2013: $77.5 million). There are no past due receivables.

Trade and other receivables

	2014 $'000	2013 $'000
Prepayments	**3,272**	51
VAT recoverable	**37**	138
Loans issued	**-**	1,559
Other receivables	**24**	15
	3,333	1,763

In December 2014 the Company has made a prepayment for the natural gas on behalf of its Ukrainian subsidiary due to difficulties of currency purchase in Ukraine. In 2015 this prepayment has been settled in full to the Company.

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.

As of 31 December 2014 cash and cash equivalents in the amount of $20 million, related to security of the loan provided to the Ukrainian subsidiary and held at UK bank, was restricted (note 24).

Notes to the Company Financial Statements continued

For the year ended 31 December 2014

36. Financial liabilities

Trade and other payables

	2014 $'000	2013 $'000
Trade creditors	**179**	317
Other creditors and payables	**-**	238
Accruals	**191**	656
	370	1,211

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 82 days (2013: 45 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.

37. Share capital

The Company's share capital is disclosed in note 27 to the Consolidated Financial Statements.

38. 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 the results and financial position of the Company into US dollars.

39. Notes to the cash flow statement

	2014 $'000	2013 $'000
Operating loss from continuing operations	**2,605**	(2,293)
Operating cash flows before movements in working capital	**2,605**	(2,293)
Increase in receivables	**(1,570)**	(1,662)
Decrease in payables	**(841)**	(79)
Cash used in operations	**194**	(4,034)
Income taxes paid	**-**	-
Net cash outflow from continuing operations	**194**	(4,034)

40. 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 28 for the Group's overall strategy and financial risk management objectives.

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

Categories of financial instruments

	2014 $'000	2013 $'000
Financial assets - loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**46,634**	50,280
Amounts due from subsidiaries	**73,750**	77,506
	120,384	127,786
Financial liabilities - measured at amortised cost		
Trade creditors	**(179)**	(317)
	(179)	(317)

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.

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 equivalent to investment grade and above. Other financial assets consist of amounts receivable from related parties.

40. Financial instruments continued

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.

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 28 to the Consolidated Financial Statements.

41. 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:

	2014 $'000	2013 $'000
Cadogan Petroleum Holdings Limited	**73,750**	77,506
	73,750	77,506

Refer to note 35 for details 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 Annual Report on Remuneration 2014 on pages 33 to 34.

	Remuneration		Amounts owing	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Short-term employee benefits	**334**	326	**54**	–
	334	326	**54**	–

The total remuneration of the highest paid Director was $0.4 million in the year (2013: $0.4 million).

42. Events after the balance sheet date

Events after the balance sheet date are disclosed in note 31 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 25 June 2015 at 10.30am to consider the following resolutions, of which resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13 to 15 as special resolutions.

1. To receive the Annual Financial Report of the Company for the financial year ended 31 December 2014.
2. To receive and approve the Annual Report on Remuneration for the financial year ended 31 December 2014.
3. To receive and approve the Directors' Remuneration Policy.
4. To re-elect Zev Furst as a Director of the Company.
5. To re-elect Gilbert Lehmann as a Director of the Company.
6. To re-elect Enrico Testa as a Director of the Company.
7. To re-elect Bertrand des Pallieres as a Director of the Company.
8. To re-elect Adelmo Schenato as a Director of the Company.
9. To re-elect Michel Meeùs as a Director of the Company.
10. To re-appoint Deloitte LLP as auditor 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.
11. To authorise the Directors to determine the remuneration of the auditor.
12. 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 2016 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.

13. That, in substitution for all existing powers, and subject to the passing of resolution 12 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 12 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 12 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 12) 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 2016, 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.

14. 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 23,109,166;
    (b) the minimum price (excluding expenses) which may be paid for any such Ordinary share is 3 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 2016 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.

15. 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 15 until the conclusion of the next Annual General Meeting of the Company.

By order of the Board

Marta Halabala
Company Secretary
30 April 2015
Registered Office:
1st Floor,
40 Dukes Place,
London EC3A 7NH

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 Registrar, Capita Asset Services, 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 29 April 2015, 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 22 of the Annual Financial Report 2014, nor to the Directors' interests in the Ordinary shares of the Company detailed on page 34 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 one 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 as 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 23 June 2015, 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 23 June 2015 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. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all its powers as a member provided that they do not do so in relation to the same shares.

10. 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, 1st Floor, 40 Dukes Place, London, EC3A 7NH; or 2) by writing to the Company's Registrar, Capita Asset Services, 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).

11. As at 29 April 2015, 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. 66 Ordinary shares are held in treasury, therefore, the total voting rights in the Company at that date were 231,091,668.

12. 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.

13. 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.

14. 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.

15. The contracts of service of executive Directors and the letters of appointment of non-executive Directors will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.

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 Asset Services, 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.

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 2015/2016

Annual General Meeting	25 June 2015
Half Yearly results announced	August 2015
Annual results announced	April 2016

Notes

Notes

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