CADOGAN
PETROLEUM PLC

ANNUAL FINANCIAL REPORT 2016

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

Summary of 2016

Key highlights of 2016:

- LTI&TRI[1] : 1&1 (2015: 0&0)
- Greenhouse gases emissions[2]: 27.44 of CO_2e/boe produced (2015: 30.47 CO_2e/boe)
- Production: 42,495 boe (2015: 39,680 boe)
- Realised price at year end: 46.5 $/boe (2015: 35.7$/boe)
- Gross revenues[3]: $19.7 million (2015: $75.4 million)
- Gross profit: $1.1 million (2015: $5.9 million)
- Loss for the year[4]: $5.9 million (2015: $23.3 million)
- Net cash[5] at year end: $39.7 million (2015: $36.5 million)

1 LTI: Lost Time Incidents; TRI: Total Recordable Incidents
2 E&P operations emissions. For total greenhouse gases emissions please see page 21
3 Gross revenues of $19.7 million (2015: $75.4 million) included $15.6 million (2015: $73.3 million) from trading of natural gas, $1.6 million (2015: $1.8 million) from exploration and production and $2.5 million (2015: $0.4 million) from services
4 In 2016 the Company decided to replace the British pound with the US dollar as functional currency. Had the functional currency been changed from 1 January 2015, the loss for 2015 would have been $25.7 million
5 Net cash includes cash and cash equivalents less short term borrowings

Group Overview

The Group has continued to maintain exploration and production assets in Ukraine, to conduct trading operations, which include the importing of gas from Slovakia and Poland and local purchasing and sales with physical delivery of natural gas, and to operate a service business which includes work-over, civil works services and other services provided to Exploration and Production ("E&P") companies.

Our business model

We aim to increase value through:

- Sourcing additional E&P assets to diversify Cadogan's portfolio both geographically and operationally; we will pursue exploration and/or near term development assets with significant upside as well as producing assets to cover G&A and provide free cash flow for exploration activities
- Pursuing farm-outs to contain investments in Ukrainian licences
- Maintaining sufficient capital base, complementing E&P cash flow with revenues from gas trading and oil services businesses

The Group has continued to actively pursue its strategy of portfolio re-loading and geographical diversification and at the beginning of 2017 has implemented the first step of this strategy, the acquisition of a 90% participating interest in Exploenergy s.r.l., an Italian company.

Both gas trading and service business started as an opportunistic use of available resources, such as cash for trading and equipment and competences for the service business, and continued to contribute to the Group's goal of being cash neutral, while actively searching for value accretive opportunities in the E&P domain.

Ukraine

West Ukraine

The Group continued to produce oil from the Monastyretska licence, located in the Carpathian fold belt (Skuba unit), and successfully re-entered two old, suspended wells rented from Ukrnafta under a profit sharing agreement. Both wells are currently producing under natural flow and are being monitored before proceeding with the installation of sucker road pumps, which will increase their rates of production.

The Group also continued to produce gas from Debeslavetske and Cheremkhivske gas fields and has maintained both the Bitlyanska licence and its 15% interest in Westgasinvest LLC ("WGI"), which holds the Reklynetska, Zhuzhelianska, Cheremkhivsko-Strupkivska, Debeslavetska Production, Baulinska, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska licences for unconventional activities. Eni is the operator of these shale gas licences and Cadogan is carried through exploration.

East Ukraine

Cadogan has filed applications to convert Zagoryanska and Pirkivska licences from exploration into production licences, while Pokrovska licence has been relinquished at the end of its last exploration period. Both applications have been negatively impacted by a dispute between central and local authorities on the distribution of royalties on gas, which has brought the award process in the regional Council to a complete halt.

Gas trading operations continued, with sales in Ukraine of both imported and locally produced gas. Volumes, and revenues, though have substantially decreased over the previous two years as more competitors entered the market.

Finally, the Group continued providing services through its wholly-owned subsidiary Astroservice LLC. Services provided were primarily related to well abandonment and site restoration and the turnover substantially increased over the previous year as some of the activities which had been put on hold by the clients were awarded.

Italy

In January 2017, Cadogan, through its fully owned Dutch subsidiary, finalised the purchase of 90% of the Exploenergy s.r.l. ("Exploenergy"), an Italian company which has filed applications for two exploration licences (Reno Centese and Corzano) located in the Po Valley region, in close proximity to fields discovered by the former operator; two leads have been identified in these licences with combined, unrisked prospective resources estimated to be in excess of 60 bcf of gas. Both applications are in an advanced stage of their approval process.


BELARUS
RUSSIA
POLAND
Kiev
Pirkivske
Zagoryanske
Monastyretske
Bitlyanske
UKRAINE
SLOVAKIA
Cheremkhivske
Debeslavetske
HUNGARY
MOLDOVA
ROMANIA
BLACK SEA


Corzano
Reno Centese
ITALY

Strategic Report

The Strategic Report has been prepared in accordance with Section 414A of the Companies Act 2006 (the "Act") and presented hereunder. Its purpose is to inform stakeholders 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.

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 also conducts gas trading and provides services to other operators.

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.

Key performance indicators

The Group monitors its performance through four key performance indicators ("KPIs"):

- to increase oil, gas and condensate production measured on number of barrels of oil equivalent produced per day ("boepd");
- 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 2016 against these KPI's is set out in the table below, together with the prior year performance data.

	Unit	**2016**	2015
Average production (working interest basis)[1]	boepd	**116**	109
Overhead (G&A)	$ million	**5.1**	6.1
Basic loss per share[2]	cents	**(2.6)**	(10.1)
Lost time incidents[3]	incidents	**1**	0

1 Average production is calculated as the average daily production during the year
2 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
3 Lost time incidents relates to the number of injuries where an employee/contractor is injured and has time off work (IOGP classification)

Chairman's Statement

2016 has witnessed a slow, but continuous progress towards the integration of Ukraine within Europe, its market and its regulations, notwithstanding the still open confrontation with Russia and an unresolved economic crisis. In this context, the reforms to improve and revitalise the country's energy sector were still timid and a real, strong commitment for their take-off was not evident. Besides there have been setbacks, some of them particularly damaging for Cadogan, which has remained subject to a punitive tax regime on its gas production and has not yet been awarded the conversion of its eastern licences from exploration to production.

The country's cooperation with the leading financial institutions improved during the year and this, combined with political reassurances on economic measures to stabilise the country, led to the international credit lines being extended. Some of this credit was used to replace Russian imported gas with gas purchased in Europe and imported into Ukraine via the reverse flow, which had been pioneered by Cadogan.

In this challenging context, Cadogan has continued its transformational journey towards becoming a much leaner and efficient operator of marginal fields, resilient to persistent low prices, while preserving its cash. G&A have been further reduced while production has increased over the previous year and is expected to increase further this year through the addition of a couple of old suspended wells which will be re-entered and worked-over (thus minimising the deployment of capital).

Though Cadogan is rooted in Ukraine, the Board and the Management remain strongly committed to introduce an element of geographic diversification in the Group's portfolio in order to manage the exposure to a country which still has an above the average level of risk. A healthy pipeline of potential opportunities has been maintained through the year and I am pleased to say that 2016 witnessed the very first step of this diversification process taking place (though the acquisition was finalised in the early days of 2017).

The acquisition of Exploenergy s.r.l. ("Exploenergy") is clearly not enough and management will continue to actively pursue other opportunities in the E&P domain, leveraging on the demonstrated skills and competences of the company and its staff, on a strong balance sheet and on the experience and network of contacts of the Directors. We are all committed to support Cadogan in pursuing its diversification objectives in every way we can.

Finally 2016 was the last year of Cadogan being audited by Deloitte. Based on existing regulations, a tender had to be launched to appoint the new auditor: BDO won the tender and they will be proposed as the auditor at the next AGM. While I welcome BDO, I wish to express my own and the entire Board's gratitude to Deloitte for the services rendered to Cadogan: their watchful eye and rigour have helped me and the other Directors to discharge our duties by giving the confidence that the company was properly managed.

Zev Furst
Non-Executive Chairman
27 April 2017

Strategic Report continued

Chief Executive's Review

2016 has been an important year for Cadogan, which has succeeded in keeping its E&P operations at break-even[1], notwithstanding the headwind of oil and gas prices, which have only slightly recovered in the second part of the year, and of a punitive taxation on its gas production.

2016 has also been the year that has seen the efforts to geographically diversify the portfolio coming to fruition with the first acquisition outside Ukraine being finalised in the early days of the new year; this is a small, yet important step which has marked the beginning of a new business phase for Cadogan.

While 2016 has witnessed some signs of recovery for the oil & gas industry, it has been another difficult year for Ukraine, which has remained embroiled in its confrontation with Russia and has not come out of its economic crisis. The country has tried to slowly progress towards modernisation of its oil & gas legislative framework, but the few steps ahead have been offset by some major steps back, in particular a dispute between regional Councils and central government, which has brought the award of licences to a nearly complete halt.

Cadogan's application to convert Zagoryanska and Pirkovska exploration licences into production licences have been amongst the casualties of this protracted institutional standstill. Besides, Cadogan has remained subject to a punitive tax regime, with royalties on gas set at 70 %, a measure designed to "punish" oligarchs and which has seen Cadogan as a sort of collateral damage. All attempts to find a solution have failed, partly because of the limits of the current legislation and partly because of the opposition of the other foreign investor in WGI[2], the entity, which formally owns Debeslavetska and Cheremkhivska licences.

2016 also witnessed a major change in the Ukrainian gas market. Direct imports from Russia came to a halt and the demand was covered by production and imports from Europe,

Source: www.tradingeconomics.com | otc

which peaked at 11 billion mcm. The market became more competitive and having paved the way to European import by pioneering the reverse flow did not give Cadogan any competitive advantage. In this challenging context Cadogan has protected its margin by pursuing opportunistic deals, rather than volume.

In short, these were the highlights of 2016:

- A 7% increase in production, from 39,680 boe in 2015 to 42,495 boe this year
- A 15% reduction of overhead (G&A), from $6.1 million in 2015 to $5.1 million this year
- A good year for the services business whose net result of $0.6 million (2015: $0.1 million) partially offset the reduction in the trading result
- A difficult year for trading whose result was a loss of $2.0 million (see note 5 to the Consolidated Financial Statements) compared to a positive result of $2.8 million last year, driven primarily by lower volumes
- The beginning of the geographic diversification process with the acquisition of an E&P company in Italy
- A balance sheet, which has remained very robust with a 9% increase of net cash from $36.5 million in 2015 to $39.7 million this year.

Core operations

Cadogan has continued to safely and efficiently produce from its fields in the west of the country. Production has increased over the value of the previous year and operating expenses have been further reduced through a combination of process and organisational streamlining. The agreement to rent two old suspended wells from Ukrnafta under a profit sharing scheme has created the premises for a significant increase of Monastyretska's oil production rate[3] which will materialise in 2017 once the wells are re-entered and worked-over. The re-entry of existing wells is part of Cadogan's strategy to sustain production and promote reserves and resources to P1 (proved) category with a minimum deployment of capital, given the still relatively high risk profile of Ukraine.

Regrettably one LTI (Lost Time Incident) occurred to a contractor acting against instructions, has diminished the value of these operational achievements.

The conversion of exploration and production licences has witnessed other setbacks. Notwithstanding the repeated filings, the approvals have not been granted because of a disagreement between the local Council and the central authorities on the distribution of royalties for gas. Management is reviewing all available options to move forward.

1 On cash basis, net of $0.1 million of depreciation
2 WGI, WestGasInvest LLC, which is owned by eni (50.01%), Nadra (34,99%) and Cadogan (15%) is the licence holder
3 At the time this report was issued both wells had been successfully re-entered and were producing an aggregate amount of 30 barrels oil per day

Non E&P operation

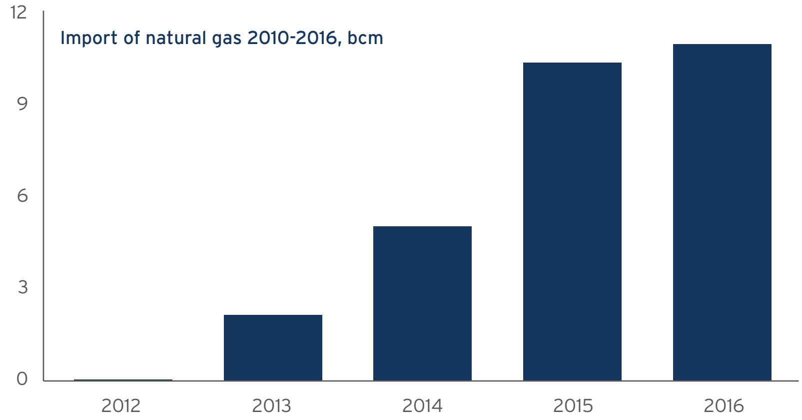
The anticipated increase in competition, due to a surge in the imported volumes from Europe, which brought key players into Ukraine, has significantly eroded the opportunities for an independent trader, such as Cadogan. The impact of this challenging context has been compounded by the resignation of certain Cadogan's traders. After an initial attempt to protect the market share, Cadogan has switched to pursuing opportunistic deals with good margins.

Revenue, and most importantly net profits, have remained subdued compared to the past two years and are unlikely to go back to where they were in the early days notwithstanding efforts to remain competitive because of structural changes in the market which has become more mature and dominated by large traders.

Services conversely have delivered excellent results driven by the execution of the work, which had been contracted in 2015 and which execution had been deferred on clients' request. These positive results have partially compensated for the lower than expected contribution from trading. Efforts to expand the clients' portfolio have continued and other contracts have been won through tenders.

Outlook

Through the year Cadogan has continued its transformational journey towards becoming a leaner and more efficient operator of marginal fields. G&A have been further reduced and E&P operations have achieved break-even notwithstanding a combination of negative factors. This drive towards efficiency has made Cadogan more resilient to a context that will be unlikely see the oil price go back to hundred dollars per barrel for a number of years.



Source: ukrstat.gov.ua

Having secured its foundations and with a robust balance sheet, management will focus on value delivery, acting on four levers:

- Re-load the licence portfolio while pursuing geographic diversification in order to mitigate the exposure to a country, which maintains a relatively high risk profile
- Closely monitor the performance of Monastyretska licence with a view of preparing a staged development programme based on a short-term production acceleration via work-overs of existing wells and a medium-term programme of infill drilling to be executed upon securing the extension of the licence, once it expires in 2019
- Safeguard the value of the Bitlyanska, Debeslavetska and Cheremkhivska licences
- Continue with gas trading and services to supplement the E&P revenues and remain cash neutral, while searching for assets with a high value upside.

Guido Michelotti
Chief Executive Officer
27 April 2017

Strategic Report continued

Operations Review

Overview

At 31 December 2016 the Group held working interests in four conventional gas, condensate and oil exploration and production licences in the west of Ukraine. All these assets are operated by the Group and are located in either the Carpathian basin in close proximity to the Ukrainian gas distribution infrastructures.

Summary of the Group's licences (as at 31 December 2016)

Working interest (%)	Licence	Expiry	Licence type[1]
99.8	Bitlyanska	December 2019	E&D
99.2	Debeslavetska[2]	November 2026	Production
54.2	Cheremkhivska[2]	May 2018	Production
99.2	Monastyretska	November 2019	E&D

Debeslavetska Exploration, Sloboda and Pokrovska licences have reached the end of the last extension of their exploration periods and have been relinquished, while Zagoryanska and Pirkovska licences are in the process of being converted from Exploration to Production licence.

In addition to the above licences, the Group has a 15% carried interest in Westgasinvest LLC ("WGI"), which holds the Reklynetska (expired in March 2017), Zhuzhelianska (expired in March 2017), Cheremkhivsko-Strupkivska, Debeslavetska Production, Baulinska, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska licences for unconventional activities.

East Ukraine

Applications for Zagoryanska and Pirkovska 20-year production licences have been repeatedly resubmitted for approval. Although the Group has fulfilled its legal obligations and requirements and filed the applications before their expiration date, delays have occurred due to legislative changes introduced into the award process and to an ongoing dispute between central and local authorities. This conflict revolves around distribution of revenues from subsoil use tax (royalties) and has brought to a complete halt the award process.

Conversely, the Group has decided to relinquish Pokrovska licence after its last extension expired in August 2016 as the lack of commercial discoveries did not justify its conversion into a production licence.

West Ukraine

The Bitlyanska licence covers an area of 390 square kilometres. Bitlyanska, Borynya and Vovchenska are three hydrocarbon discoveries in this licence area. The Borynya field holds 3P reserves, contingent recoverable resources and prospective resources. Bitlyanska and Vovchenska fields hold contingent recoverable resources.

Borynya 3 well, has been kept on hold, monitored and routinely bled-off for an eventual re-entry and stimulation.

The Monastyrestska licence continued to regularly produce oil at a rate of 46 boepd (2015: 48 boepd) through one well. Two more producing wells were added in December and they were being re-entered at the end of the reporting period[3]; the wells have been rented from Ukrnafta under a profit sharing agreement.

Debeslavetska and Cheremkhivska continued producing with a stable gas production rate of 70 boepd (2015: 76 boepd).

The Slobodo-Rungurska and Debeslavetska exploration licences were both relinquished at the expiry of their last extension period, in April 2016 and September 2016, respectively.

Gas trading

The Group continued to import gas from Europe via Slovakian and Polish borders and to sell it in Ukraine along with some locally purchased quantities. Volumes were lower than in previous years as some of the largest clients migrated to other suppliers which had entered the market and a new portfolio of smaller buyers had to be built; margins were also lower owing to increased competition and storage requirements set by the regulator[4].

Margins generated by trading were offset by Cadogan's administrative expenses, that are no longer commensurate to the current level of trading activity.

Management has taken a decisive action by (i) tightening the terms and conditions of gas sales (no transfer of title without payment); and (ii) proposing to the Board a streamlining of the Executive management, which was approved and will be implemented in 2017.

Service

The Group continued providing services through its wholly-owned subsidiary Astroservice LLC. Services provided were primarily related to well abandonment and site restoration and the turnover substantially increased over the previous year as some of the activities which had been put on hold by the clients were awarded.

1 E&D = Exploration and Development
2 In addition, the Group has 99.2% and 54.2% of economic benefit in conventional activities in Debeslavetska and Cheremkhivska licences respectively through Joint Activity Agreements ("JAA")
3 Both re-entries were successful and the wells were producing some 30 barrels oil per day prior to the installation of sucker rod pumps
4 Storage requirements have been set at 50% of the volume sold to final consumers starting 1 January 2016. In November 2016 the requirement has been decreased to 10%. Starting from January 2017 the requirements have been canceled.

Financial Review

Overview
In 2016 the Group continued with its efforts to approach cash neutrality through a number of cost reduction initiatives, while supplementing E&P revenues with service activities and gas trading.

The functional currency of the UK subsidiaries of the Group has been changed from GBP to USD starting 1 January 2016 (Note 3(d)).

The Group has acquired the remaining ownership of 30% of Pokrovskoe Petroleum B.V. and 60% of Zagoryanskoe Petroleum B.V. from eni for an immaterial consideration, which resulted in a profit on acquisition of $0.1 million in 2016. As part of the assets, the Group acquired $5.9 million of VAT credit and $103 million of unused tax losses of both companies, for which the impairment has been recognised in prior years (Note 17).

Net cash, which included cash and cash equivalents mostly denominated in USD net of short-term borrowings denominated in UAH, increased to $39.7 million at 31 December 2016 compared to $36.5 million at 31 December 2015.

Income statement
Revenue has decreased from $75.4 million in 2015 to $19.7 million in 2016 due to loss of customers and increased competition in gas trading operations, which represent $15.6 million (2015: $73.3 million) of total revenues; notwithstanding a higher production volume, revenues from production have slightly declined to $1.6 million (2015: $1.8 million) owing to lower realised price.

Revenue from the service business, which includes drilling and civil works services, increased to $2.5 million (2015: $0.4 million), as some of the work awarded, but suspended by the clients in 2015, was executed this year. Cost of sales represents $15.5 million (2015: $67.4 million) of purchases of gas for the trading operating segment, $3.1 million (2015: $2.2 million) of production royalties and taxes, depreciation and depletion of producing wells and direct staff costs for exploration and development and the service segment. Gross profit has decreased to $1.1 million (2015: $5.9 million).

Administrative expenses of $5.6 million (2015: $6.1 million) comprise, professional fees, brokerage fees, depreciation charges on non-producing property, plant and equipment, staff costs and Directors' remuneration.

Share of loss in joint ventures of $0.2 million (2015: $12.8 million losses) comprise of: i) $2.3 million revenues received by one of the Group subsidiaries for decommissioning services provided to the joint ventures (Note 17); ii) $1.7 million of operating loss and iii) $0.8 million loss recognised as impairment of Westgasinvest LLC.

Finance costs of $1.1 million (2015: $2.6 million) represent interest expense to BNPP on credit line used for trading net of the interest income on cash deposit used for trading.

As a result, loss before tax was $5.8 million (2015: $22.2 million[1]).

Balance sheet
The cash position of $43.3 million at 31 December 2016, including restricted cash of $10.9 million used as a pledge for the credit line, has decreased from $49.4 million at 31 December 2015.

Intangible Exploration and Evaluation ("E&E") assets of $2.4 million (2015: $2.7 million) represent the carrying value of the Bitlyanska licence. The PP&E balance was $1.3 million at 31 December 2016 (2015: $1.7 million). Investments in joint ventures of $2.3 million (2015: $2.2 million) mainly represent the carrying value of the Group's investments in Westgasinvest LLC, for which impairment of $0.8 million have been recognised (note 17).

Trade and other receivables of $4.1 million (2015: $14.4 million) include $2.2 million (2015: $8.5 million) trading receivables, $0.8 million prepayments for natural gas (2015: $3.2 million), $0.8 million VAT recoverable (2015: nil) which is expected to be recovered through trading and services activities.

The $3.6 million outstanding short-term borrowings as of 31 December 2016 (2015: $12.9 million) represents a credit line to purchase natural gas, drawn in UAH at Ukrainian bank, which is a 100% subsidiary of a UK bank. The credit line is secured by $10 million of cash balance placed at the UK bank; this has been decreased to $5 million in March 2017 owing to lower volumes traded and lower gas prices. Borrowings are taken in UAH in order to preserve the USD amount of own cash and mitigate a risk related to currency fluctuations in Ukraine. A short-term credit line provides an easy access to quick financings to support the Group's trading operations.

The $1.6 million of trade and other payables as of 31 December 2016 (2015: $3.7 million) represent $0.9 million (2015: $0.2 million) of accrued expenses, $0.5 million (2015: $1.7 million) of other creditors and $0.3 million (2015: $0.9 million) of VAT payable for supplies of natural gas.

Provisions include $0.7 million of long-term provision for decommissioning costs (2015: $0.7 million of long-term provision) and $1.3 million (2015: $1.5 million) provision for corporate tax for the dispute on the treatment of taxable income and expenses.

Net cash, which included cash and cash equivalents mostly denominated in USD net of short-term borrowings denominated in UAH, increased to $39.7 million at 31 December 2016 compared to $36.5 million at 31 December 2015. Net cash mostly improved of improved collection of receivables, decrease of inventories in stock and improvement of working capital cycle.

1 Loss before tax would have been $25.7 million had the group started using last year the USD as functional currency

GROUP OVERVIEW
DIRECTORS' REPORT
CORPORATE GOVERNANCE
REMUNERATION REPORT
FINANCIAL STATEMENTS
GLOSSARY
SHAREHOLDER INFORMATION

Strategic Report continued

Cash flow statement

The Consolidated Cash Flow Statement on page 47 shows operating cash outflow before movements in working capital of $4.4 million (2015: $1.1 million). In 2016 the Group contributed $2.3 million (2015: $0.7 million) into joint ventures to repay its current liabilities. Management maintained its focus on optimising the working capital and this focus, combined with a reduction of the mandatory gas storage requirements, substantially improved the cash inflows from operating activities from $1.2 million in 2015 to $2.5 million in 2016.

In 2016 the Group financed its trading operations with short-term borrowings (Note 22) with proceeds of $1.9 million and repayments of $10.2 million (2015: proceeds of $13.2 million and repayments of $12.2 million).

Related party transactions

Related party transactions are set out in note 28 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 used in Ukraine in operations rather than being remitted to the UK.

1 Loss before tax would have been $25.7 million had the group started using last year the USD as functional currency

Risks and Uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's long-term performance and could cause the 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, who are carrying out a robust assessment of the principal risks facing the Group, including those potentially threatening its business model, future performance, solvency and liquidity.

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 cause 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 management 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 and Work-Over operations The technical difficulty of drilling or re-entering 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 There is a risk that production or transportation facilities can fail due to non-adequate maintenance, control or poor performance of the Group's suppliers.	All plants are operated and maintained at standards above the Ukraine minimum legal requirements. Operative staff are experienced and receive supplemental training to ensure that facilities are properly operated and maintained. When not in use the facilities are properly kept under conservation and routinely monitored. Service providers are rigorously reviewed at the tender stage and are monitored during the contract period.

Sub-surface risks

Risk	Mitigation
The success of the business relies on accurate and detailed analysis of the sub-surface. This can be impacted by poor quality data, either historic or recently gathered, and limited coverage. Certain information provided by external sources may not be accurate.	All externally provided and historic data is rigorously examined and discarded when appropriate. New data acquisition is considered and appropriate programmes implemented, but historic data can be reviewed and reprocessed to improve the overall knowledge base. Agreements with qualified local and international G&G contractors have been entered into to supplement and broaden the pool of expertise available to the Company.
Data can be misinterpreted leading to the construction of inaccurate models and subsequent plans.	All analytical outcomes are challenged internally and peer reviewed. Analysis is performed using modern geological software.
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.
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, because of reservoir performances below the expectations.	The Group performs a review of its oil and gas assets for impairment on an annual basis, and considers whether to commission a review from a third or a Competent Person's Report ("CPR") from an independent qualified contractor depending on the circumstances.

Strategic Report continued

Financial risks

Risk	Mitigation
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 26 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.

Country risks

Risk	Mitigation
Legislative changes may bring unexpected risk and be time consuming for securing the licences obligations.	Accurate monitoring and dialogue with competent authorities are kept in place to minimise the risk.
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.

Other risks

Risk	Mitigation
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.
The Group is at risk of underestimating the risk and complexity associated with the entry into new countries.	The Group applies a set of very rigorous and strict screening criteria in order to evaluate potential investment opportunities. It also seek for opinion of independent and qualified experts when deemed necessary. Besides the level of required rate of return is adjusted to the perceived level of risk.

Statement of Reserves and Resources

In December 2015, the Group commissioned a third party for the Reserves and Resources Evaluation of the Group's oil and gas assets in Ukraine. The evaluation was assigned to a qualified Ukrainian G&G consulting contractor, which delivered its final report in March 2016. The evaluation was conducted in accordance with SPE Petroleum Resources Management System ('PRMS'). The summary of the Reserves and Resources as per the report is presented below.

Summary of Reserves[1] at 31 December 2016	Mmboe
Proved, Probable and Possible Reserves at 1 January 2016	8.71
Production	(0.04)
Revisions	(0.80)
Proved, Probable and Possible Reserves at 31 December 2016	7.87

Reserves are assigned to the Bitlyanska, Monastyretska and Debeslavetska fields.

In addition to the tabled reserves Cadogan has 15.40 million boe of contingent resources associated with Bitlyanska and Monastyretska licences. Reserves for Zagoryanska and Pirkovska licences have been downgraded to resources given the uncertainty on the time to complete the award process.

1 The study has been conducted by third-party Brend Vik and since then Cadogan has entered into a Technical Service Agreement with Brend Vik.

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 the protection of the health and safety of its employees and communities as well as of the environment which it impacts is not just an obligation, but it is part of the personal ethics and beliefs of management and staff; 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 Chief Operating Officer is the Chairman of the HSE Committee and is supported in his role by Cadogan Ukraine's HSE Manager. Her role is to ensure that the Group has developed suitable procedures, and that operational management have incorporated them into daily operations and that she has the necessary level of autonomy and authority to discharge her 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. Management is regularly reporting to the Board on health, safety and environment and key safety and environmental issues, which are discussed by the Executive Management. The Health, Safety and Environment Committee Report is on page 29.

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 and continuously improved. The HSE management system ensures that both Ukrainian and international standards are 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 and Company's standards.

A proactive approach to the prevention of incidents has been in place throughout 2016, which relies on a 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 emergency drills regularly run on operations' sites and offices, to ensure that international best practices and standards are maintained to comply with or 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 2016, the Group recorded close to 315,000 man-hours worked. In February, there was one incident after over 2.2 million man-hours and 4.5 years, unfortunately caused by a contractor acting in violation of the company's procedures and daily inductions.

During 2016 the Group continued to monitor the activity's performances in terms of greenhouse gas emissions as well as to collect statistical data related to consumption of electricity and industrial water and fuel consumption by cars, plants and other work sites.

Employees

Wellness and professional development is part of the Company's sustainable development policy and wherever possible local staff are recruited; the Group operations in Ukraine are now managed by an entirely local staff. 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.

The uncertainty on the timing of the award of Zagoryanska and Pirkovska licences and the need to reduce costs to remain profitable in the West, notwithstanding a punitive tax regime, forced the Group to reduce the level of staffing; the concerned personnel were duly informed and all the necessary procedures were taken. Local qualified contractors are considered to supplement the required expertise when and to the extent it is necessary.

Sufficient level of health insurance is 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 seven male Directors throughout the year to 31 December 2016. The appointment of any new Director is made on the basis of merit. See pages 16 to 17 for more information on the composition of the Board.

As at 31 December 2016, the Company comprised a total of 69 persons, as follows:

	Male	Female
Non-executive directors	4	-
Executive directors	3	-
Management, other than Executive directors	7	3
Other employees	31	21
Total	**45**	**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 and partners 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. 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, especially during winter season or harsh meteorological conditions. Specific community activities are undertaken for the direct benefit of local communities. 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 27 April 2017 and signed on its behalf by:

Ben Harber
Company Secretary
27 April 2017

Board of Directors

Zev Furst, 69, American
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.

Guido Michelotti, 62, Swiss
Chief Executive Officer
Mr Michelotti was appointed to the Board of Directors as Chief Executive Officer on 25 June 2015. An Oil & Gas executive with over 30 years of international experience across the entire E&P cycle, he spent more than 10 years in senior executive roles with eni, leading E&P companies as well as managing major capital projects. Prior to joining Cadogan he was CEO of a Luxembourg based Private Equity fund investing in E&P.

Mr Michelotti is a Senior Advisor to the Energy Practice of the Boston Consulting Group, a member of the Society of Petroleum Engineers (SPE) and a former member of SPE's Industry Advisory Council.

Bertrand des Pallieres, 50, French
Chief Trading 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. On 22 June 2015, Mr des Pallieres resigned as CEO and was appointed as Chief Trading Officer.

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 an executive director of Versatile Systems Inc. listed on the Toronto and London Stock Exchanges and a non-executive director of Equus Total return, Inc., listed on the NYSE.

Mr des Pallieres is a member of the Nomination Committee.

Adelmo Schenato, 65, Italian
Chief Operating Officer[1]
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, the Italian integrated energy business, where he served in senior global and regional wpositions. 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.

Mr Schenato is the Chairman of the Health, Safety and Environment Committee.

In January 2017, Mr Schenato stepped down as Chief Operating Officer to take up the role of Chairman and CEO of Exploenergy, the Italian company recently bought by Cadogan.

1 In the first quarter 2017 Mr Schenato stepped down from his COO role and became a non-Executive Director of Cadogan Petroleum plc.

Gilbert Lehmann, 71, 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, 64, Belgian
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, 65, 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
Guido Michelotti
Bertrand des Pallieres
Adelmo Schenato

In the first quarter of 2017 Mr Schenato stepped down as Chief Operating Officer of the Company but remains as a non-executive director of Cadogan Petroleum plc and as a technical adviser to the Chief Executive.

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 April 2016 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 22 June 2017.

The biographies of the Directors in office at the date of this report are shown on pages 16 and 17.

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 2016 and their connected persons in the Ordinary shares of the Company at 31 December 2016 are set out below.

Director	Number of Shares
Z Furst	–
G Michelotti	–
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 2016 Annual General Meeting, remains unused.

Dividends

The Directors do not recommend payment of a dividend for the year to 31 December 2016 (2015: 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 2016 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.

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 2016 and 27 April 2017, the Company had been notified of the following interests in voting rights attached to the Company's shares:

	31 December 2016		27 April 2017	
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
CA Indosuez (Switzerland) SA	18,683,000	8.08	18,683,000	8.08
Kellet Overseas Inc.	14,002,696	6.06	14,002,696	6.06
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 auditor

As required by section 418 of the Companies Act 2006, each of the Directors as at 27 April 2017 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.

Report of the Directors continued

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.

Reporting year
The reporting year coincides with the Company's fiscal year, which is 1 January 2016 to 31 December 2016.

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 Executive directors are entitled to a payment of salary and benefits for a period of six months.

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").

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.

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).

Scope of emissions increased comparatively to 2015 results due to 10 wells plug and abandonment carried-out by Cadogan Group service subsidiary Astro-Service LLC (results incorporated). The 2016 results of the E&P activity (which is directly related to production) improved compared to the previous year.

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 calculating 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.

The intensity ratio for E&P operations (same reporting perimeter) decreased from 30.47 CO_2e/boe in 2015 to 27.44 CO_2e/boe in 2016.

Total greenhouse gas emissions data for the year from 1 January 2016 to 31 December 2016

Greenhouse gas emissions source	E&P 2016	E&P 2015	Service 2016	Service 2015	Total 2016	Total 2015
Scope 1						
Direct emissions, including combustion of fuel and operation of facilities (tonnes of CO_2 equivalent)	**514**	554	**444**	23	**958**	577
Scope 2						
Indirect emissions from energy consumption, such as electricity and heating purchased for own use (tonnes of CO_2 equivalent)	**754**	741	**-**	-	**754**	741
Total (Scope 1 & 2)	**1,268**	1,295	**444**	23	**1,712**	1,318
Normalisation factor						
Barrels of oil equivalent	**46,191**	42,493	**-**	-	**46,191**	42,493
Intensity ratio						
Emissions reported above normalised to tonnes of CO_2e per total wellhead production of crude oil, condensates and natural gas, in thousands of Barrel of Oil Equivalent	**27.44**	30.47	**n/a**	n/a	**n/a**	n/a

2017 Annual General Meeting

The 2017 Annual General Meeting ("AGM") of the Company will be an opportunity to communicate with shareholders and the Board welcomes their participation. Board members constantly strive to keep in touch with shareholder opinion and to discuss strategy and governance issues with them through direct contacts.

The Board looks forward to welcoming shareholders to the AGM and shareholder information will be enclosed as usual with the AGM notice to facilitate voting and feedback in the usual way.

The AGM notice will be issued to shareholders well in advance of the meeting with notes to provide an explanation of all resolutions to be put to the AGM.

Board and committee members will be available for shareholders participation at the AGM. All relevant shareholder information including the annual report for 2016 and any other announcements will be published on our website – **www.cadoganpetroleum.com**.

This Report of Directors comprising pages 18 to 21 has been approved by the Board and signed on its behalf by:

Ben Harber
Company Secretary
27 April 2017

Viability Statement

In accordance with provision C2.2 of the 2016 revision of the UK Corporate Governance Code, the Board has assessed the prospect of the Group over a longer period than the twelve months required by the 'Going Concern' provision.

Look-out period
The Board selected a three-year period as appropriate for the assessment for the reason that the Group's strategy is aligned with a three-year view and that the current volatility in commodity markets makes confidence in a longer assessment of prospects highly challenging.

Assessment
The Board has conducted a stress test in one combined scenario as well as assessment of the principal risks facing the Group (as set out on pages 11 to 12), including those that would threaten its business model, future performance, solvency or liquidity. The factors considered include:

- consideration of potential impact of political situation and renewal of the licences that will expire during following three years
- foreign exchange movements to which the Group is exposed as a result of its operations in Ukraine
- downturn in the price and demand of hydrocarbon products most impacting Group's operations
- consideration of exploration investments in Italy, if the licences been awarded and the execution permits been granted

Key assumptions
The key assumptions underpinning the Board's assessment include oil and gas prices, trading volumes, foreign exchange rates, the ability to repay borrowing facilities as they fall due and the expectations for capital expenditures.

Expectations
Based on the results of the related analysis and taking account of the Group's current position, particularly its cash availability, and the principal risks, and the effect of the licences that expired during the year the Board has a reasonable expectation that the Group will be able to continue its operation and meet its liabilities as they fall due over the three-year period of the assessment.

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 UK Corporate Governance Code issued by the Financial Reporting Council ('FRC') in April 2016 (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 with 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

In addition to the two areas of non-compliance described above, Bertrand des Pallieres served as a non-executive director on the board of Equus Total Return Inc. during the year ended 31 December 2016 and the Directors' Remuneration Report does not include a statement as to whether or not Bertrand des Pallieres retained his earnings in connection with these appointments and, if so, what the remuneration in respect of each appointment was, as required under Code provision D.1.2. These appointments have not been considered relevant to the Company since Mr des Pallieres held these positions prior to his appointment as an Executive Director of the Company and his responsibilities have not prevented Mr des Pallieres from fulfilling his duties as the Company's Chief Trading Officer during the year ended 31 December 2016.

Board

The Board provides leadership and oversight. The Board comprises a non-executive Chairman, Chief Executive Officer, Chief Trading Officer, Chief Operating Officer[1], two independent non-executive Directors and a 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 pages 16 and 17.

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 2017 Annual General Meeting due to be held on 22 June 2017.

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.

1 In the first quarter January 2017 Mr Schenato stepped down from his COO role and became a non-Executive Director of Cadogan Petroleum plc

Corporate Governance Statement continued

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 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 2016.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	6	N/A	1	2
G Michelotti	6	N/A	N/A	N/A
B des Pallieres	4	N/A	1	N/A
G Lehmann	6	3	1	2
M Meeùs	5	N/A	N/A	N/A
A Schenato	6	N/A	N/A	N/A
E Testa	5	3	1	2

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. Two non-executive Directors, 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[1]. The letters of appointment for the non-executive Directors are available for review at the Registered Office and prior to the Annual General Meeting.

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 26 to 31.

Board performance evaluation and effectiveness

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 2016, 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. There were no material areas of improvement identified for action at the time of conducting the evaluation.

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.

The Chairman is responsible for the induction of new Directors and ongoing development of all Directors. The induction process typically includes an induction pack, operational site visits, meetings with key individuals and the Company's advisers, and briefings on key business, legal and regulatory issues facing the Company.

1 Adelmo Schenato, who has become a non-Executive Director in first quarter January 2017 is also non-Independent as he retains a role of Advisor to the CEO, besides being Chairman and CEO of Exploenergy

Whilst no formal structured continuing professional development programme has been established every effort is made to ensure that the Directors are fully briefed before Board meetings on the Company's business. In addition, the Non-executive Directors receive updates from time to time on specific topics affecting the Company from the Executive Directors, and all Directors receive updates on recent developments in corporate governance and compliance from the Company Secretary. Each of the Directors independently ensures that they update their skills and knowledge sufficiently to enable them to fulfil their duties effectively.

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 monitoring and 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 Group's internal control and risk management systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures that cover financial planning and reporting, preparing consolidated financial statements, capital expenditure, project governance and information security.

The key features of the internal control systems, which operated during 2016 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 and policies have been circulated and adopted throughout the Group, except the joint venture 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 and treasury functions report to the Group Director of Finance who reports directly to the Chief Executive Officer. Trading business is managed by the Chief Trading Officer, who reports directly to Chief Executive Officer. The legal function for Ukraine's related assets and activities is managed by the General Counsel, who reports to the General Director of Cadogan Ukraine. The Health, Safety and Environment functions report to the Chief Operating Officer. An overview of the Group's treasury policy is set out on page 10. 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 the Code. 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 questions 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 also on the Company's website, www.cadoganpetroleum.com. 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.

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

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 2016 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.

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 meetings. 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 are fair, balanced and understandable.

Significant issues relating to the 2016 financial statements

For the year ended 31 December 2016 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.

Reserves

Oil and gas reserves, as discussed in the Statement of Reserves and Resources, are based on the Independent Reserves and Resources Evaluation performed by Brend Vik concluded in March 2016.

However, reserves estimates are inherently uncertain, especially under present market volatility or 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 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 2016 impairment assessment of the joint ventures' exploration and evaluation assets was based on the value in use of the assets held by joint venture company.

Impairment of E&E

The Audit Committee considered the Group's intangible exploration and evaluation assets individually for any indicators of impairment, including those indicators set out in IFRS 6 Exploration for and Evaluation of Mineral Resources. The Audit Committee has discussed the Group's exploration and evaluation assets with both management and the auditors and concurs 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 development and production assets. The recoverability assessment involves the use of significant judgement 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.

Recoverability of receivables

In accordance with IAS 39 the Group makes an assessment at the end of each reporting period, as to whether there is an objective evidence that a financial asset or group of financial assets (including trade receivables) needs to be impaired.

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. For further detail refer to the detailed discussion of the assumptions outlined in note 3(b) to the Consolidated Financial Statements. The Committee also review the Group's viability statement presented on page 22.

Political and economic situation in Ukraine

The political situation 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, other than the impacts derived from the Subsoil use tax and the uncertainties on the timing of the approval process, there were no significant adverse consequences in relation to the Group's operations, cash flows and assets that impact the 2016 financial statements.

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 29 to the financial statements.

Internal controls and risk management

The Audit Committee reviews and monitors financial and control issues throughout the Group including the Group's key risks and the approach for dealing with them. Further information on the risks and uncertainties facing the Group are detailed on pages 11 to 12 and in Note 26 to the financial statements.

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.

Board Committee Reports continued

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 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 9 to the Consolidated Financial Statements. The Company's external auditor, Deloitte LLP, has provided non-audit services (excluding audit related services), which amounted to $55,000 (2015: $125,000). 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.

We have also taken account of the latest recommendations of the Code in relation to the regular tendering of the external audit appointment, and as required conducted a tender for the audit for the year end at 31 December 2017.

Group external audit tender for the audit of 2017 Annual Report

Since IPO, Deloitte have been the Group's auditor for ten years and in accordance with the Code, the Group held in 2016 a tender for the audit of the 2017 Annual Report.

Process and selection criteria

The tender process and selection criteria adopted by the committee, in relation to the external audit services, closely followed those detailed in the audit tender notes of best practice set out by the FRC (focusing on quality and clarity of approach, understanding of the business and risks, appropriate geographic breadth, appropriate team structure and experience, cultural fit and approach to independence and conflict issues). The audit committee was provided with an assessment of the external audit service providers and eight firms were invited to tender for the external audit.

Process summary October 2016 – April 2017

The Group issued the Request for Proposal (RFP) to the audit firms invited to tender. An introduction and information sharing meetings were held between the audit firms and the Group in November and December 2016.

RFP vendors submitted their final written tenders by the end of December 2016, which were analysed by the Group in January and February 2016. After extensive consideration and based on the proven track record of audit quality, the audit committee concluded to recommend to the board that BDO be appointed as the Group's external auditors from 2017 onwards, subject to shareholder approval at the AGM in June 2017.

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 Group'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
27 April 2017

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 2016. Members of the HSE Committee were Mr Adelmo Schenato (Chief Operating Officer and HSE Committee Chairman), Ms Snizhana Buryak (HSE Manager), Mr Andriy Bilyi (Cadogan Ukraine General Director). The CEO and the Company Secretary attend 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 existing HSE policies and procedures, as well as the 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 the results of inspections, both internal ones and those carried out by the Authorities.
- HSE performances, key indicators and statistics were a standing item in the agenda of every meeting, allowing the HSE Committee to assess the Company's performance by analysing any lost-time incidents (of which there were none during 2013, 2014 and 2015), near misses, HSE training and other indicators.
- Interaction with contractors, Authorities, local communities and other stakeholders was discussed among other HSE activities.
- Updating of the legal requirements in the working sites, especially related to the production plants and rig sites.

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.

Adelmo Schenato
HSE Committee Chairman[1]
27 April 2017

1 In the first quarter 2017 Mr Schenato stepped down from his COO role and became a non-Executive Director

Board Committee Reports continued

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.

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 Trading 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 in the light of the current business environment and the Company's anticipated future activities and approved a recommendation of the CEO to reduce the number of Executive Directors from three to one, effective as early as possible in 2017. The Board also mandated the CEO to implement the necessary adjustments to the organisation and roles of the management team.

Pending the implementation of this recommendation, the Nomination Committee recommends the re-election of each of the Directors at the AGM, with Mr Adelmo Schenato as a Non-Executive Director.

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
Nomination Committee Chairman
27 April 2017

Remuneration Committee

Statement from the Chairman

I am pleased to present the Annual Report on Remuneration for the year ended 31 December 2016.

During 2016 there were no changes made to the Remuneration Policy approved by the shareholders at the Annual General Meeting held on 25 June 2015, nor to the composition of directors' remuneration, and there was no increase to executive and non-executive directors' salary and fees in base currency; notwithstanding the devaluation of the British pound against most currencies, all directors agreed to maintain their base compensation "as is" and to review it the following year.

In 2016 the Committee enrolled the CEO in a performance-related, bonus scheme built around a scorecard with a set of challenging KPI's aligned with the company strategy, preserving cash and operating safely and efficiently while actively pursuing opportunities to re-load and geographically diversify the portfolio. Based on the results achieved, the Committee has determined to award him a bonus of €200,000, which the CEO undertook to use in its entirety to subscribe for newly issued ordinary shares in the Company at the prevailing market value of such shares on the date that bonus is to be paid. Further, the CEO agreed to fund the income tax due on his bonus from his own resources (so that there is no immediate need to sell some of the subscribed shares).

The Company's aim is to develop a, long-term and balanced Remuneration Policy aligned to strategy and performance and linked to shareholder value. The Committee which I chair, with the support of the Executive management and of qualified advisors, if and to the extent which is required, will work in the second part of this year to produce a new policy which meets our aim and which will be presented to 2018 AGM for approval.

At this year AGM we will present the 2016 Remuneration Approval to our shareholders for approval.

Enrico Testa
Chairman of the Remuneration Committee
27 April 2017

Annual Report on Remuneration 2016

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. None of the directors are involved in deciding their own remuneration. The Company Secretary attends the meetings of the Remuneration Committee.

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 2017 Annual General Meeting.

Remuneration consultants

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

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

	$ Salary and fees		$ Taxable benefits[1]		$ Annual bonus		$ Long-term incentives		$ Pension	
Executive Directors	**2016**	2015	**2016**	2015	**2016**	2015[2]	**2016**	2015	**2016**	2015[2]
G Michelotti	**487,080**	242,902[3]	**15,353**	15,987	**210,504**	243,132[4]	**-**	-	**712,937**	502,021
B des Pallieres	**300,152**	357,231	**2,000**	-	**-**	-	**-**	-	**302,152**	357,231
A Schenato	**277,545**	282,014	**-**	-	**-**	-	**-**	-	**277,545**	282,014
Non-executive Directors										
Z Furst	**115,235**	129,957	**-**	-	**-**	-	**-**	-	**115,235**	129,957
G Lehmann	**61,007**	68,801	**-**	-	**-**	-	**-**	-	**61,007**	68,801
E Testa	**47,450**	53,512	**-**	-	**-**	-	**-**	-	**47,450**	53,512
M Meeùs	**47,450**	53,512	**-**	-	**-**	-	**-**	-	**47,450**	53,512

1 Taxable benefits include life and medical insurance provided to the executive. There are no contributions to pension schemes.
2 Restated.
3 The number represents salary for six months of Mr Michelotti, as he has been appointed as a Chief Executive Officer in June 2015.
4 For details please see page 33.

Notes to the table

In 2016, there was no increase in executive and non-executive directors' salary in base currency. The difference in salary and fees for the directors (other than Mr Guido Michelotti) represents the change in the exchange rate between the base currency and USD as a reporting currency. The figures for Mr Guido Michelotti for 2015 show Mr Michelotti's remuneration for the period after his appointment on July 1, 2015 through to the end of December 2015 (six months in total).

Mr Guido Michelotti

Mr Guido Michelotti was Chief Executive Officer through 2016. Mr Michelotti's salary is €440,000 ($487,080) per annum.

The Remuneration Committee has determined that it would be appropriate to award Mr Guido Michelotti a bonus of €200,000 ($210,504), comprising a performance related element of €181,720 and a discretionary element of €18,280 for financial year 2016. In assessing the performance related element, the Committee determined that the Company was within the parameters of production targets and had exceeded by a considerable margin net cash targets, while missing the LTI free operations target (1 LTI of a contractor) and the profit target, this latter because of lower than expected results from gas trading. The Committee also noted that the geographic diversification achievements were on the lower end of the expected outcome. Under the performance scorecard considered by the Remuneration Committee, the production target and net cash target represent respectively 20% and 30% of the weightings of the bonus (for target level performance) with safety, profit and geographic diversification targets representing respectively 10%, 20% and 20%. With additional points allocated for exceeding by a considerable margin net cash targets, the Remuneration Committee determined that some 59% of the performance related element of the bonus should become payable (see following table).

KPI	Weighting %	Target[1]	Achievement	% of KPI related bonus achieved[2]
Average production, boepd	20	Approved budget (stretch target +20%)	Target achieved	20
Net profit/(loss), $ million	20	Approved budget (stretch target +20%)	Target not met	0
Change in free cash, $ million	30	Approved budget(stretch target +20%)	Stretch target achieved	39
HSE, number of LTI	10	Target: zero	Target not met	0
Geographic diversification, number of new countries	20	Minimum 1 Maximum 2	Target not met	0[3]
	100			**59**

Maximum annual cash bonus: 105% base salary
Maximum KPI element: 70%
Maximum discretionary component: 35%

2015 Bonus

At the time Mr Guido Michelotti was offered the position of CEO, the Board decided, and Mr Guido Michelotti accepted, to replace an upfront, sign-on payment (art 4.1 of the Remuneration Policy) with a bonus linked to a single KPI, which was the delivery of a strategy, and containing a discretionary element. The Remuneration Committee determined that the KPI was achieved and considered that a bonus of €231,000, including the full discretionary element of €77,000, should become payable. Mr Michelotti suggested to the Remuneration Committee that a cash neutral alternative for the company should be found. An alternative was found in the form of bonus payment in cash against a commitment to use the money to subscribe for newly issued ordinary shares at the prevailing market value (the same solution implemented in 2016, as described below) and the Remuneration Committee approved it in June 2016, past the publication of 2015 Annual and Remuneration Reports (April 2016).

The 2015 and 2016 bonuses have not yet been paid and new shares were not issued at the date of this report. The CEO has undertaken to use the entire amount of his 2015 and 2016 bonuses to subscribe for newly issued ordinary shares in the Company at the prevailing market value of such shares on the date that bonuses are to be paid. Further, Mr Guido Michelotti has agreed to fund the income tax due on his bonuses from his own resources (so that there is no immediate need to sell some of the shares that Mr Guido Michelotti subscribes for). The agreement by Mr Guido Michelotti to use the entire amount of his bonuses to subscribe for shares and to use his own resources to pay any income tax due, so that there will be no cash outflow arising from the award of the bonuses, except social security contributions. While the approved Remuneration Policy sets the maximum Annual Bonus at 200% of the base salary, Mr. Michelotti has agreed in his employment agreement to a ceiling to the annual bonus equal to 105% of the base salary and this ceiling will be reflected in his 2017 scorecard.

1 The company does not disclose its budget
2 Scores for achieving respectively target and stretch target are set at 100 and 130
3 Low materiality of Exploenergy's acquisition, formally finalized in the first days of the new year

Annual Report on Remuneration 2016

continued

There are no conditions on Mr Guido Michelotti's holding of shares, save that, in respect of his bonuses, Mr Guido Michelotti accepted, that the Committee has the discretion to reduce the bonus before payment or require him to pay back shares or a cash amount in the event of financial misstatement of the Company or fraud or other material misconduct on his part. The amount that may be clawed back from Mr Guido Michelotti on any such event is limited to the value of an equivalent number of shares that Mr Guido Michelotti subscribed for using the proceeds of his bonuses, taking the value of the shares at the time of the clawback, less any income tax that Mr Guido Michelotti paid on his bonuses.

Mr Bertrand des Pallieres

Mr Bertrand des Pallieres was Chief Trading Officer throughout 2016. Mr des Pallieres' salary is £221,400 ($300,152) per annum, comprising £194,400 ($263,548) per annum under a consultancy agreement (the terms of which are reviewed by the Remuneration Committee annually) and £27,000 ($36,604) per annum under a services agreement.

Mr des Pallieres also serves as a non-executive director of two other companies. The board is of the opinion that his involvement with these companies does not affect the time or commitment, which he gives to the Company.

Adelmo Schenato

Adelmo Schenato was Chief Operating Officer of the Company throughout 2016. Mr Schenato's basic salary is $277,545 comprising €225,000 ($249,075) per annum under a consultancy agreement and £21,000 ($28,470) under a services agreement.

The Chairman and Non-Executive Directors

In May 2011 the Board agreed that the Chairman's fee be set at £85,000 ($115,235) and that the fee for acting as an independent non-executive Director be set at £35,000 ($47,450) with an additional £10,000 ($13,557) for acting as Chairman of the Audit Committee. There has been no increase in non-executive Directors' fees since that time.

Benefits

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 2016 there were no payments to past directors.

Payments for loss of office (audited)

No payments were made to directors for loss of office in 2016.

Directors' interests in shares (audited)

The beneficial interests of the Directors in office as at 31 December 2016 and their connected persons in the Ordinary shares of the Company at 31 December 2016 are set out below.

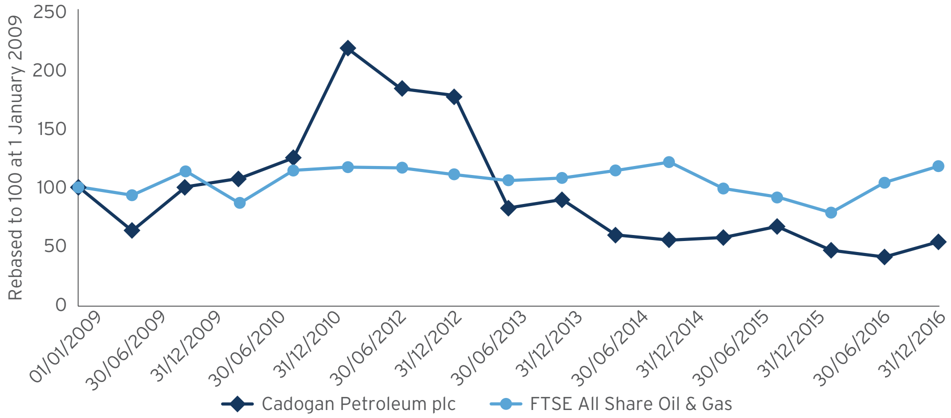
Shares as at 31 December	**2016**	2015
Z Furst	**-**	-
G Michelotti	**-**	-
B des Pallieres	**200,000**	200,000
G Lehmann	**-**	-
M Meeùs	**26,000,000**	26,000,000
A Schenato	**-**	-
E Testa	**-**	-

There were no changes in the Directors shareholding as at 31 December 2016 compared to 27 April 2017.

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 for the last eight years 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 $
2009	422,533	–	284,552	–	–	–	707,085
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
2015[1]	432,409[2]	15,987	243,132[3]	–	–	–	691,528
2016	487,080	15,353	210,504[4]	–	–	–	712,937

In 2016 the annual bonus awarded to the CEO was 22% (2015: 50%) of the maximum bonus as per the approved Remuneration Policy.

Percentage change in the remuneration of the Chief Executive

The following table shows the percentage change in the remuneration of the Chief Executive in 2016 and 2015 compared to that of all employees within the Group.

		2016 $'000	2015[1] $'000	Average Change %
Base salary	CEO	**487**	432	13%
	All employees	**2,618**	3,121	(3%)
Taxable benefits	CEO	**15**	16	(6%)
	All employees	**35**	43	(6%)
Annual bonus	CEO	**211**	243	(13%)
	All employees	**211**	264	(7%)
Total	CEO	**713**	691	3%
	All employees	**2,864**	3,428	(3%)

The base salary of CEO has been paid in cash. Mr Guido Michelotti has undertaken to use the entire amount of his 2015 and 2016 bonuses (which have not yet been paid) to subscribe for newly issued ordinary shares in the Company at the prevailing market value of such shares on the date that bonuses are to be paid. Further, Mr Guido Michelotti has agreed to fund the income tax due on his bonuses from his own resources (so that there is no immediate need to sell some of the shares that Mr Guido Michelotti subscribes for) so that there will be no cash outflow for the Company arising from the award of the bonuses, except social security contributions.

1 Restated
2 2015 CEO's salary is the sum of Mr. des Pallieres' salary for the period January to June and of Mr. Michelotti's salary for the period July to December
3 Bonus awarded to CEO for 2015. Details explained on page 33
4 The CEO has undertaken to use the entire amount of the bonus to buy at market price newly issued company shares

Annual Report on Remuneration 2016
continued

In 2016 none of the directors participated in long-term incentives.

In 2016 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 $0.5 million decrease in employee remuneration is the combination of a reduction in the head count from 80 to 69 ($0.3 million decrease) and of the devaluation of the UAH ($0.2 million decrease).

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 2015 and 31 December 2016.

	2016 $'000	2015 $'000	Year-on-year change, %
All-employee remuneration	2,864	3,428	(16%)
Distributions to shareholders	–	–	N/A

Shareholder voting at the Annual General Meeting

The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting held on 25 June 2015. The Remuneration Policy can be found on the Group's website. The votes cast by proxy were as follows:

Directors' Remuneration Report	Number of votes	% of votes cast
For	58,983,662	99.91
Against	56,000	0.09
Total votes cast	59,039,662	100.00
Number of votes withheld	0	

The Directors' Remuneration Report for the year ended 31 December 2015 was approved by shareholders at the Annual General Meeting held on 22 June 2016. The votes cast by proxy were as follows:

Directors' Remuneration Policy	Number of votes	% of votes cast
For	58,301,210	99.66
Against	200,203	0.34
Total votes cast	58,501,413	100.00
Number of votes withheld	0	

The Directors Remuneration Policy was approved at the 2015 AGM and did not change since then. It can be found on the Group's website.

Implementation of Remuneration Policy in 2017

The Remuneration Committee proposes to continue to implement the Remuneration Policy approved by the shareholders at the 2015 AGM. The Remuneration Committee is not intending to make any material changes to the way that the remuneration policy is implemented in 2017 and envisages that the structure of the remuneration of directors will remain the same as in 2016.

As was the case in 2016, the performance related elements of Mr Guido Michelotti will be built around a scorecard with a set of KPI's aligned with the Group strategy, preserving cash and operating safely and efficiently while actively pursuing opportunities to re-load and geographically diversify the portfolio, with similar to 2016 weightings (as described above on pages 32 to 33 in the notes to the single figure table). While Cadogan's approved Remuneration Policy sets the maximum Annual Bonus at 200% of the base salary, Mr. Michelotti has agreed in his employment agreement to a ceiling to the annual bonus equal to 105% of the base salary and this ceiling will also be reflected in his 2017 scorecard.

Approval

The Directors' Remuneration Report was approved by the Board on 27 April 2017 and signed on its behalf by:

Zev Furst
Chairman
27 April 2017

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:

i. 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

ii. 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

iii. the annual report and the financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for the shareholders to assess the Group's position, performance, business model and strategy.

On behalf of the Board

Zev Furst
Chairman
27 April 2017

Independent Auditor's Report to the Members of Cadogan Petroleum 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 2016 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 Regulation.

The financial statements that we have audited comprise:

- the group Income Statement;
- the group Statement of Comprehensive Income;
- the group and parent company Balance Sheets;
- the group and parent company Cash Flow Statements;
- the group and parent company Statements of Changes in Equity; and
- the related notes 1 to 40.

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.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: › Recoverability of intangible assets and investments in joint ventures › Recoverability of trade receivables Within this report, any new risks are identified with and any risks which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was $977,000 (2015: $2,020,000), which was determined on the basis of 2% of the expected consolidated shareholders' equity as at 31 December 2016.
An overview of the scope of our audit	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% (2015: over 90%) of the Group's net assets, revenue and loss before tax. The 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.
Significant changes in our approach	During our audit of 2016 financial statements we have identified a new risk being recoverability of receivables.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group	
As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 3 to the financial statements and the directors' statement on the longer-term viability of the group contained on page 22. We are required to state whether we have anything material to add or draw attention to in relation to: › the directors' confirmation on page 11 and page 22 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; › the disclosures on pages 11 to 12 that describe those risks and explain how they are being managed or mitigated; › the directors' statement in Note 3 and page 18 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and › the directors' explanation on page 22 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We confirm that we have nothing material to add or draw attention to in respect of these matters. We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

Independence	
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.	We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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.

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

Recoverability of intangible assets and investments in joint ventures	
Risk description	The carrying value of the Group's intangible assets and investments in joint ventures amounted to $4.7 million at 31 December 2016. Assessment of the carrying value of these 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. Recoverability of non-current assets is dependent on macro-economic assumptions and estimates about future oil and gas prices, inflation, discount and exchange rates as well as forecast assumptions related to future production levels, reserves and operating costs. The outcome of impairment assessments could vary significantly were different assumptions applied. The continued instability of the political and economic situation in Ukraine and devaluation of the currency to which the Group is significantly exposed and the Group's reduction in production and exploration activities are factors which heighten the risk of impairment associated with the Group's non-current assets. Impairment of intangible exploration and evaluation assets and investments in joint ventures amounting to $1.6 million and $0.8 million, respectively, was recognised in the year ended 31 December 2016. Refer to the significant issues considered by the Audit Committee and discussed on pages 26 to 28, Group's policies and key estimates and assumptions within note 1 and additional notes 16, 17 and 19.
How the scope of our audit responded to the risk	We evaluated management's assessment of indicators of impairment and recoverability assessment for the Group's non-current assets, including potential difficulties with the upcoming extension of licences. We analysed the reasonableness of the estimates such as oil and gas resources and future production levels, future oil and gas prices and future costs and performed benchmarking of inflation and discount rates to estimates used by peer companies and Deloitte developed discount rates. 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's 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. We evaluated management's assessment of whether there were any indicators of impairment for the Group's interests in joint ventures under IAS 36, 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 and considered the Group's future funding responsibilities. We undertook a detailed analysis and challenge of the significant judgements and estimates used in management's impairment tests of exploration and evaluation assets held by the joint ventures of the Group. Our analysis included comparison of gas price assumptions to publicly available forecasts, benchmarking the discount rate applied by management to a Deloitte developed discount rate, and the comparison of future cost estimates against actual historic cost levels and budgets.
Key observations	We are satisfied that the level of impairment recorded and the judgements applied by management are appropriate. We concluded that the assumptions applied in the impairment calculations were appropriate, and no additional impairments were identified from the work performed above.

Recoverability of trade receivables	
Risk description	The group had trade receivables of $2.2m at 31 December 2016. In January 2016 the Group restructured receivables with certain counterparties within this balances and temporarily ceased trading with them due to uncertainty of recoverability. As the recognition of recoverable amounts requires judgement the risk around receivable balance recoverability was identified. Refer to the significant issues considered by the Audit Committee and discussed on pages 26 to 28, Group's policies and key estimates and assumptions within note 1 and additional notes 16, 17 and 19.
How the scope of our audit responded to the risk	We reviewed the terms of restructuring arrangements made with certain counterparties and verified the post year-end bank statements to confirm if the balances had subsequently been paid. In addition, we have evaluated the reasonableness of the methods and assumptions used by management to estimate the allowances for doubtful accounts. We requested a confirmation from counterparties for the outstanding balances with Cadogan Petroleum plc as of 31 December 2016 to perform an independent reconciliation and completeness
Key observations	We found that management had initially recognised accrued interest of $0.8m on a debt which did not meet the recognition criteria of IAS 18. This was subsequently corrected by management. The results of our testing were satisfactory and we concur that the receivable balance is appropriate.

Although separate impairment assessments have been undertaken and audited, we have aggregated our explanation of risks and the scope for the recoverability of intangible exploration and evaluation (E&E) assets and recoverability of investments in joint ventures.

We have not included the political risk in our report this year as it has not been an area which has had a major impact on our audit strategy. However, we are reporting on the receivables recoverability which was one of the main areas of focus of our audit this year.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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.

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

Materiality	$977,000 (2015: $2,020,000)
Basis for determining materiality	When determining 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. Materiality was determined to be $977,000, which was 2% of expected consolidated shareholders' equity (2015: $2,020,000 which was 3.7% of consolidated shareholders' equity). We have decreased percentage used in 2016 taking into considering our knowledge of the business and anticipated impairment.
Rationale for the benchmark applied	Consistent with the prior year, we used consolidated shareholders' equity to determine materiality as the entity has a history of operating losses.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $19,500 (2015: $40,000), 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.

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

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

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.

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). 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 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.

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
27 April 2017

Consolidated Income Statement

For the year ended 31 December 2016

	Notes	2016 $'000	2015 $'000
CONTINUING OPERATIONS			
Revenue	6	**19,692**	75,440
Cost of sales		**(18,623)**	(69,562)
Gross profit		**1,069**	5,878
Administrative expenses	7	**(5,603)**	(6,115)
Impairment of oil and gas assets	14,15	**(90)**	(10,480)
(Impairment)/reversal of impairment of other assets	8	**(82)**	1,300
Share of losses in joint ventures	17	**(143)**	(12,844)
Net foreign exchange gains		**38**	2,494
Other operating (loss)/income, net		**(9)**	31
Operating loss		**(4,820)**	(19,736)
Gain on acquisition	17	**99**	-
Finance costs, net	11	**(1,087)**	(2,507)
Loss before tax		**(5,808)**	(22,243)
Tax charge	12	**(110)**	(1,040)
Loss for the year		**(5,918)**	(23,283)
Attributable to:			
Owners of the Company		**(5,912)**	(23,261)
Non-controlling interest		**(6)**	(22)
		(5,918)	(23,283)

Loss per Ordinary share		**cents**	cents
Basic	13	**(2.6)**	(10.1)

The notes on pages 49 to 72 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 $'000	2015 $'000
Loss for the year	**(5,918)**	(23,283)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Unrealised currency translation differences	**(987)**	(11,521)
Other comprehensive loss	**(987)**	(11,521)
Total comprehensive loss for the year	**(6,905)**	(34,804)
Attributable to:		
Owners of the Company	**(6,899)**	(34,782)
Non-controlling interest	**(6)**	(22)
	(6,905)	(34,804)

The notes on pages 49 to 72 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2016

	Notes	2016 $'000	2015 $'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	14	**2,354**	2,700
Property, plant and equipment	15	**1,312**	1,661
Investments in joint ventures	17	**2,323**	2,181
		5,989	6,542
Current assets			
Inventories	18	**1,879**	3,503
Trade and other receivables	19	**4,146**	14,411
Cash and cash equivalents	20	**43,300**	49,407
		49,325	67,321
Total assets		**55,314**	73,863
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	21	**-**	-
Provisions	24	**(670)**	(726)
		(670)	(726)
Current liabilities			
Short-term borrowings	22	**(3,574)**	(12,903)
Trade and other payables	23	**(1,640)**	(3,682)
Provisions	24	**(1,306)**	(1,523)
		(6,520)	(18,108)
Total liabilities		**(7,190)**	(18,834)
NET ASSETS		**48,124**	55,029
EQUITY			
Share capital	25	**13,337**	13,337
Retained earnings		**194,427**	200,339
Cumulative translation reserves		**(161,499)**	(160,512)
Other reserves		**1,589**	1,589
Equity attributable to owners of the Company		**47,854**	54,753
Non-controlling interest		**270**	276
TOTAL EQUITY		**48,124**	55,029

The consolidated financial statements of Cadogan Petroleum plc, registered in England and Wales no. 05718406, were approved by the Board of Directors and authorised for issue on 27 April 2017. They were signed on its behalf by:

Guido Michelotti
Chief Executive Officer
27 April 2017

The notes on pages 49 to 72 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	2016 $'000	2015 $'000
Operating loss	**(4,820)**	(19,736)
Adjustments for:		
Depreciation of property, plant and equipment	**138**	434
Impairment of oil and gas assets	**90**	10,480
Share of losses in joint ventures	**143**	12,844
Impairment of receivables	**59**	-
Impairment of inventories (note 8)	**92**	90
Reversal of impairment of VAT recoverable (note 8)	**(69)**	(1,390)
Loss on disposal of property, plant and equipment	**13**	24
Effect of foreign exchange rate changes	**(38)**	(3,827)
Operating cash flows before movements in working capital	**(4,391)**	(1,081)
Decrease in inventories	**1,047**	1,258
Decrease in receivables	**9,321**	4,871
Decrease in payables and provisions	**(2,014)**	(1,429)
Cash from operations	**3,963**	3,619
Interest paid	**(1,591)**	(2,379)
Interest on receivables received	**230**	-
Income taxes paid	**(8)**	-
Net cash inflow from operating activities	**2,594**	1,240
Investing activities		
Investments in joint ventures	**(2,337)**	(700)
Purchases of property, plant and equipment	**(119)**	(261)
Purchases of intangible exploration and evaluation assets	**(39)**	(281)
Proceeds from sale of property, plant and equipment	**29**	5
Net cash inflow from acquisition of subsidiaries	**2,041**	-
Interest received	**156**	118
Net cash used in investing activities	**(269)**	(1,119)
Financing activities		
Proceeds from short-term borrowings	**1,908**	13,187
Repayments of short-term borrowings	**(10,232)**	(12,225)
Net cash used in financing activities	**(8,324)**	962
Net (decrease)/increase in cash and cash equivalents	**(5,999)**	1,083
Effect of foreign exchange rate changes	**(108)**	(603)
Cash and cash equivalents at beginning of year	**49,407**	48,927
Cash and cash equivalents at end of year	**43,300**	49,407

The notes on pages 49 to 72 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital $'000	Retained earnings $'000	Cumulative translation reserves $'000	Reorganisation $'000	Equity attributable to owners of the Company $'000	Non-controlling interest $'000	Total $'000
As at 1 January 2015	**13,337**	**223,600**	**(148,991)**	**1,589**	**89,535**	**298**	**89,833**
Net loss for the year	–	(23,261)	–	–	(23,261)	(22)	(23,283)
Other comprehensive loss	–	–	(11,521)	–	(11,521)	–	(11,521)
Total comprehensive loss for the year	**–**	**(23,261)**	**(11,521)**	**–**	**(34,782)**	**(22)**	**(34,804)**
As at 1 January 2016	**13,337**	**200,339**	**(160,512)**	**1,589**	**54,753**	**276**	**55,029**
Net loss for the year	–	(5,912)	–	–	(5,912)	(6)	(5,918)
Other comprehensive loss	–	–	(987)	–	(987)	–	(987)
Total comprehensive loss for the year	**–**	**(5,912)**	**(987)**	**–**	**(6,899)**	**(6)**	**(6,905)**
As at 31 December 2016	**13,337**	**194,427**	**(161,499)**	**1,589**	**47,854**	**270**	**48,124**

The notes on pages 49 to 72 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 6th Floor, 60 Gracechurch Street, London EC3V 0HR. The nature of the Group's operations and its principal activities are set out in the Operations Review on page 08 and the Financial Review on pages 09 to 10.

2. Adoption of new and revised Standards

The accounting policies applied are consistent with those adopted and disclosed in the Group financial statements for the year ended 31 December 2015, except for changes arising from the adoption of the following new accounting pronouncements which became effective in the current reporting period:

- Amendments to IFRS 11 A*ccounting for Acquisitions of Interest in Joint Operations*. The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business*
- Combination and state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint venture. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations. Entities should apply the amendments prospectively to acquisitions of interest in joint operations occurring from the beginning of annual periods beginning on or after 1 January 2016
- The Group has determined that amendments to IFRS 11 do not impact its consolidated financial statements as it does not have any arrangements considered joint operations
- Amendments to IAS 1 *Presentation of Financial Statements: Disclosure*. Initiative provides guidance on the use of judgement in presenting financial statement information, including: the application of materiality; order of notes; use of subtotals; accounting policy referencing and disaggregation of financial and non-financial information. Amendments are effective for annual periods beginning on or after 1 January 2016

The Group has determined that amendments to IAS 1 do not impact its consolidated financial statements.

New IFRS accounting standards, amendments and interpretations not yet adopted

The following new IFRS accounting standards in issue but not yet effective could have a significant impact on the Group:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 will replace IAS 18 *Revenue* and IAS 11 *Construction Contracts* and establishes a unified framework for determining the timing, measurement and recognition of revenue. The principle of the new standard is to recognise revenue as performance obligations are met rather than based on the transfer of risks and rewards.

The effective date of the standard has been deferred to 1 January 2018 to allow companies more time to deal with transitional issues of application.

The Group is currently reviewing the potential impact of adopting IFRS 15 with the primary focus being understanding those sales contracts where the timing and amount of revenue recognised could differ under IFRS 15, which may occur for example if contracts with customers incorporate performance obligations not currently recognised separately, or where such contracts incorporate variable consideration.

As the Group's revenue is predominantly derived from arrangements in which the transfer of risks and rewards coincides with the fulfilment of performance obligations, the timing and amount of revenue recognised is unlikely to be materially affected for the majority of sales.

IFRS 15 also includes disclosure requirements including qualitative and quantitative information about contracts with customers to help users of the financial statements understand the nature, amount, timing and uncertainty of revenue.

In addition to the potential accounting implications outlined above, the implementation of IFRS 15 is expected to impact the Group's systems, processes and controls. The Group will start developing a transition plan to identify and implement the required changes during 2017.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

2. Adoption of new and revised Standards continued

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and addresses the following three key areas:

- Classification and measurement establishes a single, principles-based approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This is expected to have a number of presentational impacts on the Group financial statements including changes in the presentation of gains and losses on financial assets and liabilities carried at fair value on the balance sheet
- Impairment introduces a new 'expected credit loss' impairment model, requiring expected credit losses to be recognised from when financial instruments are first recognised. The transition to this model is expected to result in changes in the systems and computational methods used by the Group to assess receivables and similar assets for impairment. However, given the profile of the Group's counterparty exposures, this is not expected to have a material impact on the amounts recorded in the financial statements
- Hedge Accounting aligns the accounting treatment with risk management practices of an entity, including making a broader range of exposures eligible for hedge accounting and introducing a more principles-based approach to assessing hedge effectiveness. The adoption of IFRS 9 will not require changes to existing hedging arrangements but may provide scope to apply hedge accounting to a broader range of transactions in the future

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The Group's implementation activities to date have principally focused on gaining a high level understanding of the likely effects of IFRS 9 given the nature of financial instruments held by the Group. A more detailed impact analysis and transition activities will be undertaken during 2017.

IFRS 16 Leases

IFRS 16 replaces the following standards and interpretations: IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. The new standard provides a single lessee accounting model for the recognition, measurement, presentation and disclosure of leases. IFRS 16 applies to all leases including subleases and requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance.

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The Group will evaluate the potential impact of IFRS 16 on the financial statements and performance measures. This will include an assessment of whether any arrangements the Group enters into will be considered a lease under IFRS 16.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Joint Ventures

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture remove an inconsistency between the two standards on the accounting treatment for gains and losses arising on the sale or contribution of assets by an investor to its associate or joint venture. Following the amendment, such gains and losses may only be recognised to the extent of the unrelated investor's interest, except where the transaction involves assets that constitute a business. The Group does not expect it to have a material impact on its consolidated financial statements.

Amendments to IFRS 2 Share-based payment

Classification and Measurement of Share-Based Payment transactions. On 20 June 2016, the International Accounting Standards Board (IASB) published final amendments to IFRS 2 that clarify the classification and measurement of share-based payment transactions. IASB has now added guidance on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features and accounting for modifications of share-based payment transactions from cash-settled to equity-settled. Amendments are effective for annual periods beginning on or after 1 January 2018.

The Group does not expect it to have a material impact on its consolidated financial statements.

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 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 04 to 15. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 09 to 10.

The Group's cash balance at 31 December 2016 was $43.3 million (2015: $49.4 million). It includes restricted cash of $10.9 million (2015: $20 million) (Note 20). 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 and planned investments successfully.

The directors' confirmation that they have carried out a robust assessment of the principal risks facing the Group, including those that could potentially threaten its business model, future performance, solvency or liquidity is on page 11.

The Group's forecasts and projections, taking into account reasonably possible changes in trading activities, 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.

The Group 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 situation in Ukraine, as described further in the note 4 (d).

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

3. Significant accounting policies continued

(d) Change in accounting policy

The functional currency of the Company and of another UK holding company, Cadogan Petroleum Holdings Limited, which is the currency of the primary economic environment in which the entities operates, has been changed from sterling to US dollars with effect from 1 January 2016. This has been done due to the fact that the UK is no longer considered to be a primary economic environment for the Group and its UK holding companies.

The change of the functional currency has been accounted for prospectively from the date of the change. Assets and liabilities were translated using the exchange rate at the date of the change. The difference between the historical carrying values of non-monetary assets and liabilities and the new translated values were recorded to the cumulative translation reserve.

(e) 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.

(f) 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.

(g) 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 civil works 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.

3. Significant accounting policies continued

(h) Foreign currencies

The vast majority of the Group's earnings and costs are linked to US dollars or US dollar linked currencies. The investing activity of the Company is being conducted in US dollars and the majority of the Group's funds are currently denominated in US dollars. The Group primary operating environment is outside UK and UK subsidiaries remain registered in UK only due to listing.

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. Foreign exchange differences on cash and cash equivalents are recognised in operating profit or loss in the period in which they arise.

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, where the functional currency is not the US dollar, 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, where it approximates to actual rates. In other cases, if exchange rates fluctuate significantly during that period, 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 2016		Year ended 31 December 2015	
	GBP/USD	**USD/UAH**	GBP/USD	USD/UAH
Closing rate	**1.2346**	**27.4770**	1.4805	24.2731
Average rate	**1.3557**	**25.8169**	1.5289	22.0584

(i) 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

3. Significant accounting policies continued

(i) Taxation continued

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.

In case of the uncertainty of the tax treatment, the Group assess, whether it is probable or not, that the tax treatment will be accepted, and to determine the value, the Group use the most likely amount or the expected value in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

(j) Other 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:

Other PP&E	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.

(k) Impairment of development and production assets and other 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.

(l) 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, which are assessed at the level of individual licences.

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.

3. Significant accounting policies continued

(l) Intangible exploration and evaluation assets continued

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 individual assets 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.

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, which are not larger than an operating segment, 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 licence area but the Company see a potential for oil and gas discoveries in other geological formations of the same licence area, reclassification of recoverable amount of assets from development and production assets back to exploration and evaluation is appropriate following the impairment assessment.

(m) 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

3. Significant accounting policies continued

(n) Inventories

Oil and gas stock and spare parts 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.

(o) Financial instruments

Recognition of financial assets and financial liabilities

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

Derecognition of financial assets and financial liabilities

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

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

Financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 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.

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.

3. Significant accounting policies continued

(o) Financial instruments continued

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'

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.

(p) 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.

(q) 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.

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:

Critical judgements

(a) Acquisition of remaining interest in joint ventures

Note 17 describes the Group's acquisition of eni Ukraine's 30% and 60% of the issued share capital of Pokrovskaya Petroleum B.V. ("Pok") and Zagoryanskaya Petroleum B.V. ("Zag"), respectively. The Group accounted for this transaction as an asset acquisition rather than acquisition of the business as operations of Pok and Zag do not meet definition of a business under IFRS 3.

(b) Investment in LLC Westgasinvest

Note 17 describes that LLC Westgasinvest is a joint venture of the Group although the Group only owns a 15% in LLC Westgasinvest. The Group has joint control over LLC Westgasinvest by virtue of its contractual right to be a party to an arrangement where decisions about the relevant activities are made by the unanimous consent of the parties that control the arrangement collectively.

Estimations of uncertainty

(c) Impairment of E&E assets

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 judgments 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 (Note 14).

(d) 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. As a result impairment has been recognised in the financial statements 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 17.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

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
- Civil works services to exploration and production companies

Trading

- Import of natural gas 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 2016 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	598	-	16,598	17,196
Other revenue	-	2,496[(1)]	-	2,496
Sales between segments	981		(981)	-
Total revenue	**1,579**	**2,496**	**15,617**	**19,692**
Cost of sales	(1,182)	(1,893)	(15,548)	(18,623)
Administrative expenses	(408)	-	(886)	(1,294)
Finance cost, net (Note 11)[2]	-	-	(1,153)	(1,153)
Segment results	**(11)**	**603**	**(1,970)**	**(1,378)**
Unallocated administrative expenses				(4,309)
Other losses, net				(25)
Impairment of oil and gas assets[3]				(90)
Gain on acquisition of assets				99
Share of loss in joint ventures[4]				(143)
Net foreign exchange gains				38
Loss before tax				**(5,808)**

1 Services provided were primarily related to well abandonment and site restoration and the turn-over substantially increased over the previous year as some of the activities which had been put on hold by the clients were awarded.
2 Finance cost includes $1.4 million of interest on short-term borrowings, $0.2 million of interest income on receivables and $31 thousand of interest on cash deposits used for trading.
3 Impairment loss recognised in 2016 of $90 thousand related to exploration and production segment.
4 Share of losses in the joint ventures includes $1.7 million of operating losses, $0.8 million of additional impairment of Westgasinvest LLC and $2.3 million of income received by one of the Group subsidiaries for decommissioning services provided to the joint ventures (Note 17).

5. Segment information continued

As of 31 December 2015 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	521	–	74,565	75,086
Other revenue	–	354	–	354
Sales between segments	1,314	–	(1,314)	–
Total revenue	**1,835**	**354**	**73,251**	**75,440**
Cost of sales	(1,932)	(250)	(67,380)	(69,562)
Administrative expenses	(548)	–	(641)	(1,189)
Finance cost (Note 11)	–	–	(2,411)	(2,411)
Segment results	**(645)**	**104**	**2,819**	**2,278**
Unallocated administrative expenses				(4,926)
Other income, net				1,235
Impairment[1]				(10,480)
Share of loss in joint ventures				(12,844)
Net foreign exchange gains				2,494
Loss before tax				**(22,243)**

6. Revenue

	2016 $'000	2015 $'000
Sale of hydrocarbons	**17,196**	75,086
Other revenues	**2,496**	354
	19,692	75,440

Information about major customers

Included in revenues for the year ended 31 December 2016 are revenues of $6.3 million (2015: $35.7 million), which arose from sales to the Group's two largest customers.

7. Administrative expenses

	2016 $'000	2015 $'000
Staff costs (Note 10)	**3,082**	3,121
Professional fees	**1,555**	1,354
Business trip	**316**	591
Office rent	**138**	212
Insurance	**122**	228
Other	**390**	609
	5,603	6,115

Professional fees of 2016 includes $0.5 million (2015: nil) of brokerage fees for services rendered in past years.

8. Impairment of other assets

	2016 $'000	2015 $'000
Inventories	**(92)**	(90)
Receivables	**(59)**	–
VAT recoverable	**69**	1,390
(Impairment)/Reversal of impairment of other assets, net	**(82)**	1,300

The carrying value of inventory as at 31 December 2016 and 2015 has been impaired to reduce it to net realisable value (see note 18). During 2016, the Group gross sales of inventory to third parties comprised $52 thousand (2015: $0.1 million).

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 2016

9. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2016 $'000	2015 $'000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**146**	180
Fees payable to the Company's auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	**43**	35
Total audit fees	**189**	215
Non-audit fees		
– Audit-related assurance services	**19**	66
– Taxation compliance services	**36**	59
Non-audit fees	**55**	125

10. Staff costs

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

	2016 Number	2015 Number
Executive Directors	**3**	3
Other employees	**66**	77
	69	80
Total number of employees at 31 December	**69**	80

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	**2,443**	2,895
Annual bonus	**475**	–
Social security costs	**164**	226
	3,082	3,121

Within wages and salaries $1.1 million (2015: $0.9 million) relates to amounts accrued and paid to executive Directors for services rendered.

Included within wages and salaries is nil (2015: $0.1 million) capitalised to intangible E&E assets and $nil (2015: $0.1) capitalised to development and production assets.

11. Finance costs, net

	2016 $'000	2015 $'000
Interest expense on short-term borrowings	**(1,414)**	(2,411)
Interest expense on tax provision (note 24)	**(33)**	(201)
Total interest expense on financial liabilities	**(1,447)**	(2,612)
Interest income on receivables	**230**	–
Interest income on cash deposits in Ukraine	**31**	–
Investment revenue	**125**	118
Total interest income on financial assets	**386**	118
Unwinding of discount on decommissioning provision (note 24)	**(26)**	(13)
	(1,087)	(2,507)

12. Tax

	2016 $'000	2015 $'000
Current tax	**110**	11
Adjustment in relation to the current tax of prior years	**-**	1,317
Deferred tax benefit	**-**	(288)
	110	1,040

The Group's operations are conducted primarily outside the UK, namely in Ukraine. The most appropriate tax rate for the Group is therefore considered to be 18% (2015: 18%), 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:

	2016 $'000	2016 %	2015 $'000	2015 %
Loss before tax	**(5,808)**	100.0	**(22,243)**	100.0
Tax credit at Ukraine corporation tax rate of 18% (2015: 18%)	**(1,045)**	18.0	**(4,004)**	18.0
Permanent differences	**1,060**	(18.2)	**1,511**	(6.8)
Unrecognised tax losses generated/(utilised) in the year	**378**	(6.5)	**(107)**	0.5
Tax credit related to the Joint venture losses	**26**	(0.4)	**2,312**	(10.4)
Effect of different tax rates	**(309)**	5.3	**11**	(0.1)
	110	(1.8)	**(277)**	1.3
Adjustments recognised in the current year in relation to the current tax of prior years	**-**	-	**1,317**	-
Income tax expense recognised in profit or loss	**110**	-	**1,040**	-

Permanent differences mostly represent differences on profit/(loss) items, including provisions, accruals, impairments, related to taxation in Ukraine, where it is probable that such differences will not reverse in the foreseeable future.

13. 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	2016 $'000	2015 $'000
Loss for the purposes of basic loss per share being net loss attributable to owners of the Company	**(5,912)**	(23,261)

Number of shares	2016 Number '000	2015 Number '000
Weighted average number of Ordinary shares for the purposes of basic loss per share	**231,092**	231,092

Loss per Ordinary share	2016 Cent	2015 Cent
Basic	**(2.6)**	(10.1)

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

14. Intangible exploration and evaluation assets

Cost	$'000
At 1 January 2015	**37,181**
Additions	281
Change in estimate of decommissioning assets (note 24)	183
Disposals	(2)
Exchange differences	(12,310)
At 1 January 2016	**25,333**
Additions	39
Disposals	(27)
Exchange differences	(2,997)
At 31 December 2016	**22,348**

Impairment	
At 1 January 2015	**18,892**
Impairment charge	10,105
Exchange differences	(6,364)
At 1 January 2016	**22,633**
Exchange differences	(2,639)
At 31 December 2016	**19,994**

Carrying amount	
At 31 December 2016	**2,354**
At 31 December 2015	2,700

The carrying amount of E&E assets as at 31 December 2016 of $2.4 million (2015: $2.7 million) relates to Bitlyanska licence. Management has considered facts and circumstances that could suggest that the carrying amount of the Bitlyanska licence can exceed its recoverable amount at 31 December 2016. As of 31 December 2016 management of the Group carried out the assessment of the Bitlyanska licences value in use and recognised no impairment as recoverable amount was higher than the book value of the assets. Key assumptions used in the impairment assessment were as follows:

- Future gas price was assumed to be flat $210, real per m3; and
- The pre-tax discount rate used was 24%, real.

15. Property, plant and equipment

Cost	Development and production assets $'000	Other $'000	Total $'000
At 1 January 2015	**8,778**	**5,190**	**13,968**
Additions	172	89	261
Change in estimate of decommissioning assets (note 24)	79	–	79
Disposals	(1)	(43)	(44)
Exchange differences	(2,934)	(2,063)	(4,997)
At 1 January 2016	**6,094**	**3,173**	**9,267**
Additions	90	29	119
Disposals	–	(29)	(29)
Exchange differences	(711)	(370)	(1,081)
At 31 December 2016	**5,473**	**2,803**	**8,276**
Accumulated depreciation and impairment			
At 1 January 2015	**8,436**	**1,686**	**10,122**
Impairment	375	–	375
Charge for the year	82	352	434
Disposals	(1)	(16)	(17)
Exchange differences	(2,798)	(510)	(3,308)
At 1 January 2016	**6,094**	**1,512**	**7,606**
Impairment	90	–	90
Charge for the year	–	138	138
Disposals	–	(14)	(14)
Exchange differences	(711)	(145)	(856)
At 31 December 2016	**5,473**	**1,491**	**6,964**
Carrying amount			
At 31 December 2016	**–**	**1,312**	**1,312**
At 31 December 2015	–	1,661	1,661

Other property, plant and equipment include fixtures and fittings for the development and production activities.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

16. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2016:

Name	Country of incorporation and operation	Proportion of voting interest %	Activity	Registered office
Directly held				
Cadogan Petroleum Holdings Ltd	UK	100	Holding company	6th Floor 60 Gracechurch Street, London, United Kingdom, EC3V 0HR
Ramet Holdings Ltd	Cyprus	100	Holding company	48 Inomenon Ethnon, Guricon House, Floor 2 & 3, 6042, Larnaca, Cyprus
Indirectly held				
Rentoul Ltd	Isle of Man	100	Holding company	Commerce House, 1 Bowring Road, Ramsey, Isle of Man IM8 2LQ
Cadogan Petroleum Holdings BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Bitlyanske BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Delta BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Astro Energy BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Pirkovskoe BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Zagoryanske Production BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Zagoryanska Petroleum BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Pokrovskoe Petroleum BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Black Sea Holdings B.V.	Netherlands	100	Dormant	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Ukraine Holdings Limited	Cyprus	100	Holding company	48 Inomenon Ethnon, Guricon House, Floor 2 & 3, 6042, Larnaca, Cyprus
Momentum Enterprise (Europe) Ltd	Cyprus	100	Holding company	48 Inomenon Ethnon, Guricon House, Floor 2 & 3, 6042, Larnaca, Cyprus
Radley Investments Ltd	UK	100	Dormant	Lynton House 7-12 Tavistock Square‹ London WC1H 9LT
Cadogan Petroleum Trading SAGL	Switzerland	100	Dormant	Via Clemente Maraini 39, 6900 Lugano, Switzerland
Global Commodities NC SAS	France	80	Dormant	23 RUE BALZAC 75008 PARIS
LLC AstroInvest-Ukraine	Ukraine	100	Exploration	5a, Pogrebnyak Street, ap. 2, Zinkiv, Poltava region, Ukraine, 38100
LLC Zagvydobuvannya	Ukraine	100	Exploration	3, Myru str., Poltava, Ukraine, 36022
LLC Astro Gas	Ukraine	100	Exploration	5a, Pogrebnyak Street, ap. 2, Zinkiv, Poltava region, Ukraine, 38100
LLC Astroinvest-Energy	Ukraine	100	Exploration	5a, Pogrebnyak Street, ap. 2, Zinkiv, Poltava region, Ukraine, 38100
LLC Industrial Company Gazvydobuvannya	Ukraine	100	Exploration	3, Myru str., Poltava, Ukraine, 36022
DP USENCO Ukraine	Ukraine	100	Exploration	8, Mitskevycha sq., Lviv, Ukraine, 79000
LLC USENCO Nadra	Ukraine	95	Exploration	9a, Karpenka-Karoho str., Sambir, Lviv region, Ukraine
JV Delta	Ukraine	100	Exploration	3 Petro Kozlaniuk str, Kolomyia,
LLC WestGasInvest	Ukraine	15	Exploration	14, Uhorska str., Lviv, 79034, Ukraine
LLC Astro-Service	Ukraine	100	Service Company	3 Petro Kozlaniuk str, Kolomyia,
OJSC AgroNaftoGasTechService	Ukraine	79.9	Construction services	Ivan Franko str, Hvizdets, Kolomyia district, Ivano-Frankivsk Region, Ukraine
LLC Cadogan Ukraine	Ukraine	100	Corporate services	48/50A Zhylyanska Street, BC "Prime", 8th fl. 01033 Kyiv, Ukraine

During the year ended 31 December 2016, the Group structure continued to be rationalised both so as to reduce the number of legal entities 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.

Till the date of this report the Group put into liquidation three companies: Cadogan Black Sea Holdings B.V., Radley Investments Ltd, Cadogan Petroleum Trading SAGL. This process will continue in 2017 with the likely liquidation and/or sale of the following companies: Rentoul Ltd, Global Commodities NC SAS and Cadogan Momentum Holdings Inc.

17. Joint ventures

As at the end of the 2016 reporting periods the details of the Group's joint venture is as follows:

Company name	Licenses held	Country of incorporation and operation	Ownership share %	Activity
LLC Westgasinvest	Reklynetska, Zhuzhelianska, Cheremkhivsko-Strupkivska, Baulinska, Filimonivska, Kurinna, Sandugeyivska, Yakovlivska and Debeslavetska Production licence	Ukraine	15	Exploration

On 21 December 2016 the Group acquired 30% of the issued share capital of Pokrovskaya Petroleum B.V. ("Pok") and 60% of the issued share capital of Zagoryanskaya Petroleum B.V. ("Zag") for an immaterial consideration, resulting in Pokrovskaya Petroleum B.V. and Zagoryanskaya Petroleum B.V. becoming wholly-owned companies. As a result of the transaction, the Group acquired $2.0 million of cash and also $5.9 million of VAT credit and $103 million of unused tax losses of both companies, for which the impairment has been recognised in prior years. The Group consolidated entities and recognised a gain in the amount of $99 thousand.

In 2016 till the date of acquisition Zag had $1.2 million of profit and Pok incurred $2.0 million of losses mainly related to the impairment of E&E assets due to licence expiration in August 2016.

As at 31 December 2016 Westgasinvest LLC is 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.

LLC Westgasinvest	**2016 $'000**	2015 $'000
Non-current assets	**1,460**	83
Current assets	**60**	562
Non-current liabilities	**-**	–
Current liabilities	**(391)**	(313)
Revenue	**-**	–
Loss for the period	**(3,150)**	(1,854)
Other comprehensive income	**(1,686)**	(322)
Total comprehensive loss	**(4,836)**	(2,176)
Net assets of the joint venture	**1,129**	332

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

LLC Westgasinvest	$'000
(Deficit)/net assets recognised as at 1 January 2015	**4,211**
Loss for the year	(330)
(Deficit)/net assets recognised as at 1 January 2016	**3,881**
Profit/(Loss) for the year	(1,558)
Carrying amount of Group's interest as at 31 December 2016	**2,323**

Share of losses in joint venture of $0.1 million comprised of $0.5 million profit on Zag, $1.4 million of losses on Pok, $1.5 million of loss on WGI, which included $0.8 million loss recognized as impairment of Westgasinvest LLC and of $2.3 million profit received by the Group for decommissioning services provided to the joint ventures.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

18. Inventories

	2016 $'000	2015 $'000
Natural gas	**987**	2,525
Other inventories	**1,076**	1,186
Impairment provision for obsolete inventory	**(184)**	(208)
Carrying amount	**1,879**	3,503

The impairment provision as at 31 December 2016 and 2015 is made so as to reduce the carrying value of the obsolete inventories to net realisable value. During 2016 an impairment charge of $0.2 million (2015: $0.1 million) has been recognised in respect of other inventories. As at 31 December 2016 and 2015 the Group had no inventories carried at fair value less costs of disposal. Cost of inventories sold during the year was $29 thousand (2015: $22 thousand).

19. Trade and other receivables

	2016 $'000	2015 $'000
Trading receivables	**2,163**	8,514
VAT recoverable	**829**	–
Trading prepayments	**777**	3,206
Receivable from joint venture	**58**	1,824
Prepayments	**1**	64
Other receivables	**318**	803
	4,146	14,411

Trading prepayments represent actual payments made by the Group to suppliers for the January 2017 gas supply.

Trading receivables represent current receivables from customers and are to be repaid within four months after the year end. The Group considers that the carrying amount of receivables approximates their fair value.

VAT recoverable is presented net of the cumulative provision of $7.3 million (2015: $1.1 million) against Ukrainian VAT receivable has been recognised as at 31 December 2016. VAT recoverable relates to the gas trading operations and expected to be recovered through the gas sales.

20.Cash and cash equivalents

Cash and cash equivalents as at 31 December 2016 of $43.3 million (2015: $49.4 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 2016 total amount of restricted cash is $10.9 million (2015: $20 million). Part of the cash and cash equivalents in amount of $10 million related to security of borrowings and held at UK bank is considered to be restricted cash balance (note 22), this has been decreased to $5 million in March 2017. Also as at 31 December 2016 cash and cash equivalents of $0.9 million were held in the Ukrainian subsidiary of the European bank as a financial covered guarantee in favor of PJSC Ukrtransgas to fulfill the requirement of the Ukrainian legislation on gas trading.

21. 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 2015	**288**
Deferred tax benefit	(287)
Exchange differences	(1)
Liability as at 1 January 2016	**–**
Deferred tax benefit	–
Exchange differences	–
Liability as at 31 December 2016	**–**

21. Deferred tax continued

At 31 December 2016, the Group had the following unused tax losses available for offset against future taxable profits:

	2016 $'000	2015 $'000
UK	**10,652**	9,054
Ukraine	**180,475**	78,859
	191,127	87,913

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 $10.7 million (2015: $9.1 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 $180.5 million (2015: $78.9 million). The increase is primarily related to acquisition of LLC Astroinvest-Energy and LLC Industrial company Gazvydo-buvannya on 21 December 2016. 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 at 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.

22. 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 short-term tranches in UAH at Ukrainian bank, 100% subsidiary of UK bank. The credit line is secured by $10 million of cash balance placed at the European bank in the UK, which was decreased to $5 million in March 2017.

Outstanding amount as at 31 December 2016 was $3.6 million (2015: $12.9 million) with effective interest rate 15% p.a. (2015: 20% p.a.). Interest is paid monthly and as at 31 December 2016 accrued interest amounted to $0.04 million (2015: $0.2 million).

23. Trade and other payables

	2016 $'000	2015 $'000
Accruals	**850**	635
VAT payable	**335**	899
Trading payables	**176**	907
Other taxes and social security	**115**	66
Corporate tax payable	**113**	11
Trade creditors	**40**	921
Payables to joint ventures	**-**	96
Other payables	**11**	147
	1,640	3,682

Trade creditors and accruals principally comprise amounts outstanding for ongoing costs. The average credit period taken for trade purchases is 33 days (2015: 24 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

24. Provisions

The provisions at 31 December 2016 comprise of $2.0 million of probable tax obligation and decommissioning provision.

As at 31 December 2016 the Group recognised short-term provision in respect of possible corporate tax obligation in respect of dispute on classification taxable income and expenses. The Group appealed to the Tribunal, however given the uncertainty around the final position the provision of $1.3 million (£1.1 million) and up to $33 thousand (£26 thousand) of interest for 2016 was recognised as at 31 December 2016.

Decommissioning	$'000
At 1 January 2015	**702**
Change in estimate (note 14 and 15)	262
Unwinding of discount on decommissioning provision (note 11)	13
Exchange differences	(245)
At 1 January 2016	**732**
Unwinding of discount on decommissioning provision (note 11)	26
Exchange differences	(80)
At 31 December 2016	**678**
At 1 January 2015	**702**
Non-current	726
Current	6
At 1 January 2016	**732**
Non-current	670
Current	8
At 31 December 2016	**678**

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 $8 thousand (2015: $6 thousand) 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).

25. Share capital

Authorised and issued equity share capital	**2016** Number '000	**2016** $'000	2015 Number '000	2015 $'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 2015 and 2016	**231,091,734**

26. 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

	2016 $'000	2015 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**43,300**	49,407
Trading receivable	**2,163**	8,514
Other receivables	**318**	801
Receivable from joint venture	**58**	1,824
	45,839	60,546
Financial liabilities – measured at amortised cost		
Short-term borrowings	**3,574**	12,903
Accruals	**850**	635
Trading payables	**176**	907
Trade creditors	**40**	921
Other payables	**10**	141
Payables to joint ventures	**-**	96
	4,650	15,603

Financial risk management objectives

Management 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.

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. In 2016 the price for Ukrainian gas was mainly based on the current price of the European gas imports. 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

26. Financial instruments continued

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	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Monetary balance denominated in USD where functional currency is GBP	**nil**	157	**nil**	48,860

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.

	2016 $'000	2015 $'000
Income statement	**n/a**	(4,572)

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.

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 2016 have been paid within four months after year end.

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.

26. Financial instruments continued

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 2016				
Short-term borrowings	3,574	–	–	3,574
Trade and other payables	1,640	–	–	1,640
At 31 December 2015				
Short-term borrowings	12,903	–	–	12,903
Trade and other payables	3,019	657	–	3,676

27. Commitments and contingencies

The Group has working interests in four 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 licencing authority.

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

	2016 $'000	2015 $'000
Within one year	**79**	234
Between two and five years	**1,635**	1,135
	1,714	1,369

The Group has revised its minimum working programmes and resubmitted the required documentation to the government authorities; updated commitments have slightly increased for all licences from $1.4 million to $1.7 million.

Tax contingent liabilities

The Group assesses its liabilities and contingencies for all tax years open for audit by UK and Ukraine tax authorities 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 and Ukraine tax authorities, 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

28. 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. LLC Astroinvest-Energy and LLC Gazvydobuvannya continued to be related parties until the acquisition on 21 December 2016 of 100% of these companies by the Group.

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

	2016 $'000	2015 $'000
Revenues from services provided and sales of goods	**2,496**	508
Purchases of goods	**-**	9
Amounts owed by related parties	**58**	1,824
Amounts owed to related parties	**-**	96

Directors' remuneration

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 2016 on pages 32 to 36.

	Purchase of services		Amounts owing	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Directors' remuneration	**1,807**	1,282	**479**	169

The total remuneration of the highest paid Director was $1.0 million in the year (2015: $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.

29. Events after the balance sheet date

On 31 January 2017 the Group completed 90% acquisition of Exploenergy s.r.l., Italian oil and gas company, that filed application for two licences in the prolific area of Po Valley (North of Italy). The sellers will be carried for their 10% until first gas in each licence and will receive a deferred cash consideration of €50,000 for each licence payable upon award of the licence.

Political and economic situation 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.

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 2016

	Note	2016 $'000	2015 $'000
ASSETS			
Non-current assets			
Investments	30	**-**	-
Receivables from subsidiaries	33	**39,277**	26,905
		39,277	26,905
Current assets			
Trade and other receivables	33	**17**	778
Cash and cash equivalents	33	**28,380**	44,882
		28,397	45,660
Total assets		**67,674**	72,565
LIABILITIES			
Current liabilities			
Trade and other payables	34	**(934)**	(380)
		(934)	(380)
Total liabilities		**(934)**	(380)
Net assets		**66,740**	72,185
EQUITY			
Share capital	35	**13,337**	13,337
Retained earnings[1]		**162,122**	167,567
Cumulative translation reserves	36	**(108,719)**	(108,719)
Total equity		**66,740**	72,185

The financial statements of Cadogan Petroleum plc, registered in England and Wales no. 05718406, were approved by the Board of Directors and authorised for issue on 27 April 2017.

They were signed on its behalf by:

Guido Michelotti
Chief Executive Officer
27 April 2017

1 Included into retained earnings, loss for the financial year ended 31 December 2016 was $5.4 million (2015: $45.3 million).

The notes on pages 76 to 79 form part of these financial statements.

Company Cash Flow Statement

For the year ended 31 December 2016

	Note	2016 $'000	2015 $'000
Net cash inflow from operating activities	37	**(764)**	3,655
Investing activities			
Interest received		**131**	79
Loans to subsidiary companies		**(15,790)**	(3,633)
Net cash used in investing activities		**(15,659)**	(3,554)
Net (decrease)/increase in cash and cash equivalents		**(16,423)**	101
Effect of foreign exchange rate changes		**(79)**	(1,853)
Cash and cash equivalents at beginning of year		**44,882**	46,634
Cash and cash equivalents at end of year		**28,380**	44,882

The notes on pages 76 to 79 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital $'000	Retained earnings $'000	Cumulative translation reserves $'000	Total $'000
As at 1 January 2015	**13,337**	**212,902**	**(102,892)**	**123,347**
Net income for the year	–	(45,335)	–	(45,335)
Other comprehensive loss	–	–	(5,827)	(5,827)
Total comprehensive loss for the year	–	(45,335)	(5,827)	(51,162)
As at 1 January 2016	**13,337**	**167,567**	**(108,719)**	**72,185**
Net loss for the year	–	(5,445)	–	(5,445)
Total comprehensive loss for the year	–	(5,445)	–	(5,445)
As at 31 December 2016	**13,337**	**162,122**	**(108,719)**	**66,740**

The notes on pages 76 to 79 form part of these financial statements.

Notes to the Company Financial Statements

For the year ended 31 December 2016

30. Significant accounting policies

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

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

As permitted by section 408 of the Act, the Company has elected not to present its profit and loss account for the year. Cadogan Petroleum plc reports a loss for the financial year ended 31 December 2016 of $5.4 million (2015: $45.3 million) of which $3.4 million relates to the impairment of receivables from subsidiaries.

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.

31. Auditor's remuneration

The auditor's remuneration for audit and other services is disclosed in note 9 to the Consolidated Financial Statements.

32. Investments

The Company's subsidiaries are disclosed in note 16 to the Consolidated Financial Statements. The investments in subsidiaries are all stated at cost less any provision for impairment.

33. 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 $332.3 million (2015: $316.7 million). The Group recognised impairment of $3.4 million in relation to receivables from subsidiaries in 2016 (2015: $46.5 million). The accumulated provision on receivable as at 31 December 2016 was $293.1 million (2015: $289.8 million). The carrying value of the receivables from the fellow Group companies as at 31 December 2016 was $39.2 million (2015: $26.9 million). There are no past due receivables.

Trade and other receivables	**2016 $'000**	2015 $'000
Prepayments	**-**	752
Other receivables	**17**	26
	17	778

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 2016 cash and cash equivalents in the amount of $10 million, related to security of the loan provided to the Ukrainian subsidiary and held at UK bank, was restricted (note 22).

34. Financial liabilities

Trade and other payables	2016 $'000	2015 $'000
Accruals	**554**	143
Trade creditors	**29**	237
Other creditors and payables	**351**	–
	934	380

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 48 days (2015: 126 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.

35. Share capital

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

36. Cumulative translation reserve

The directors decided to change the functional currency of the Company from sterling to US dollars with effect from 1 January 2016.

The effect of a change in functional currency is accounted for prospectively. In other words, the Company translates all items into the US dollar using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of an operation previously recognised in other comprehensive income in accordance with paragraphs 32 and 39(c) IAS 21 *Foreign Currency* are not reclassified from equity to profit or loss until the disposal of the operation.

37. Notes to the cash flow statement

	2016 $'000	2015 $'000
Loss for the year	**(5,445)**	(45,335)
Adjustments for:		
Interest received	**(131)**	(79)
Effect of foreign exchange rate changes	**120**	–
Impairment of receivables from subsidiaries	**3,415**	46,504
Operating cash flows before movements in working capital	**(2,041)**	1,090
Decrease in receivables	**715**	2,555
Increase in payables	**562**	10
Cash (used in)/from operations	**(764)**	3,655
Income taxes paid	**-**	–
Net cash (outflow)/inflow from continuing operations	**(764)**	3,655

Notes to the Company Financial Statements continued

For the year ended 31 December2016

38. 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 26 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	2016 $'000	2015 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**28,380**	44,882
Amounts due from subsidiaries	**39,277**	26,905
	67,657	71,787
Financial liabilities – measured at amortised cost		
Trade creditors	**(29)**	(237)
	(380)	(237)

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 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.

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 26 to the Consolidated Financial Statements.

39. 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:

	2016 $'000	2015 $'000
Cadogan Petroleum Holdings Limited	**39,277**	26,905
	39,277	26,905

Refer to note 33 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*. In 2016 there were no other employees in the Company. Further information about the remuneration of individual Directors is provided in the audited part of the Annual Report on Remuneration 2016 on pages 32 to 36.

	Remuneration		Amounts owing	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Directors' remuneration	**1,071**	603	**454**	28

The total remuneration of the highest paid Director was $1.0 million in the year (2015: $0.4 million), which includes bonus for 2015 of $0.2 million (2015: $nil) that was approved in June 2016 (page 33).

40. Events after the balance sheet date

Events after the balance sheet date are disclosed in note 29 to the Consolidated Financial Statements.

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.
P1	Proved Reserves
P2	Probable Reserves
P3	Possible Reserves
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
Contingent resources	Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.
Prospective resources	Prospective resources are estimated volumes associated with undiscovered accumulations. These represent quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from oil and gas deposits identified on the basis of indirect evidence but which have not yet been drilled.
E&E	Exploration and Evaluation
E&P	Exploration and Production
LTI	Lost time incidents
Krosno zone	Techtonical element of Ukrainian part of the Carpathian mountains
Krosno 1	Prospective horizon in the Krosno zone

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) 371 664 0300
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 2017/2018

Annual General Meeting	22 June 2017
Half Yearly results announced	August 2017
Annual results announced	April 2018

Investor relations
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