CADOGAN
PETROLEUM PLC

ANNUAL FINANCIAL REPORT 2017

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 2017

Key Financial highlights of 2017:

- Average realised price: 41.6$/boe (2016: 34.5$/boe)
- Gross revenues[1]: $15.1 million (2016: $19.7 million)
- Gross profit: $2.1 million (2016: $1.1 million)
- G&A[2]: $5.0 million (2016: $5.6 million)
- Loss for the year: $1.6 million (2016: $5.9 million)
- Loss per share: 0.7 cents (2016: 2.6 cents)
- Net cash[3] at year end: $37.6 million (2016: $39.7 million)

Key Operational Highlights of 2017:

- Production: 56,516 boe (2016: 42,495 boe), a 33% increase year-on-year
- 78% increase in production from the key Monastyretska licence, located in Western Ukraine
- Completed first step of the diversification strategy by acquiring a 90% interest in Exploenergy s.r.l., in Italy
- A good year for trading, which generated a healthy profit of $1.3 million[4] (2016: loss of $2.0 million)
- Oil Service operations reduced Group costs by retaining margin within the Group
- No LTIs'[5] and a further reduction of emissions[6]: 24.11 of CO_2e/boe produced (2016: 29.89 CO_2e/boe)

Cadogan has successfully delivered on the first pillar of its strategy, which is to make Ukraine its platform for growth by monetising the value of its legacy assets, both core and non-core.

1 Gross revenues of $15.1 million (2016: $19.7 million) included $12.7 million (2016: $15.6 million) from trading of natural gas, $2.4 million (2016: $1.6 million) from exploration and production
2 Administrative expenses ("G&A")
3 Net cash includes cash and cash equivalents less short term borrowings
4 $0.9 million net of interest income received on receivables
5 LTI: Lost Time Incidents; TRI: Total Recordable Incidents
6 E&P operations emissions. For details please see page 22

Group Overview

The Group has continued to maintain exploration and production assets in Ukraine, to conduct gas trading operations and to operate an oil service business in Ukraine. Cadogan's assets are concentrated in the West of the country, far away from the zone of military confrontation with Russia. Gas trading includes the importing of gas from Slovakia and Poland and local purchasing and sales with physical delivery of natural gas. The oil services business focuses on work-over operations, civil works services and other services provided to Exploration and Production ("E&P") companies.

Our business model

We aim to increase value through:

- Maintaining a robust balance sheet, monetising the remaining value of our Ukrainian assets; E&P cash flow to be supplemented with revenues from gas trading and oil services
- Pursuing farm-outs to progress investments in Ukrainian licences
- Sourcing additional E&P assets to diversify Cadogan's portfolio, both geographically and operationally; target assets are either in mature exploration or appraisal stage and are located in Europe, Africa, Middle East or Central Asia

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

Both gas trading and the service business optimise the use of existing available resources, such as cash as working capital for trading and equipment and competences for the service business, and continue 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 was able to increase oil production by 78% from the Monastyretska licence, via the successful re-entry of two old, suspended wells rented from Ukrnafta[1] under a profit sharing agreement. Both wells are currently producing with sucker road pumps. The licence is located in the Carpathian fold belt (Skuba unit), in Western Ukraine.

The Group also continued to produce gas from the Debeslavetske and Cheremkhivske gas fields and has maintained both the Bitlyanska licence and its 15% interest in Westgasinvest LLC ("WGI"), which holds the Cheremkhivsko-Strupkivska, Debeslavetska Production, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska licences for shale gas exploitation. Eni is the operator of these shale gas licences and Cadogan is carried through the exploration phase. Eni has recently notified Cadogan of its intention to exit the shale gas project and discussions are on-going to agree acceptable exit terms and more generally on the future of WGI. Following Eni's decision to exit the joint venture and given the uncertainty over the future of WGI the investment has been impaired.

East Ukraine

Cadogan's application to convert the Pirkovska licence from exploration into production has not yet been awarded. The application has been impacted by a dispute between central and local authorities on the distribution of gas royalties, which has brought the award process in the region to a halt. These assets remain impaired.

Subsidiary businesses

Gas trading operations continued, with sales in Ukraine of both imported and locally produced gas. Despite lower volumes, margins increased substantially as the new team delivered on expectations. Finally, the Group continued providing oil services through its wholly-owned subsidiary Astroservice LLC. These primarily related to well abandonment, site restoration and well workover operations. Unlike previous years, these services were rendered to Group companies during the year as their activity in Ukraine picked-up.

Italy

In January 2017, Cadogan, through its fully owned Dutch subsidiary, finalised the purchase of a 90% interest in Exploenergy s.r.l. ("Exploenergy") for a deferred cash consideration of up to €50,000 per licence, contingent upon licences being awarded. Exploenergy is 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 on 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, which will resume after the national and local election held in early March 2018.

1 PJSC "Ukrnafta"


BELARUS
RUSSIA
POLAND
Kyiv
Pirkivske
UKRAINE
Monastyretske
Bitlyanske
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 five 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;
- to maintain no lost time incident; and
- to grow and geographically diversify the portfolio.

The Group's performance in 2017 against these KPI's is set out in the table below, together with the prior year performance data.

	Unit	**2017**	2016	2017 vs 2016
Average production (working interest basis)(1)	boepd	**155**	116	+33.6%
Overhead (G&A)	$ million	**5.0**	5.6	-10.7%
Basic loss per share(2)	cents	**(0.7)**	(2.6)	-73.1%
Lost time incidents(3)	incidents	**0**	1	
Geographic diversification	new assets	**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

2017 has been a good year for Cadogan, which has made significant progress towards profitability notwithstanding the challenging context in the countries where it has assets.

The process of integrating Ukraine within Europe did not progress as expected and a number of warnings came from the European Community, the EBRD and the leading international financial institutions, asking for an acceleration of the process, particularly in terms of fight against corruption and transparency. The economic crisis is not yet over and the confrontation with Russia has remained an open wound and this has exerted some influence of the political agenda. The ban has remained in place on the direct import of Russian gas resulting in the volumes needed to match internal demand being imported from Europe using reverse flow.

The slow pace of reform in the energy sector and the perception of limited transparency have penalised Ukraine which has not witnessed a recovery of foreign direct investment nor new players entering the local exploration and production sector notwithstanding the healthier oil prices. The country's goal of becoming energy independent in the near future has resulted in given a wake-up call to the state-owned companies and also to some of the local privately held companies and this has generated an increase in the drilling activity with some international contractors winning sizable contracts. This is an encouraging development for Astro-Service LLC as it creates opportunities to monetise its value.

The challenging situation facing the E&P industry is represented by the difficulties that the Company faced to convert Zagoryanska and Pirkovska from exploration into production licences. A dispute between local and central authorities on the distribution of royalties which went on for most of 2017 brought the award process in the Poltava council to a complete halt: several applications to award or convert licences were rejected and the Zagoryanska licence was a casualty as the last rejection came at the end of the three years time-frame allowed for conversion. After investing tens of millions of dollars and proving the existence of commercial quantities of gas, 30 million m^3 were produced, the company was not awarded its production licence, an award which in most of the countries is a recognised right.

In Italy the pace of progress towards the award of the licences has been hampered by concerns at local level on the long-term sustainability of E&P activities in general and by the local and national elections scheduled for the first quarter of 2018. The company has used this time to introduce itself to regional and national authorities and will now re-focus its communication towards local stakeholders.

In a context that has remained challenging, Cadogan has delivered on its strategy of building in Ukraine its platform for growth. Costs have remained under strict control, with a streamlining of the Executive directorships and a right sizing of the gas operations in West Ukraine contributing to savings. E&P operations from the assets operated by the Company have been taken to profitability, driven by an increase in oil production from Monastyretska licence where management sees an upside for further growth, working capital have been optimised and gas trading has delivered healthy margins.

Management has continued to actively pursue opportunities to renew and geographically diversify the portfolio. Many opportunities have been reviewed using stringent investment criteria that are aimed at delivering long-term value for the shareholders and one was finalised. As a Board, we are confident that these efforts will produce results and are not prepared to relax the selection criteria.

Zev Furst
Non-Executive Chairman
25 April 2018

Strategic Report continued

Chief Executive's Review

2017 was a good year for Cadogan, with reduced losses of $1.6 million, the best result over the last six years. Net of losses in joint venture ("JV"), where the Group is carried and not an operator, the Group would have delivered a $0.7 million profit (2016: $5.8 million loss). This achievement is the result of multiple efforts, including:

- a strict discipline in controlling costs;
- E&P operations brought firmly into profitability, due to increased oil production and despite the impact of a punitive tax on gas production;
- a good year for gas trading, with a healthy margin; and
- effective efforts to recover past receivables, some of which had been previously impaired as deemed of no value, and the fending-off potential past tax liability.

2017 was also the year that saw the Company's efforts to geographically diversify its portfolio come to fruition, with the first acquisition outside of Ukraine of an Italian E&P company, which has filed the application for two licences in the prolific Po Valley.

While 2017 witnessed signs of recovery for the oil & gas industry, it has been another difficult year for Ukraine, which remained embroiled in its confrontation with Russia and continued to be economically challenged. The country has made slow progress towards modernisation of its oil & gas legislative framework but the few steps made have fallen short of creating an environment conducive to investment, which the country needs to maximise its domestic production. In this uncertain context, Cadogan has remained one of the few, if not the only, truly foreign investor operating in Ukraine's E&P sector.

Cadogan's application to convert the Pirkovska exploration licence into a production licence is a reflection of the uncertainties that still impact the E&P industry in Ukraine. The application was filed two years ago and has been rejected 4 times, together with nearly 70 other applications, by the Poltava local Council, due to its dispute with the Central Government over the split of royalties. An agreement has been reached, effective from 1 January 2018, bringing into law the distribution of royalties and consequently we are cautiously optimistic that the application will be accepted, as Cadogan has fulfilled all the obligations and submitted the documents in due time.

Eni has informed its partners, Nadra[1] and Cadogan, of its intention to exit WGI, the shale gas project, and discussions are on-going on whether and under which terms to accept Eni's exit and, in general, on the future of the project. As a precaution, Cadogan's management has decided to impair the residual value of its 15% participating interest in the project. Eni's decision, which comes on top of similar decisions for the Pokrovska and Zagoryanska licences, has a marginal impact on Cadogan's business. This is a testimony of Cadogan's proven ability to generate value from a legacy of fragile foundations and marginal assets.

Against this challenging background, Cadogan has done well in 2017. In particular:

- the average production rate through the year increased up to 155 boepd, the highest level in the last five years, and this increase was achieved with minimal capital deployment; and
- the result of E&P business segment in 2017 was $0.3 million higher than in the year before, out-performing the 21% increase in the average realised price over the same period of time.

Other highlights of 2017 are:

- A 33% increase in production, from 42,495 boe in 2016 to 56,516 boe this year;
- A 11% reduction of overhead (G&A), from $5.6 million in 2016 to $5.0 million this year; this is in addition to the 15% reduction achieved in 2016 and of the 13% reduction in 2015;
- A good year for trading which generated a healthy margin by leveraging a limited amount of Cadogan's financial resources;
- The first step in the process of geographic diversification of the portfolio with the acquisition of Exploenergy in Italy;
- A robust balance sheet, with $37.6 million of net cash, kept mostly in UK banks; and
- A year without LTIs' and with a further reduction of emissions into atmosphere.

In summary, Cadogan has successfully delivered on the first pillar of its strategy, which is to make Ukraine its platform for growth by monetising the value of its legacy assets, both core and non-core.

Core operations

Cadogan has continued to safely and efficiently produce from its fields in the West of Ukraine. Oil production has increased by 78% over the value of the previous year, while gas production has remained constant. This is a remarkable achievement, given the advanced stage of depletion of the two gas fields. Oil operating costs have remained under tight control and gas operations have been further streamlined to match revenues (net of a 70% royalty) with costs. Achieving break-even despite operating our gas assets with a 70% royalty is a testimony of what an efficient operator Cadogan has become and is something we are very proud of. Nonetheless, operating gas assets with a 70% royalty is not sustainable and we will explore alternatives.

1 NJSC "Nadra Ukrayny"

The performances of wells located on the Monastyretska licence has been monitored, with a view to gathering data for input into an integrated reservoir study to be awarded in 2018. The primary purpose of the study is to identify the optimum exploitation strategy while assessing reserves. The management team are of the opinion that the field potential has been underestimated in the past, given the field performances to date.

Notwithstanding the repeated filings, the approval for Pirkovska licence has not yet been granted. The debate between Poltava local and central authorities on the royalty distribution and the failure to appoint the Head of the Licensing Authority[1] after 2 years, have not helped.

In Italy contacts have been established and Cadogan introduced itself to the regional authorities of the Lombardia and Emilia Romagna regions, as well as to the civil servants of the competent Ministries in Rome (Industry and Environment). The process to secure the licence award has been re-launched and will continue into next year shifting the focus to the local level, town halls and stakeholders at large.

Non E&P operation

Trading has been re-launched after a difficult 2016, with a new team, a lower cost structure, reduced financial costs and a system in place to better manage credit risk. Results have been encouraging, with $0.9 million[2] of profit which has supplemented E&P revenues.

Oil services conversely contributed a limited amount of cash, as they have been used primarily to serve the Group (well's operations). The company competed for and won tenders launched by the Group and have therefore saved money for the Group, thus contributing to keeping costs under control.

The results achieved in 2017 have been possible due to the continued efforts and commitment of Cadogan's Management and staff. To them, the men and women who have worked for Cadogan go my heartfelt thanks.

Outlook

Cadogan has made another major step towards becoming a leaner and more efficient operator of marginal fields. We have also made solid progress in delivering a sustainable performance, which, along with a robust balance sheet, maintains our strong platform and a springboard on which to build our future of growth.

We expect oil production to grow further, up to 75% over 2017 production, driven by a three wells program of work-overs and stimulations in Monastyretska oil field[3]; we also expect that our perception of an upside in reserves and resources be confirmed by an integrated reservoir study, which was awarded in the first quarter of 2018.

While working to maximise production, we will undertake the actions necessary to safeguard the remaining licences and maximise their value. We have engaged a UK qualified consultant to assist us in the farm-out of the high risk-high reward Bitlyanska licence and are planning the drilling of two wells in the next 12-18 months, one each in Bitlyanska and Monastyretska. In parallel, we will support the operator Westgasinvest LLC ("WGI")[4] in the follow-up of the application for the extension of Cher licence.

We will continue to operate our gas trading business and expect trading volumes to increase over 2017 notwithstanding the challenges of a market still evolving in a manner that is sometimes unpredictable.

As E&P activity in Ukraine picks up, Cadogan will actively explore opportunities to spin-off its E&P services business.

The management team will continue to actively pursue value accretive opportunities to utilise the preserved cash, thus delivering on the second pillar of our strategy, to generate growth and value outside of Ukraine. In doing so, strict discipline and stringent investment criteria will be maintained through the selection process, with a clear focus on long term value generating opportunities. With the benefit of hindsight, of the near 70 opportunities that entered our pipeline over the last couple of years, our disciplined approach has served the company well.

Guido Michelotti
Chief Executive Officer
25 April 2018

1 The licensing Authority, the State Service of Geology and Mineral Resources of Ukraine, has been headed by an Acting Chief since January 2015
2 Trading result of $1.4 million excluding interest received on receivables was $0.9 million
3 The operations on the first of the three well program was completed in late February 2018 and delivered nearly a doubling of the well production rate
4 WGI, a company participated by Eni Ukraine Holdings BV, 50.01%, NJSC "Nadra Ukrayny", 34.99%, and Cadogan Ukraine Holdings Limited 15%, is the licence holder of Debeslavetska and Cheremkhivska licences

Strategic Report continued

Operations Review

Overview

At 31 December 2017 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 the Carpathian basin in close proximity to the Ukrainian gas distribution infrastructures.

Summary of the Group's licences (as at 31 December 2017)

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

In addition to the above, the Group has:

- filed an application to convert the Pirkovska licence from an exploration to production licence; and
- a 15% carried interest in Westgasinvest LLC ("WGI"), which holds the Cheremkhivsko-Strupkivska, Debeslavetska Production, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska licences for unconventional (shale gas) exploitation.

East Ukraine

East Ukraine has been historically a core area for Cadogan. Today, after the voluntarily relinquishment of Pokrovska's licence at the end of the exploration phase and the authority's refusal to award the production licence for Zagoryanska, notwithstanding all requirements having been met, the only asset in that part of Ukraine is the Pirkovska licence which remains impaired. The applications for the award of 20-year production licence has been repeatedly submitted for approval, but the approval has not yet been granted, although the Group has fulfilled its legal obligations and requirements and filed the applications in due time. Delays have occurred due to legislative changes introduced into the award process and to a dispute between central and local authorities on the distribution of revenues from subsoil use tax (royalties). This dispute brought the award process to a complete halt in the Poltava Council and costed the Company the Zagoryanska licence whose conversion from exploration to production was not approved in the three-year's time frame allowed for conversion.

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 Monastyretska licence continued to regularly produce oil at an average production rate of 81 boepd (2016: 46 boepd). Two producing wells were added in December 2016 and sucker rod pumps installed later in the year.

The Debeslavetska and Cheremkhivska licences continued producing with a stable gas production rate of 74 boepd (2016: 70 boepd).

Gas trading

The Group continued to import gas from Europe via the Slovakian and Polish borders and to sell it in Ukraine along with some locally purchased quantities. Despite the lower volumes being sold, margins were much higher due to actions taken by management, including, primarily a reduction in administrative and financial costs and an overhaul of the trading team. Opportunistic purchases in summer also contributed to the overall margin.

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 were rendered mostly to the Group's companies as their activities increased.

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").

Financial Review

Overview

In 2017 the Group continued with its efforts to approach cash neutrality and profitability through a number of cost reduction initiatives, while supplementing E&P revenues with gas trading.

The E&P business positively contributed to the financial results of the Group, due to a combination of increased production and higher prices. The service business focused on providing drilling and work-over services to the subsidiaries of the Group and the trading business earned healthy margin. These results have been supplemented by further monetising of the Group's assets, tight control on costs and optimisation of the working capital cycle.

Net cash, which included cash and cash equivalents mostly denominated in USD net of short-term borrowings denominated in UAH, decreased to $37.6 million at 31 December 2017 compared to $39.7 million at 31 December 2016. This was mostly due to increased prepayments made for gas trading and stock of gas at the end of the year.

Income statement

Revenues from production increased from $1.6 million in 2016 to $2.4 million in 2017, mainly due to production volume increase from 42,495 boe in 2016 to 56,516 boe in 2017. E&P cost of sales increased from $1.2 million in 2016 to $1.7 million in 2017. These include production royalties and taxes, fees paid for the rented wells, depreciation and depletion of producing wells and direct staff and other costs for exploration and development. Overall, in 2017, E&P made a positive contribution of $0.7 million (2016: $0.4 million) to gross profit, representing a positive $0.3 million (2016: loss of $11 thousand) business segment result.

The oil services business in 2017 focused on the internal activities providing its services, including drilling and work-overs, to the subsidiaries of the Group.

Gas trading business showed good results in 2017. Although revenues decreased from $15.6 million in 2016 to $12.7 million in 2017, cost of sales decreased even further, from $15.5 million in 2016 to $11.4 million in 2017, resulting in an overall contribution to profit of $1.3 million (2016: $69 thousand). In addition, staff costs (G&A) were reduced, and trading receivables recovered together with interest. These efforts turned a loss of $2.0 million in 2016 into a profit of $1.4 million in 2017.

Administrative expenses ("G&A") continued to be under strict control. Ukrainian G&A remained flat as staff were compensated for the loss of earning power due to the devaluation of local currency and the overall G&A went down from $5.6 million in 2016 to $5.0 million in 2017.

The reversal of impairment of other assets increased to $1.5 million (2016: impairment of $82 thousand) primarily due to: i) VAT of $1.4 million (2016: $69 thousand), which was previously impaired, as a result of the Group receiving a VAT refund in cash of $1.4 million (2016: $nil) and also offsets of VAT recoverable against trading margin earned; and ii) inventories of $0.1 million (2016: loss of $0.1 million) due to the successful sale of production stock that had previously been impaired due to being held for a considerable time.

Share of loss in joint ventures of $2.3 million (2016: $0.2 million losses) relates to the decision to impair the residual value of Westgasinvest LLC given Eni's communication of their intention to exit the project.

Finance income of $0.7 million (2016: costs of $1.1 million) reflects interest expense to BNP Paribas ("BNPP") on a credit line used for trading of $0.3 million (2016: $1.4 million), net of i) interest income on cash deposits used for trading of $0.1 million (2016: $31 thousand); ii) investment revenue of $0.2 million (2016: $0.1 million); iii) reversal of interest in respect of a previously accrued provision for corporate tax of $0.2 million (2016: cost of $33 thousand); and iv) interest income on receivables of $0.5 million (2016: $0.2 million).

The tax benefit in 2017 increased to $1.3 million (2016: expense of $0.1 million), partially due to the Group reaching a settlement with the UK tax authorities in August 2017 on a past tax claim for which a provision previously accrued has been reversed and also due to the deferred tax asset recognised on the tax losses carried forward from the Monastyretska licence, which is profitable from continuous growing production.

Balance sheet

Intangible Exploration and Evaluation ("E&E") assets of $1.7 million (2016: $2.4 million) represent the carrying value of the Bitlyanska licence. This decreased due to reclassification of the Monastyretska licence from Intangible Exploration and Evaluation assets to the Property Plant & Equipment (note 15). The Property Plant & Equipment (PP&E) balance was $2.1 million at 31 December 2017 (2016: $1.3 million). Investments in joint venture of $nil million (2016: $2.3 million) represent the carrying value of the Group's investments in Westgasinvest LLC, for which impairment of $2.3 million has been recognised (note 17).

Trade and other receivables of $4.5 million (2016: $4.1 million), include $1.3 million (2016: $2.2 million) trading receivables, $1.8 million prepayments for natural gas (2016: $0.8 million), $0.9 million VAT recoverable (2016: $0.8 million), which is expected to be recovered through production, trading and services activities, and $0.5 million (2016: $0.4 million) of other receivables and receivables from joint venture. The $1.4 million of trade and other payables as of 31 December 2017 (2016: $1.6 million) represent $0.5 million (2016: $0.2 million) of trade payables, $0.5 million (2016: $0.9 million) of accrued expenses and $0.4 million (2016: $0.2 million) of other creditors.

Provisions include $0.4 million (2016: $8 thousand) of short-term provision for decommissioning cost and $0.4 million of long-term provision for decommissioning costs (2016: $0.7 million of long-term provision).

Strategic Report continued

The cash position of $37.6 million at 31 December 2017, including $7 million used as a pledge for the credit line, has decreased from $43.3 million at 31 December 2016. Net cash, which included cash and cash equivalents mostly denominated in United States Dollar ("USD") net of short-term borrowings denominated in Ukrainian Hryvna ("UAH"), decreased to $37.6 million at 31 December 2017 compared to $39.7 million at 31 December 2016. This was mainly due to prepayments made for the gas at the end of the year.

Cash flow statement
The Consolidated Cash Flow Statement on page 56 shows operating cash outflow before movements in working capital of $2.3 million (2016: $4.4 million), which represent mostly cash generated by the E&P and Trading business segment net of corporate expenses. Working capital has been further improved, which resulted in a $0.4 million cash inflow (2016: $8.2 million).

The Group, during 2017, made minimum capital deployment by investing $0.6 million (2016: $0.2 million) in the purchase of PP&E and E&E assets, mostly for implementing the exploration work program.

In 2017 the Group financed its trading operations with short-term borrowings (Note 22) with proceeds of $3.3 million and repayments of $7.0 million (2016: proceeds of $1.9 million and repayments of $10.2 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 Ukrainian legislative standards in full and achieves international standards to the maximum extent possible. ISO and OSHA certification of the Management system is being pursued.
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. Only certified personnel are hired to operate on the rig floor.
Production and maintenance There is a risk that production or transportation facilities could 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 Ukrainian 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 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 due to 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 proving commercial production from its Bitlyanska licence and consequently the carrying values of the Group's oil and gas assets may have to be impaired.	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.	Procedures are in place to scrutinise new counterparty via a Know Your Customer ("KYC"), which covers their solvency. In addition, we 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, which is supported by the multi-angle analysis of the specific deals, market trends, building models of the gas prices and foreign exchange rates development for medium term.

Country risks

Risk	Mitigation
Legislative changes may bring unexpected risk and be time consuming for securing licences.	Accurate monitoring and dialogue with competent authorities are kept in place to minimise the risk. In all cases, deployment of capital in Ukraine is limited and investments are kept at the level required to fulfil licence obligations.
Ukraine has not progressed as much as expected towards integration with Europe, the economic crisis is not yet over and the confrontation with Russia has remained an open wound. This exercises some influence on the political agenda, negatively impacts the creation of a transparent market and introduces an element of unpredictability in the development of the legislative framework.	The Group minimises this risk by maintaining the funds in international banks outside Ukraine, by limiting the deployment or capital in country and by continuously maintaining a working dialogue with the regulatory authorities. The assets of the Group are located far from the area of confrontation with Russia.

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 seeks for opinion of independent and qualified experts when deemed necessary. Additionally, the level of required rate of return is adjusted to the perceived level of risk.
Local communities and stakeholders may cause delays to the projects executions and postpone the activities.	The Group maintains a transparent and open dialogue with authorities and stakeholders to identify their needs and propose solutions which address them as well as to illustrate the activities which it intends to conduct and the measures to mitigate their impact. Local needs and protection of the environment are always taken into consideration when designing mitigation measures, which may go beyond the legislative minimum requirement.

Strategic Report continued

Statement of Reserves and Resources

During the year 2017 the company conducted a number of rig-less activities in the two gas fields to maintain a sustainable production, in particular in Cheremkhivska where the producible reserves (P1) increased by 0.012 million boe.

Summary of Reserves[1] at 31 December 2017

	Mmboe
Proved, Probable and Possible Reserves at 1 January 2017	7.87
Production	(0.06)
Revisions	0.01
Proved, Probable and Possible Reserves at 31 December 2017	7.82

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

In addition to the tabled reserves Cadogan has 15.40 million boe of contingent resources associated with Bitlyanska and Monastyretska licences.

1 The study has been conducted as at 31 December 2016 by third-party Brend Vik and since then Cadogan has entered into a Technical Service Agreement with Brend Vik.

Corporate Responsibility

The Board recognises the requirement under Section 414C of the Companies Act 2006 (the "Act") to detail information about environmental matters, 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 safeguard and 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. Cadogan Petroleum, its management and employees are committed to continuously improve the Health, Safety and Environment (HSE) performances, our Code of Ethics and the adoption of internationally recognised best practices and standards are for both our, and our employees', references for conducting operations.

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

The former Chief Operating Officer is the Chairman of the HSE Committee and is supported in his role by Cadogan Ukraine's HSE Manager. His role is to ensure that the Group has developed suitable procedures, and that operational management have incorporated them into daily operations and that she/he has the necessary level of autonomy and authority to discharge her/his duties effectively and efficiently.

The Board believes that health and safety procedures and training across the Group should be to the standard expected in any company operating in the oil and gas sector. Accordingly, it has set up a Committee to review and agree on the health and safety initiatives and to report back on progress. Management is regularly reporting to the Board on HSE and key safety and environmental issues, which are discussed by the Executive Management. The Health, Safety and Environment Committee Report is on page 27.

Health, safety and environment

The Group has developed an integrated HSE management system. The system aims, by using 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. 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 2017, which relies on a proper and reliable induction and near-miss reporting. Staff training on HSE matters and discussion on near miss reporting are recognised as the key factors 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 the main Key Performance Indicators (lost time incidents, nearmiss records, mileage driven, training received, CO2 emissions) as business parameters and entry point 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 2017, the Group recorded over 255,000 man-hours worked with no incidents and close worked to 600,000 hours since last injury in February 2016.

During 2017 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, recording a continuous improvement in the efficiency.

Employees

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

Strategic Report continued

The cessation of the operational activity in the East of the country and the need to reduce costs to remain profitable forced the Group to reduce the level of staffing. The concerned personnel were duly informed and all the necessary procedures were taken. Qualified local contractors are engaged 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.

Diversity

The Board recognises the benefits and importance of diversity (gender, ethnic, age, sex, disability, educational and professional backgrounds, etc.) and strives to apply diversity values across the business. We endeavour to employ a skilled workforce that reflects the demographic of the jurisdictions in which we operate. The board will review the existing policies and further develop a diversity policy during the 2018 financial year.

Gender diversity

The Board of Directors of the Company comprised seven male Directors throughout the year to 31 December 2017. The appointment of any new Director is made on the basis of merit. See pages 17 and 18 for more information on the composition of the Board.

As at 31 December 2017, the Company comprised a total of 74 persons, as follows:

	Male	Female
Non-executive directors	5	-
Executive directors	1	-
Management, other than Executive directors	7	2
Other employees	37	22
Total	**50**	**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 it operates and from which some of the employees are recruited. In our 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 when agreed, but also with practical help and support. All these activities are run in accordance with our Working with Integrity policy and procedures. 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 25 April 2018 and signed on its behalf by:

Ben Harber
Company Secretary
25 April 2018

Board of Directors

Zev Furst, 70, 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, 63, 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 non-executive Director of Proger spa, a Director of the Swiss section of the Society of Petroleum Engineers (SPE) and a former member of SPE's Industry Advisory Council.

Adelmo Schenato, 66, Italian
Non-Executive Director
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 positions. His global roles at eni included Well Operations Research and Development and Technical Management, and Vice President HSE & Sustainability. His regional roles include General Manager of Tunisia, Gabon and Angola as well as CEO of eni's Italian gas storage company.

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

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

Board of Directors continued

Gilbert Lehmann, 72, French
Senior Independent Non-Executive Director
Mr Lehmann was appointed to the Board on 18 November 2011. He was 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, 65, Belgian
Non-Executive Director
Mr Meeùs was appointed as a Non-executive Director on 23 June 2014. 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, 66, 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
Adelmo Schenato

Executive Director
Guido Michelotti
Bertrand des Pallieres (resigned on 2 May 2017)

Directors' re-election
The Board has decided previously that all Directors must be subject to annual election by shareholders, in accordance with the best industry practice. As such, all of the Directors will be seeking re-election at the Annual General Meeting to be held on 20 June 2018.

The biographies of the Directors in office at the date of this report are shown on pages 17 and 18.

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 2017 and their connected persons in the Ordinary shares of the Company at 31 December 2017 are set out below.

Director	Number of Shares
Z Furst	–
G Michelotti	4,637,588
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 2017 Annual General Meeting, remains unused.

Dividends
The Directors do not recommend payment of a dividend for the year to 31 December 2017 (2016: 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.

Report of the Directors continued

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 2017 was 235,729,322 Ordinary shares of 3 pence each with a nominal value of £7,071,880. 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 235,729,256.

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 2017 and 25 April 2018, the Company had been notified of the following interests in voting rights attached to the Company's shares:

	31 December 2017		25 April 2018	
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	28.55	67,298,498	28.55
Mr Michel Meeùs	26,000,000	11.03	26,000,000	11.03
CA Indosuez (Switzerland) SA	17,592,479	7.46	18,674,336	7.92
Ms Veronique Salik	17,959,000	7.62	17,959,000	7.62
Ms Brigitte Salik	17,409,000	7.39	17,409,000	7.39
Kellet Overseas Inc.	14,002,696	5.94	14,002,696	5.94
Mr Pierre Salik	7,950,000	3.37	7,950,000	3.37
Cynderella Trust	7,657,886	3.25	7,657,886	3.25

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 25 April 2018 confirms that:

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

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

This confirmation is given and should be interpreted in accordance with section 418 of the Companies Act 2006.

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

Reporting year
The reporting year coincides with the Company's fiscal year, which is 1 January 2017 to 31 December 2017.

Financial risk management objectives and policies
Financial risk management objectives and policies of the Company, the exposure of the Company to price risk, credit risk, liquidity risk and cash flow risk are described on pages 77 and 78 in note 26 to the Consolidated Financial Statements.

Outlook
Future developments in the business of the Company are presented on pages 6 and 7.

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") and 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 1 and 2 emissions decreased comparatively to 2016 results due to a different mix of activity carried-out by Cadogan Group's service subsidiary Astro-Service LLC (results incorporated) which was primarily focused on work-overs within Cadogan. The 2017 results of the E&P activity (which is directly related to production) slightly improved compared to the previous year even though production increased, mainly for a reduction in the indirect emissions consequent to an effective business rationalisation.

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 29.89 CO_2e/boe in 2016 to 24.11 CO_2e/boe in 2017.

Report of the Directors continued

Total greenhouse gas emissions data for the year from 1 January 2017 to 31 December 2017

Greenhouse gas emissions source	E&P 2017	E&P 2016	Service 2017[1]	Service 2016	Total 2017	Total 2016
Scope 1						
Direct emissions, including combustion of fuel and operation of facilities (tonnes of CO_2 equivalent)	**771**	514	**-**	444	**771**	958
Scope 2						
Indirect emissions from energy consumption, such as electricity and heating purchased for own use (tonnes of CO_2 equivalent)	**592**	754	**-**	-	**592**	754
Total (Scope 1 & 2)	**1,363**	1,268	**-**	444	**1,363**	1,712
Normalisation factor						
Barrels of oil equivalent, gross	**61,097**	46,191	**-**	-	**61,097**	46,191
Barrels of oil equivalent, net	**56,516**	42,495	**-**	-	**56,516**	42,495
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, gross	**22.31**	27.44	**n/a**	n/a	**n/a**	n/a
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, net	**24.11**	29.89	**n/a**	n/a	**n/a**	n/a

2018 Annual General Meeting

The 2018 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 2017 and any other announcements will be published on our website – **www.cadoganpetroleum.com**

This Report of Directors comprising pages 19 to 22 has been approved by the Board and signed on its behalf by:

Ben Harber
Company Secretary
25 April 2018

1 Astroservice worked for the Group internal projects in 2017 and its emissions are included in the E&P column

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.

Board

The Board provides leadership and oversight. The Board comprises a Non-Executive Chairman, Chief Executive Officer, two Independent Non-Executive Directors and two Non-Executive Director who are 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 17 and 18.

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. Accordingly, all members of the Board will be standing for re-election at the 2018 Annual General Meeting due to be held on 20 June 2018.

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

The Chairman, in conjunction with the Company Secretary, plans the programme for the Board during the year. The agenda for Board and Committee meetings is considered by the relevant Chairman and issued with supporting papers during the week preceding the meeting. For each Board meeting, the Directors receive a Board pack including 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 2017.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	2	3
No. Attended:				
Z Furst	6	N/A	2	2
G Michelotti	6	N/A	N/A	N/A
G Lehmann	6	3	2	3
M Meeùs	6	N/A	N/A	N/A
A Schenato	6	N/A	N/A	N/A
E Testa	6	3	2	3

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, Messrs Lehmann and Testa are considered by the Board to be independent. Michel Meeùs, who is a significant shareholder, is not considered to be independent. Adelmo Schenato, who is CEO of Exploenergy s.r.l. and an Advisor to the CEO of the Group and untill 31 December 2016 was Chief Operating Officer of the Group 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, Audit Committee and HSE committee. The terms of reference for the first 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 25 to 29.

1 Adelmo Schenato, who has become a Non-Executive Director in the 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

Corporate Governance Statement continued

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 2017 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. 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 Chairman of the HSE Committee. 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. 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 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; and
- 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 2017 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 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 a major European company 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.

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.

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 77 and 78 and in Note 26 to the financial statements.

Board Committee Reports continued

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.

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. Audit related services 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, BDO LLP was appointed during the year. Prior to its appointment as auditor, BDO LLP provided non-audit services in respect of prior reporting periods, which amounted to $33 thousand (2016: $55 thousand). The Audit Committee has reviewed the nature, level and timing of these services in the course of the year and is confident that the objectivity and independence of the auditor are not impaired by the reason of such non-audit work.

Internal audit

The 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 updated 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
25 April 2018

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 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; and
- 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 2017. Members of the HSE Committee were Mr Adelmo Schenato (HSE Committee Chairman), Ms Snizhana Buryak (HSE Manager), and Mr Andriy Bilyi (Cadogan Ukraine General Director). The CEO and the Company Secretary attend meetings of the HSE Committee as required. During 2017, the HSE Committee held 5 meetings where the activity was monitored and actions were identified for the continuous improvement of the process.

Activities of the Health, Safety and Environment Committee

The HSE Committee during the year accomplished its duties and the main areas that were considered are as follows:

- The existing HSE policies and procedures, were regularly discussed at the Committee meetings in relation to the current activities with a view of deciding whether updates or integrations were advisable;
- Monthly statistics and reports on the activity were regularly delivered to the CEO and the Management, distributed and commented among the members of the committee;
- 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 regularly monitored on monthly basis, 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, near misses, HSE training and other indicators;
- The results of the inspections and drills were analysed and commented to assess the real capabilities and adequacy of the Company; and
- Interaction with contractors, Authorities, local communities and other stakeholders were discussed among other HSE activities.

Overview

The Company's HSE Management System and the Guidelines and Procedures in place are adequate for the proper execution of the operations, nevertheless the HSE Committee proposed to the Board of Directors to involve third parties for the assessment of the system and its updating, to which the Board approved.

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
25 April 2018

Board Committee Reports continued

Nomination Committee Report

The Board appoints the members of the Nomination Committee which are predominately made up of non-executive Directors of the Group. Membership is 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 candidates to fill Board vacancies as and when they arise, for the Board's approval;
- Before appointments are made by the Board, evaluate the balance of skills, knowledge, experience and diversity (gender, ethnic, age, sex, disability, educational and professional backgrounds, etc.) on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment; and
- 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; and
- 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) 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. The streamlining of the Executive Directorship was accomplished during the year.

The Nomination Committee decided not to appoint a replacement for Mr Bertrand des Pallieres upon his resignation as CTO on 2 May 2017 and to retain Mr Adelmo Schenato as non-executive Director upon his resignation as COO.

The Committee recommends the re-election of the six incumbent Directors at the AGM.

Overview

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

Zev Furst
Nomination Committee Chairman
25 April 2018

Remuneration Committee

Statement from the Chairman

I am pleased to present the Annual Report on Remuneration for the year ended 31 December 2017.

During 2017 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 a further devaluation of the British pound against most currencies, all directors agreed to maintain for the time being their base compensation "as is".

As I anticipated in last year's Annual Report, the Company has reviewed and amended its Remuneration Policy, which will be presented to our shareholders for their approval at this year Annual General Meeting. The key elements of the new Remuneration Policy (pages 36 to 44) are:

- A better long-term alignment of the executives' remuneration with the interests of shareholders;
- A material reduction in the maximum remuneration level for the Executive Directors, both in terms of annual bonus and of long-term incentive (performance share plan);
- The payment of at least 50% of the Annual Bonus in shares with the remaining 50% to be paid in cash or shares at the discretion of the Remuneration Committee. Shares will be priced for this award at their market value at closing on the Business Day prior to the Subscription Date;
- The introduction of *claw-back* and *malus* provisions on both bonuses and share awards; and
- The expectation that the Executive Directors build a substantial shareholding position in the company through their mandate.

The new Remuneration Policy is attached at the end of the Annual Report on Remuneration.

In 2017 the Committee again 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 good results achieved, the Committee has determined to award him a bonus of €106,000 ($126,992), or 12% of the maximum allowable bonus under the current Remuneration Policy, and to defer its payment until after the approval of the new Remuneration Policy so as to award the bonus with the new rules as approved.

Enrico Testa
Chairman of the Remuneration Committee
25 April 2018

Annual Report on Remuneration 2017

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.

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; and
- 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

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.

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. Alternatively, 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 2018 Annual General Meeting.

Remuneration consultants

The Remuneration Committee did not take any advice from external remuneration consultants, except engaging Baker & McKenzie LLP to assist with the drafting of a new Remuneration Policy and related implementation documents.

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

	$ Salary and fees		$ Taxable benefit[1]		$ Annual bonus		$ Total	
Executive Director	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
G Michelotti	**497,288**	487,080	**15,414**	15,353	**126,992[2]**	210,504	**639,694**	712,937
B des Pallieres[3]	**182,004**	300,152	**1,660**	2,000	**-**	-	**183,664**	302,152
Non-executive Directors								
Z Furst	**109,565**	115,235	**-**	-	**-**	-	**109,565**	115,235
G Lehmann	**58,005**	61,007	**-**	-	**-**	-	**58,005**	61,007
E Testa	**45,115**	47,450	**-**	-	**-**	-	**45,115**	47,450
M Meeùs	**45,115**	47,450	**-**	-	**-**	-	**45,115**	47,450
A Schenato[4]	**140,749**	277,545	**-**	-	**-**	-	**140,749**	277,545

1 Taxable benefits include life and medical insurance provided to the executive. There are no contributions to pension schemes.
2 In 2015 and 2016 the CEO undertook to use the entire amount of the bonus to buy at market price newly issued company shares
3 Resigned on 2 May 2017. The reported remuneration includes £70,000 ($90,900) for loss of office (see also note at page 32)
4 In January 2017, Mr Schenato stepped down as Chief Operating Officer, became a non-executive director of the Company and took up the roles of Advisor to the CEO and Chairman and CEO of Exploenergy. His remuneration comprises a fee of £20,600 ($26,553) as a non-executive Director and €101,040 ($114,195) per annum under a consultancy agreement

Notes to the table

Long-term incentives were not paid in 2016 and 2017.

In 2017, there were no increases in executive and non-executive directors' salary in base currency. Any difference in salary and fees for the directors reflects a change in the exchange rate between the base currency and the USD, which is the reporting currency.

Mr Guido Michelotti

Mr Guido Michelotti was Chief Executive Officer through 2017. Mr Michelotti's salary is €440,000 ($497,288) per annum.

The Remuneration Committee has determined that it would be appropriate to award Mr Guido Michelotti for the year 2017 a bonus of €106,000 ($126,992), based on its achievement vis a vis his scorecard and without a discretionary element. In assessing the performance related element, the Committee determined that the Company was within the parameters of the production and geographic diversification targets and had exceeded by a considerable margin net profit and cash targets. The HSE target of LTI free operations target had also been achieved. Under the performance scorecard considered by the Remuneration Committee, the production, cash and geographic diversification targets each represent 20% of the weightings of the bonus (for target level performance) with safety contributing 10% and net cash 30%. Based on the above, the Remuneration Committee determined that some 103% 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%)	Minimum target achieved	14
Net profit/(loss), $ million	20	Approved budget (stretch target +20%)	Stretch target achieved	26
Change in net cash, $ million	30	Approved budget (stretch target +20%)	Stretch target achieved	39
HSE, number of LTI	10	Target: zero	Target achieved	10
Geographic diversification, number of new countries	20	Minimum 1 Maximum 2	Minimum target achieved	14
	100			**103**

While the approved Remuneration Policy sets the maximum Annual Bonus at 200% of the base salary, Mr. Michelotti agreed in his employment agreement to a ceiling to the annual bonus equal to 105% of the base salary, divided into a KPI element (maximum 70%) and a discretionary component (maximum 35%). The payment of the entire bonus for the year 2017 has been deferred until after the AGM in order to pay it based on the new Remuneration Policy, including the deferral of at least 50% in shares.

As the CEO had 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, on 22 September 2017 the Company issued 4,637,588 new ordinary shares of £0.03 each in the capital of the Company for cash on the basis of £0.0825 per share to the CEO, Mr Guido Michelotti. Mr Michelotti had 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).

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.

1 The company does not disclose its budget
2 Scores for achieving respectively minimum target, target and stretch target are set at 70, 100 and 130

Annual Report on Remuneration 2017
continued

The Chairman and Non-Executive Directors
In May 2011 the Board agreed that the Chairman's fee be set at £85,000 ($109,565) and that the fee for acting as a non-executive Director be set at £35,000 ($45,115) with an additional £10,000 ($12,890) for acting as Chairman of the Audit Committee. There has been no increase in non-executive Directors' fees since that time. Adelmo Schenato received a fee of £20,600 ($26,553) as a non-executive Director and €101,040 ($114,195) per annum under a consultancy agreement as Advisor to the CEO of the Company and Chairman and CEO of Exploenergy.

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 2017 there were no payments to past directors.

Payments for loss of office (audited)
£70,000 ($90,900) were paid to Mr des Pallieres for loss of office in 2017[1]. No notice period was either worked or paid.

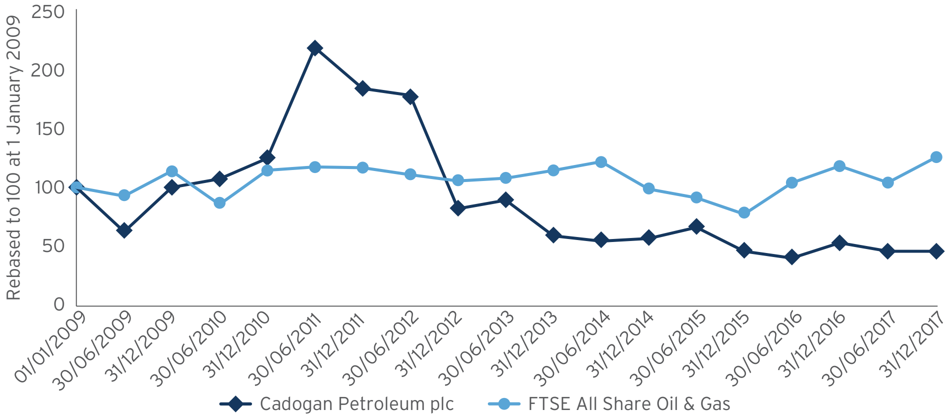
Directors' interests in shares (audited)
The beneficial interests of the Directors in office as at 31 December 2017 and their connected persons in the Ordinary shares of the Company at 31 December 2017 are set out below.

Shares as at 31 December	**2017**	2016
Z Furst	**-**	-
G Michelotti	**4,637,588**	-
B des Pallieres (resigned on 2 May 2017)	**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 2017 compared to 25 April 2018.

The Company does not currently operate formal shareholding guidelines. Whilst there is no specified level, the Company expects that under the new Remuneration Policy, the Executive Directors will build up a significant shareholding position in the Company during their mandate.

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, and has been retained ever since, primarily for continuity purposes TSR is the return from a share or index based on share price movements and notional reinvestment of declared dividends.



1 The amount includes £10,500 ($13,590) under his employment agreement as director and £59,500 ($77,310) under his consultancy agreement.

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	432,409[1]	15,987	243,132	–	–	–	691,528
2016	487,080	15,353	210,504[2]	–	–	–	712,937
2017	497,288	15,414	126,992	–	–	–	639,694

1 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
2 In 2016 and 2015 as well, the CEO undertook to use the entire amount of the bonus to buy at market price newly issued company shares

In 2017 the annual bonus awarded to the CEO was 12% (2016: 22%) of the maximum bonus as per the approved Remuneration Policy. The payment of the bonus has been deferred until after the AGM in order to pay it based on the new Remuneration Policy. The new Remuneration Policy, as presented at the AGM for approval, include payment of at least 50% of the amount in shares valued at market price.

The annual bonus received by the CEO as a percentage of the maximum opportunity is presented in the following table.

Year	CEO	CEO single figure of total remuneration $	Annual bonus payout against maximum opportunity %
2017	Mr. Michelotti	639,694	12
2016	Mr. Michelotti	712,937	22[3]
2015	Mr. Michelotti	502,021	27[3,4]
	Mr. des Pallieres	189,507	–
2014	Mr. des Pallieres	426,167	–
2013	Mr. des Pallieres	384,941	–
2012	Mr. des Pallieres	389,935	–
	Mr. Barron	280,298[5]	–
2011	Mr. des Pallieres[6]	273,201	–
	Mr. Barron	395,984	–
2010	Mr. Barron	547,067	–
2009	Mr. Barron[7]	707,085	67

3 Mr Michelotti undertook to use the entire bonus to buy company's share at market price in order to leave the Company cash neutral
4 Year-end performance based bonus was an alternative to an up-front sign-on bonus
5 $280,298 paid as fees, pension and loss of office
6 From 1 August, 2011
7 From 19 March 2009

Annual Report on Remuneration 2017
continued

Percentage change in the remuneration of the Chief Executive

The following table shows the percentage change in the remuneration of the Chief Executive in 2017 and 2016 compared to that of all employees within the Group.

		2017 $'000	2016 $'000	Average Change %
Base salary	CEO[1]	**497**	487	2%
	All employees[2]	**2,406**	2,618	-8%
Taxable benefits	CEO	**15**	15	0%
	All employees	**34**	35	-2%
Annual Bonus	CEO	**127**	211	-40%
	All employees	**179**	211	-16%
Total	CEO	**639**	713	-10%
	All employees	**2,619**	2,864	-9%

1 CEO's base salary has not changed since he was hired and a lower bonus has been paid in 2017 vs. 2016 Changes reflect the variation in the exchange rate versus the US dollar, which is the reporting currency

2 All employees means all employees of the Group, including CEO and other Directors (note 10, page 68)

In 2017 none of the directors participated in long-term incentives.

In 2017 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 $0.21 million decrease in employee remuneration reflects primarily the streamlining of the Executive directorships.

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 2016 and 31 December 2017.

	2017 $'000	2016 $'000	Year-on-year change, %
All-employee remuneration	2,619	2,864	-9%
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 Policy	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' Annual Report on Remuneration for the year ended 31 December 2016 was approved by shareholders at the Annual General Meeting held on 22 June 2017. The votes cast by proxy were as follows:

Director's Annual Report on Remuneration	Number of votes	% of votes cast
For	59,077,189	99.98
Against	14,370	0.02
Total votes cast	59,091,559	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 2018

The Remuneration Committee has approved a new Remuneration Policy which will be presented to the shareholders for their approval at the June 2018 Annual General Meeting. The new Remuneration Policy aligns Cadogan to the recent developments in terms of remuneration and reduces the maximum remuneration level for executives, thus making general a principle originally accepted by Mr Michelotti on a personal basis.

As was the case in 2017, the performance related elements of Mr Guido Michelotti's 2018 bonus will be built around a scorecard with a set of KPI's aligned with the Group strategy, i.e. monetising the value of the legacy assets in Ukraine, preserving cash and operating safely and efficiently while actively pursuing opportunities to re-load and geographically diversify the portfolio, with similar to 2017 weightings (as described above on pages 30 to 32 in the notes to the single figure table).

The proposed new Directors Remuneration Policy is set out on pages 36 to 44.

Approval

The Directors' Annual Report on Remuneration was approved by the Board on 25 April 2018 and signed on its behalf by:

Zev Furst
Chairman
25 April 2018

Annual Report on Remuneration 2017

continued

Directors' Remuneration Policy

Introduction

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

The Policy is included for binding shareholder approval at the 2018 AGM of the Company. The effective date of this Policy is the date on which the Policy is approved by shareholders.

The Policy will apply in respect of all executive officers appointed to the Board of Directors ("executive directors") and non-executive directors. Other senior executives may be subject to the Policy, including in relation to annual bonus and shares incentive arrangements in particular, if and to the extent that the Remuneration Committee determines it is appropriate.

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

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

Maximum caps are provided to comply with the required legislation and should not be taken to indicate an intent to make payments at that level. The maximum caps are valid at the time that the relevant employment agreement or appointment letter is entered into and the caps may be adjusted to take into account fluctuations in exchange rates.

Remuneration policy table: executive directors

Component	Purpose and link to strategy	Maximum opportunity	Operation and performance measures
Salary and Fees	To provide fixed remuneration at an appropriate level, to attract and retain directors as part of the overall compensation package.	The maximum annual base combined salary and fees for executive directors is €450,000[1]. The Remuneration Committee will consider the factors set out under the "Operation" column when determining the appropriate level of base salary within the formal Policy maximum.	Salary is paid on a monthly basis. The Remuneration Committee takes into account a number of factors when setting salaries including: › scope and difficulty of the role; › skills and experience of the individual; › salary levels for similar roles within the international industry; and › pay and conditions elsewhere in the Group. Salaries are reviewed on an annual basis, but are not necessarily increased at each review. No performance measures.

1 Please note that the salary of the CEO for 2018 will remain at €440,000. The CEO's salary has not changed since his appointment on 1 July 2015.

Component	Purpose and link to strategy	Maximum opportunity	Operation and performance measures
Annual Bonus	To incentivise and reward the achievement of individual and business objectives which are key to the delivery of the Company's business strategy.	The maximum award is 125% of combined base salary and fees.	The payment of any bonus is at the discretion of the Board with reference to the performance year. › The Remuneration Committee sets, in advance, a scorecard with a set of Key Performance Indicators ("KPIs") aligned with the Company's strategy. The measures and the relative weightings are substantiated by the Remuneration Committee and aim to be stretching and to support the Company's business strategy. Measures are related to Company financial performance, operational performance and the Company's health and safety record. In general relative weightings of each KPI are expected not to exceed 50% and not to be less than 10%. › The Remuneration Committee retains the flexibility to determine and, if it considers appropriate, change the KPIs and weightings of the KPIs based on the outcome of its annual review. The Remuneration Committee may also adjust KPIs during the year to take account of material events, such as (without limitation) material corporate events, changes in responsibilities of an individual and/ or currency exchange rates. Any such changes will be within the overall target and maximum payouts approved in the policy. › The KPI targets and specific weightings in the scorecard are defined annually early in the year, once the budget has been approved. A summary of the KPI targets, weightings for the KPIs and how far the KPIs are met will be included retrospectively each year in the Implementation Report for the year. › All bonuses that may become payable are subject to malus and clawback provisions in the event of material financial misstatement of the Company or fraud or material misconduct on the part of the executive, as explained further below. › 50% of the bonuses that may become payable must be applied to subscribe for or acquire shares in the Company (after the deduction of any income tax and/ or employee social security contributions payable). The Company is proposing to adopt and operate a Deferred Bonus Plan as a framework plan for the delivery of shares to executives, which may be satisfied by the issue of new shares or transfer of existing or treasury shares. › The Remuneration Committee will determine whether the remainder of the bonus shall be paid in cash or must be applied to subscribe for or acquire shares (after the deduction of any income tax and/or employee social security contributions payable). In making its determination as to how the remainder of the bonus shall be paid, the Remuneration Committee may take into account: profitability of the Company; the executive's shareholding as measured against any Company shareholding guidelines; potential liabilities of the recipients to income tax and social security contributions, among other things. Additional shares representing the value of dividends payable on the deferred shares may be paid. › The Remuneration Committee may impose holding periods of up to three years on any of the shares delivered pursuant to the annual bonus plan. › There are no prescribed minimum levels of performance in the annual bonus structure and so it is possible that no bonus award would be made.

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Component	Purpose and link to strategy	Maximum opportunity	Operation and performance measures
Share Incentive Arrangements	To incentivise, retain and reward eligible employees and align their interests with those of the shareholders of the Company.	Awards can be made under the PSP with a value of up to a maximum of 200% of base salary and fees or 300% in exceptional circumstances.	The Company is proposing to adopt and operate the 2018 Performance Share Plan ("PSP") to replace the 2008 Performance Share Plan. The PSP offers the opportunity to earn shares in the Company subject to the achievement of stretching but realistic performance conditions. Performance conditions will be a main feature of the PSP. The PSP will be administered by the Remuneration Committee. › Awards can be made under the PSP at the direction of the Remuneration Committee within the policy maximum in the form of contingent share awards. › PSP awards will have a minimum vesting period of 3 years and, for directors, the PSP awards have a further holding period of 2 years following the end of the vesting period (subject to any number of shares that may need to be sold to meet any income tax and employee social security contributions due on vesting). › The Remuneration Committee will develop clear KPIs that aim to align directors with Company strategy over time periods in excess of one financial year. Any performance measures and targets used for share incentive awards during 2018 will be relevant and stretching in line with the overall strategy of the Company. › The Remuneration Committee may adjust or change the PSP measures, targets and weightings for new awards under the PSP to ensure continued alignment with Company strategy. › PSP awards are subject to malus and clawback in the event of material financial misstatement of the Company or fraud or material misconduct on the part of the executive. › Upon vesting of an award, the award holder must pay the nominal value in respect of each share that vests. › PSP Awards will normally lapse where the award holder ceases employment with the Company before vesting. PSP Awards will not lapse and will vest immediately if the award holder is considered to be a Good Leaver (leaves due to death or disability) subject to the Remuneration Committee being satisfied that performance conditions have been satisfied or are likely to be satisfied as at the end of the relevant performance period. In other circumstances, the Remuneration Committee may determine that awards will not lapse and will continue to vest at their normal vesting date, subject to pro-ration to reflect the period of service during the performance period and performance conditions. The Remuneration Committee has residuary discretions to disapply pro ration and bring forward the date of vesting. › In the event of a change of control of the Company, if the acquiring company agrees, awards will be exchanged for equivalent awards over shares in the acquiring company and continue to vest according to the original vesting schedule. If the acquiring company does not agree to exchange the awards, the awards will vest at the Committee's absolute discretion. Awards that vest will be subject to time pro-ration and performance conditions. › Benefits under the PSP will not be pensionable. › The PSP Plan Limits are set out at Note 2.4 below.

Component	Purpose and link to strategy	Maximum opportunity	Operation and performance measures
Pension	To provide a retirement benefit that will foster loyalty and retain experienced executive directors.	Any pension benefits will be set at an appropriate level in line with market practice, and in no event will the contributions paid by the Company exceed 15% of combined base salary and fees.	No pension benefits are currently provided to executives. However, the Remuneration Committee may in the future decide to provide pension benefits commensurate with the market. No performance measures.
Benefits	To provide a market competitive level of benefits to executive directors.	Any benefits will be set at an appropriate level in line with market practice, and in no event will the value of the benefits exceed 15% of combined base salary and fees.	› The executive directors are entitled to private medical insurance and life assurance cover (of four times the combined salary and fee) and directors' and officers' liability insurance. › The Remuneration Committee may decide to provide other benefits commensurate with the market. Such benefits may include (for instance) company car or allowance, physical examinations and medical support, professional advice, assistance with filling out tax returns and occasional minor benefits. A tax equalisation payment may be paid to an executive director if any part of the remuneration of the executive director becomes subject to double taxation. Tax gross ups may be paid, where appropriate. The Company does not, at present, provide other taxable benefits to the executive directors. › Executive directors are reimbursed for reasonable business expenses incurred in the course of carrying out their duties. › No performance measures.

Notes to the executive directors' remuneration policy table

The Remuneration Committee's philosophy is that remuneration arrangements should be appropriately positioned to support the Group's business strategy over the longer term and the creation of value for shareholders. In this context the following key principles are considered to be important:

- remuneration arrangements should align executive and employee interests with those of shareholders;
- remuneration arrangements should help retain key executives and employees; and
- remuneration arrangements should incentivise executives to achieve short, medium and long-term business targets which represent value creation for shareholders. Targets should relate to the Group's performance in terms of overall revenue and profit and the executive's own performance. Exceptional rewards should only be delivered if there are exceptional returns.

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

› Performance measures and targets

(a) Annual Bonus

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

Annual bonus targets are set by the Remuneration Committee each year. They are stretching but realistic targets which reflect the most important areas of strategic focus for the Company. The factors taken into consideration when setting targets include the Company's Key Performance Indicators (which are determined annually by the Remuneration Committee), and the extent to which they are under the control or influence of the executive whose remuneration is being determined.

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Performance is measured over the financial year against the measures and targets set according to the scorecard. The Remuneration Committee retains the right to exercise its judgement to adjust the bonus outcome for an individual to ensure the outcome reflects any other aspects of the Company's performance that become relevant during the financial year.

The Remuneration Committee intends to use Company operational and financial performances and safety as performance measures for the 2018 scorecard. For years following 2018, the structure of the annual bonus scorecard will be reviewed by the Remuneration Committee.

2018 Annual bonus scorecard measures for executive directors

40% weighting	50% weighting
Operational performance, such as production, sales, geographical diversification, and starting new projects.	Company financial performance, including cash targets and profit targets.
10% weighting	
Indicators of health and safety to promote the effective risk management of the Company.	

(b) Share Plans

The Remuneration Committee will make the vesting of a Plan award conditional upon the satisfaction of stretching but realistic performance conditions. These conditions are meant to achieve a long term alignment of the executives' remuneration with the interest of the shareholders.

EBITDA growth, increase of P1 reserves (in millions boe), and changes to the free cash-flow are the key KPIs to be used by the Remuneration Committee and will be measured over time periods of three financial years. The performance measures are chosen to align the performance of participants with the attainment of financial performance targets over the vesting period of the award. The targets are set by the Remuneration Committee by reference to the Company's strategy and business plan and the results achieved at the time of the vest are determined by the Remuneration Committee.

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

› Malus and clawback (applicable to bonuses and share awards)

The Remuneration Committee has the discretion to reduce the bonus before payment or require the executive director to pay back shares or a cash amount in the event of material financial misstatement of the Company or fraud or material misconduct on the part of the executive. The amount that may be clawed back on any such event is limited to the value of the bonus, taking into account the cash paid and the shares delivered to the executive, taking the value of the shares at the time of the clawback, less any income tax or employee social security contributions paid on the bonuses.

› Share ownership guidelines for executives

The Remuneration Committee is planning to implement share ownership guidelines for executive directors to further align the interests of the executive directors with those of shareholders. The share ownership guidelines will include an expectation that executive directors build up their shareholding to 200% of base salary over a period of five years from the later of: the date of adoption of this policy and the date of appointment. Once the shareholding guideline is reached, executive directors would be expected to maintain it. The intention would be for the shareholding guideline to be reached through the retention of vested shares from share plans (e.g. the deferred share element of the annual bonus and shares vested under the PSP). As such, the Remuneration Committee's discretion may be used to increase the proportion of an annual bonus to be delivered in shares to assist the executive director in meeting this guideline. The deferred share mechanism in the annual bonus and the design of the PSP will assist executive directors in reaching the guidelines. Executive directors will not be expected to top up their shareholding with personal acquisitions of Company shares outside the usual share plans described in the Policy. The Remuneration Committee will monitor the executive directors' shareholdings and may adjust the guideline in special individual and Company circumstances, for example in the case of a share price fall.

› PSP Plan Limits

The PSP may operate over new issue shares, treasury shares or shares purchased in the market. In any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

(a) 10% of the issued ordinary share capital of the Company under the Plan and any other employee share plan adopted by the Company; and

(b) 5% of the issued ordinary share capital of the Company under the Plan and any other executive share plan adopted by the Company.

Treasury shares will count as new issue shares for the purposes of these limits unless institutional investors decide that they need not count. These limits do not include rights to shares which have been renounced, released, lapsed or otherwise become incapable of vesting, awards that the Remuneration Committee determines after grant to be satisfied by the transfer of existing shares and shares allocated to satisfy bonuses (including pursuant to the Deferred Bonus Plan).

› Remuneration throughout the Group

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

Remuneration policy table: non-executive directors

Component	Purpose and link to strategy	Maximum opportunity	Operation and performance measures
Fees	To provide an appropriate reward to attract and retain high-calibre individuals with the relevant skills, knowledge and experience to progress the Company strategy.	› The maximum annual fees paid to non-executive directors is £50,000 for a non-executive director role, and £100,000 for the role of Chairman. An additional £10,000 will be paid to the individual acting as Chairman of the Audit Committee.	Non-executive directors receive a standard annual fee, which is paid on a quarterly basis in arrears. Additional fees may also be paid to recognise the additional work performed by members of any committees set up by the Board, and for the role of chair of a committee. Fees are reviewed on an annual basis, but are not necessarily increased at each review. Fees are set at a rate that takes into account: › market practice for comparative roles; › the financial results of the Company; › the time commitment and duties involved; and › the requirement to attract and retain the quality of individuals required by the Company. The remuneration of the non-executive directors is a matter for the Board to consider and decide upon. There are no performance measures related to non-executive directors' fees.

Notes to the Policy Table

The payment policy for non-executive directors is to pay a rate which will secure persons of a suitable calibre. The remuneration of the non-executive directors is determined by the Board. External benchmarking data and specialist advisers are used when setting fees, which will be reviewed at appropriate intervals. The maximum caps are valid at the time that the relevant appointment letter is entered into and the caps may be adjusted to take into account fluctuations in exchange rates.

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

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

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

› Recruitment

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

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

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

› Flexibility

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

Remuneration will normally not exceed those set out in the policy table above. However, to ensure that the Company can sufficiently compete with its competitors, the Remuneration Committee considers it important that the recruitment policy has sufficient flexibility in order to attract and appropriately remunerate the high-performing individuals that the Company requires to achieve its strategy. As such, the Remuneration Committee reserves discretion to provide a buy-out arrangement and benefits (such as a sign-on bonus and additional share awards) in addition to those set out in the policy table (or mentioned in this section) where the Remuneration Committee considers it reasonable and necessary to do so in order to secure an external appointment.

› Buy-out arrangements

The Remuneration Committee retains the discretion to enter into buy-out arrangements to compensate new hires for incentive awards forfeited in joining the Company. The Remuneration Committee will use its discretion in awarding and setting any such compensation, which will be decided on a case-by-case basis and likely on an estimated like-for-like basis. In deciding the appropriate type and quantum of compensation to replace existing awards, the Remuneration Committee will take into account all relevant factors, including the type of award being forfeited, the likelihood of any performance measures attached to the forfeited award being met, and the proportion of the vesting period remaining. The Remuneration Committee will appropriately discount the compensation payable to take account of any uncertainties over the likely vesting of the forfeited award to ensure that the Company does not, in the view of the Remuneration Committee, pay in excess of what is reasonable or necessary.

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

› Payments for loss of office

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

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

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

(a) pay an annual bonus for the year of departure;

(b) continue providing any benefits for a period of time; and

(c) provide outplacement services.

Non-executive directors are subject to one month notice periods prior to termination of service and are not entitled to any compensation on termination save for accrued fees as at the date of termination and reimbursement of any expenses properly incurred prior to that date.

› Share plan awards

The treatment of any share award on termination will be governed by the PSP rules.

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

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

For executive directors, the vesting period will be set by the Remuneration Committee with a minimum three year period. The Remuneration Committee will (unless the vesting period is set as a period equal to or longer than five years) impose a holding period on shares (or awards) so that the executive is not able to sell the shares that the executive director acquires through the PSP until the fifth anniversary of the date of the award. The holding period will not apply to the number of shares equivalent in value to the amount required by the Company or the executive director to fund any income tax and employee social security contributions due on the vesting of the awards or otherwise in connection with the awards.

› Executive director employment agreements

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

The Company's policy on employment agreements is that executive directors' agreements should be terminable by either the Company or the director on not more than six months' notice. The employment agreements contain provision for early termination, among other things, in the event of a breach by the executive but make no provision for any termination benefits except in the event of a change of control of the Company, where the executive becomes entitled to a lump sum equal to 24 months' base salary plus benefits plus (if any), bonus received on termination by the Company. The employment agreements contain restrictive covenants for a period of 12 months following termination of the agreement. Details of employment agreements in place as at the date of this report are set out below:

Director	Current agreement start date	Notice period
G Michelotti	1 July 2015	Six months

Directors' employment agreements are available for inspection at the Company's registered office and at Zhylyanska street 48/50, 01033 Kyiv, Ukraine.

› Non-executive directors' letters of appointment

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

Typically, the non-executive directors are appointed by letter of appointment for an initial term of three years which may be extended. All non-executive directors are subject to annual re-election by the Company's shareholders and their appointments may be terminated earlier with one month's prior written notice (or with immediate effect, in the case of specific serious circumstances such as fraud or dishonesty). On termination of appointment, non-executive directors are usually only entitled to accrued fees as at the date of termination together with reimbursement of any expenses properly incurred prior to that date and the company has no obligation to pay further compensation when the appointment terminates[1]. Non-executive directors' letters of appointment are available for inspection at the Company's registered office and at Zhylyanska street 48/50, 01033 Kyiv, Ukraine.

1 Mr A. Schenato had an initial one year term that expired on December 31st, 2017 under his appointment letter because he performed different roles in the Company for the previous two years (COO and Director).

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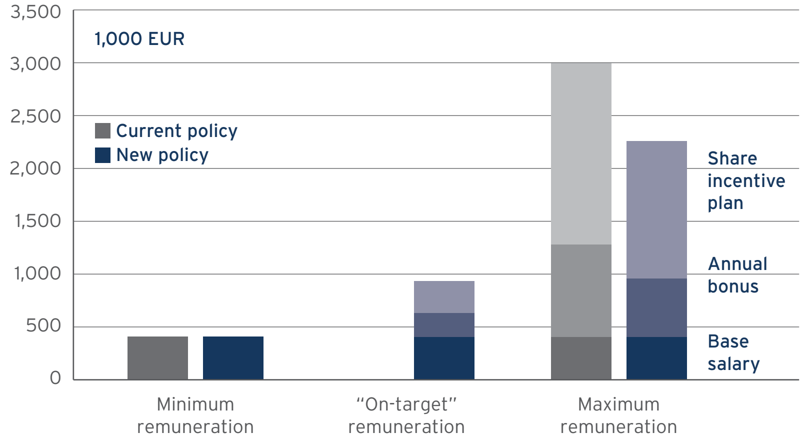
continued

› Illustration of the Remuneration Policy

The bar charts below show the levels of remuneration that the CEO could earn over the coming year under the Policy.

Guido Michelotti: minimum and maximum remuneration



Notes:
I. The remuneration for an "on-target" scenario is purely illustrative as actual remuneration will depend on how challenging the target is for the relevant year as well as on the financial conditions of the Company
II. The maximum award under the share incentive plan is 200% which can increase up to 300% (400% in the old policy) in exceptional circumstances

The bar chart shows future possible maximum remuneration.

No pension entitlements were provided in 2017. However, the Remuneration Committee may in the future decide to provide pension benefits commensurate with the market.

› Consideration of shareholder views

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

The Remuneration Committee will take into account the results of the shareholder vote on remuneration matters when making future remuneration decisions. The Remuneration Committee remains mindful of shareholder views when evaluating and setting ongoing remuneration strategy.

› Consideration of employment conditions within the Group

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

› Minor changes

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

Statement of Directors' Responsibilities

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

- properly select and apply accounting policies;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- 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, prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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, as regards the group financial statements, Article 4 of the IAS Regulation. 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 and statements 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. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 and Article 4 of the IAS Regulation, 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 Annual 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
25 April 2018

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

Opinion

We have audited the financial statements of Cadogan Petroleum Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the parent company balance sheet, the parent company cash flow statement, the parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (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.

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 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. 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.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
Carrying value of oil and gas exploration and production assets and investments in joint ventures

At 31 December 2017 the group held exploration and evaluation assets of $1.7m and $0.9m of development and production assets as detailed in note 14 and 15.

Management is required to assess these assets for indicators of impairment at each reporting date. Management has performed an impairment review which included assessment of the Bitlyanska and Monastyretska licences' value in use based on the underlying discounted cash flow forecasts and concluded that no impairment is necessary.

As detailed in note 17, the group has fully impaired its $2.3m investment in its joint venture, LLC Westgasinvest ('WGI'). During the year Eni, the operator of the shale gas licences of WGI, notified the group of its intention to exit the joint venture and discussions are on-going to agree acceptable exit terms and more generally on the future of WGI. As a result of the subsequent uncertainty as to the future exploration of the licences, management has impaired its 15% equity interest in the project.

The impairment reviews require judgment and estimate in determining whether indicators of impairment exist and, in respect of exploration and production assets the discounted cash flow models significant estimate and judgement in selecting inputs such as oil & gas prices, reserves and production, cost assumptions and discount rates. As a result this represented a key focus area for our audit and a key audit matter.
</td><td>
We reviewed the licence agreements and confirmed that group and its joint venture hold valid licences and gained an understanding of the licence conditions.

Exploration and production assets

We evaluated management's impairment indicator review paper, together with the underlying discounted cash flow forecasts which formed part of their impairment review. We critically challenged the key judgments and assumptions made by management, including forecast oil and gas prices, production levels, royalties and costs. This included assessment compared to empirical data, the independent Competent Person's Report on the oil and gas reserves and external evidence where available.

We involved our internal valuations experts in assessing the discount rate applied and benchmarked the discount rates against peer companies in the Ukraine.

We performed sensitivity analysis on the impairment models to establish the impact of reasonably possible changes in key variables such as pricing, production, expenditure and the discount rate.

We reviewed budgets, forecasts and strategic plans to consider the extent to which management's judgment regarding future planned exploration activity is supported by those plans.

We met with operational management and considered the appropriateness of management's judgment that the Bitlyanska and Monastyretska licences would be extended or converted to production licences upon expiry in December 2019. This included consideration of the exploration results to date but also the extent to which the delays and failure to secure equivalent licence conversions in the East of Ukraine may occur on these licences located in the Western region. In assessing management's judgment that the licences applications are reasonably expected to be approved, we assessed recent public data on the pattern of extension and conversion of such licences in the West of Ukraine.

In respect of the oil and gas reserves included in the models, we reviewed the independent Competent Person's Report (the Brend Vik resources report) regarding the prospectivity of the licences and oil and gas reserves and held discussions with the Competent Person. In relying on the Competent Person we assessed the scope of their work, their independence and competence.

WGI joint venture
We assessed management's conclusion that it was appropriate to impair the equity accounted joint venture following Eni informing the joint venture partners that it wished to withdraw from WGI. We made inquiries of group management regarding the future prospects for the joint venture and licences, reviewed the joint venture agreements and reviewed minutes of the Joint Venture Management Committee in assessing the impairment. We obtained the financial information provided by the operator and the audited financial statements of the joint venture.
</td></tr>
<tr><th colspan="2">Our findings</th></tr>
<tr><td colspan="2">We found management's conclusion that no impairment exists on the exploration and production assets at Bitlyanska and Monastyretska to be appropriate. We found the impairment of the WGI joint venture to be appropriate. We found the key assumptions to be balanced and appropriately considered by management and the disclosures in the notes to be sufficient.</td></tr>
</table>

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

Key Audit Matter	How the matter was addressed in our audit
Classification of the Monastyretska asset as an exploration or development and production asset In the prior period, the Monastyretska asset was classified as an exploration and evaluation asset at $0.5m. Under the group's accounting policy in note 3, exploration and evaluation assets are transferred to development and production assets upon determination of commercial reserves. Following such a transfer, margins associated with production during the exploration and evaluation phase cease to be credited against the exploration and evaluation asset as detailed in the group's accounting policy and are recorded in the income statement. Following the increases in production during the period, addition of two further rental wells and well re-entry and workover programs, management determined that the licence has reached commercial feasibility in the period, notwithstanding the further prospectivity and that the group holds an exploration licence which requires conversion to a production licence in December 2019. Management has reclassified the $0.9m asset to development and production following the assessment, as detailed in note 15. The assessment of whether the asset had reached commercial feasibility required management judgement and represented a key audit focus and a key audit matter.	We challenged management regarding whether the Monastyretska licence area had achieved commercial feasibility under the group's accounting policy. In assessing management's conclusion we considered the production achieved during the period, the trend in production and associated profitability and cash generation of the existing wells. We considered the impact of the new wells in the period and the well re-entry program on production. We reviewed the Competent Person's Report and considered the extent to which the existing wells are expected to extract the 2P reserves. We considered the appropriateness of management's judgment that the exploration licence will be converted to a production licence by December 2019, as detailed above. We considered the extent to which the production levels support the commercial feasibility of the asset notwithstanding the exploration status of the licence. We tested a sample of costs capitalised and expensed to supporting documents and assessed the appropriateness of their classification. We assessed the treatment of revenues and associated margins during the exploration period and period of commercial production for material compliance with the group's accounting policy. We reviewed the group's depreciation calculations and assessed the key inputs.

Our findings
We consider the management' judgments relating to the reclassification of Monastyretska assets to property, plant and equipment to be appropriate. We consider the disclosures at note 15 to be acceptable.

Key Audit Matter	How the matter was addressed in our audit
Appropriateness of revenue recognition policies and the appropriateness of cut off for gas trading revenue The group generated revenues of $15.1m comprising $12.7m from gas trading activity and $2.4m from oil and gas production. We considered it appropriate, noting that this was the first year of our appointment as auditors, to assess the appropriateness of the group's revenue recognition policies for compliance with IFRS. In addition, there is inherent risk associated with the recognition of revenue around the year end, which is focused on gas trading contracts due to the volume of activity and increased potential for variability in contract terms affecting cut off. The following areas represented a focus for our audit: › The extent to which the group validly records revenue as the principal under the gas trading contracts rather than as an agent generating a commission; › The appropriateness of the point at which revenue is recognised together with the impact of pricing and payment arrangements on recognition around the year end.	We reviewed the terms of significant sales agreements and assessed the impact of such terms of revenue recognition. We reviewed the group's revenue recognition policies and assessed their compliance with IFRS and consistency with the contractual arrangements with its customers. We reviewed the terms of the contracts to satisfy ourselves that the group appropriately accounts for gas trading revenues as the principal rather than as an agent. We verified a sample of gas trading revenues by customer to third party confirmations. We obtained confirmation from the body responsible for regulating gas delivery in the Ukraine to confirm the existence, accuracy and completeness of gas inventory. We performed cut off procedures on revenue around the year end for gas trading revenues. In respect of oil production, we recalculated expected revenues using verified production data and externally sourced average price and compared this information to actual revenue. We verified a sample of oil production revenues to supporting evidence.

Our findings

We found the revenue recognition policies to be compliant with IFRS and found that revenue is recorded in the appropriate period.

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

Key Audit Matter	How the matter was addressed in our audit
Carrying value of trade receivables The group held receivables of $4.5m at year end, of which trade receivables represented $1.3m as detailed in note 19. During the planning phase of our audit, management highlighted two customers with a significant balance totalling c$1m which had defaulted on their original payment terms and subsequent payment plan arrangements. Whilst management was taking steps to recover the balances, the circumstances were considered to represent an impairment indicator. The assessment of the carrying value of trade receivables held in the Ukraine requires judgment, specifically for receivables which are overdue and on which counterparties were in default. Additionally, the economic and political environment in Ukraine create an inherent risk of customers being unable to repay outstanding debts. As such, we consider this to be a focus area for the audit as significant delays in recovery or concentrations of credit risk create increased levels of management judgment.	We obtained confirmations for a sample of receivables, reviewed the ageing of receivables and performed subsequent recovery tests. In respect of the two customers which had defaulted on the terms of their original contracts and subsequent payment plans, we obtained and reviewed restructuring agreements entered into between the parties in H2 2017. We confirmed that one of the customers had fully repaid the outstanding balance and interest as at year end and verified the amounts received to bank. In respect of the second customer, we verified cash receipts in line with the repayment plan during the year and post year end. We considered management's judgment that the remaining receivable is recoverable based on the debtor history, restructuring agreement and payments made under the repayment plan.
Our findings	
We found the carrying value of trade receivables to be appropriate and management's judgments to be acceptable.	

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

	Group	Parent company
Materiality	$750,000	$560,000
Basis for determining materiality	1.5% of total assets	1.5% of total assets, capped at 75% of group materiality

	Group	Parent company
Performance materiality	$560,000	$420,000
Basis for performance materiality	75% of group materiality	75% of parent company materiality

We determined that an asset based measure is appropriate as the Group holds significant cash balances and its principal activity is the exploration & development of oil and gas assets, such that the asset base is considered to be a key financial metric for users of the financial statements.

Whilst materiality for the financial statements as a whole was $750,000 (FY 2016: $977,000 (previous auditor)), each significant component of the Group was audited to a lower materiality ranging from $120,000 to $560,000.

Performance materiality has been set at 75% of materiality, which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes during the audit. Performance materiality is applied at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We agreed with the Audit Committee that we would report to them all individual audit differences identified during the course of our audit in excess of $40,000. We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment and assessing the risks of material misstatement in the financial statements at the group level.

Whilst Cadogan Petroleum Plc is a company listed on the Standard Segment of the London Stock Exchange, the Group's operations principally comprise an exploration & development of oil and gas assets located in Ukraine, together with as trading and oil services activities. We assessed there to be six significant components within the Ukrainian sub-group, comprising components holding exploration & development assets, gas trading activities which all were subject to a full scope audit. Together with the parent company, Cadogan Petroleum Holdings Ltd and the group consolidation, which was also subject to a full scope audit, these represent the significant components of the group.

These locations which were subject to full scope audit procedures represent the principal business units and account for 99% of the group's revenue and 96% of the group's total assets.

The audits of each of the Ukrainian components were principally performed in the Ukraine. The audits of the parent company, Cadogan Petroleum Holdings Ltd and the group consolidation were performed in the United Kingdom. All of the audits were conducted by BDO LLP and BDO network member firms.

A BDO member firm performed a full scope audit of the components in Ukraine, under our direction and supervision as group auditors.

As part of our audit strategy, as group auditors:

- Detailed group reporting instructions were sent to the component auditor, which included the significant areas to be covered by the audit (including areas that were considered to be key audit matters as detailed above), and set out the information required to be reported to the group audit team.
- The group audit partner and senior members of the group audit team visited certain of the group's oil and gas operations during the year and met with management in the Ukraine during the planning and execution phases of the audit.
- We performed a review of the component audit files in the Ukraine and held meetings with the component audit team during the planning and completion phases of their audit.
- The group audit team was actively involved in the direction of the audits performed by the component auditors for group reporting purposes, along with the consideration of findings and determination of conclusions drawn. We performed our own additional procedures in respect of certain of the significant risk areas that represented Key Audit Matters in addition to the procedures performed by the component auditor.

The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures to confirm there are no significant risks of material misstatements within these components.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 45, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address
Following the recommendation of the audit committee, we were appointed by the Board of directors on 27 April 2017 to audit the financial statements for the year ending 31 December 2017. This is the first year of our engagement as auditor.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company and the group in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Ryan Ferguson
(Senior Statutory Auditor)
For and on behalf of BDO LLP
Statutory Auditor
London, United Kingdom
25 April 2018

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

Consolidated Income Statement

For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
CONTINUING OPERATIONS			
Revenue	6	**15,145**	19,692
Cost of sales		**(13,093)**	(18,623)
Gross profit		**2,052**	1,069
Administrative expenses	7	**(4,981)**	(5,603)
Impairment of oil and gas assets	15	**(162)**	(90)
Reversal of impairment/(impairment) of other assets	8	**1,462**	(82)
Share of losses in joint venture	16	**(2,323)**	(143)
Net foreign exchange (losses)/gains		**(116)**	38
Other operating income/(loss), net		**480**	(9)
Operating loss		**(3,588)**	(4,820)
Gain on acquisition	17	**-**	99
Finance income/(costs), net	11	**672**	(1,087)
Loss before tax		**(2,916)**	(5,808)
Tax benefit/(charge)	12	**1,332**	(110)
Loss for the year		**(1,584)**	(5,918)
Attributable to:			
Owners of the Company		**(1,585)**	(5,912)
Non-controlling interest		**1**	(6)
		(1,584)	(5,918)
Loss per Ordinary share		**cents**	cents
Basic	13	**(0.7)**	(2.6)

The notes on pages 58 to 79 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 $'000	2016 $'000
Loss for the year	**(1,584)**	(5,918)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Unrealised currency translation differences	**(671)**	(987)
Other comprehensive loss	**(671)**	(987)
Total comprehensive loss for the year	**(2,255)**	(6,905)
Attributable to:		
Owners of the Company	**(2,256)**	(6,899)
Non-controlling interest	**1**	(6)
	(2,255)	(6,905)

The notes on pages 58 to 79 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	14	**1,715**	2,354
Property, plant and equipment	15	**2,095**	1,312
Investments in joint ventures	17	**-**	2,323
Deferred tax asset	21	**323**	-
		4,133	5,989
Current assets			
Inventories	18	**2,292**	1,879
Trade and other receivables	19	**4,497**	4,146
Cash and cash equivalents	20	**37,640**	43,300
		44,429	49,325
Total assets		**48,562**	55,314
LIABILITIES			
Non-current liabilities			
Provisions	24	**(412)**	(670)
		(412)	(670)
Current liabilities			
Short-term borrowings	22	**-**	(3,574)
Trade and other payables	23	**(1,406)**	(1,640)
Provisions	24	**(358)**	(1,306)
		(1,764)	(6,520)
Total liabilities		**(2,176)**	(7,190)
NET ASSETS		**46,386**	48,124
EQUITY			
Share capital	25	**13,525**	13,337
Share premium		**329**	-
Retained earnings		**192,842**	194,427
Cumulative translation reserves		**(162,170)**	(161,499)
Other reserves		**1,589**	1,589
Equity attributable to owners of the Company		**46,115**	47,854
Non-controlling interest		**271**	270
TOTAL EQUITY		**46,386**	48,124

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 25 April 2018. They were signed on its behalf by:

Guido Michelotti
Chief Executive Officer
25 April 2018

The notes on pages 58 to 79 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Operating loss		**(3,588)**	(4,820)
Adjustments for:			
Depreciation of property, plant and equipment	15	**211**	138
Impairment of oil and gas assets	15	**162**	90
Share of losses in joint ventures	17	**2,323**	143
Impairment of receivables	8	**51**	59
(Reversal of impairment)/Impairment of inventories	8	**(77)**	92
Reversal of impairment of VAT recoverable	8	**(1,436)**	(69)
(Gain)/Loss on disposal of property, plant and equipment		**(9)**	13
Effect of foreign exchange rate changes		**116**	(38)
Operating cash flows before movements in working capital		**(2,247)**	(4,391)
(Increase)/decrease in inventories		**(564)**	1,047
Decrease in receivables		**469**	9,321
Decrease in payables and provisions		**367**	(2,014)
Cash from operations		**(1,975)**	3,963
Interest paid		**(298)**	(1,591)
Interest on receivables received		**561**	230
Income taxes paid		**(107)**	(8)
Net cash (outflow)/inflow from operating activities		**(1,819)**	2,594
Investing activities			
Investments in joint venture		**-**	(2,337)
Purchases of property, plant and equipment		**(68)**	(119)
Purchases of intangible exploration and evaluation assets		**(568)**	(39)
Proceeds from sale of property, plant and equipment		**198**	29
Net cash inflow from acquisition of subsidiaries	17	**-**	2,041
Interest received		**205**	156
Net cash used in investing activities		**(233)**	(269)
Financing activities			
Proceeds from short-term borrowings		**3,365**	1,908
Repayments of short-term borrowings		**(7,075)**	(10,232)
Net cash used in financing activities		**(3,710)**	(8,324)
Net decrease in cash and cash equivalents		**(5,762)**	(5,999)
Effect of foreign exchange rate changes		**102**	(108)
Cash and cash equivalents at beginning of year		**43,300**	49,407
Cash and cash equivalents at end of year		**37,640**	43,300

The notes on pages 58 to 79 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital $'000	Share premium account $'000	Retained earnings $'000	Cumulative translation reserves $'000	Other reserves $'000	Equity attributable to owners of the Company $'000	Non-controlling interest $'000	Total $'000
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 1 January 2017	**13,337**	**-**	**194,427**	**(161,499)**	**1,589**	**47,854**	**270**	**48,124**
Net loss for the year	–	–	(1,585)	–	–	(1,585)	1	(1,584)
Other comprehensive loss	–	–	–	(671)	–	(671)	–	(671)
Total comprehensive loss for the year	**-**	**-**	**(1,585)**	**(671)**	**-**	**(2,256)**	**1**	**(2,255)**
Issue of ordinary shares	**188**	**329**	**-**	**-**	**-**	**517**	**-**	**517**
As at 31 December 2017	**13,525**	**329**	**192,842**	**(162,170)**	**1,589**	**46,115**	**271**	**46,386**

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The notes on pages 58 to 79 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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 8 and the Financial Review on pages 9 and 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 2016, except for changes arising from the adoption of the following new accounting pronouncements which became effective in the current reporting period:

- Amendments to IAS 7 Disclosure initiative. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The application of these amendments has had no impact on the Group's consolidated financial results but gave rise to additional disclosure as at note 20; and
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

New IFRS accounting standards, amendments and interpretations not yet adopted

The following new IFRS accounting standards in issue but not yet effective:

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 is 1 January 2018 to allow companies more time to deal with transitional issues of application.

The Group evaluated the potential impact of adopting IFRS 15. 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 (note 3(f)), 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.

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 not expected to have any presentational impacts on the Group financial statements;
- 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; and
- 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. The Group does not currently hedge account.

IFRS 9 will take effect for annual reporting periods beginning on or after 1 January 2018 with retrospective application. The Group will take an option not to restate comparative information. The Group's implementation activities to date have principally focused on gaining an understanding of the likely effects of IFRS 9 given the nature of financial instruments held by the Group. The Group has performed an impact analysis which, whilst subject to further detailed analysis during H1 2018, indicated that there would be no material impact on the Group results.

2. Adoption of new and revised Standards continued

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 will apply 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, including areas such as well rental arrangements and service contracts with potential lease elements. A more detailed impact analysis and transition activities will be undertaken during 2018.

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 certain 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 4 to 10. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 9 and 10.

The Group's cash balance at 31 December 2017 was $37.6 million (2016: $43.3 million). It includes pledged cash of $7 million (2016: $10.9 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.

(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.

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3. Significant accounting policies continued

(c) Basis of consolidation continued

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.

(d) Business combinations

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

(e) Investments in joint ventures

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

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

Financial statements of equity-accounted entities are prepared for the same reporting year as the Group. The Group assesses investments in equity-accounted entities for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In doing so, the Group applies the criteria of IFRS 6 'Exploration for and evaluation of mineral resources' as the joint venture holds exploration phase assets. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs of disposal and value in use. If the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

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

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for hydrocarbon products and services provided in the normal course of business, net of discounts, value added tax ('VAT') and other sales-related taxes, excluding royalties on production. Sales of hydrocarbons are recognised when the title has passed (defined point in the pipeline for gas sales and loading point for oil). 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 credited to evaluation costs and charged to cost of sales, so as to reflect a zero net margin.

3. Significant accounting policies continued

(g) Foreign currencies

The functional currency of the Group's Ukrainian operations is Ukrainian Hryvnia. The functional currency of the Group's UK subsidiaries and the parent company is US Dollar. 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 2017		Year ended 31 December 2016	
	GBP/USD	**USD/UAH**	GBP/USD	USD/UAH
Closing rate	**1.3494**	**28.3865**	1.2346	27.4770
Average rate	**1.2890**	**26.8034**	1.3557	25.8169

(h) Taxation

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

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

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

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3. Significant accounting policies continued

(h) 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.

(i) 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.

(j) 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 requirements 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.

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.

3. Significant accounting policies continued

(j) Intangible exploration and evaluation assets continued

Intangible E&E assets that relate to E&E activities that are determined not to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below.

Impairment of E&E assets

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include, but are not limited to those situations outlined in paragraph 20 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* such as, a) licence expiry during year or in the near future and will not likely to be renewed; b) expenditure on E&E activity neither budgeted nor planned; c) commercial quantities of mineral resources have been discovered; and d) sufficient data exist to indicate that carrying amount of E&E asset is unlikely to be recovered in full from successful development or sale.

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.

(k) 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.

(l) 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.

(m) 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.

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3. Significant accounting policies continued

(n) Financial instruments

Recognition of financial assets and financial liabilities

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

Derecognition of financial assets and financial liabilities

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

Financial assets

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

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

Impairment of financial assets

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

Evidence of impairment could include: significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

Financial liabilities

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

Trade payables and short-term borrowings

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

3. Significant accounting policies continued

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(p) Decommissioning

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

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) Classification of the exploration licence as PP&E

Although Monastyretska is an exploration licence, in Ukraine it is allowed to produce hydrocarbons from an exploration licence. In 2017 the Group significantly increased production of oil on this licence and confirmed commercially viable reserves. Due to this, assets of Monastyretska have been reclassified from E&E to PP&E and started to be depreciated.

(b) 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 with reference to the impairment indicators in IFRS 6. As a result impairment of $2.3 million has been recognised in the financial statements following Eni's notification of exit from WGI. Further details are provided in Note 17.

Areas of key estimation uncertainty

(a) 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 assess impairment indicators and if necessary performs impairment review, which considers key sources of estimation 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).

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 senior management team as its CODM and the internal reports used by the senior 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

5. Segment information continued

Segment information is analysed on the basis of the type of activity, products sold or services provided. The majority of the Group's operations and all Group's revenues 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 exploration and production licences for natural gas, oil and condensate.

Service

- Drilling services to exploration and production companies; and
- Civil works services to exploration and production companies.

Trading

- Import of natural gas from European countries; and
- 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 rates considered to approximate 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 2017 and for the year then ended the Group's segmental information was as follows:

	Exploration and Production $'000	Service[1] $'000	Trading $'000	Consolidated $'000
Sales of hydrocarbons	1,779	–	13,367	15,146
Sales between segments	630	–	(630)	–
Total revenue	**2,409**	**–**	**12,737**	**15,146**
Cost of sales	(1,687)	–	(11,406)	(13,093)
Administrative expenses	(454)	(26)	(265)	(745)
Finance income, net (Note 11)[2]	–	–	305	305
Segment results	**268**	**(26)**	**1,371**	**1,613**
Unallocated administrative expenses				(4,236)
Other income, net				2,308
Impairment of oil and gas assets				(162)
Share of loss in joint ventures				(2,323)
Net foreign exchange gains				(116)
Loss before tax				**(2,916)**

1 The services business segment in 2017 primarily provided well work-overs and other works to other Group companies as tenders secured with third parties had been deferred by customers.
2 Net finance income includes $0.26 million of interest on short-term borrowings, $0.49 million of interest income on receivables and $67 thousand of interest on cash deposits used for trading.
3 Trading result excluding interest received on receivables was $0.9 million.

5. Segment information continued

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)**

6. Revenue

	2017 $'000	2016 $'000
Sale of hydrocarbons	**15,145**	17,196
Other revenues	**-**	2,496
	15,145	19,692

Information about major customers

Included in revenues for the year ended 31 December 2017 are revenues of $7.4 million (2016: $6.3 million), which arose from sales to the Group's two largest customers.

7. Administrative expenses

	2017 $'000	2016 $'000
Staff costs (Note 10)	**2,531**	3,082
Professional fees	**1,206**	1,555
Travel	**238**	316
Office rent	**161**	138
Insurance	**177**	122
Other	**668**	390
	4,981	5,603

1 Services provided were primarily related to well abandonment and site restoration.
2 Net 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).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

8. Reversal of impairment/(impairment) of other assets

	2017 $'000	2016 $'000
Inventories	77	(92)
Receivables	(51)	(59)
VAT recoverable	1,436	69
Reversal of impairment/(impairment) of other assets, net	1,462	(82)

The carrying value of inventory as at 31 December 2017 and 2016 has been impaired to reduce it to net realisable value (see note 18). At 31 December 2017, $77 thousand of impairment has been released following the sale of previously impaired inventory for this amount.

$1.4 million (2016: $69 thousand) of provision against VAT has been released following receipt and offsets of VAT payable. $6.4 million remains impaired due to the continued delays and uncertainty associated with recovering VAT in Ukraine.

9. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2017 $'000	2016 $'000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	229	146
Fees payable to the Company's auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	13	43
Total audit fees	242	189
Non-audit fees		
– Audit-related assurance services	5	19
– Taxation compliance services	33	36
Non-audit fees	38	55

Audit fees for 2017 refer to BDO LLP of $121 thousand for the audit of group accounts as of and for the year ended 31 December 2017 and to Deloitte LLP, the Group's previous auditor, of $108 thousand, for the audit as of and for the year ended 31 December 2016. Non-audit service fees in 2017 include $33 thousand of tax compliance services provided by BDO LLP. The tax compliance services relates to reporting periods prior to BDO LLP's appointment as the Group's auditor and was discontinued upon their appointment. The audit-related assurance services for 2017 include $5 thousand in respect of BDO LLP.

10. Staff costs

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

	2017 Number	2016 Number
Executive Directors	1	3
Other employees	68	66
	69	69
Total number of employees at 31 December	69	69

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	2,150	2,443
Annual bonus	179	475
Social security costs	290	164
	2,619	3,082

Within wages and salaries $0.8 million (2016: $1.1 million) relates to amounts accrued and paid to Executive Directors for services rendered.

11. Finance income/(costs), net

	2017 $'000	2016 $'000
Interest expense on short-term borrowings	**(256)**	(1,414)
Total interest expense on financial liabilities	**(256)**	(1,414)
Interest benefit/(expense) on tax provision (note 24)	**189**	(33)
Interest income on receivables	**494**	230
Interest income on cash deposits in Ukraine	**67**	31
Investment revenue	**205**	125
Total interest income on financial assets	**955**	386
Unwinding of discount on decommissioning provision (note 24)	**(27)**	(26)
	672	(1,087)

12. Tax

	2017 $'000	2016 $'000
Current tax	**–**	110
Adjustment in relation to the current tax of prior years	**(1,009)**	–
Deferred tax		
Recognition of previously unrecognised deferred tax assets	**(323)**	–
	(1,332)	110

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% (2016: 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.

As at 31 December 2015 the Company recognised a short-term provision in respect of a probable corporate tax obligation of $1.3 million (£0.9 million) and up to $0.2 million (£0.1 million) of interest in respect on the classification of taxable income and expenses. On 29 August 2017 the Company signed a settlement with HMRC. For this reason, the provision in respect of the probable tax obligation of $1 million and interest of $0.2 million has been reversed.

The taxation charge for the year can be reconciled to the loss per the income statement as follows:

	2017 $'000	2017 %	2016 $'000	2016 %
Loss before tax	**(2,916)**	**100**	(5,808)	100
Tax credit at Ukraine corporation tax rate of 18% (2016: 18%)	**(525)**	**18**	(1,045)	18
Permanent differences	**(923)**	**31.7**	1,060	(18.2)
Unrecognised tax losses generated in the year	**1,174**	**(40.3)**	378	(6.5)
Recognition of previously unrecognised deferred tax assets	**(323)**	**11.1**	–	–
Tax credit related to the Joint venture losses	**418**	**(14.3)**	26	(0.4)
Effect of different tax rates	**(144)**	**4.9**	(309)	5.3
	(323)	**11.1**	110	(1.8)
Adjustments recognised in the current year in relation to the current tax of prior years	**(1,009)**	**–**	–	–
Income tax (benefit)/expense recognised in profit or loss	**(1,332)**	**–**	110	–

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2017

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	2017 $'000	2016 $'000
Loss for the purposes of basic loss per share being net loss attributable to owners of the Company	**(1,585)**	(5,912)

Number of shares	2017 Number '000	2016 Number '000
Weighted average number of Ordinary shares for the purposes of basic loss per share	**232,251**	231,092

Loss per Ordinary share	2017 Cent	2016 Cent
Basic	**(0.7)**	(2.6)

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

14. Intangible exploration and evaluation assets

Cost	$'000
At 1 January 2016	**25,333**
Additions	39
Disposals	(27)
Exchange differences	(2,997)
At 1 January 2017	**22,348**
Additions	461
Disposals	(78)
Change in estimate of decommissioning assets (note 24)	27
Transfer to property, plant and equipment	(937)
Exchange differences	(753)
At 31 December 2017	**21,068**
Impairment	
At 1 January 2016	**22,633**
Exchange differences	(2,639)
At 1 January 2017	**19,994**
Exchange differences	(641)
At 31 December 2017	**19,353**
Carrying amount	
At 31 December 2017	**1,715**
At 31 December 2016	2,354

The carrying amount of E&E assets as at 31 December 2017 of $1.7 million (2016: $2.4 million) relates to Bitlyanska licence. Management has performed an impairment review. As part of the information considered management carried out the assessment of the Bitlyanska licence's value in use based on the underlying discounted cash flow forecasts. The impairment review supported the conclusion that no impairment was applicable. Key assumptions used in the impairment assessment were: future gas price was assumed to be flat $230, real per m3; and the pre-tax discount rate used was 20%, real.

Break-even point in the model would require gas prices to fall to $160 or the discount rate to increase to 90%.

15. Property, plant and equipment

Cost	Development and production assets $'000	Other $'000	Total $'000
At 1 January 2016	**6,094**	**3,173**	**9,267**
Additions	90	29	119
Disposals	–	(29)	(29)
Exchange differences	(711)	(370)	(1,081)
At 1 January 2017	**5,473**	**2,803**	**8,276**
Additions	133	148	281
Change in estimate of decommissioning assets (note 24)	73	–	73
Transfer from E&E	937	–	937
Disposals	(51)	(324)	(375)
Exchange differences	(193)	(90)	(283)
At 31 December 2017	**6,372**	**2,537**	**8,909**
Accumulated depreciation and impairment			
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 1 January 2017	**5,473**	**1,491**	**6,964**
Impairment	162	–	162
Charge for the year	44	167	211
Disposals	(107)	(199)	(306)
Exchange differences	(171)	(46)	(217)
At 31 December 2017	**5,401**	**1,413**	**6,814**
Carrying amount			
At 31 December 2017	**971**	**1,124**	**2,095**
At 31 December 2016	–	1,312	1,312

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

The carrying amount of development and production assets as at 31 December 2017 of $0.9 million relates to Monastyretska licence. The Monastyretska asset of $0.5 million was classified as an exploration and evaluation asset as at 31 December 2016. Until last year all costs had been capitalised as the licence is at exploration stage and production was minimal. Given the recent increase in the number of producing wells and growth of production rate, the Group concluded that the asset reached commercial feasibility and production from July 2017 and reclassified this asset to development and production. Past amounts plus the cost incurred in 2017 have started to be depreciated. Depreciation includes $17 thousand for Monastyretska licence.

Management has performed an impairment review. As part of the information considered management carried out the assessment of the Monastyretska licence's value in use based on the underlying discounted cash flow forecasts. The impairment review supported the conclusion that no impairment was applicable. Key assumptions used in the impairment assessment were: future oil price was assumed to be flat $330, real per tonne; and the pre-tax discount rate used was 20%, real.

Notes to the Consolidated Financial Statements continued

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16. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2017:

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				
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 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
Rentoul Ltd	Isle of Man	100	Holding company	Commerce House, 1 Bowring Road, Ramsey, Isle of Man IM8 2LQ
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
LLC AstroInvest-Ukraine	Ukraine	100	Exploration	5a, Pogrebnyak Street, ap. 2, Zinkiv, Poltava region, Ukraine, 38100
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, Ivano-Frankivsk Region, Ukraine
LLC Cadogan Ukraine	Ukraine	100	Corporate services	48/50A Zhylyanska Street, BC "Prime", 8th fl. 01033 Kyiv, Ukraine
LLC Astro-Service	Ukraine	100	Service Company	3 Petro Kozlaniuk str, Kolomyia, Ivano-Frankivsk Region, Ukraine
OJSC AgroNaftoGasTechService	Ukraine	79.9	Construction services	Ivan Franko str, Hvizdets, Kolomyia district, Ivano-Frankivsk Region, Ukraine
Exploenergy s.r.l.	Italy	90 (2016: 0)	Exploration	Via Triulziana 16c, San Donato Milanese Milano, CAP 20097, Italy

During the year ended 31 December 2017, 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. In 2017 the subsidiaries liquidated/sold included: Cadogan Black Sea Holdings B.V., Cadogan Momentum Holdings Inc. and Global Commodities NC SAS.

17. Joint venture

As at the end of the 2017 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	Cheremkhivsko-Strupkivska, Debeslavetska Production, Filimonivska, Yakovlivska, Sandugeyevska, Kurinna licence	Ukraine	15	Exploration

As at 31 December 2017 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.

	2017 $'000	2016 $'000
Non-current assets	**64**	1,460
Current assets	**591**	60
Non-current liabilities	**-**	–
Current liabilities	**(1,141)**	(391)
Included in the above amounts are:		
Cash and cash equivalents	**11**	49
Current financial liabilities (excluding trade payables)	**13**	47
Revenue	**-**	–
Loss for the period	**(4,490)**	(3,150)
Other comprehensive income	**(820)**	(1,686)
Total comprehensive loss	**(5,310)**	(4,836)
Net assets of the joint venture	**(486)**	1,129

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

	LLC Westgasinvest $'000
Net assets recognised as at 1 January 2016	**3,881**
Loss for the year	(1,558)
Net assets recognised as at 1 January 2017	**2,323**
Loss for the year	(2,323)
Carrying amount of Group's interest as at 31 December 2017	**-**

In 2017, Eni has informed its partners, NJSC "Nadra Ukrayny" and Cadogan Ukraine, of its intention to exit the joint venture and discussions are on-going on whether and under which terms to accept Eni's exit and, more in general, on the future of the project. As a result of the subsequent uncertainty as to the future exploration of the licences following the proposed exit by Eni which provided a carried interest to the Group, management has decided to impair the residual value of its 15% participating interest in the project. The loss for the year comprises of 15% share in loss for the period of $0.7 million (2016: $0.7 million) and remaining amount of $1.6 million (2016: $0.8 million) related to impairment of investment in joint venture.

Acquisition of remaining interest in joint ventures in 2016

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 had been recognised in prior years. The Group consolidated the 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.

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18. Inventories

	2017 $'000	2016 $'000
Natural gas	**1,312**	987
Other inventories	**1,143**	1,076
Impairment provision for obsolete inventory	**(163)**	(184)
Carrying amount	**2,292**	1,879

The impairment provision as at 31 December 2017 and 2016 is made so as to reduce the carrying value of the obsolete inventories to net realisable value. As at 31 December 2017 and 2016 the Group had no inventories carried at fair value less costs of disposal. Cost of inventories sold during the year was $0.3 million (2016: $29 thousand).

19. Trade and other receivables

	2017 $'000	2016 $'000
Trading prepayments	**1,797**	777
Trading receivables	**1,338**	2,163
VAT recoverable	**896**	829
Receivable from joint venture	**56**	58
Other receivables	**410**	319
	4,497	4,146

Trading prepayments represent actual payments made by the Group to suppliers for the January 2018 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 $6.4 million (2016: $7.3 million) against Ukrainian VAT receivable has been recognised as at 31 December 2017. VAT recoverable relates to the gas trading operations, production and expected to be recovered through the gas and oil sales. Refer to note 8.

20. Notes supporting statement of cash flows

Cash and cash equivalents as at 31 December 2017 of $37.6 million (2016: $43.3 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 2017 total amount of pledged cash is $7 million (2016: $10.9 million), which related to security of borrowings and held at UK bank (note 22).

Non-cash transactions from financing activities are shown in the reconciliation of liabilities from financing transactions:

	Short term borrowings $'000
At 1 January 2016	**12,903**
Cash flows	(8,324)
Effects of foreign exchange	(1,005)
At 1 January 2017	**3,574**
Cash flows	(3,709)
Effects of foreign exchange	135
At 31 December 2017	**-**

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 2016	**–**
Deferred tax benefit	–
Exchange differences	–
Liability as at 1 January 2017	**–**
Deferred tax benefit	323
Exchange differences	–
Asset as at 31 December 2017	**323**

At 31 December 2017, the Group had the following unused tax losses available for offset against future taxable profits:

	2017 $'000	2016 $'000
UK	**15,028**	10,652
Ukraine	**182,469**	180,475
	197,497	191,127

Deferred tax assets have been recognised in respect of those tax losses where there is sufficient certainty that profit will be available in future periods against which they can be utilised.

The Group's unused tax losses of $14.9 million (2016: $10.7 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 $182.5 million (2016: $180.5 million). Under general provisions, these losses may be carried forward indefinitely to be offset against any type of taxable income arising from the same company of origination. Tax losses may not be surrendered from one Ukraine subsidiary to another.

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 a Ukrainian bank which is a 100% subsidiary of a UK bank. The credit line is secured by $7 million of cash balance placed at the European bank in the UK.

The outstanding amount as at 31 December 2017 was $nil million (2016: $3.6 million). Interest is paid monthly and as at 31 December 2017 accrued interest amounted to $nil million (2016: $0.04 million).

23. Trade and other payables

	2017 $'000	2016 $'000
Trading payables	**477**	176
Accruals	**480**	850
Trade creditors	**264**	40
VAT payable	**17**	335
Corporate tax payable	**–**	113
Other payables	**168**	126
	1,406	1,640

Trade creditors and accruals principally comprise amounts outstanding for ongoing costs. The average credit period taken for trade purchases is 35 days (2016: 33 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.

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24. Provisions

The provisions at 31 December 2017 comprise of $0.8 million (2016: $2.0 million) of decommissioning provision.

As at 31 December 2016 the Group recognised a short-term provision of $1.3 million (£1.1 million) in respect of a dispute on the historic classification taxable income and expenses in a UK tax filing. The Group appealed to the Tribunal, which was due in September 2017, however on 25 August 2017 the Group reached settlement with HMRC which resulted in $1 million of reversal of the provision in respect of possible corporate tax obligation and reversal of $0.2 million of related accrued interest expenses.

Decommissioning	$'000
At 1 January 2016	**732**
Unwinding of discount on decommissioning provision (note 11)	26
Exchange differences	(80)
At 1 January 2017	**678**
Change in estimate (note 14 and 15)	100
Unwinding of discount on decommissioning provision (note 11)	27
Exchange differences	(35)
At 31 December 2017	**770**
At 1 January 2016	**732**
Non-current	670
Current	8
At 1 January 2017	**678**
Non-current	412
Current	358
At 31 December 2017	**770**

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

A short-term provision of $0.3 million (2016: $8 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

	2017		2016	
Authorised and issued equity share capital	**Number '000**	**$'000**	Number '000	$'000
Authorised Ordinary shares of £0.03 each	**1,000,000**	**57,713**	1,000,000	57,713
Issued Ordinary shares of £0.03 each	**235,729**	**13,525**	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 2016	**231,091,734**
Issued during year	4,637,588
At 31 December 2017	**235,729,322**

On 22 September 2017 the Company issued 4,637,588 ordinary shares of £0.03 each in the capital of the Company for cash on the basis of £0.0825 per share to the CEO, Mr Guido Michelotti.

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 consist 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	2017 $'000	2016 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**37,640**	43,300
Trading receivable	**1,338**	2,163
Other receivables	**410**	318
Receivable from joint venture	**56**	58
	39,444	45,839
Financial liabilities – measured at amortised cost		
Accruals	**480**	850
Trading payables	**477**	176
Trade creditors	**264**	40
Other payables	**168**	10
Short-term borrowings	**-**	3,574
	1,389	4,650

The Group considers that the carrying amount of financial instruments approximates their fair value.

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 at 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 2017 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 2017

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

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 2017 have been paid within four months after year end, there were no material past due receivables as at 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.

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 2017				
Short-term borrowings	-	-	-	-
Trade and other payables	1,389	-	-	1,389
At 31 December 2016				
Short-term borrowings	3,574	-	-	3,574
Trade and other payables	1,640	-	-	1,640

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:

	2017 $'000	2016 $'000
Within one year	**931**	79
Between two and five years	**829**	1,635
	1,760	1,714

27. Commitments and contingencies

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.

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:

	2017 $'000	2016 $'000
Revenues from services provided and sales of goods	**84**	2,496
Purchases of goods	**-**	-
Amounts owed by related parties	**56**	58
Amounts owed to related parties	**-**	-

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 2017 on pages 30 to 44.

	Purchase of services		Amounts owing	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Directors' remuneration	**1,392**	1,807	**204**	479

The total remuneration of the highest paid Director was $0.7 million in the year (2016: $1.0 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

There were no events after the balance sheet date.

Company Balance Sheet

As at 31 December 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Non-current assets			
Investments	32	**-**	-
Receivables from subsidiaries	33	**19,576**	39,277
		19,576	39,277
Current assets			
Trade and other receivables	33	**78**	17
Cash and cash equivalents	33	**27,406**	28,380
		27,484	28,397
Total assets		**47,060**	67,674
LIABILITIES			
Current liabilities			
Trade and other payables	34	**(671)**	(934)
		(671)	(934)
Total liabilities		**(671)**	(934)
Net assets		**46,389**	66,740
EQUITY			
Share capital	35	**13,525**	13,337
Share premium		**329**	-
Retained earnings[1]		**141,254**	162,122
Cumulative translation reserves	36	**(108,719)**	(108,719)
Total equity		**46,389**	66,740

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 25 April 2018.

They were signed on its behalf by:

Guido Michelotti
Chief Executive Officer
25 April 2018

1 Included in retained earnings, loss for the financial year ended 31 December 2017 was $20.9 million (2016: $5.4 million).

Company Cash Flow Statement

For the year ended 31 December 2017

	2017 $'000	2016 $'000
Operating activities		
Loss for the year	**(20,868)**	**(5,445)**
Adjustments for:		
Interest received	**(185)**	**(131)**
Effect of foreign exchange rate changes	**(74)**	120
Impairment of receivables from subsidiaries	**19,376**	3,415
Operating cash flows before movements in working capital	**(1,751)**	(2,041)
(Increase)/decrease in receivables	**(61)**	715
Increase in payables	**255**	562
Cash used in operations	**(1,557)**	(764)
Income taxes paid	**-**	-
Net cash outflow from operating activities	**(1,557)**	**(764)**
Investing activities		
Interest received	**185**	131
Loans to subsidiary companies	**325**	(15,790)
Net cash from/(used in) investing activities	**510**	(15,659)
Net decrease in cash and cash equivalents	**(1,047)**	(16,423)
Effect of foreign exchange rate changes	**73**	(79)
Cash and cash equivalents at beginning of year	**28,380**	44,882
Cash and cash equivalents at end of year	**27,406**	28,380

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

The notes on pages 83 to 85 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital $'000	Share premium account $'000	Retained earnings $'000	Cumulative translation reserves $'000	Total $'000
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 1 January 2017	**13,337**	**-**	**162,122**	**(108,719)**	**66,740**
Net loss for the year	–	–	(20,868)	–	(20,868)
Total comprehensive loss for the year	–	–	(20,868)	–	(20,868)
Issue of ordinary shares	188	329	–	–	517
As at 31 December 2017	**13,525**	**329**	**141,254**	**(108,719)**	**46,389**

The notes on pages 83 to 85 form part of these financial statements.

Notes to the Company Financial Statements

For the year ended 31 December 2017

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, as adopted in the EU.

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 2017 of $20.9 million (2016: $5.4 million).

Investments

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

Critical accounting judgements and key sources of estimation uncertainty

The Company's financial statements, and in particular its investments in and receivables from subsidiaries, are affected by certain of the critical accounting judgements and key sources of estimation uncertainty. The Company evaluated recoverability of receivables from subsidiaries by assessing the likelihood of repayments based on the financial position of each subsidiary.

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 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 $331.9 million (2016: $332.3 million). The Company recognised impairment of $19.4 million in relation to receivables from subsidiaries in 2017 (2016: $3.4 million). The accumulated provision on receivables as at 31 December 2017 was $312.5 million (2016: $293.1 million). The carrying value of the receivables from the fellow Group companies as at 31 December 2017 was $19.6 million (2016: $39.2 million). Receivables from subsidiaries are interest free and repayable on demand. There are no past due receivables.

Trade and other receivables	**2017 $'000**	2016 $'000
Prepayments	**-**	-
Other receivables	**78**	17
	78	17

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 2017 cash and cash equivalents in the amount of $7 million, related to security of the loan provided to the Ukrainian subsidiary and held at European bank in the UK, was pledged (note 22).

Notes to the Company Financial Statements continued

For the year ended 31 December 2017

34. Financial liabilities

Trade and other payables	**2017 $'000**	2016 $'000
Accruals	**214**	554
Trade creditors	**58**	29
Other creditors and payables	**399**	351
	671	934

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days (2016: 48 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. 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 Company consist of cash and cash equivalents arising from equity, comprising issued capital, reserves and retained earnings.

Categories of financial instruments	**2017 $'000**	2016 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**27,406**	28,380
Amounts due from subsidiaries	**19,576**	39,277
	46,982	67,657
Financial liabilities – measured at amortised cost		
Trade creditors	**(58)**	(29)
	(457)	(380)

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.

37. 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 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 considers exposure to be minimal. The Company holds a large portion of its 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.

38. 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:

	2017 $'000	2016 $'000
Cadogan Petroleum Holdings Limited	**19,576**	39,277
	19,576	39,277

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 2017 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 2017 on pages 30 to 44.

	Remuneration		Amounts owing	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Directors' remuneration	**989**	1,071	**-**	454

The total remuneration of the highest paid Director was $0.7 million in the year (2016: $1.0 million).

39. Events after the balance sheet date

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

Glossary

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
Workover	The process of performing major maintenance or remedial treatment of an existing oil or gas well
E&E / E&P	Exploration and Evaluation / Exploration and Production
LTI	Lost time incidents

Shareholder Information

Enquiries relating to the following administrative matters should be addressed to the Company's registrars: Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Telephone number: UK: 0871 664 0300 (calls cost 12p 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 Shareholder Portal www.signalshares.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 2018/2019

Annual General Meeting	20 June 2018
Half Yearly results announced	August 2018
Annual results announced	April 2019

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Notes

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