CADOGAN
PETROLEUM PLC

ANNUAL FINANCIAL REPORT 2018

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 2018

Key Financial Highlights of 2018:

- Profit for the year: $1.2 million (2017: loss of $1.6 million)
- Average realised price: 51.3$/boe (2017: 41.6$/boe)
- Gross revenues[1]: $14.7 million (2017: $15.1 million)
- Gross profit: $1.9 million (2017: $2.1 million)
- G&A[2]: $4.8 million (2017: $5.0 million)
- Profit per share: 0.5 cents (2017: loss of 0.7 cents)
- Net cash[3] at year end: $35.2 million (2017: $37.6 million)

Key Operational Highlights of 2018:

- Production: 91,085 boe (2017: 56,516 boe), a 61% increase year-on-year
- 130% increase in production from the key Monastyretska licence, located in Western Ukraine
- Gas trading profit of $0.7 million (2017: $1.3 million, which included $0.4 million of interest on receivables)
- Service business profit of $0.06 million (2017: loss of $0.03 million), net of services provided to the group[4]
- No LTI/TRIs[5,6]
- Secured ISO 14001 and 45001 certifications.

1 Gross revenues of $14.7 million (2017: $15.1 million) included $9.9 million (2017: $12.7 million) from trading of natural gas, $4.7 million (2017: $2.4 million) from exploration and production and $0.1 million from services (2017: $nil)
2 Administrative expenses ("G&A")
3 Net cash includes cash and cash equivalents less short-term borrowings
4 Astroservice LLC used its rig for the work-over campaign on the Monastyretska licence
5 LTI: Lost Time Incidents; TRI: Total Recordable Incidents
6 Emissions have been restated because of past mistakes in their calculation see page 22

Summary of 2018 continued

Post Period Events:

- €13.4 million loan provided to Proger, with an option to convert into an effective 22% equity interest, offers growth exposure as well as diversification
- Blazh-10 well has encountered 207 meters of the Yamna target formation, at a depth 50 meters higher than prognosis and in the predicted sub vertical setting. Cores taken from the upper part of the Yamna and a preliminary interpretation of the open hole logs suggested that the entire Yamna section could potentially be oil bearing. The well was being prepared for testing at the time this report was finalized.

Cadogan has successfully delivered in making Ukraine its platform for growth by monetising the value of its legacy assets, both core and non-core. In doing so Cadogan has achieved profitability, which is a testimony to the degree of transformation the Company has gone through over the last few years. Further testimonies to Cadogan's transformational journey are the drilling of well Blazh-10, which took a fraction of the time normally required to drill these wells by other operators, and the loan agreement with Proger S.p.a.

Group Overview

The Group has continued to maintain exploration and production assets, 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, Hungary 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 in Ukraine.

Our business model

We aim to increase value through:

- Maintaining a robust balance sheet, monetising the remaining value of our Ukrainian assets and supplementing E&P cash flow with revenues from gas trading and oil services
- Pursuing farm-outs to progress investments in Ukrainian licences
- Sourcing additional assets to diversify Cadogan's portfolio, both geographically and operationally

The Group has continued to actively pursue its strategy of portfolio re-loading and geographical diversification and while looking for the right opportunity to invest has committed part of its cash into a 2-year, high yield loan with Proger S.p.a. which has an option to convert (and in that case interest will not be paid).

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.

Ukraine

West Ukraine

The Group continued to produce oil and gas from its licences in the West Ukraine. Average net production in 2018 was 250 boepd, a 61% increase over the production of the previous year. While gas production remained stable until the Cheremkhivsko-Strupkivska licence suspension (May 2018), oil production from the Monastyretska licence increased by 130%, driven by a successful work-over and stimulation campaign on the three producing wells. All three wells are rented from the companies which drilled them in the past and are currently producing with sucker rod pumps.

The Group continued to produce gas from the Debeslavetske and Cheremkhivske gas fields through the year, while preparing for an exit from gas operations as they had become marginally, if at all, profitable, given the punitive tax regime (subsoil-use tax set at 70%). The exit was finalized at the end of the year with the assignment of the Group interest in the Debeslavetske and the Cheremkhivske fields to WestGasInvest LLC and the assignment of the Group's interest in WestGasInvest LLC to PJSC Nadra Ukrayny.

2018 also witnessed the exit from the shale gas project, following Eni's decision to abandon the initiative.

The Group has retained the Bitlyanska licence, where it drilled the Vovche-2 well. The well was drilled on time and budget and produced water with not-commercial quantities of oil when tested. The well is being monitored and periodically lifted as part of a pilot production scheme, which represents the remaining commitment to be fulfilled. In parallel the Company continues to actively pursue a farm-in to complete the appraisal of the already discovered gas condensate resources.

East Ukraine

The conversion of the Pirkovska licence from exploration into production has not been awarded. The application was initially impacted by a dispute between central and regional authorities on the distribution of gas royalties, which brought the award process in the region to a halt. The Company has subsequently replied in a timely fashion to the comments related to the filed documents, which were returned for different reasons a number of times. As a result of the initial stall and of the subsequent iterations the Pirkovska licence has not been awarded within the three years' time that the law assigns to the incumbent holder to convert it. The asset had been impaired in the past, nevertheless the Group is assessing all of its options in the broader context of its business in Ukraine.

Subsidiary businesses

Gas trading operations continued, with sales in Ukraine of both imported and locally produced gas. Despite lower volumes, margins remained healthy.

Finally, the Group continued providing oil services through its wholly-owned subsidiary Astroservice LLC. Upon completion of the work-over campaign on the Monastyretska wells, Astroservice LLC was able to secure a multi-well contract for its rig, which is deployed in a field operated by one of the largest Ukrainian oil and gas companies.

Italy

The Group owns 90% interest in Exploenergy s.r.l., an Italian company, which has filed applications for two exploration licences (Reno Centese and Corzano), located in the Po Valley region (Northern Italy). The leads identified on these licences have combined un-risked prospective resources estimated to be in excess of 60 bcf of gas.

Activity through the year focused on maintaining the liaison with the central and regional authorities and on updating the Environmental Impact Studies by implementing the suggestions received from the authorities. Attempts to meet the relevant Minister, in order to understand what else, if anything, is required to move forward the application, were unsuccessful.

In February 2019, the Italian Parliament approved a moratorium of 18 months in the award of new licences and a 25-fold increase of licence fees. Exploenergy has subsequently reduced its activity to the minimum required to fulfil its statutory obligations. It has also identified areas which can be voluntarily released in order to mitigate the impact of higher fees, when licences are awarded, with a minimum impact on their exploration potential.

Group Overview continued

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 E&P 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 the 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 2018 against these KPIs is set out in the table below, together with the prior year performance data.

	Unit	**2018**	2017	2018 vs 2017
Average production (working interest basis)[1]	boepd	**250**	155	+95
Overhead (G&A)	$ million	**4.8**	5.0	-0.2
Basic profit/(loss) per share[2]	cents	**0.5**	(0.7)	+1.45
Lost time incidents[3]	incidents	**0**	0	
Geographic diversification	new assets	**1**[4]	1	

1 Average production is calculated as the average daily production during the year
2 Basic profit/(loss) per ordinary share is calculated by dividing the net profit/(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)
4 Loan agreement with Proger Management & Partners with its option to convert. The loan was signed in February 2019

Strategic Report continued

Chairman's Statement

Unlike the past, I want to open my statement by recognizing the excellent work done by Cadogan in 2018. Oil production has been further increased to levels not seen since 2011, the marginal gas operations have been disposed of for an interesting consideration and in doing so the Company has achieved profitability. Profitability was last achieved in 2011 and at that time it was the result of the capital injected by Eni in order to farm-in into the Zagoryanska and Pokrovskoe exploration licences. My own and the whole Board's commendation goes to the Management and staff of Cadogan for delivering this result.

Unlike Cadogan, Ukraine cannot consider 2018 a good year. The efforts to reform the country made limited progress and the key issues of reforms and transparency continued to remain on many tables, including those opened with international financial institutions. The political and economic outlook remains uncertain and the run out to the presidential election, scheduled at the end of Q1 2019, did little to reduce this uncertain future.

Though further steps were made towards improving the transparency in the way licences are managed, such as the launch of tenders, the unpredictability in the outcome of the approval processes continued to characterize the E&P industry, with the award of new licences and/or the conversion of existing ones often denied or unreasonably delayed, particularly in the East of the country. This has created unnecessary distractions to the local operators and has done little to improve the country image and risk perception with foreign investors. Cadogan's licences in the East of Ukraine were not an exception: Pirkovska's application was shuffled back and forth multiple times and eventually no answer, either positive or negative, was given within the three years of exclusive right. Pirkovska licence has now become open and actually included in one of the PSA, which are being offered for public tenders. The Company is assessing all its options to safeguard its rights. The situation in the West of the country, and in particular in Lviv region, is substantially better with fourteen applications approved out of the 17 submitted in the last three years.

In this contest of lingering uncertainty, Cadogan achieved an important result in its strategy of diversifying its portfolio. The loan agreement with Proger, negotiated in 2018 and announced at the beginning of 2019, diversifies both the geographic and the industry risk of its portfolio, while creating for its shareholders an exposure to a Company with material growth potential at a balanced level of risk; it also offers both companies the benefit of potential operational synergies for the development of their respective businesses. Cadogan's cash position after this transaction remains strong with enough funds to make other investments when the right opportunity arises.

Cadogan throughout 2018 has continued to consistently deliver on its strategy of monetizing the value of its legacy assets while pursuing diversification of its portfolio. In a context that has remained challenging the Company has shown that it can operate at high industry standards, meet and exceed operational targets and, as a result, has substantially increased revenue from production. Higher production combined with strict spending discipline and a lean, efficient organization represent a solid foundation on which the Company can build a future as a profitable entity with a realizable growth at a manageable level of risk.

Zev Furst
Non-Executive Chairman
23 April 2019

Chief Executive's Review

2018 was a good year for Cadogan. The Company returned to profitability after 7 years recording a $1.2 million profit driven by the positive contributions of the three businesses, by $1.7 million of gains associated with recovery of impaired receivables and supplemented by a $1.715 million gross[1] income associated with the exit from the WGI JV. This achievement is the result of multiple efforts, including:

- E&P operations brought firmly into profitability, with revenue growth driven by a 61% increase in production;
- a strict discipline in controlling costs and pursuing efficiency;
- another good year for gas trading, with a healthy margin;
- the work-over campaign on Monastyretska wells completed using the resources of the Group service company, and
- effective efforts to recover past receivables, some of which were previously impaired as they were deemed of no value.

2018 also witnessed two important events for Cadogan, namely:

- the resumption of drilling operations after some three and a half years in order to fulfil the remaining licence commitments; one well was drilled in Bitlyanska, on time and budget, and contracts were negotiated and awarded to drill the other, deeper well in Monastyretska. Cadogan strengthened its operational team in order to meet these challenges with the right level of expertise.
- the end of Cadogan's producing gas operations, which were assigned to Westgasinvest LLC (WGI) for a nominal consideration. These operations had become unprofitable, given the 70% royalty, and the shut-down of the Cheremkhivske field, while waiting for the renewal of its production licence. This assignment was part of an agreement with Eni and Nadra Ukrayny on the terms and conditions of Eni's exit from WGI. In this agreement Cadogan agreed (ii) to transfer its own shares in WGI to Nadra Ukrayny for a nominal consideration and (iii) to transfer its shares in the company operating the Debeslavetska and Cheremkhivsko-Strupkivska gas licences to WGI, also for a nominal consideration, and received a termination fee of $1.715 million from Eni as part of the overall agreement.

For Ukraine 2018 was another difficult year, as the country remained embroiled in its confrontation with Russia and continued to be economically challenged. The country has made some progress towards modernisation of its oil & gas legislative framework but has been unable to create an environment conducive to the significant investments, which the country needs to increase 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 reached the end of the three-year period granted to secure its conversion into a production licence without receiving the approval for its conversion. This is a reflection of the uncertainties that still impact the E&P industry in Ukraine. The application was returned six times, initially rejected by the Poltava Regional Council due to its dispute with the Central Government over the split of royalties and then returned by the Licencing Authority for reasons whose legal ground is doubtful. Cadogan has fulfilled all the obligations, submitted the documents in due time, answered the requests from the Authority in a timely way and is now considering its options.

Against this challenging background, Cadogan has performed well in 2018. In particular:

- the average production rate through the year increased up to 250 boepd, the highest level in the last seven years, and this increase was achieved with minimal capital deployment; and
- the profit of E&P business segment in 2018 was 58% higher than the prior year, out-performing the 23% increase in the average realized price over the same period of time.

Other highlights of 2018 and the period since year end are:

- a 61% increase in production, from 56,516 boe in 2017 to 91,085 boe this year;
- a 4% reduction of overhead (G&A), from $5.0 million in 2017 to $4.8 million this year; this is in addition to the 11% reduction achieved in 2017 and the 15% reduction in 2016;
- a good year for trading which generated a healthy margin whilst leveraging a limited amount of Cadogan's financial resources;
- a multi-well external contract won by Astroservice LLC which started generating revenue in late 2018;
- a robust balance sheet, with $35.2 million of net cash, kept mostly in UK banks;
- another year without LTIs; and
- a €13.385 million convertible loan to Proger Managers & Partners which was negotiated in the latter part of the year and completed in February 2019 and which gives the Company potential exposure to growth while diversifying its portfolio.

In summary, Cadogan has successfully delivered on both pillars of its strategy, which is to make Ukraine its platform for growth by monetising the value of its legacy assets while using its strong balance sheet to diversify its portfolio.

1 Income net of transaction cost was $ 1.70 million

Strategic Report continued

Core operations
Cadogan has continued to safely and efficiently produce from its fields in the West of Ukraine. Oil production has increased by 130% over the previous year, while gas production has remained constant.

The performances of wells located on the Monastyretska licence have been monitored and the gathered data used to calibrate an integrated study for the producing reservoir. The study highlighted significant upside potential from infill drilling and the implementation of a water injection scheme, thus confirming management's opinion that the field potential had been underestimated in the past. The study predicts that infill drilling can add up to 2.3 million barrels (MBbl) to the cumulative production of a "do-nothing" scenario with a further 2.1 MBbl coming from the implementation of water injection. Future cumulative production of a "do-nothing" scenario, i.e. from the three existing wells only, is predicted to be 1.2 MBbl and is in line with the current estimation of 2P reserves.

On the Bitlyanska licence, Cadogan drilled Vovche-2 well. The well did not deliver commercial quantities of oil when tested and was then put under monitoring under a pilot production scheme. In parallel the company has continued its effort to identify a farminee available to fund the activity necessary to confirm the upside of the high-pressure gas condensate deep target.

The activity in Italy has been limited to routine housekeeping as the uncertainty before the general election and then the program of the current government coalition has left no room to progress the applications at present.

Non E&P operation
Trading had a positive year notwithstanding a difficult start, with changes in the trading team personnel and a continuation of increased competition. Additionally, the market witnessed unusual trends in gas prices with prices in summer exceeding those in winter, which created challenging trading conditions. Against this backdrop, results were encouraging, with $0.7 million of profit which supplemented E&P revenues.

Oil services conversely contributed a limited amount of cash, as they were used primarily to serve the Group's well's operations. The company competed for and won a tender for a multi-well program and was able to contract its rig for the later part of the year to one of the largest Ukrainian operators.

Outlook
The Company intends to build on the results of 2018 to continue delivering solid operational and financial performance.

Gas operations, which had become unprofitable, have been relinquished and the company will concentrate on the conversion of its two licences and on its oil operations, which is where the value is focused within the current portfolio. The Blazh-10 well encountered 207 meters of Yamna, the reservoir formation, reached its final depth at 3,394 m, was logged and is now being prepared for testing. The Company expects to put it on production if well test confirms that oil can be produced in commercial quantities, thus contributing to another step change in the oil production.

The Company will also continue to maintain strong cost discipline, to trade gas, to offer service to other E&P operators and to seek to recover cash from previously impaired items. As part of its cost discipline the Company will continue to streamline its complex corporate architecture by liquidating companies which represent a legacy of its past and serve little purpose.

The loan agreement with Proger with its option to convert, offers growth exposure as well as diversification. With a cash position that remains strong, the Company has the funds to make investments when the right assets or opportunity arises. Nearly 90 investment opportunities were assessed in the past years and management will continue to actively pursue additional opportunities for diversification that adds shareholder value whilst remaining disciplined in its approach.

Lastly, I wish to express my own and the entire Board's appreciation to the men and women of Cadogan who with their dedication, ingenuity and loyalty to the Company have contributed to the positive results in 2018, and more generally, to the successful and continuing transformation of the Company.

Guido Michelotti
Chief Executive Officer
23 April 2019

Operations Review

Overview

At 31 December 2018, the Group held working interests in three 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 2018)

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

East Ukraine

The company continued pursuing its right to obtain the Pirkivska production licence in the three-year time frame allowed for conversion from the previous exploration licence. The applications for the award of 20-year production licence was repeatedly submitted for approval, but the approval was not granted within the three years' time limit to secure conversion which lapsed in the year.

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 and Bitlya fields holds 3P reserves, contingent recoverable resources and prospective resources. Vovchenska field holds contingent recoverable resources.

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

The Vovche 2 well was successfully drilled and produced water with uncommercial quantities of oil when tested. The well is being monitored and periodically lifted as a part of pilot production scheme. The company has fully met its licence commitments.

The Monastyretska licence continued to produce oil at an average production rate of 187 bpd (2017: 81 bpd) from three wells. Such a substantial increase was achieved by a campaign of successful work-over and stimulation of the three producing wells. Overall, the work-over campaign increased oil production from Monastyretska licence by 130% over 2017.

The Blazhiv-10 commitment was prepared for spudding, relevant permitting obtained and drilling rig & ancillary equipment mobilization and rig up were completed in December 2018. The well reached its final depth at 3,394m and was logged in April 2019. The Yamna formation, the formation producing from the three existing wells, was found 50m higher than prognosis and 207 m thick; the preliminary interpretation of the logs and the results of the cores taken in the upper part suggests the Yamna to be oil bearing. Full log interpretation and results of the well test will determine net pay and well deliverability.

The Debeslavetska licence continued producing a stable gas production rate of 58 boepd (2017: 59 boepd) and the Cheremkhivska field produced at an average rate of 14 boepd (2017: 15 boepd) until 15 May 2018 when production operations were halted due to the renewal of the production licence not having been received.

The fields were transferred to WGI in January 2019 as part of the trilateral agreement with Eni and Nadra Ukrayny stipulating terms and conditions of Eni's exit from WGI and the shale gas project.

Gas trading

The Group continued to import gas from Europe via the Slovakian, Hungarian and Polish borders and to sell it in Ukraine along with some locally purchased quantities. In 2018, the market continued to develop towards a better alignment with the European market and prices for gas showed some anomalies, with the price in summer being higher than in winter. Larger international trading houses increased their presence in Ukraine and many large consumers started to import gas directly from the European suppliers. This reduced the Company's market share, but despite the lower volumes sold through the year, the Company was able to maintain healthy margins. Credit risk continued to be kept at low level by selling gas on prepayment basis.

Service

The Group continued providing services through its wholly-owned subsidiary Astroservice LLC. Services provided were primarily related to the work-over and stimulation campaign of Monastyretska wells. A multi-well contract was secured in the second half of the year and the rig has remained contracted ever since.

1 E&D = Exploration and Development
2 The Cheremkhivska licence expired on May 2018 and its renewal had not been granted by year end. Cadogan's interest in the Debeslavetska and Cheremkhivska licences were assigned to WGI in January 2019

Strategic Report continued

Financial Review

Overview

In 2018, the Group increased production and E&P revenues further, while continuing gas trading activity. The performance of the Group's operating divisions delivered a contribution of $1.2 million (2017: $1.6 million) (Note 5) and the Group recorded a profit of $1.2 million including the impact of monetization of non-core and historically impaired receivables. The Group also resumed drilling operations on its licences after a long pause.

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 a healthy margin despite reduced volumes. These results have been supplemented by further monetising of the Group's assets as noted above, tight control on costs and optimisation of the working capital cycle.

Net cash decreased to $35.2 million at 31 December 2018 compared to $37.6 million at 31 December 2017. This was mostly due to prepayments made at the end of 2018 for services related to the drilling of Blazh-10 well, together with an increased inventory of gas at the end of the year.

Income statement

Revenues from production almost doubled – increased from $2.4 million in 2017 to $4.7 million in 2018, mainly due to production volume increases from 56,516 boe in 2017 to 91,085 boe in 2018 and an improved pricing environment. E&P cost of sales increased from $1.7 million in 2017 to $3.7 million in 2018. 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 2018, E&P made a positive contribution of $1.0 million (2017: $0.7 million) to gross profit, representing a positive[1] $0.4 million (2017: profit of $0.3 million) business segment profit.

The oil services business in 2018 focused on internal activities providing its services, including drilling and work-overs, to the subsidiaries of the Group. In addition, one external tender was secured and started delivery during late 2018, which brought a positive service segment profit for 2018 of $63 thousand (2017: loss of $26 thousand). The contract continues in 2019.

The gas trading business showed positive results in 2018. Although revenues decreased from $12.7 million in 2017 to $9.9 million in 2018, cost of sales also decreased, from $11.4 million in 2017 to $9.1 million in 2018, resulting in an overall contribution to profit of $0.7 million (2017: $1.3 million, which included $0.4 million of interest on receivables). In addition, staff costs (G&A) were reduced, and trading receivables recovered together with interest.

Administrative expenses ("G&A") continued to be strictly controlled. Ukrainian G&A remained flat and the overall G&A was further reduced from $5.0 million in 2017 to $4.8 million in 2018.

The reversal of impairment of other assets of $1.8 million (2017: reversal of impairment of $1.5 million) primarily included: i) VAT of $1.7 million (2017: $1.4 million), which was previously impaired, as a result of the Group receiving a VAT refund in cash of $1.0 million (2017: $1.4 million) and also offsets of VAT recoverable against trading margin earned; and ii) inventories of $0.1 million (2017: $0.1 million) due to the successful sale of obsolete production stock that had previously been impaired.

Impairments of other assets totalled $0.7 million (2017: $0.05 million) reflecting $0.3 million on infrastructure for the Pirkovska licence; and ii) $0.4 million on gas plant which has been sold in 2019 for $0.15 million, which had a previous book value of $0.55 million and would otherwise have needed to be abandoned as the right for the associated licence application had expired[2].

In 2018, the Group finalised the deal on exit from the Westgasinvest LLC and received consideration of $1.715 million as a termination fee of the project. The investment in the Westgasinvest LLC joint venture was fully impaired in 2017, given Eni's communication of their intention to exit the project.

Net finance income of $0.6 million (2017: net finance income of $0.7 million) reflects interest expense to BNP Paribas ("BNPP") on a credit line used for gas trading of $0.1 million (2017: $0.3 million), net of i) interest income on cash deposits used for trading of $0.3 million (2017: $0.1 million); ii) investment revenue of $0.4 million (2017: $0.2 million); iii) interest income on receivables nil (2017: $0.5 million).

Balance sheet

Intangible Exploration and Evaluation ("E&E") assets of $2.4 million (2017: $1.7 million) represent the carrying value of the Bitlyanska licence. The Property Plant & Equipment (PP&E) balance was $3.3 million at 31 December 2018 (2017: $2.1 million), increased primarily due to the start of drilling of Blazh-10 well at Monastyretska licence. Additionally, $1.3 million of prepayments for non-current assets (2017: $nil) have been incurred associated with the forthcoming drilling activity.

Trade and other receivables of $2.5 million (2017: $4.5 million), include $0.1 million (2017: $1.3 million) of trading receivables, $0.2 million of prepayments for natural gas (2017: $1.8 million), $1.9 million of VAT recoverable (2017: $0.9 million), which is expected to be recovered through production, trading and services activities, and $0.3 million (2017: $0.5 million) of other receivables.

The $1.2 million of trade and other payables as of 31 December 2018 (2017: $1.4 million) represent $0.1 million (2017: $0.5 million) of trading payables, $0.6 million (2017: $0.5 million) of accrued expenses and $0.5 million (2017: $0.4 million) of other creditors.

1 Segment result being the gross profit net of administrative expenses of the segment
2 The sale of the plant allowed an estimated saving of $0.3 million of dismantling and site restoration costs

At 31 December 2018 the Group recognised assets held for sale of $0.2 million (2017: $nil) and liabilities held for sale of $0.1 million (2017: $nil) related to the exit from gas operations.

Provisions include $0.3 million (2017: $0.4 million) of short-term provision for decommissioning cost which are expected to be incurred in 2019 with regards to Pirkovska licence assets and $0.04 million (2017: $0.4 million) of long-term provision for decommissioning costs, which represents the present value of costs that are expected to be incurred in 2039 for producing assets, when the licences will expire following their anticipated conversion to production licences in 2019. The reduction in long term provisions primarily reflects changes in estimates associated with the timing of the decommissioning works and associated discounting.

The cash position of $35.2 million at 31 December 2018, including $7 million used as a pledge for the credit line, has decreased from $37.6 million at 31 December 2017. This was mostly due to prepayments made at the end of 2018 for services related to the drilling of the Blazh-10 well as well as to an increased stock of gas at the end of the year.

Cash flow statement

The Consolidated Cash Flow Statement on page 57 shows operating cash outflow before movements in working capital of $1.9 million (2017: outflow of $2.3 million), which represents mostly cash used by the E&P and Trading business segment net of corporate expenses. Working capital has been further improved, which resulted in a $1.4 million cash inflow (2017: $0.4 million) with the impact of increased inventory offset by recovery of receivables.

The Group, during 2018, started its drilling campaign by drilling a shallow well at Bitlyanska licence at a cost of $0.8 million and by preparing to drill the Blazh-10 well at Monastyretska licence, for which a number of prepayments were made close to the end of the year; this resulted in an aggregate investment in PP&E of $3.9 million.

As a result of the agreement signed by ENI, Nadra and Cadogan on the terms of Eni's exist from WGI, the Group received a termination fee of $1.7 million.

In 2018, the Group financed its trading operations with short-term borrowings (Note 23) with proceeds of $4.0 million and repayments of $3.9 million (2017: proceeds of $3.3 million and repayments of $7.0 million).

Related party transactions

Related party transactions are set out in note 29 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.

Strategic Report continued

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 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. Management systems and processes have been certified as ISO 14001 and 45001 compliant.
Climate change Countries may impose moratorium on E&P activities or enact tight limits to emissions level, which may curtail production. Shareholders may also request that the Company adopt stringent targets in terms of emissions reduction.	A moratorium on domestic production is deemed highly unlikely in Ukraine given the country's need for affordable energy. Such risks exist in Italy, but the Company's exposure there is limited. Management strives to reduce the emission in everything the Company does and has started implementing alternatives to offset emissions. Lastly, the Company has created an opportunity to diversify into the renewable segment with the convertible loan to Proger.
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.
The area available for drilling operations is limited due to logistics, infrastructures and moratorium. This increases the risk for setting optimum well coordinates.	Bottom hole locations are always checked for their operational feasibility, well trajectory, rig type, and verified on updated sub-surface models. They are rejected if deemed to be too risky.
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.

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 27 to the Consolidated Financial Statements for detail on financial risks.
The Group is at risk that counterparties will default on their contractual obligations resulting in a financial loss to the Group.	Procedures are in place to scrutinise new counterparties via a Know Your Customer ("KYC") process, which covers their solvency. In addition, when trading gas, the Group 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 analysis of the specific transactions, market trends and models of the gas prices and foreign exchange rate trends.

Strategic Report continued

Country risks

Risk	Mitigation
Legislative changes may bring unexpected risk and create delays in securing licences or ultimately prevent licences and licence renewals/ conversions being secured.	Compliance procedures, monitoring and appropriate dialogue with the relevant authorities are maintained 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 far as expected towards integration with Europe, the economic challenges in the country are not yet over and the confrontation with Russia has remained open. This can impact 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 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. Commitments are fulfilled and routinely verified the relevant Authorities, supported by competent and qualified legal contractors. 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 in order to remain a competitive employer in the markets where it operates.
The Group is at risk of underestimating the risk and complexity associated with the entry into new countries.	The Group applies rigorous screening criteria in order to evaluate potential investment opportunities. It also seeks input from independent and qualified experts when deemed necessary. Additionally, the required rate of return is adjusted to the perceived level of risk.
Local communities and stakeholders may cause delays to the project execution and postpone activities.	The Group maintains a transparent and open dialogue with authorities and stakeholders (i) to identify their needs and propose solutions which address them as well as (ii) 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. The Group devotes the highest level of attention and engage qualified consultants to prepare the Environmental Impact assessment studies and to attend public hearings, both of them introduced in Ukraine in the course of 2018.

Statement of Reserves and Resources

During the year 2018 the company successfully re-entered the Blazh 3 and Blazh-Mon 3 existing wells and conducted a number of rig-less activities in Blazh 1 and in the two gas fields to maintain a sustainable production.

Summary of Reserves[1] at 31 December 2018

	Mmboe
Proved, Probable and Possible Reserves at 1 January 2018	**7.82**
Production	(0.09)
Revisions (sale of Debeslavetska and Cheremkhivsko-Strupkhivska licences)	(0.14)
Proved, Probable and Possible Reserves at 31 December 2018	**7.59**

Reserves are assigned to the Bitlyanska and Monastyretska fields.

In addition to the tabled reserves, Cadogan has 15.4 million boe of contingent resources associated with the Bitlyanska and Monastyretska licences.

1 The study was conducted in 2016 by third-party Brend Vik and since then Cadogan has entered into a Technical Service Agreement with them

Strategic Report continued

Corporate Responsibility

Under Section 414C of the Companies Act 2006 (the "Act"), the Board is required to disclose 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.

Being sustainable in our activities means conducting our business with respect for the environment and for the communities hosting us, with the aim of increasing the benefit and value to our stakeholders. We recognize that this is a key element to be competitive and to maintain our licence to operate.

The Board recognises that the protection of the health and safety of its employees, communities and the environment in which it operates is not just an obligation but 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 Health, Safety and Environment (HSE) performance; follow our Code of Ethics and apply internationally recognised best practices and standards, in conducting our operations.

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

In August 2018, Cadogan Ukraine LLC obtained ISO 14001 and ISO 45001 certification for the following scope: "Supervision, coordination, management support, control in the field of oil and gas on-shore exploration and production." This provides formal recognition of the process embedded in the Company and demonstrates the commitment and efforts delivered by our employees and management. It is considered a baseline to continue with the efforts to improve the way we conduct the business.

The Board believes that health and safety procedures and training across the Group should be in line with best practice in the oil and gas sector. Accordingly, it has set up a Committee to review and agree on the health and safety initiatives for the Company and to report back to the Board on the progress of these initiatives. Management regularly reports to the Board on HSE and key safety and environmental issues, which are discussed at the Executive Management level. The report of the Health, Safety and Environment Committee can be found on page 28 and 29.

The former Chief Operating Officer is the Chairman of the HSE Committee and is supported in his role by Cadogan Ukraine's HSE Manager. In accordance with the ISO 14001 and 45001, his role is to ensure that the Group continuously develops suitable procedures, that operational management and their teams incorporate them into daily operations and that the HSE management has the necessary level of autonomy and authority to discharge their duties effectively and efficiently.

Health, safety and environment

The Group has implemented an integrated HSE management system in accordance with the ISO requirements. The system aims to ensure that a safe and environmentally friendly/protection culture is embedded in the organisation with a particular focus on the local community involvement. 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 actively participate in the process.

A proactive approach based on a detailed induction process and near-miss reporting has been in place throughout 2018 to prevent incidents. Staff training on HSE matters and discussions on near miss reporting are recognised as the key factors to continuously improve. In-house training is provided to help staff meet international standards and follow best practice. The process enacted by the certification, enhances attention to training on risk assessments, emergency response, incident prevention, reporting and investigation, as well as emergency drills regularly run on operations' sites and offices. This process is essential to ensure that international best practices and standards are maintained to comply with, or exceed, those required by Ukrainian legislation, and to promote continuous improvement.

The Board monitors the main Key Performance Indicators (lost time incidents, mileage driven, training received, CO2 emissions) as business parameters. The Board has benchmarked safety performance against the HSE performance index measured and published annually by the International Association of Oil and Gas Producers. In 2018, the Group recorded over 270,000 man-hours worked with no incidents and close to 820,000 hours have been worked since the last injury in February 2016.

During 2018 the Group continued to monitor its greenhouse gas emissions and collect statistical data relating to the consumption of electricity, industrial water and fuel consumption by cars, plants and other work sites, recording a continuous improvement in the efficient use of resources.

Employees

Wellness and professional development are part of the Company's sustainable development policy and wherever possible, local staff are recruited. The Group's activity in Ukraine is entirely managed by local staff. Qualified local contractors are engaged to supplement the required expertise when and to the extent it is necessary.

Procedures are in place to ensure that all recruitment is undertaken on an open, transparent and fair basis with no discrimination against applicants. Each operating company has its own Human Resources function to ensure that the Group's employment policies are properly implemented and followed. The Group's Human Resources policy covers key areas such as equal opportunities, wages, overtime and non-discrimination. As required by Ukrainian legislation, Collective Agreements are in place with the Group's Ukrainian subsidiary companies, which outline agreed level of staff benefits and other safeguards for employees.

All staff are aware of the Group's grievance procedures. All employees have access to health insurance provided by the Group to ensure that all employees have access to adequate 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 intends to develop diversity.

Gender diversity
The Board of Directors of the Company comprised six Directors throughout the year to 31 December 2018. The appointment of any new Director is made on the basis of merit. See pages 18 and 19 for more information on the composition of the Board.

As at 31 December 2018, the Company comprised a total of 82 persons, as follows:

	Male	Female
Non-executive directors	5	-
Executive directors	1	-
Management, other than Executive directors	7	2
Other employees	48	19
Total	**61**	**21**

Human rights
Cadogan's commitment to the fundamental principles of human rights is embedded in our HSE policies and throughout our business processes. We promote the core principles of human rights pronounced in the UN Universal Declaration of Human Rights and 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 weather 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 companies in the Ukraine see themselves as part of the community and are involved and offer 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.

The enactment in 2018 of new legislation which introduces Environmental Impact Assessment studies and public hearings as part of the licence's award/renewal processes was anticipated effectively by the Group. The Group is complying with these requirements, building on the recognized competence of its people and advisors as well as on the good communication and relations established with local communities.

Approval
The Strategic Report was approved by the Board of Directors on 23 April 2019 and signed by order of the Board by:

Ben Harber
Company Secretary
23 April 2019

Board of Directors

Zev Furst, 71, 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 formerly served as Chairman of the Peres Center for Peace and is currently a member of its International Board in addition to being 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, 65, 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 non-executive Director of Proger s.p.a., Exploenergy s.r.l. and Heritage Oil Ltd, and a Director of the Swiss section of the Society of Petroleum Engineers (SPE). He has been a former Senior Advisor to the Energy Practice of the Boston Consulting Group and a former member of SPE's Industry Advisory Council.

Adelmo Schenato, 67, 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 s.r.l., the Italian company which is 90% owned by the Group.

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

Gilbert Lehmann, 73, 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, 66, 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 spent most of his 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, 67, 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, Chairman of Sorgenia S.p.A (Rome Electricity and Gas company) 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

Directors' re-election
The Board has decided previously that all Directors are subject to annual election by shareholders, in accordance with industry best practice and as such, all of the Directors will be seeking re-election at the Annual General Meeting to be held on 19 June 2019.

The biographies of the Directors in office at the date of this report are shown on pages 18 and 19.

Appointment and replacement of Directors
The Company's Articles of Association allow the Board to 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 2018 and their connected persons in the Ordinary shares of the Company at 31 December 2018 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	–

Conflicts of Interest
The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with the Company, its subsidiaries or any matters to be discussed at meetings, they are required to formally notify the Board in writing or at the next Board meeting. In accordance with the Companies Act 2006 and the Company's Articles of Association, the Board may authorise any potential or actual conflict of interest that may otherwise involve any of the Directors breaching his or her duty to avoid conflicts of interest. All potential and actual conflicts approved by the Board are recorded in register of conflicts, which is reviewed by the Board at each Board meeting.

Directors' indemnities and insurance
The Company's Articles of Association provide that, subject to the provisions of the Companies Act 2006, all Directors of the Company are indemnified by the Company 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. In addition, the Company continues to maintain Directors' and Officers' Liability Insurance for all Directors who served during the year.

Powers of Directors
The Directors are responsible for the management of the business and may exercise all powers of the Company subject to UK legislation and the Company's Articles of Association, which includes powers to issue or buy back the Company's shares given by special resolution. The authorities to issue and buy back shares, granted at the 2018 Annual General Meeting, remains unused.

Dividends
The Directors do not recommend payment of a dividend for the year ended 31 December 2018 (2017: nil).

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

Structure of share capital

The authorised share capital of the Company is currently £30,000,000 divided into 1,000,000,000 Ordinary shares of 3 pence each. The number of shares in issue as at 31 December 2018 was 235,729,322 Ordinary shares (each with one vote) with a nominal value of £7,071,880. The total number of voting rights in the Company is 235,729,256. 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.

Rights and obligations of Ordinary shares

In accordance with applicable laws and the Company's Articles of Association, holders of Ordinary shares are entitled to:

- receive shareholder documentation including the notice of any general meeting;
- attend, speak and exercise voting rights at general meetings, either in person or by proxy; and
- 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. In order to accurately reflect the views of shareholders, it is the Company's policy at present to take all resolutions at any general meeting on a poll.

Following the meeting, the results of the poll released to the market via a regulatory news service and be published on the Company's website.

Substantial shareholdings

As at 31 December 2018 and 17 April 2019, being the last practicable date, the Company had been notified of the following interests in voting rights attached to the Company's shares:

	31 December 2018		17 April 2019	
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
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
Julius Baer	9,940,410	4.22	9,940,410	4.22
Credit Agricole Luxembourg	9,176,336	3.89	9,176,336	3.89
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 way of 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 23 April 2019 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.

Report of the Directors continued

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out on pages 5 to 14.

Having considered the Company's financial position and its principal risks and uncertainties, 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 please 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 2018 to 31 December 2018.

Financial risk management objectives and policies
The Company's financial risk management objectives and policies including its policy for managing its exposure of the Company to price risk, credit risk, liquidity risk and cash flow risk are described on page 77 to 79 in note 27 to the Consolidated Financial Statements.

Outlook
Future developments in the business of the Company are presented on page 7 and 8.

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 (2018 update).

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.

In assessing the method used to calculate and report emissions, a mistake has been discovered in Cadogan's previously reported emissions data. The mistake was discovered in April 2019 while assessing alternatives to contain emissions in a scenario of higher production levels as a result of a tie-back of a positive well (Blazh-10) and of further development activity. This data, which had been calculated using a process audited in Ukraine by an independent third party, has now been calculated using a different process for the year 2018 and restated in respect of the year 2017. Going forwards, Cadogan intends to install a second gas metering system, in order to reduce the degree of intra wells extrapolations of data, and to assess the level of gas fugitive emissions. The Company also intends to have its entire data calculation process re-validated by a different independent third party upon completion of the above activities. Reported emissions data may change as a result of the implementation of the above actions. Management will also thoroughly evaluate potential solutions for reducing the Company's emissions in future periods.

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 emissions in 2018 increased compared to the previous year (4,810 tons in 2018 vs 2,026 tons in 2017) driven by the resumption of drilling and workover activity in Bitlyanska commitment and the substantial increase of production in Monastyretska licences.

Conversely, Scope 2 emissions decreased in 2018 (504 tons in 2018 vs 592 tons in 2017), as a result of the processes started in 2016 to improve the efficiency of the structure, logistic and facilities. This reduction contributed to mitigate the increase in the Scope 1 and, consequently, total emissions in 2018 were 5,314 tons versus the 2,618 tons of 2017.

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) increased by 26%, from 46.3 tons CO_2e/Kboe in 2017 to 58.3 tons CO_2e/Kboe in 2018.

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

	E&P	
Greenhouse gas emissions source	**2018**	2017
Scope 1		
Direct emissions, including combustion of fuel and operation of facilities (tonnes of CO_2 equivalent)	**4,809**	2,026
Scope 2		
Indirect emissions from energy consumption, such as electricity and heating purchased for own use (tonnes of CO_2 equivalent)	**504**	592
Total (Scope 1 & 2)	**5,314**	2,618
Normalisation factor		
Barrels of oil equivalent, net	**91,080**	56,516
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, net	**58.3**	46.3

2019 Annual General Meeting

The 2019 Annual General Meeting ("AGM") of the Company provides an opportunity to communicate with shareholders and the Board welcomes their participation. Board members constantly strive to engage with shareholders on strategy, governance and a number of other issues.

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

The Chairman of the Board and the members of its committees will be available to answer shareholder questions at the AGM. All relevant shareholder information including the annual report for 2018 and any other announcements will be published on our website – **www.cadoganpetroleum.com**.

This Report of Directors comprising pages 20 to 23 has been approved by the Board and signed by the order of the Board by:

Ben Harber
Company Secretary
23 April 2019

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 Directors who are not deemed independent. The Board has appointed Mr Lehmann as the Senior Independent Director.

The biographical details for each of the Directors and their membership of Committees are incorporated into this report by reference and appear on page 18 and 19.

As at the date of this report, the Chairman had no significant commitments that would 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 in line with Corporate Governance best practice. Accordingly, all members of the Board will be standing for re-election at the 2019 Annual General Meeting due to be held on 19 June 2019.

The Board has a formal schedule of matters specifically reserved for its decision, including approval of acquisitions and disposals, major capital projects, financial results, Board appointments, dividend recommendations, material contracts and Group strategy. Other responsibilities are delegated to its Committees.

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. Seven Board meetings took place during 2018. 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	7	3	1	2
No. Attended:				
Z Furst	6	N/A	-	2
G Michelotti	7	N/A	N/A	N/A
G Lehmann	7	3	1	2
M Meeùs	7	N/A	N/A	N/A
A Schenato	7	N/A	N/A	N/A
E Testa	5	3	1	2

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

Board independence

The roles and responsibilities of the Chairman and Chief Executive Officer are separate with a clear and formal division of each individual's responsibilities, which has been agreed and documented by the Board.

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 until 31 December 2016 was Chief Operating Officer of the Group is not considered to be independent[1]. The Board is of the view that all Directors continue to be effective and have sufficient time available to perform their duties. 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 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 Committees including their membership and activities of all Board Committees is provided on pages 26 to 31.

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

Internal control

The Directors are responsible for the Group's system of internal control and for maintaining and reviewing its effectiveness. 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. The Board has delegated responsibility for the monitoring and review of the Group's internal controls to the Audit Committee.

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 2018 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 throughout the period, 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. 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 an internal audit function in place, however this will be kept under review by the Audit Committee on an annual basis. Management though has appointed a Compliance Officer for its Ukrainian subsidiaries.

The Board has reviewed internal controls and risk management processes, in place from the start of the year to the date of approval of this report. During the course of its review the Board did not identify nor were advised of any failings or weaknesses which it has deemed to be significant.

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 at quarterly meetings and discussed in detail. Mr Lehmann, as the Senior Independent Director, is available to meet with 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 also contained 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.

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:

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 2018 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.

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;
- reviewed critical judgements, estimates and underlying assumptions; and
- assessed whether the financial statements are fair, balanced and understandable.

Going concern

After making enquiries and considering the uncertainties described on pages 12 to 14, the Committee has a reasonable expectation that the Company and the Group has 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, please 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 to 79 and in Note 27 to the financial statements.

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

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

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 10 to the Consolidated Financial Statements. 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.

Whistleblowing
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
23 April 2019

Board Committee Reports continued

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.

Governance

The Committee is chaired by Mr Adelmo Schenato and its other members are Ms Snizhana Buryak (HSE Manager) and Mr Andriy Bilyi (Cadogan Ukraine General Director). The CEO attends meetings of the HSE Committee as required. During 2018, the HSE Committee held five meetings to monitor the HSE risks and activities across the business, following which actions were identified for the continuous improvement of the various processes and the mitigation of risk.

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 with 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.

Activities of the Health, Safety and Environment Committee

The HSE Committee in discharging its duties reviewed and considered the following:

- Existing HSE policies and procedures in place in relation to the current activities were assessed to evaluate the need for updates or integrations;
- Monthly statistics and reports on the activity were regularly distributed to the CEO, Management and to the members of the committee;
- Ensured that the implementation of new legislation and requirements were punctually followed-up and promptly updated;
- Compliance with HSE regulatory requirements was ensured through discussion of the results of inspections, both internal inspections and those carried out by the Authorities. The results of the inspections and drills were analysed and commented to assess the need for corrective actions and/or training initiatives;
- The new process for obtaining licences in the Ukraine licences and their impact on the Bitlyanska and Monastyretska were reviewed;
- A standing item was included on the agenda at every meeting to monitor monthly HSE performance, key indicators and statistics allowing the HSE Committee to assess the Company's performance by analysing any lost-time incidents, near misses, HSE training and other indicators;
- Interaction with contractors, Authorities, local communities and other stakeholders were discussed among other HSE activities;
- The ISO 14001 and 45001 certifications were obtained, a new HSE Integrated Management System was developed and successfully deployed; and
- Ensuring all the Observation and Actions requested by the Certification Body have been implemented.

Overview

The Company's HSE Management System and the Guidelines and Procedures have been modified to fit with the ISO requirements and are adequate for the proper execution of the Company's operations.

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
23 April 2019

Board Committee Reports continued

Nomination Committee Report

The Board delegates some of its duties to the Nomination Committee and appoints the members of the Nomination Committee which are non-executive Directors of the Group. The membership of the Committee is reviewed annually and any changes to its composition are 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 available from the Company Secretary at the Registered Office. Two members constitute a quorum.

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.

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, ethnicity, 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, ensuring 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.

Activities of the Nomination Committee

During the financial year under review, the Committee reviewed and considered the following:

- The size, structure and composition of the Board in the light of the current business environment, the Company's anticipated future activities and particularly the independence of the Non-Executive Directors;
- Its internal governance documents and the Policy;
- The letters of appointment of the Board.

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
23 April 2019

Remuneration Committee

Statement from the Chairman

I am pleased to present the Annual Report on Remuneration for the year ended 31 December 2018.

As I anticipated in last year's Annual Report, the Company has reviewed and amended its Remuneration Policy, which was presented to our shareholders for their approval at last year Annual General Meeting. The key elements of the new Remuneration Policy 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 based on 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 was approved as proposed by the shareholders at the Annual General Meeting of June 19, 2018 and is attached at the end of the Annual Report on Remuneration. During 2018 there were no further changes made to the composition of directors' remuneration, and there was no increase to executive and non-executive directors' salary and fees in base currency.

In 2018 the Remuneration Committee enrolled again the CEO in a performance-related, bonus scheme built around a scorecard with a set of challenging KPI's aligned with the company strategy of preserving cash and operating safely and efficiently while actively pursuing opportunities to re-load and geographically diversify the portfolio. Based on the results achieved, the Remuneration Committee has determined to award the CEO a bonus of €176,000 ($201,872), or 32% of the maximum allowable bonus under the current Remuneration Policy, and to split the post-tax amount in 50% cash and 50% shares.

The performance related bonus scheme, which had been rolled down to two key managers of Cadogan Ukraine in 2017, was extended in 2018 to a larger group of managers in Ukraine.

Enrico Testa
Chairman of the Remuneration Committee
23 April 2019

Annual Report on Remuneration 2018

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 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 is 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.

Remuneration consultants

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

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

	$ Salary and fees		$ Taxable benefit[1]		$ Annual bonus		$ Total	
Executive Director	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
G Michelotti	**521,664**	497,288	**39,838**	27,273	**201,872**	126,992[2]	**763,374**	651,553
Non-executive Directors								
Z Furst	**114,028**	109,565	**-**	-	**-**	-	**114,028**	109,565
G Lehmann	**60,368**	58,005	**-**	-	**-**	-	**60,368**	58,005
E Testa	**46,953**	45,115	**-**	-	**-**	-	**46,953**	45,115
M Meeùs	**46,953**	45,115	**-**	-	**-**	-	**46,953**	45,115
A Schenato[3]	**147,428**	140,749	**-**	-	**-**	-	**147,428**	140,749

1 Taxable benefits include life and medical insurance provided to the executive and leased car. 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 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 ($27,635) as a non-executive Director and €101,040 ($119,793) per annum under a consultancy agreement

Notes to the table

Long-term incentives were not paid in 2017 and 2018.

In 2018, 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 2018. Mr Michelotti's salary is €440,000 ($521,664) per annum.

Following shareholders' approval of the new Remuneration Policy, Mr Guido Michelotti received in 2018 the Performance Bonus awarded to him based on the achievement vis a vis his 2017 scorecard and without a discretionary element. The Remuneration Committee decided to award in shares 72.5% of the awarded bonus less taxes and social contribution and therefore the €106,000 bonus was split in €64,000 cash (inclusive of income tax and social contributions to be paid by Mr Michelotti on the entire awarded amount) and €42,000 in shares priced at their market value at closing on the Business Day prior to the Subscription Date. While the cash element was paid in October 2018, the shares have not yet been awarded as the company has been in closed periods since the decision was made. Based on the new Remuneration Policy the shares, when awarded, will be subject to a holding period and to *malus* and *claw back* provisions. The amount that may be clawed back from Mr Guido Michelotti 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.

The Remuneration Committee has determined that it would be appropriate to award Mr Guido Michelotti in relation to the year 2018 a bonus of €176,000 ($201,872), based on the achievement vis a vis his scorecard and without any additional discretionary element. In assessing the performance related element, the Remuneration Committee determined that the Company's stretch targets for production, net profit/(loss) and change in net cash had been met or exceeded, and that the minimum target for the loading of the portfolio had been achieved. The Remuneration Committee also decided that the leadership target had also been achieved. Under the performance scorecard considered by the Remuneration Committee, the production and profit/(loss) targets each represent 20% of the weightings of the bonus (for target level performance) with change in net cash contributing 30% and reloading of portfolio 20% (see following table). Based on the above, the Remuneration Committee determined that some 32% of the maximum performance related bonus should become payable.

KPI	Weighting %	Target[1]	Achievement	% of KPI related bonus achieved[2]
Average production, boepd	20	Approved budget (stretch target +20%)	Budget target exceeded	20
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
Reloading of portfolio, n. of assets outside UA	20	Min – Max 1/2	Minimum target achieved[3]	14
Leadership[4]	10			13
	100			**112**

Based on the above the Remuneration Committee decided to:

- Award Mr. Michelotti a performance related bonus of €176,000 ($201,872) for 2018;
- Award 50% of the bonus, less taxes and social contribution, in shares and the remaining in cash.

Shares awarded will be subject to *malus* and *claw-back*. Mr Michelotti undertook to respect 3 years holding period.

Benefits

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

The Chairman and Non-Executive Directors

Fees for non-Executive Directors have remained at the level of the previous year, namely: the Chairman's fee at £85,000 ($114,028) and the fee for acting as a non-executive Director at £35,000 ($46,953) with an additional £10,000 ($13,415) for acting as Chairman of the Audit Committee. Also, Adelmo Schenato received the same fees as in 2017, namely £20,600 ($27,635) as a non-executive Director and €101,040 ($119,793) per annum under a consultancy agreement as Advisor to the CEO of the Company and Chairman and CEO of Exploenergy.

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
3 The loan agreement with Proger was considered as achieved in the year, though formally finalized in 2018
4 Evaluated by the Remuneration Committee on (i) management on change and (ii) communication with shareholders

OVERVIEW STRATEGIC REPORT CORPORATE GOVERNANCE REMUNERATION REPORT FINANCIAL STATEMENTS GLOSSARY SHAREHOLDER INFORMATION

Annual Report on Remuneration 2018

continued

Scheme interests awarded during the financial year (audited)

There were no scheme interests awarded during the year.

Payments to past directors (audited)

In 2018 there were no payments to past directors.

Payments for loss of office (audited)

In 2018 there were no payments to past directors. 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 2018 and their connected persons in the Ordinary shares of the Company at 31 December 2018 are set out below.

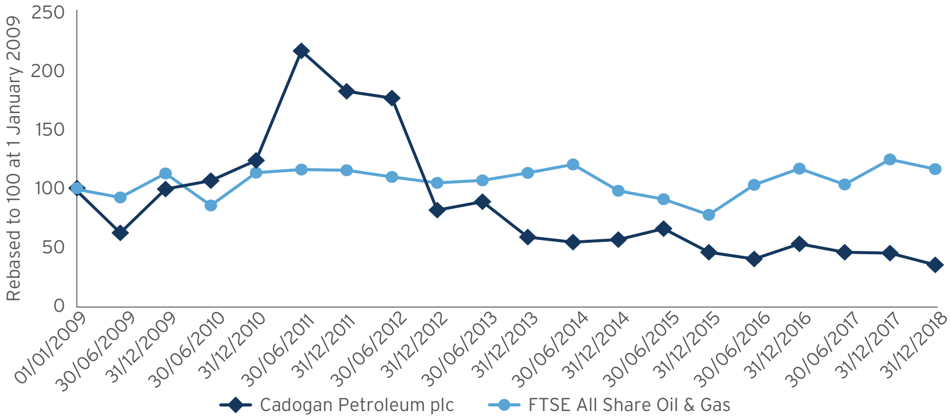
Shares as at 31 December	**2018**	2017
Z Furst	**-**	-
G Michelotti	**4,637,588**	4,637,588
G Lehmann	**-**	-
M Meeùs	**26,000,000**	26,000,000
A Schenato	**-**	-
E Testa	**-**	-

There were no changes in the Directors' shareholding as at 31 December 2018 compared to 23 April 2019.

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.



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	27,273	126,992	–	–	–	651,553
2018	521,664	39,838	201,872	–	–	–	763,374

In 2018 the annual bonus awarded to the CEO was 32% (2017: 12%) of the maximum bonus as per the approved Remuneration Policy[3].

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 %
2018	Mr. Michelotti	763,374	32
2017	Mr. Michelotti	651,553	12
2016	Mr. Michelotti	712,937	22[4]
2015	Mr. Michelotti	502,021	27[3,5]
	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[6]	–
2011	Mr. des Pallieres[7]	273,201	–
	Mr. Barron	395,984	–
2010	Mr. Barron	547,067	–
2009	Mr. Barron[8]	707,085	67

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 relation to performance in 2016 and 2015, the CEO used the entire amount of the bonus to buy at market price newly issued company shares on 22 September 2017
3 The new Remuneration Policy approved in June 2018, reduces the maximum allowable bonus from 200% to 125% of the base salary
4 Mr Michelotti undertook to use the entire bonus to buy company's share at market price in order to leave the Company cash neutral
5 Year-end performance-based bonus was an alternative to an up-front sign-on bonus. Mr Michelotti use the entire bonus to buy company's share at market price on 22 September 2017
6 $280,298 paid as fees, pension and loss of office
7 From 1 August, 2011
8 From 19 March 2009

Annual Report on Remuneration 2018

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 2018 and 2017 compared to that of all employees within the Group.

		2018 $'000	2017 $'000	Average Change %
Base salary	CEO[1]	**522**	497	5%
	All employees[2]	**2,004**	2,406	-17%
Taxable benefits	CEO	**40**	27	148%
	All employees	**60**	34	176%
Annual Bonus	CEO	**202**	127	59%
	All employees	**381**	179	213%
Total	CEO	**764**	639	20%
	All employees	**2,445**	2,619	-7%

1 CEO's base salary has not changed since he was hired and a lower bonus has been paid in 2018 vs 2017. Changes reflect the variation in the exchange rate versus the US dollar, which is the reporting currency

2 All employees mean all employees of the Group, including CEO and other Directors (note 11, page 70)

In 2018 none of the directors participated in long-term incentives.

In 2018 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.

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 2017 and 31 December 2018.

	2018 $'000	2017 $'000	Year-on-year change, %
All-employee remuneration	**2,445**	2,619	-7%
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 20 June 2018. The Remuneration Policy can be found on the Group's website and at pages 38 to 46 of this Annual Report on Remuneration. The votes cast by proxy were as follows:

Directors' Remuneration Policy	Number of votes	% of votes cast
For	62,011,302	99.74
Against	164,370	0.26
Total votes cast	62,175,672	100.00
Number of votes withheld	17,071	

The Directors' Annual Report on Remuneration for the year ended 31 December 2017 was approved by shareholders at the Annual General Meeting held on 20 June 2018. The votes cast by proxy were as follows:

Director's Annual Report on Remuneration	Number of votes	% of votes cast
For	62, 192,743	100.00
Against	0	0
Total votes cast	62,192,743	100.00
Number of votes withheld	0	

The Directors Remuneration Policy was approved at the 2018 AGM and did not change since then. It can be found on the Group's website and at pages 38 to 46 of this Annual Report on Remuneration.

Implementation of Remuneration Policy in 2018

The June 2018 Annual General Meeting approved the new Remuneration Policy which 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 2018, the performance related elements of Mr Guido Michelotti's 2019 bonus will be built around a scorecard with a set of KPI's aligned with the Group strategy, i.e. profit/loss, change in cash and portfolio management. His scorecard is as described at page 42 of the Remuneration Policy with production and geographic diversification as operational KPIs, with a 20% each weigh factor, and net profit/loss and change in free cash as financial KPIs, each with a 25 % weigh factor. The HSE KPI has been declined as a target related to a reduction in the level of emissions to the atmosphere. His scorecard has been rolled down to key managers of the Ukrainian subsidiary.

Approval

The Directors' Annual Report on Remuneration was approved by the Board on 23 April 2019 and signed on its behalf by:

Zev Furst
Chairman
23 April 2019

Annual Report on Remuneration 2018

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 was approved by shareholders 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 applies 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 2019 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.

Annual Report on Remuneration 2018

continued

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.

Annual Report on Remuneration 2018

continued

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 2019 scorecard. For years following 2019, the structure of the annual bonus scorecard will be reviewed by the Remuneration Committee.

2019 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.

Annual Report on Remuneration 2018
continued

Recruitment

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

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

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

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.

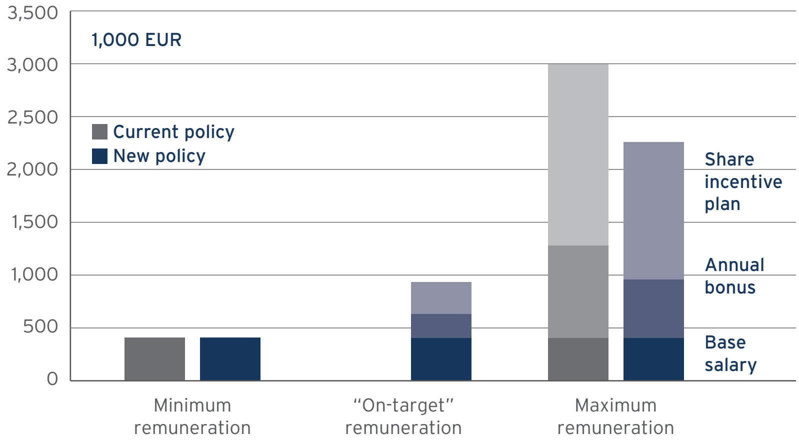
1 Mr A. Schenato had an initial one-year term that expired on 31 December 2017 under his appointment letter because he performed different roles in the Company for the previous years (COO and Director)

Annual Report on Remuneration 2018
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 2018. 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 is 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 and Group 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
23 April 2019

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 2018 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 their preparation 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:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit 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.

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) that 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.

Key Audit Matter	How the matter was addressed in our audit
Carrying value of oil and gas exploration and production assets as detailed in note 3 and 4	We reviewed the licence agreements and confirmed that group holds valid licences and gained an understanding of the licence conditions and remaining term.
At 31 December 2018 the group held exploration and evaluation assets of $2.4m and $2.8m of development and production assets as detailed in note 15 and 16. 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. The impairment reviews require judgment and estimate in determining whether indicators of impairment exist and, in respect of the discounted cash flow models significant estimates in selecting inputs, together with significant judgment regarding the likelihood of licences being renewed / converted to production licences prior to their expiry in November and December 2019. As a result of these factors this represented a key focus area for our audit and a key audit matter.	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 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 rates. 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 and November 2019 respectively. In doing so we obtained documents demonstrating the advanced status of submissions for the licence conversions, confirmations from the relevant authorities that the group is in compliance with licence obligations and considered factors such as the exploration results to date. We specifically considered 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 public data on the pattern of extension and conversion of such licences in the West of Ukraine.

Key observations

We found management's conclusion that no indication of impairment exists on the exploration and production assets at Bitlyanska and Monastyretska to be appropriate. The disclosures in the notes are sufficient and in line with accounting standards.

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

Key Audit Matter	How the matter was addressed in our audit
Accounting treatment of the exit from the WGI JV As detailed in note 18 the group exited the WGI joint venture during 2018 and received $1.715m from Eni as part of the agreement which included the transfer of the group's interests in the historically impaired WGI JV and the group's shale gas projects to PJSC Nadra Ukrayny for nominal consideration. Given the material nature of this transaction to the group's results the accounting treatment of the transaction was a focus for our audit.	We assessed the accounting treatment for the amounts received from Eni as part of the exit from the WGI JV and shale gas projects, against the requirements of the relevant accounting standards. We made inquiries of management and the Audit Committee regarding the structure of the transaction, reviewed the accounting entries and relevant agreements and verified the receipt to bank.
Key observations	
We found the accounting treatment and presentation of the amounts received from Eni in the WGI JV and shale gas projects to be appropriate based on relevant accounting standards.	

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 $14.7m comprising $9.9m from gas trading activity, $4.7m from oil and gas production and $0.1m from services. We considered it appropriate, noting that this was the first year of application of IFRS 15 as detailed in note 2, to assess the appropriateness of the group's revenue recognition policies and their application for compliance with IFRS. In addition, there is inherent risk of material misstatement 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 revenue being recorded in the incorrect period.	We reviewed the terms of significant sales agreements and assessed the impact of such terms of revenue recognition. We assessed the group's revenue recognition policies for compliance with IFRS 15 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. 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. 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 which included verification of source documents such as acceptance notices. In respect of service revenues we obtained the contract, assessed the terms and recalculated the revenue for the period.
Key observations	
We found the revenue recognition policies to be compliant with IFRS and the presentation in the financial statements to be acceptable. Based on our work we did not identify any issues with the recording of revenue in the appropriate period.	

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	$730,000	$550,000
Basis for determining materiality	1.5% of total assets	1.5% of total assets, capped at 75% of group 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 $730,000 (FY 2017: $750,000), each significant component of the Group was audited to a lower performance materiality ranging from $97,500 to $412,500 (FY 2017: $90,000 to $420,000).

Performance materiality for the Parent Company was set at $412,500 (FY 2017: $420,000).

Performance materiality 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 $36,000 (FY 2017: $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 gas trading and oil services activities. We assessed there to be seven significant components within the Ukrainian sub-group, comprising components holding exploration & development assets, gas trading activities which 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 represent the principal business units and account for 100% of the group's revenue and 99% 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 by BDO LLP.

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

In setting the audit strategy we considered our approach in respect of the ability of the audit to detect irregularities, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as a fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

We considered the laws and regulations of the Ukraine and the UK to be of significance in the context of the Group audit. As part of our Group audit strategy direction was provided to the auditor of the significant components to ensure an assessment was performed on the extent of the components compliance with the relevant local and regulatory framework. As part of our Group audit work we reviewed this work and held meetings with relevant internal Management to form our own opinion on the extent of Group wide compliance. In addition our tests included, but were not limited to agreement of the Financial Statement disclosures to underlying supporting documentation, performing substantive testing on accounts balances which were considered to be at a greater risk of susceptibility to fraud and reviewed correspondence with regulators in so far as the correspondence related to the Financial Statements.

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

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 the Ukraine to meet with component management during the audit.
- We performed a review of the component audit files in the Ukraine and held calls and 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.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual financial report, other than the financial statements and our auditor's report thereon. 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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 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 and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the Statement of directors' responsibilities set out on page 47, 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 and subsequent years. This is the second 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.

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.

Ryan Ferguson
(Senior Statutory Auditor)
For and on behalf of BDO LLP
Statutory Auditor
London, United Kingdom
23 April 2019

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 2018

	Notes	2018 $'000	2017 $'000
CONTINUING OPERATIONS			
Revenue	6	**14,730**	15,145
Cost of sales		**(12,849)**	(13,093)
Gross profit		**1,881**	2,052
Administrative expenses	7	**(4,762)**	(4,981)
Reversal of impairment/(impairment) of oil and gas assets		**(56)**	(162)
Reversal of impairment of other assets	8	**1,730**	1,513
Impairment of other assets	8	**(751)**	(51)
Share of losses in joint venture	18	**-**	(2,323)
Net foreign exchange losses		**(58)**	(116)
Other operating income, net	9	**2,419**	480
Operating profit/(loss)		**403**	(3,588)
Finance income, net	12	**636**	672
Profit/(Loss) before tax		**1,039**	(2,916)
Tax benefit	13	**178**	1,332
Profit/(Loss) for the year		**1,217**	(1,584)
Attributable to:			
Owners of the Company		**1,220**	(1,585)
Non-controlling interest		**(3)**	1
		1,217	(1,584)
Profit/(Loss) per Ordinary share		**cents**	cents
Basic	14	**0.5**	(0.7)

The notes on pages 59 to 80 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 $'000	2017 $'000
Profit/(loss) for the year	**1,217**	(1,584)
Other comprehensive profit/(loss)		
Items that may be reclassified subsequently to profit or loss:		
Unrealised currency translation differences	**354**	(671)
Other comprehensive loss	**354**	(671)
Total comprehensive profit/(loss) for the year	**1,571**	(2,255)
Attributable to:		
Owners of the Company	**1,574**	(2,256)
Non-controlling interest	**(3)**	1
	1,571	(2,255)

The notes on pages 59 to 80 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	15	**2,386**	1,715
Property, plant and equipment	16	**3,297**	2,095
Prepayments for non-current assets		**1,318**	–
Deferred tax asset	22	**501**	323
		7,502	4,133
Current assets			
Inventories	19	**4,487**	2,292
Trade and other receivables	20	**2,472**	4,497
Assets held for sale		**165**	–
Cash and cash equivalents	21	**35,136**	37,640
		42,260	44,429
Total assets		**49,762**	48,562
LIABILITIES			
Non-current liabilities			
Provisions	25	**(39)**	(412)
		(39)	(412)
Current liabilities			
Trade and other payables	24	**(1,271)**	(1,406)
Liabilities held for sale		**(140)**	–
Provisions	25	**(276)**	(358)
		(1,687)	(1,764)
Total liabilities		**(1,726)**	(2,176)
NET ASSETS		**48,036**	46,386
EQUITY			
Share capital	26	**13,525**	13,525
Share premium		**329**	329
Retained earnings		**194,062**	192,842
Cumulative translation reserves		**(161,816)**	(162,170)
Other reserves		**1,668**	1,589
Equity attributable to owners of the Company		**47,768**	46,115
Non-controlling interest		**268**	271
TOTAL EQUITY		**48,036**	46,386

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 23 April 2019. They were signed on its behalf by:

Guido Michelotti
Chief Executive Officer
23 April 2019

The notes on pages 59 to 80 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Operating profit/(loss)		**403**	(3,588)
Adjustments for:			
Depreciation of property, plant and equipment	16	**425**	211
Impairment of oil and gas assets		**56**	162
Impairment of property, plant and equipment	8	**751**	-
Termination fee on exit from WGI	18	**(1,700)**	-
Share of losses in joint ventures	18	**-**	2,323
Impairment of receivables	8	**-**	51
Reversal of impairment of inventories	8	**(107)**	(77)
Reversal of impairment of VAT recoverable	8	**(1,730)**	(1,436)
Gain on disposal of property, plant and equipment		**(45)**	(9)
Effect of foreign exchange rate changes		**58**	116
Operating cash flows before movements in working capital		**(1,889)**	(2,247)
Increase in inventories		**(2,100)**	(564)
Decrease in receivables		**3,651**	469
Increase in payables and provisions		**84**	367
Cash from operations		**(254)**	(1,975)
Interest paid		**(130)**	(298)
Interest on receivables received		**-**	500
Interest received		**230**	61
Income taxes paid		**-**	(107)
Net cash outflow from operating activities		**(154)**	(1,819)
Investing activities			
Proceeds from termination fee on exit from WGI		**1,700**	-
Purchases of property, plant and equipment		**(3,944)**	(68)
Purchases of intangible exploration and evaluation assets		**(857)**	(568)
Proceeds from sale of property, plant and equipment		**58**	198
Interest received		**553**	205
Net cash used in investing activities		**(2,490)**	(233)
Financing activities			
Proceeds from short-term borrowings		**3,965**	3,365
Repayments of short-term borrowings		**(3,887)**	(7,075)
Net cash from/(used in) financing activities		**78**	(3,710)
Net decrease in cash and cash equivalents		**(2,566)**	(5,762)
Effect of foreign exchange rate changes		**102**	102
Cash and cash equivalents held for sale at end of year		**(40)**	-
Cash and cash equivalents at beginning of year		**37,640**	43,300
Cash and cash equivalents at end of year		**35,136**	37,640

The notes on pages 59 to 80 form an integral part of these financial statements.

OVERVIEW STRATEGIC REPORT CORPORATE GOVERNANCE REMUNERATION REPORT FINANCIAL STATEMENTS GLOSSARY SHAREHOLDER INFORMATION

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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 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 1 January 2018	**13,525**	**329**	**192,842**	**(162,170)**	**1,589**	**46,115**	**271**	**46,386**
Net profit for the year	–	–	1,220	–	–	1,220	(3)	1,217
Other comprehensive profit	–	–	–	354	–	354	–	354
Total comprehensive profit for the year	**-**	**-**	**1,220**	**354**	**-**	**1,575**	**(3)**	**1,572**
Issue of ordinary shares	–	–	–	–	79	79	–	79
As at 31 December 2018	**13,525**	**329**	**194,062**	**(161,816)**	**1,668**	**47,768**	**268**	**48,036**

The notes on pages 59 to 80 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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 9 and the Financial Review on page 10.

2. Adoption of new and revised Standards

New IFRS accounting standards, amendments and interpretations not yet adopted

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

IFRS 9 introduced new requirements for:

i. The classification and measurement of financial assets and financial liabilities,

ii. Impairment of financial assets, and

iii. General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below. The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has not had significant impact on the Group's financial assets as regards their classification and measurement and have not had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income in either year. The Group's financial assets are held at amortised cost.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Group and the Company to recognise a loss allowance for expected credit losses on trade receivables and receivables from subsidiaries to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances. The impact of ECL provisions on the Group was insignificant.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

2. Adoption of new and revised Standards continued

(c) Classification and measurement of financial liabilities continued

The change to classification and measurement of financial liabilities had no impact on the Group.

(d) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

The application of IFRS 9 has had no impact on the consolidated financial position, financial result and cash flows of the Group but led to changes to disclosures and accounting policies.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. IFRS 15 introduced a single framework for revenue recognition and clarified principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of IFRS 15 did not result in any material change to the Group's revenue recognition following analysis of its contracts.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances.

The Group's accounting policies for its revenue are disclosed in detail in note 3 below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- Amendments to IAS 28 Investments in Associates and Joint Ventures
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 16 Leases
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements
- IAS 12 Income Taxes and IAS 23 Borrowing Costs
- IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 23 Uncertainty over Income Tax Treatments

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize right-of-use assets and lease liabilities for all material leases. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Group's well service and rental arrangements in Ukraine for oil and gas extraction activities are outside of the scope of IFRS 16.

As for other IFRS Standards the directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

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.

The principal accounting policies adopted are set out below:

(b) Going concern

The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Strategic Report on pages 5 to 17. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on page 10.

The Group's cash balance at 31 December 2018 was $35.2 million (2017: $37.6 million) prior to the loan to Proger detailed in Note 30 of €13.4 million ($15.2 million). It includes pledged cash of $7.0 million (2017: $7.0 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 12.

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.

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

3. Significant accounting policies continued

(d) Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non-Current Assets held for sale and Discontinued Operations. 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 from contracts with customers is recognized when or as the Group satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. 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 value added tax ('VAT') and other sales-related taxes, excluding royalties on production. Royalties on production are recorded within cost of sales.

E&P and Trading business segments

The transfer of control of hydrocarbons usually coincides with title passing to the customer and the customer taking physical possession as the product passes a physical point such as a designated point in the pipeline for the sale of gas or loading point in the case of oil. The Group principally satisfies its performance obligations at a point in time.

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.

Service business segment

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. Revenue is recorded as the service is provided over time such as through day rates for supply of drill rigs, civil works and manpower.

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.

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.

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 2018		Year ended 31 December 2017	
	GBP/USD	**USD/UAH**	GBP/USD	USD/UAH
Closing rate	**1.2768**	**27.7477**	1.3494	28.3865
Average rate	**1.3415**	**27.2324**	1.2890	26.8034

(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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

3. Significant accounting policies continued

(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.

(n) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Trade and other payables

Payables are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

Trade and other receivables are recognised initially at their transaction price in accordance with IFRS 9 and are subsequently measured at amortised cost. The Group applies the simplified approach to providing for expected credit losses (ECL) prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Expected credit losses are assessed on a forward looking basis. The loss allowance is measured at initial recognition and throughout its life at an amount equal to lifetime ECL. Any impairment is recognised in the income statement.

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.

(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 and estimates

(a) Impairment indicator assessment for 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 assesses its E&E assets for impairment indicators and if indicators of impairment are identified performs an impairment test. In assessing potential indicators of impairment judgment was required and management considered factors such as the remaining term of the licence and plans for renewal and conversion to a production licence, reserves reports and the net present value of economic models, the results of drilling and exploration in the year and the future plans including farm out proposals. In respect of the renewal and conversion of the licence management considered the status of licence commitments, the status of submissions necessary for the renewal and trends in the relevant region of the Ukraine with respect to licence application approval (note 15).

(b) Impairment of PP&E

Management assesses its development and production assets for impairment indicators and if indicators of impairment are identified performs an impairment test. In assessing potential indicators of impairment judgment was required and management considered factors such as the remaining term of the licence and plans for renewal and conversion to a production licence, reserves reports and the net present value of economic models and planned drilling. In respect of the renewal and conversion of the licence, management considered the status of licence commitments, the status of submissions necessary for the renewal and trends in the relevant region of the Ukraine with respect to licence application approval (note 16). No impairment was determined to be appropriate.

In respect of other assets an impairment of $0.7 million was considered appropriate at 31 December 2018 in respect of gas plant and infrastructure assets associated with the Pirkovska licence which earlier expired, reflecting the sale value achieved subsequent to year end on the gas plant and the risk that ancillary infrastructure may be abandoned. The licence costs were impaired historically (note 17).

(c) Recoverability and measurement of VAT

Judgment and estimation are required in assessing the recoverability of VAT assets and the extent to which historical impairment provisions remain appropriate, particularly noting the recent recoveries against historically impaired VAT. In forming this assessment, the Group considers the nature and age of the VAT, future vatable supplies, the pattern of recoveries and risks and uncertainties associated with the operating environment.

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.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

5. Segment information continued

As of 31 December 2018 and for the year then ended the Group's segmental information was as follows:

	Exploration and Production $'000	Service[2] $'000	Trading $'000	Consolidated $'000
Sales of hydrocarbons	4,570	–	10,037	14,607
Other revenue	–	123	–	123
Sales between segments	129	–	(129)	–
Total revenue	**4,699**	**123**	**9,908**	**14,730**
Cost of sales	(3,739)	(24)	(9,086)	(12,849)
Administrative expenses	(535)	(36)	(74)	(645)
Finance income, net (note 11)[1]	–	–	(57)	(57)
Segment results	**425**	**63**	**691**	**1,179**
Unallocated administrative expenses				(4,117)
Other income, net				4,091
Reversal of impairment of oil and gas assets				(56)
Net foreign exchange loss				(58)
Profit before tax				**1,039**

1 Net finance income includes $135 thousand of interest on short-term borrowings and $78 thousand of interest on cash deposits used for trading
2 The services business segment in 2018 primarily provided well work-overs and other works to other Group companies as tenders secured with third parties had been deferred by customers

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	–	13,366	15,145
Sales between segments	630	–	(630)	–
Total revenue	**2,409**	**-**	**12,736**	**15,145**
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)**	**1,370**	**1,612**
Unallocated administrative expenses				(4,236)
Other income, net				2,309
Impairment of oil and gas assets				(162)
Share of loss in joint ventures				(2,323)
Net foreign exchange loss				(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

6. Revenue

	2018 $'000	2017 $'000
Sale of hydrocarbons (trading) – point in time	**9,908**	12,736
Sale of hydrocarbons (exploration and production) – point in time	**4,699**	2,409
Service revenues – over time	**123**	–
	14,730	15,145

Revenue is generated in the Ukraine. Refer to note 3(f) for details of the performance obligations. Service revenue and associated contract assets and liabilities are immaterial.

Information about major customers

Included in revenues arising from the Trading segment for the year ended 31 December 2018 are revenues of $6.9 million (2017: $7.4 million), which arose from sales to the Group's three largest customers. No other single customers contributed 10 per cent or more to the Group's revenue in either 2018 or 2017.

7. Administrative expenses

	2018 $'000	2017 $'000
Staff	**2,570**	2,531
Professional fees	**1,247**	1,206
Office rent	**181**	161
Travel	**176**	238
IT and communication	**133**	142
Insurance	**88**	177
Bank charges	**63**	58
Other	**304**	468
	4,762	4,981

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

	2018 $'000	2017 $'000
VAT recoverable	**1,730**	1,436
Inventories	**-**	77
Reversal of impairment of other assets	**1,730**	1,513

$1.7 million (2017: $1.4 million) of provision against VAT has been released following receipts in cash and offsets against output VAT of VAT refund balances that has been impaired in previous years due to collectability issues. $5.0 million of VAT refunds still remains impaired. Refer to note 3.

At 31 December 2018, $107 thousand (2017: $77 thousand) of impairment has been released following the sale of previously impaired inventory.

	2018 $'000	2017 $'000
Receivables	**-**	(51)
Other Property, Plant and Equipment	**(751)**	–
Impairment of other assets	**(751)**	(51)

Impairment of other PPE includes $0.43 million of impairment reflecting the recoverable value of the gas plant on the Pirkivska licence to reduce the asset value down to the sale consideration received in February 2019 on its disposal; and $0.32 million of impairment of other ancillary infrastructure assets at Pirkivska which are likely to require abandonment.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

9. Other operating income, net

	2018 $'000	2017 $'000
Termination fee on exit from WGI	**1,715**	–
Other	**704**	480
	2,419	480

For the details on Termination fee on exit from WGI please refer to Note 18.

10. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2018 $'000	2017 $'000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**114**	229
Fees payable to the Company's auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	**–**	13
Total audit fees	**114**	242
Non-audit fees		
– Audit-related assurance services	**43**	5
– Taxation compliance services	**–**	33
Non-audit fees	**43**	38

Audit fees for 2018 refer to BDO LLP of $114 thousand for the audit of group accounts as of and for the year ended 31 December 2018. 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.

11. Staff costs

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

	2018 Number	2017 Number
Executive Directors	**1**	1
Other employees	**64**	68
	65	69
Total number of employees at 31 December	**82**	69

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	**2,038**	2,150
Annual bonus	**380**	179
Social security costs	**399**	290
	2,817	2,619

Within wages and salaries $0.8 million (2017: $0.8 million) relates to amounts accrued and paid to the Executive Director for services rendered.

12. Finance income/(costs), net

	2018 $'000	2017 $'000
Interest expense on short-term borrowings	**(135)**	(256)
Total interest expense on financial liabilities	**(135)**	(256)
Interest benefit on tax provision	**-**	189
Interest income on receivables	**-**	494
Interest income on cash deposits in Ukraine	**230**	67
Investment revenue	**553**	205
Total interest income on financial assets	**783**	955
Unwinding of discount on decommissioning provision (note 25)	**(12)**	(27)
	636	672

13. Tax

	2018 $'000	2017 $'000
Current tax	**-**	-
Adjustment in relation to the current tax of prior years	**-**	(1,009)
Deferred tax	**-**	-
Recognition of previously unrecognised deferred tax assets	**(178)**	(323)
	(178)	(1,332)

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% (2017: 18%), the rate of profit tax in Ukraine, which is the primary source of revenue for the Group. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	2018 $'000	2018 %	2017 $'000	2017 %
Profit/(loss) before tax	**1,039**	**100**	(2,916)	100
Tax credit at Ukraine corporation tax rate of 18% (2017: 18%)	**187**	**18**	(525)	18
Permanent differences	**(1,652)**	**(159)**	(923)	32
Unrecognised tax losses generated in the year	**972**	**94**	1,174	(40)
Recognition of previously unrecognised deferred tax assets	**(178)**	**(17)**	(323)	11
Tax credit related to the Joint venture losses	**-**	**-**	418	(14)
Effect of different tax rates	**493**	**47**	(144)	5
	(178)	**(17)**	(323)	12
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	**(178)**	**-**	(1,332)	-

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 2018

14. Profit/(loss) per Ordinary share

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

Profit/(loss) attributable to owners of the Company	**2018 $'000**	2017 $'000
Profit/(loss) for the purposes of basic profit/(loss) per share being net profit/(loss) attributable to owners of the Company	**1,220**	(1,585)

Number of shares	**2018 Number '000**	2017 Number '000
Weighted average number of Ordinary shares for the purposes of basic profit/(loss) per share	**235,729**	232,251

Profit/(Loss) per Ordinary share	**2018 Cent**	2017 Cent
Basic	**0.5**	(0.7)

The Group has no potentially dilutive instruments in issue. Therefore, no diluted profit/(loss) per share is presented above.

15. Intangible exploration and evaluation assets

Cost	$'000
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 1 January 2018	**21,068**
Additions	857
Disposals	–
Change in estimate of decommissioning assets (note 24)	(274)
Exchange differences	533
At 31 December 2018	**22,184**
Impairment	
At 1 January 2017	**19,994**
Exchange differences	(641)
At 1 January 2018	**19,353**
Exchange differences	445
At 31 December 2018	**19,798**
Carrying amount	
At 31 December 2018	**2,386**
At 31 December 2017	1,715

The carrying amount of E&E assets as at 31 December 2018 of $2.4 million (2017: $1.7 million) relates to Bitlyanska licence. Management has performed an impairment indicator review. Refer to note 4 (a). As part of the information considered management assessed the Bitlyanska licence's value in use based on the underlying discounted cash flow forecasts which demonstrated significant headroom over carrying value. The impairment review supported the conclusion that no impairment was applicable.

16. Property, plant and equipment

Cost	Development and production assets $'000	Other $'000	Total $'000
At 1 January 2017	**5,473**	**2,803**	**8,276**
Additions	133	148	281
Change in estimate of decommissioning assets (note 25)	73	–	73
Transfer from E&E	937	–	937
Disposals	(51)	(324)	(375)
Exchange differences	(193)	(90)	(283)
At 1 January 2018	**6,372**	**2,537**	**8,909**
Additions	2,150	447	2,597
Change in estimate of decommissioning assets (note 25)	(94)	–	(94)
Disposals	(25)	(192)	(217)
Transferred to Assets held for sale	–	(125)	(125)
Exchange differences	129	54	183
At 31 December 2018	**8,532**	**2,721**	**11,253**
Accumulated depreciation and impairment			
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 1 January 2018	**5,401**	**1,413**	**6,814**
Impairment	56	751	807
Charge for the year	236	189	425
Disposals	(4)	(200)	(204)
Exchange differences	83	32	115
At 31 December 2018	**5,772**	**2,185**	**7,956**
Carrying amount			
At 31 December 2018	**2,760**	**536**	**3,297**
At 31 December 2017	971	1,124	2,095

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 2018 of $1.9 million relates to the Monastyretska licence. Depreciation includes $0.2 million for the Monastyretska licence.

Management has performed an impairment indicator review of Development and production assets. 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 indicator existed and impairment was not applicable. Key assumptions used in the impairment assessment were: future oil prices which were assumed at a constant $370, real per tonne; 1P reserves and a pre-tax discount rate of 20%, real.

Refer to note 4 for details of the impairment of other assets.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

17. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2018:

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, EC3V 0HR, United Kingdom
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	Dormant	Commerce House, 1 Bowring Road, Ramsey, Isle of Man IM8 2LQ
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	Production	8, Mitskevycha sq., Lviv, Ukraine, 79000
LLC USENCO Nadra	Ukraine	95	Production	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	Exploration	Via Triulziana 16c, San Donato Milanese Milano, CAP 20097, Italy

18. Joint venture

In 2017, Eni informed its partners, NJSC "Nadra Ukrayny" and Cadogan Ukraine, of its intention to exit the parties' WGI joint venture. In 2017, as a result of the uncertainty as to the future exploration of the licences following the proposed exit by Eni which provided a carried interest to the Group, management impaired its 15% participating interest in the project as at 31 December 2017. The share of joint venture loss for the 2017 year of $2.3 million comprised the Group's 15% share in WGI's loss for the period of $0.7 million and $1.6 million related to impairment of the investment in joint venture.

During 2018 discussions were on-going on the terms of Eni's exit and, generally, on the future of the project. As a result, Eni and Cadogan exited from WestGasInvest LLC. Under the terms of the agreements for which Cadogan received from Eni at the end of the year project termination fee of $1.7 million from Eni. Cadogan agreed to (i) to transfer its own shares in WGI to Nadra Ukrayny for a nominal consideration which took place in late 2018 and (ii) to transfer its shares in the company operating the Debeslavetska and Cheremkhivsko-Strupkivska gas licences to WGI. The gas producing assets, were subject to punitive tax regime of 70% and to Cadogan were sub-economic and carried no value. The transfer of gas producing assets have occurred in January 2019.

The termination fee has been treated as other operating income rather than as a gain on disposal as the fee was received from Eni which is not the recipient of the transfer of equity in the gas assets, being NJSC Nadra Ukrayny.

19. Inventories

	2018 $'000	2017 $'000
Natural gas	**3,584**	1,312
Other inventories	**1,080**	1,143
Impairment provision for obsolete inventory	**(177)**	(163)
Carrying amount	**4,487**	2,292

The impairment provision as at 31 December 2018 and 2017 is made so as to reduce the carrying value of the obsolete inventories to net realisable value.

20. Trade and other receivables

	2018 $'000	2017 $'000
VAT recoverable	**1,874**	896
Trading prepayments	**258**	1,797
Trading receivables	**39**	1,338
Receivable from joint venture	**62**	56
Other receivables	**239**	410
	2,472	4,497

Trading prepayments represent actual payments made by the Group to suppliers for the January 2019 gas supply.

Trading receivables represent current receivables from customers and were repaid within four month 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 $5.0 million (2017: $6.4 million) against Ukrainian VAT receivable that has been recognised as at 31 December 2018. VAT recoverable relates to the oil production and gas trading operations and has been recovered since year end or is expected to be recovered through the gas and oil sales VAT.

21. Notes supporting statement of cash flows

Cash and cash equivalents as at 31 December 2018 of $35.2 million (2017: $37.6 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 2018 total amount of pledged cash is $7 million (2017: $7 million), which related to security of borrowings and held at UK bank (note 23).

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

	Short term borrowings $'000
At 1 January 2017	**3,574**
Cash flows	(3,710)
Effects of foreign exchange	136
At 1 January 2018	-
Cash flows	78
Effects of foreign exchange	(78)
At 31 December 2018	-

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

22. Deferred tax

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

	Temporary differences $'000
Liability as at 1 January 2017	**-**
Deferred tax benefit	323
Exchange differences	-
Asset as at 1 January 2018	**323**
Deferred tax benefit	178
Exchange differences	-
Asset as at 31 December 2018	**501**

At 31 December 2018, the Group had the following unused tax losses available for offset against future taxable profits:

	2018 $'000	2017 $'000
UK	**12,634**	15,028
Ukraine	**180,982**	182,469
	193,615	197,497

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 $12.4 million (2017: $15.0 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. No deferred tax asset is recorded.

Unused tax losses incurred by Ukraine subsidiaries amount to $181.0 million (2017: $182.5 million). Under general tax law provisions, these losses may be carried forward indefinitely to be offset against any type of taxable income arising from the same company. Tax losses may not be surrendered from one Ukraine subsidiary to another. The deferred tax asset recorded is expected to be utilised based on forecasts and relates to oil production subsidiaries which are generating taxable profits.

23. 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 placed at the European bank in the UK.

The outstanding amount as at 31 December 2018 and 2017 was $nil. Interest is paid monthly and as at 31 December 2018 and 2017 accrued interest amounted to $nil.

24. Trade and other payables

	2018 $'000	2017 $'000
Accruals	**660**	480
Trade creditors	**437**	264
Trading payables	**51**	477
VAT payable	**-**	17
Other payables	**123**	168
	1,271	1,406

Trade creditors and accruals principally comprise amounts outstanding for ongoing costs. The average credit period taken for trade purchases is 28 days (2017: 35 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.

25. Provisions

The provisions at 31 December 2018 comprise of $0.3 million (2017: $0.8 million) of decommissioning provision.

Decommissioning	$'000
At 1 January 2017	**678**
Change in estimate (note 15 and 16)	100
Unwinding of discount on decommissioning provision (note 12)	27
Exchange differences	(35)
At 1 January 2018	**770**
Change in estimate (note 15 and 16)	(368)
Utilisation of provision on impaired oil and gas assets	(131)
Transferred to liability held for sale	(16)
Unwinding of discount on decommissioning provision (note 12)	12
Exchange differences	48
At 31 December 2018	**315**
At 1 January 2017	**678**
Non-current	412
Current	358
At 1 January 2018	**770**
Non-current	39
Current	276
At 31 December 2018	**315**

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 (2017: $0.3 million) has been made for decommissioning costs, which are expected to be incurred within the next year as a result of the demobilisation of drilling equipment and respective site restoration.

26. Share capital

	2018		2017	
Authorised and issued equity share capital	**Number**	**$'000**	Number	$'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**	235,729	13,525

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**
Issued during year	–
At 31 December 2018	**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.

27. 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

27. Financial instruments continued

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Categories of financial instruments	2018 $'000	2017 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**35,136**	37,640
Trading receivable	**39**	1,338
Other receivables	**239**	410
Receivable from joint venture	**62**	56
	35,476	39,444
Financial liabilities – measured at amortised cost		
Accruals	**660**	480
Trade creditors	**437**	264
Trading payables	**51**	477
Other payables	**123**	168
	1,271	1,389

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 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 Organization of the Petroleum Exporting Countries.

These fluctuations may have a significant effect on the Group's revenues and operating profits going forward. In 2018 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.

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 2018 have been paid within four months after year end, there were no material past due receivables as at year end.

27. Financial instruments continued

The Group makes allowances for expected credit losses on receivables in accordance with its accounting policy.

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				
Trade and other payables	1,406	–	–	1,406
At 31 December 2018				
Trade and other payables	1,271	–	–	1,271

28. 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:

	2018 $'000	2017 $'000
Within one year	**1,583**	931
Between two and five years	**-**	829
	1,583	1,760

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.

29. 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 resulted in the joint venture LLC Westgasinvest being accounted for under the equity method and disclosed as a related party.

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

	2018 $'000	2017 $'000
Revenues from services provided and sales of goods	**-**	84
Amounts owed by related parties	**62**	56

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2018

29. Related party transactions continued

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 2018 on pages 32 to 46.

	Purchase of services		Amounts owing	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Directors' remuneration	**1,182**	1,392	**230**	204

The total remuneration of the highest paid Director was $0.8 million in the year (2017: $0.7 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.

30. Events after the balance sheet date

On 26 February 2019 the Group has entered into a Euro 13,385,000 loan agreement with Proger Managers & Partners s.r.l. ("PMP"), a privately owned Italian company whose only interest is a 59.6% participation in Proger Ingegneria s.r.l. ("Proger Ingegneria"), a privately owned company which has a 67.9% participating interest in Proger s.p.a. ("Proger").

The loan carries an entitlement to interest at a rate of 5.5% per year, payable at maturity (which is 24 months after the execution date and assuming that the call option described below is not exercised). The principal of the loan is secured by a pledge on PMP's current participating interest in Proger Ingegneria s.r.l., up to a maximum guaranteed amount of Euro 13,385,000.

Proger is a privately-owned international contractor, providing some of the world's largest companies with comprehensive engineering, project management and security solutions. Its second largest shareholder, with a 27.4% participating interest, is SIMEST, the Italian government agency which supports local companies to achieve export driven growth. Proger is based in Italy, with offices in the Middle East, Africa and Europe, and is involved in major projects around the world, including significant oil and gas, energy and infrastructure installations, and has more than 60 years' experience.

The loan will be used to finance Proger business plan which targets a material increase of EBITDA over the next 5 years, driven by the expansion of energy projects in the Middle East as well as by the development of its integrated services business. In exchange for providing the loan, and besides the pledge on PMP's current participating interest in Proger Ingegneria, the Group has secured:

i. The right to designate two out of the seven directors in each of Proger and Proger Ingegneria's Boards of Directors. One of the two directors designated by the Group will be appointed as Proger's Chairman of the Board, with a supervisory role on financial affairs.

ii. The right to designate one of the three members of Statutory Auditors in each of Proger and Proger Ingegneria Boards.

iii. A call option to acquire, at its sole discretion, 33% of the participating interest that PMP will be holding in Proger Ingegneria as a result of its forthcoming subscription; the exercise of the option would give the Group an indirect 22% interest in Proger. The call option is granted at no additional cost and can be exercised at any time between the 6th (sixth) and 24th (twenty-fourth) months following the execution date of the loan agreement and subject to the Group's shareholders having approved the exercise of the call option as explained further below. Should the Group exercise the call option, the price for the purchase of the 33% participating interest in Proger Ingegneria shall be paid by setting off the corresponding amount due by PMP to the Group, by way of reimbursement of the principal, pursuant to the loan agreement. If the call option is exercised, then the obligation on PMP to pay interest is extinguished.

This exercise of the call option (or the enforcement of the pledge referred to above) would be likely to constitute a reverse takeover for the Group under the Listing Rules.

In that instance, the exercise of the call option would be subject to and require publication of: (i) a shareholder circular and notice to convene a general meeting seeking the Group shareholder approval of the proposed exercise of the call option by the Group; and (ii) a prospectus in connection with the proposed re-admission of the Group's shares to the Standard segment of the Official List and to trading on the London Stock Exchange (as the Group's listing would be cancelled following the consummation of a reverse takeover).

The Group is currently analysing the accounting treatment of the loan instrument and option in the financial statements for 2019.

Company Balance Sheet

As at 31 December 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Non-current assets			
Investments	33	**-**	-
Receivables from subsidiaries	34	**28,457**	19,576
		28,457	19,576
Current assets			
Trade and other receivables	34	**-**	78
Cash and cash equivalents	34	**17,477**	27,406
		17,477	27,484
Total assets		**45,934**	47,060
LIABILITIES			
Current liabilities			
Trade and other payables	35	**(614)**	(671)
		(614)	(671)
Total liabilities		**(614)**	(671)
Net assets		**45,320**	46,389
EQUITY			
Share capital	36	**13,525**	13,525
Share premium		**329**	329
Retained earnings[1]		**140,106**	141,254
Other reserve		**79**	-
Cumulative translation reserves	37	**(108,719)**	(108,719)
Total equity		**45,320**	46,389

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 23 April 2019.

They were signed on its behalf by:

Guido Michelotti
Chief Executive Officer
23 April 2019

1 Included in retained earnings, loss for the financial year ended 31 December 2018 was $1.6 million (2017: $20.9 million)

The notes on pages 84 to 86 form part of these financial statements.

Company Cash Flow Statement

For the year ended 31 December 2018

	2018 $'000	2017 $'000
Operating activities		
Loss for the year	**(1,148)**	(20,868)
Adjustments for:		
Interest received	**(468)**	(185)
Effect of foreign exchange rate changes	**(74)**	(74)
Impairment of receivables from subsidiaries	**(78)**	19,376
Operating cash flows before movements in working capital	**(1,768)**	(1,751)
(Increase)/decrease in receivables	**78**	(61)
Increase in payables	**22**	255
Cash used in operations	**(1,668)**	(1,557)
Income taxes paid	**-**	-
Net cash outflow from operating activities	**(1,668)**	(1,557)
Investing activities		
Interest received	**468**	185
Loans to subsidiary companies	**(8,803)**	325
Net cash from/(used in) investing activities	**(8,335)**	510
Net decrease in cash and cash equivalents	**(10,003)**	(1,047)
Effect of foreign exchange rate changes	**74**	73
Cash and cash equivalents at beginning of year	**27,406**	28,380
Cash and cash equivalents at end of year	**17,477**	27,406

The notes on pages 84 to 86 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital $'000	Share premium account $'000	Retained earnings $'000	Other Reserve $'000	Cumulative translation reserves $'000	Total $'000
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 1 January 2018	**13,525**	**329**	**141,254**		**(108,719)**	**46,389**
Net loss for the year	–	–	(1,148)	–	–	(1,148)
Total comprehensive loss for the year	–	–	(1,148)	–	–	(1,148)
Issue of ordinary shares	–	–	–	79	–	79
As at 31 December 2018	**13,525**	**329**	**140,106**	**79**	**(108,719)**	**45,320**

The notes on pages 84 to 86 form part of these financial statements.

Notes to the Company Financial Statements

For the year ended 31 December 2018

31. 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 2018 of $1.1 million (2017: $20.9 million).

Investments

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

Receivables from subsidiaries

Loans to subsidiary undertakings are subject to IFRS 9's new expected credit loss model. As all intercompany loans are repayable on demand, the loan is considered to be in stage 3 of the IFRS 9 ECL model on the basis the subsidiary does not have enough liquid assets in order to repay the loans if demanded. Lifetime ECLs are determined using all relevant, reasonable and supportable historical, current and forward-looking information that provides evidence about the risk that the subsidiaries will default on the loan and the amount of losses that would arise as a result of that default. All recovery strategies indicated that the Company will fully recover the full balances of the loans so no ECL has been recognised in the current period.

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 critical estimates and judgments referred to application of the expected credit loss model to intercompany receivables (note 33). Management determined that the interest free on demand loans were required to be assessed on the lifetime expected credit loss approach and assessed scenarios considering risks of loss events and the amounts which could be realised on the loans. In doing so, consideration was given to factors such as the cash held by subsidiaries and the underlying forecasts of the Group's divisions and their incorporation of prospective risks and uncertainties.

32. Auditor's remuneration

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

33. Investments

The Company's subsidiaries are disclosed in note 17 to the Consolidated Financial Statements. The investments in subsidiaries are all stated at cost less any provision for impairment.

34. 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 $341.0 million (2017: $331.9 million). The Company recognised no additional expected credit loss provisions in relation to receivables from subsidiaries in 2018 (2017: $19.4 million). The accumulated provision on receivables as at 31 December 2018 was $312.5 million (2017: $312.5 million). The carrying value of the receivables from the fellow Group companies as at 31 December 2018 was $28.5 million (2017: $19.6 million). Receivables from subsidiaries are interest free and repayable on demand. There are no past due receivables. The receivables are classified as non-current based on the expected timing of receipt notwithstanding their terms.

Trade and other receivables	**2018 $'000**	2017 $'000
Prepayments	**-**	-
Other receivables	**-**	78
	-	78

34. Financial assets continued

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 2018 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 21).

35. Financial liabilities

Trade and other payables	2018 $'000	2017 $'000
Accruals	**157**	214
Trade creditors	**75**	58
Other creditors and payables	**382**	399
	614	671

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2017: 39 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.

36. Share capital

The Company's share capital is disclosed in note 26 to the Consolidated Financial Statements.

37. 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.

38. Financial instruments

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to shareholders. Refer to note 27 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	2018 $'000	2017 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**17,477**	27,406
Amounts due from subsidiaries	**19,476**	19,576
	36,953	46,982
Financial liabilities – measured at amortised cost		
Trade creditors	**(75)**	(58)
	(75)	(58)

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.

Notes to the Company Financial Statements continued

For the year ended 31 December 2018

38. Financial instruments continued

Credit risk

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

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

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

Liquidity risk management

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

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

Foreign exchange risk and foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise, the Company 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 27 to the Consolidated Financial Statements.

39. Related parties

Amounts due from subsidiaries

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

	2018 $'000	2017 $'000
Cadogan Petroleum Holdings Limited	**28,457**	19,576
	28,457	19,576

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 2018 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 2018 on pages 32 to 46.

	Remuneration		Amounts owing	
	2018 $'000	2017 $'000	**2018 $'000**	2017 $'000
Directors' remuneration	**1,182**	989	**-**	-

The total remuneration of the highest paid Director was $0.8 million in the year (2017: $0.7 million).

40. Events after the balance sheet date

Events after the balance sheet date are disclosed in note 30 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 recovered than proved Resources but more certain to be recovered than possible 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	19 June 2019
Half Yearly results announced	August 2018
Annual results announced	April 2019

Investor relations
Enquiries to: info@cadoganpetroleum.com

Registered office
Shakespeare Martineau LLP,
6th Floor, 60 Gracechurch Street, London EC3V 0HR
Registered in England and Wales no. 05718406

Ukraine
48/50A Zhylyanska Street
Business center "Prime", 8th floor
01033 Kyiv
Ukraine

Email: info@cadoganpetroleum.com
Tel: +38 044 594 58 70
Fax: +38 044 594 58 71

www.cadoganpetroleum.com

CADOGAN
PETROLEUM PLC

Investor relations
Enquiries to: info@cadoganpetroleum.com

Registered office
Shakespeare Martineau LLP
6th Floor, 60 Gracechurch Street, London EC3V 0HR

Company number
Registered in England and Wales no. 5718406

Ukraine
48/50A Zhylyanska Street
Business Center "Prime", 8th floor
01033 Kyiv
Ukraine

Email: info@cadoganpetroleum.com
Tel: +38 044 594 58 70
Fax: +38 044 594 58 71

www.cadoganpetroleum.com