CADOGAN
PETROLEUM PLC

ANNUAL FINANCIAL REPORT 2019

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

OVERVIEW

Summary of 2019 01

Group Overview 02

STRATEGIC REPORT 04

Chairman's Statement 04

Chief Executive's Review 05

Operations Review 07

Financial Review 09

Risks and Uncertainties 11

Summary of Reserves and Resources 14

Corporate Responsibility 15

CORPORATE GOVERNANCE

Board of Directors 17

Report of the Directors 19

Corporate Governance Statement 23

Board Committee Reports 26

Annual Report on Remuneration 2019 32

FINANCIAL STATEMENTS

Statement of Directors' Responsibilities 46

Independent Auditor's Report 47

Financial Statements of Cadogan Petroleum plc

- Consolidated Income Statement 52
- Consolidated Statement of Comprehensive Income 53
- Consolidated Balance Sheet 54
- Consolidated Cash Flow Statement 55
- Consolidated Statement of Changes in Equity 56
- Notes to the Consolidated Financial Statements 57
- Company Balance Sheet 80
- Company Cash Flow Statement 81
- Company Statement of Changes in Equity 82
- Notes to the Company Financial Statements 83

GLOSSARY 86

SHAREHOLDER INFORMATION 87

Summary of 2019

Key Financial Highlights of 2019:

- Loss for the year: $2.1 million (2018: profit of $1.2 million)
- Average realized price: 47.2$/boe (2018: 51.3$/boe)
- Gross revenues[1]: $5.9 million (2018: $14.7 million)
- G&A[2]: $5.7 million (2018: $4.8 million)
- Loss per share: 0.9 cents (2018: profit of 0.5 cents)
- Cash at year end: $12.8 million (2018: $35.2 million)

Key Operational Highlights of 2019:

- Production: 104,816 boe (2018: 91,085 boe), a 15% increase year-on-year
- Gas trading loss of $2.0 million (2018: profit of $0.7 million)
- Services business loss of $0.01 million (2018: profit of $0.06 million), net of services provided to the group[3]
- No LTI/TRIs[4]
- ISO 14001 and ISO 45001 certifications validated by annual audit
- Conversion of the Monastyretska exploration license into the Blazhiv 20-year production license
- Blazhiv-10 successful drilling and consequent stable commercial production

Other

- Cadogan entered into a 2-year loan agreement (euros 13.385 million) with Proger Management & Partners Srl with an option to convert it into an indirect 24 % equity interest in Proger Spa.

1 Gross revenues of $5.9 million (2018: $14.7 million) included $0.9 million (2018: $9.9 million) from trading of natural gas, $4.9 million (2018: $4.7 million) from exploration and production and $0.06 million from services (2018: $0.1 million)
2 Administrative expenses ("G&A")
3 Astroservice LLC used its rig for the workover campaign on the Monastyretska licence
4 LTI: Lost Time Incidents; TRI: Total Recordable Incidents

Group Overview

The Group has continued to maintain exploration and production assets, to conduct gas trading operations and to operate an oil services 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 import of gas from Slovakia, Hungary and Poland and local purchase and sales with physical delivery of natural gas. The oil services business focuses on workover 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, monetizing the remaining value of our Ukrainian assets and supplementing E&P cash flow with revenues from gas trading and oil services
- Pursuing farm-out to progress investments in Ukrainian licenses
- Sourcing additional assets to diversify Cadogan's portfolio, both geographically and operationally

Both gas trading and the services business optimize the use of existing available resources, such as cash as working capital for trading and equipment and competences for the services 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 licenses in the West Ukraine. The average net production in 2019 was 288 boepd, a 15% increase over the production of the previous year. The additional oil production from the Monastyretska license more than off-set the loss of gas production from Debeslavetska and Cheremkhivska fields, which Cadogan exited in January 2019.

In January 2019, the Group finalized the transfer of its participatory interest in Debeslavetske JAA and Cheremkhivsko-Strupkivske JAA to NJSC Nadra as part of the 2018 trilateral agreement with Eni and NJSC Nadra on the exit of Eni from the shale gas project.

All regulatory approvals required to file the application for a 20-year production license, for the Monastyretska license, were received and the application was filed on 2 July 2019, well ahead of the license expiry date of 18 November 2019. The company was forced to shut-down its operations and production at the field for 30-days due to the absence of license award by the licensing authority of Ukraine post expiry date. The new Blazhiv 20-year oil production license (formerly Monastyretska exploration area) was issued on 19 December 2019. The Blazhiv-1 and Blazhiv-10 wells are currently in production. The production at Blazhiv-3 and Blazhiv-3 Monasterets is suspended waiting for the renewal of the rental agreements.

In 2019, the Bitlyanska license has been advertised for a farm-out partnership, but the preliminary discussions have not been satisfactory and were ended. The state subsoil controlling authority has confirmed, during the license audit, that the Company has fully fulfilled its license obligations. All regulatory approvals required to file the application for a 20-year exploration and production license were received and the application was filed on 29 August 2019, well ahead of the license expiry date of 23 December 2019. Required intermediary approvals including the one of Lviv's Regional Council and Environmental Impact Assessment have been obtained. The

company has been waiting the State Licensing Authority's award of the application. The Licensing Authority has delayed the grant of the new license beyond the regular timeline provided by the regulatory laws. Accordingly, Cadogan has launched a claim before the Administrative Court to challenge the non-granting of the 20-year production license by the Licensing Authority.

East Ukraine

The Pirkovska exploration license expired in October 2015. The Company filed an application in due time, but the Licensing Authority returned it 6 times for different reasons, the legal ground of which appears to be doubtful. Despite the efforts of Cadogan and its reply in due time to each of the comments, the license was not awarded, and the 3-year period for conversion, given to the applicant by law, expired in October2018. Cadogan launched a litigation before Administrative Court against the Licensing Authority for non-granting the production license.

Subsidiary businesses

Given the collapse in the gas price, which through the heating season had dipped below the level of the previous summer, unsold gas was kept in storage for the following heating season. The company has purchased 7.5 million m3 of gas in the declining price environment towards the end of 2019 to be sold during the upcoming 2020 trading season.

Finally, the Group continued providing oil services through its wholly owned subsidiary Astroservice LLC. Substantial resources of the company have been engaged to support Monastyretska license wells' operations.

Italy

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

Activity through the year was 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 licenses and a 25-fold increase of license 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 licenses are awarded, with a minimum impact on their exploration potential.

In February 2019, the Group entered in a 2-year loan agreement with Proger Management & Partners Srlwith an option to convert it into an indirect 24% equity interest in Proger Spa. Proger is an Italian engineering company providing services in Italy and in different international areas.

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.

Section 172 Statement

The Company's section 172 statement is presented on page 25 and forms part of this strategic report.

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 incidents; and
- to grow and geographically diversify the portfolio.

The Group's performance in 2019 against these KPI's is set out in the table below, together with the prior year performance data.

	Unit	**2019**	2018	2019 vs 2018
Average production (working interest basis)[1]	boepd	**288**	250	38
Overhead (G&A)	$ million	**5.7**	4.8	0.9
Basic (loss)/profit per share[2]	cents	**(0.9)**	0.5	(1.4)
Lost time incidents[3]	incidents	**0**	0	
Geographic diversification	new assets	**1**[4]		

1 Average production is calculated as the average daily production during the year
2 Basic (loss)/profit per ordinary share is calculated by dividing the net (loss)/profit 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 relate to the number of injuries where an employee/contractor is injured and has time off work (IOGP classification)
4 Loan to Proger Managers & Partners Srl with an option to convert it into an indirect 24 % equity interest in Proger Spa.

Chairman's Statement

Despite the changes that have occurred, Ukraine is still in the middle of its journey towards a developed and stable economy. The efforts to reform the country made limited progress and the key issues of reforms and transparency continued to be the main concerns of investors and international financial institutions. The political and economic outlook remains uncertain.

For Cadogan, 2019 has been a mixed year. The successful drilling of Blazhiv-10 has increased the oil production whilst the trading activities have not delivered the expected results. The Company maintained its operational activities but failed to build a sustainable business model leading to profits and positive operating cashflow. Importantly, the decision to commit part of its cash to a 2-year loan to Proger Managers & Partners Srl has not been addressing the main issues in developing a successful strategy for the Company.

Given this situation, a majority of the shareholders expressed, at the Extraordinary Shareholders Meeting in November 2019, their will to change the governance of the Company by replacing some of the directors with newly appointed ones.

The current world economic crisis that is resulting from the pandemic corona virus and the oil & gas market turmoil is severely affecting Ukraine and thus our activities. These are uncertain times, but we are reassured that Cadogan has a competent and strong management to weather this storm.

Michel Meeùs
Non-Independent Non-Executive Chairman
1 May 2020

Chief Executive's Review

2019 was a challenging year for Cadogan during which the Company has not been able to record a profit. Production grew for the 4th consecutive year with a positive contribution from the E&P segment of $0.4 million. The Company recorded $4 million of non-recurring income associated with the sale of LLC Astroinvest Ukraine and LLC Gazvydobuvannya, which held previously impaired VAT receivables and tax losses. Among the Company's achievements can be highlighted:

- E&P operations revenue growth driven by a 15% increase in production;
- effective efforts to recover past receivables as well as the sale of legacy assets.

Unfortunately, these achievements have not allowed the Company to overcome negative aspects leading to the recorded losses:

- gas prices collapsing and its negative impact on Cadogan trading business results and also an impairment on the inventory value in storage;
- oil average realized price decreasing by 13% in 2019, in line with international markets;
- Blazhiv field production shut down for 30 days due to a delay in the license award during the year.

2019 also witnessed three important events for Cadogan, namely:

- award of the Blazhiv production license (formerly Monastyretska exploration license) for a 20-year period;
- successful drilling and completion of the Blazhiv-10 well and start of commercial production;
- appointment of new Directors to the Board and a new CEO of the Company.

For Ukraine, 2019 was another difficult year, as the Country remained embroiled in its confrontation with Russia with significant challenges for its economy. The presidential vote in Ukraine resulted in the election of Volodymyr Zelenskyy as the new President of Ukraine, with 73% of the valid votes. The newly elected President dissolved the Verkhovna Rada shortly after his election and called for parliamentary elections where pro-President's party took the majority of seats in the Parliament and formed its Cabinet of Ministers. The new government continued making some progress towards modernization of its oil & gas legislative framework but has been unable to create a favourable environment for the significant investments needed to increase the Country's domestic production. In this uncertain context, Cadogan remained one of the few truly foreign investors operating in Ukraine's E&P sector.

Against this challenging background, Cadogan's operational activities performed as following:

- the average production rate through the year increased up to 288 boepd;
- the operational income of E&P business segment in 2019 was 4% higher than the prior year, outperforming the 13% decrease in the realized average oil price over the same period.

Highlights of 2019 are:

- a 15% increase in production, from 91,085 boe in 2018 to 104,816 boe in 2019;
- a 20% increase of overhead (G&A), from $4.8 million in 2018 to $5.7 million in 2019;
- a difficult year for trading which generated a negative margin;
- a robust balance sheet, with $12.8 million of net cash, kept mostly in UK banks;
- another year without LTIs'; and
- a €13.385 million loan to Proger Managers & Partners Srl, with an option to convert it into an indirect 24 % equity interest in Proger SpA.The maturity of the loan is February 2021.

Core operations

Cadogan has continued to safely and efficiently produce from its field in the West of Ukraine. Oil production has increased by 15% over the previous year.

The Company has completed its commitment work programme by drilling Blazhiv-10 well, which confirmed geological understanding of the area and reservoir potential. Securing of the license for 20 years will allow to build-up strategic future field development.

For the Bitlyanska license, Cadogan has fully complied with legislative requirement and submitted application for a 20-year exploration and production license 5 months before its expiry on 23 December 2019. Decision on the award was expected to be provided by State Geological Service of Ukraine before 19 January 2020, since all other intermediary approvals have been secured in line with the applicable legislation requirements. Given the delay in awarding the new license beyond the regular timeline provided by legislation, Cadogan has launched a claim before the Administrative Court to challenge the non-granting of the 20-year production license by the Licensing Authority.

In 2019, Cadogan tried also to identify a partner for the Bitlyanska license to fund the necessary investments to confirm the upside of the high-pressure gas condensate deep target. The preliminary discussions have not been satisfactory and were ended. For the future, the Company intends to adjust its farm-out strategy to the new context in which it operates.

The rental agreements with Ukrnafta for Blazhiv-3 and Blazhiv-3 Monasterets wells ended in November 2019 and the operations were stopped. Cadogan fulfilled all its duties for the renewal of the contracts but due to internal process within Ukrnafta, these contracts are not signed yet. Cadogan's subsidiary, Usenco, has been informed that Ukrnafta's Board approved the rental agreements and that their signature will be shortly executed.

Strategic Report continued

In the past, Cadogan had not been successful in converting the exploration license of Pirkovska into a new production license. The exploration license expired in October 2015. The Company filed an application in due time, but the Licensing Authority returned it 6 times for different reasons, the legal ground of which appears to be doubtful.Despite the efforts of Cadogan and its reply in due time to each of the comments, the license was not awarded, and the 3-year period for conversion, given to the applicant by law, expired in October 2018. Historically, Cadogan impaired the value of the asset on its balance sheet and launched litigation before the Administrative Court against the Licensing Authority for non-granting of the production license.

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 operations

Trading had a complicated year due to substantial drop in prices on the EU and Ukrainian markets driven by a mild winter, subsequent low demand, and excess gas in storage. This excess gas in the Ukrainian market was prepared, as the back-up, in case the gas transit contract between the Russian Federation and Ukraine was not extended for the new period after 31 December 2019. All these factors created challenging trading conditions. This led to the situation where Cadogan had to impair its stored gas value to reflect the weak pricing environment.

The oil services activities were used primarily to serve the Group's wells' operations.

In February 2019, Cadogan used part of its cash (euros 13.385 million) to enter into a 2-year loan agreement with Proger Managers & Partners Srl, with an option to convert it into an indirect 24 % equity interest in Proger Spa. According to IFRS, the option has to be represented in our balance sheet at fair value.

The Group's original investment decision involved assessment of Proger Spa business plans and analysis with professional advisers including valuations performed using the income method (discounted cash flows) and market approach using both the precedent transactions and trading multiples methods.

Unfortunately, Proger has refused to provide Cadogan information regarding its 2019 financial performance or updated forecasts to undertake a detailed fair value assessment using the income method or market approach at 31 December 2019.As a consequence, we have assessed the fair value of the instrument based on the terms of the agreement, including the pledge over shares, together with financial information in respect of prior periods and determined that $15.7 million represented the best estimate of fair value, being equal to anticipated receipts discounted at a market rate of interest of 5.5% with no value attributed to the option. However, the absence of information regarding Proger's 2019 financial performance and prospects represents a significant limitation on the fair value exercise and, as a result, once received, the fair value could be materially higher or lower than this value.

After the resignation of Mr Guido Michelotti as director of Proger Ingegneria Srl and Proger Spa, Cadogan notified, in February 2020, the Proger counterparts for the replacement of Mr Michelotti on the board of Proger Ingegneria Srl and Proger Spa. Cadogan is monitoring carefully the effective nominations and will proceed to further updates and actions when and if necessary.

Outlook

With the pandemic corona virus COVID-19 and its negative effects that are spreading globally, Ukraine, as with other countries, is facing a severe impact on its economy as well as to the oil & gas market. In this context, 2020 will be a very difficult year for our business.

In order to keep safe its personnel, the Company has put in place special measures such as administrative personnel remote work, strict sanitary and hygienic procedures and personal protection, rotation of field personnel by company cars, constant medical supervision during the work shift, regular sanitation of cars, offices and facilities.

The Company intends to adapt its strategy to the situation and to face the very challenging market environment. Prices for oil and gas have been shrinking with an incredible speed. The company, as with many of its peers, is not able to give any outlook on its performance for 2020.

Gas trading, which had become unprofitable, cannot be a major activity for Cadogan. The Company will focus on its oil operations and a more value accretive and comprehensive diversification of its activities.

The Company will also stick to a strict cost discipline and will seek to recover cash from previously impaired assets. 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 with no benefit.

In respect of the Loan Agreement with Proger, Cadogan will develop all necessary actions to ensure the proper fulfilment of the counterparts' obligations under this agreement.

Last but not least, I wish, with the other Board Directors, to thank the women and men of Cadogan for their efforts and their dedication to the Company.

Fady Khallouf
Chief Executive Officer
1 May 2020

Operations Review

Overview

At 31 December 2019, in the west of Ukraine, the Group held working interests in one conventional gas, condensate and oil exploration and production license and was expecting the award of the new license for another one. 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 2019)

Working interest (%)	Licence	Expiry	Licence type[1]
99.8	Blazhiv	November 2039	Production
99.8	Bitlyanska[2]	December 2019	E&D

East Ukraine

The Pirkivska production license expired in 2015. The Company applied for a new license. After several years and the end of the 3-year period allowed for conversion of the previous license, the Company initiated court proceedings to defend its rights and to challenge the Licensing Authority's actions.

West Ukraine

The Bitlyanska license covers an area of 390 square kilometres. Bitlyanska, Borynya and Vovchenska are three hydrocarbon discoveries in this license area. The Borynya and Bitlya fields hold 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 license commitments and had no breaches throughout the exploration period. This has been confirmed by the Control Department of the State Geological Services of Ukraine during the respective license audit.

The company has filed to the State Geological Service an application for a 20-year production license 5 months ahead the license expiry date of 23 December 2019. Through the reporting period, the Company secured approval of the Environmental Impact Assessment study by the Ministry of Ecology, the approval of the Reserves Report by the State Commission of Reserves and the approval of the license award by the Lviv Regional Council. Given the delay to award the new license beyond the regular timeline provided by legislation, Cadogan launched a claim before the Administrative Court to challenge the non-granting of the 20-year production license by the Licensing Authority.

The Monastyretska license continued to produce oil from four wells until 19 November 2019 waiting for the award of the new license. The average production rate of 284 bpd (2018: 187 bpd) was achieved with a successful incident free drilling of Blazhiv-10 well and stable production from the three producing wells notwithstanding 30-days production shut-down.

The Blazhiv-10 well reached TD, at 3394m, with a benchmark drilling time, notwithstanding severe hole instability issues which were experienced while drilling. The perforated interval covered the entire Yamna formation, which proved to be all oil bearing with a net pay of 156 meters. The well was put on production in natural flow. Further a sucker rod pump was installed to ensure stable production and mitigate paraffin deposition problems.

Importantly, the Blazhiv 20-year production license (formerly Monastyretska license) was awarded in December 2019. The Blazhiv-1 and Blazhiv-10 wells are currently in production. The production of Blazhiv-3 and Blazhiv-3 Monastyrets is suspended waiting for the renewal of the rental agreements. The Debeslavetska and the Cheremkhivska production licenses 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

Volumes of gas trading during 2019 were substantially lower than normal. The Company only sold a limited volume of gas, given the collapse in the gas price, which through the heating season had dipped below the level of the previous summer. Unsold gas was kept in storage for the next season.

Cadogan's gas trading operations continued to take minimum credit risk and recover its receivables. The company has purchased 7.5 million m3 of gas during the declining curve price at the end of 2019 to be sold in the

1 E&D = Exploration and Development
2 The Bitlyanska license expired on December 23, 2019 and its renewal had not been granted by year end

Strategic Report continued

upcoming 2020 trading season. Gas prices have further reduced in 2020 and the inventory gas remains unsold.

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.

Other events

In 2019, the Group sold its subsidiaries LLC Astroinvest Ukraine and LLC Gazvydobuvannya for the consideration of $4 million. At the date of sale, the subsidiaries had $1.8 million of VAT recoverable balance which were previously impaired in the Group's accounts and $136 million accumulated tax losses which were not recognized due to the lack of sufficient certainty regarding future profits to utilize the carried losses.

After an inspection conducted by Ukraine's tax authorities in September 2019, Astroinvest Energy LLC was notified of a tax claim related to the historic costs for the liquidation of wells on the Zagoryanska license. The tax authorities notified Astroinvest Energy LLC that they consider recoverable VAT that has subsequently been used to offset output VAT to be non-deductible and additionally that the subsidiary's tax losses carry forward should be reduced (note 28). Astroinvest Energy LLC has launched a claim against the tax authority's decision on the basis of the current tax legislation and related court decisions.

Financial Review

Overview

In 2019, the Group increased production and E&P revenues further, while continuing gas trading activity. The performance of the Group's operating divisions delivered a loss of $1.7 million (2018: contribution of $1.2 million) (note 5) and the Group recorded a loss of $2.1 million (2018: profit of $1.2 million) after the positive impact of the sale of non-core and historically impaired assets totaling $4.3 million (2018: $1.7 million). The Group also resumed drilling operations after a long pause.

The E&P business positively contributed to the financial results of the Group, due to the increase in oil production. Average realized oil price decreased by 13% from $54.0 to $47.2 per barrel. The services business focused on providing drilling and workover services to the subsidiaries of the Group. The trading business was affected by the rapid decline of gas prices and therefore made a negative contribution to the Group's performance. These results have been supplemented by further monetization of the Group's assets as noted above.

Net cash decreased to $12.8 million at 31 December 2019 compared to $35.2 million at 31 December 2018. This was mostly due to a €13.4 million loan provided to Proger Managers & Partners Srl, the capex program for the Blazhiv-10 well drilling together with an increased inventory of gas at the end of the year.

Income statement

Revenues from production increased from $4.7 million in 2018 to $4.9 million in 2019, mainly due to increase of the production volume from 91,085 boe in 2018 to 104,816 boe in 2019 but was restrained by decrease in average realized prices by 13%. E&P costs of sales increased from $3.7 million in 2018 to $3.8 million in 2019. These include production royalties and taxes, fees paid for the rented wells, depreciations, depletion of producing wells, direct staff costs and other costs for exploration and development. Overall, in 2019, E&P made a positive contribution of $1.1 million (2018: $1.0 million) to gross profit, representing a positive[1] $0.4 million (2018: profit of $0.4 million) business segment profit.

The oil services business in 2019 focused on internal activities providing its services, including drilling and workover, to the Group's subsidiaries. In addition, two external tenders were secured and started delivery during 2019, which brought a loss of $13 thousand (2018: profit of $63 thousand).

The gas trading business showed losses in 2019. Although revenues decreased from $9.9 million in 2018 to $0.9 million in 2019, cost of sales also decreased, from $9.1 million in 2018 to $1.0 million in 2019, resulting in an overall gross margin loss contribution of $0.1 million (2018: profit $0.7 million). In addition, staff costs (G&A) were reduced, and trading receivables were recovered together with interest.

Administrative expenses ("G&A") continued to be controlled. Ukrainian G&A remained flat and the overall G&A increased by 20% from $4.8 million in 2018 to $5.7 million in 2019 as shown in note 7.

The reversal of impairment of other assets of $0.3 million (2018: reversal of impairment of $1.8 million) primarily includes the reversal of impairment of two gas treatment plants to the level of consideration received on the sale of these assets (2018: VAT refund and offsets of VAT recoverable against trading margin earned).

Impairment of other assets totalled $2.1 million (2018: $0.7 million) and included $1.9 million natural gas value impairment due to revaluation to market price at the year end and $0.2 million of VAT impairment.

The Group recorded a $0.6m increase in the fair value of the Proger loan, which is held at fair value through profit and loss under IFRS. Refer to note 4(d) and 27 for details.

Other income of $3.9 million (2018: $2.4 million) included $4.0 million realized on the disposal of two non-trading entities which held historically impaired VAT and tax losses. In 2018, the income included $1.7 million realized from the exit of the WGI joint venture.

Net finance income of $25 thousand (2018: net finance income of $0.6 million) reflects interest income on cash deposits used for trading of $49 thousand (2018: $0.3 million); ii) investment revenue of $104 thousand (2018: $0.4 million); iii) interest income on receivables $45 thousand (2018: $nil); less iv) Unwinding of discount on decommissioning provision of $164 thousand.

Balance sheet

Intangible Exploration and Evaluation ("E&E") assets of $2.9 million (2018: $2.4 million) represent the carrying value of the Bitlyanska license. The Property Plant & Equipment (PP&E) balance was $12.3 million at 31 December 2019 (2018: $3.3 million), increased primarily due to the Blazhiv-10 well drilled at Monastyretska license.

Trade and other receivables of $2.6 million (2018: $2.5 million) includes $2.4 million of recoverable VAT (2018: $1.9 million), which is expected to be recovered through production, trading and services activities, and $0.2 million (2018: $0.3 million) of other receivables.

The $1.3 million of trade and other payables as of 31 December 2019 (2018: $1.2 million) consists of $0.6 million (2018: $0.6 million) of accrued expenses and $0.7 million (2018: $0.5 million) of other creditors.

Provisions include $0.3 million (2018: $0.3 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 licenses will expire.

The cash position of $12.8 million at 31 December 2019 has decreased

1 Segment result being the gross profit net of administrative expenses of the segment

Strategic Report continued

from $35.2 million at 31 December 2018. This was mostly due to the €13.4 million loan provided to Proger Managers & Partners Srl., realized capex program of Blazhiv-10 well drilling together with an increased inventory of gas at the end of the year.

Cash flow statement
The Consolidated Cash Flow Statement on page 55 shows operating cash outflow before movements in working capital of $4.4 million (2018: outflow of $1.9 million), which represents mostly cash used by the E&P and Trading business segment net of corporate expenses.

Cash inflows from investing activities represents proceeds from the sale of LLC Astroinvest Energy and LLC Gazvydobuvannya for the consideration of $4 million and proceeds from the sale of non-current assets of $0.4 million. Investing activities outflow represents cash used for drilling of Blazhiv-10 well and loan provided to Proger Management & Partners Srl.

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.

Risks and Uncertainties

There are several 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 analyzed 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 ISO 45001 compliant.
Covid-19 The Group's operations are in Ukraine with a Parent Company located in the United Kingdom. These locations are suffering from increasing levels of Covid-19 infection and in due course there may be increasing disruption. This may include potential impacts through illness amongst our workforce, supply chain and sales channel disruption and the wider impact of economic disruption on commodity prices. The national and local governments in each of our operating locations are recommending or implementing increasingly severe restrictions in order to manage the situation.	To manage and where possible mitigate the risk of personnel infection with the virus for our employees, special measures have been applied. These include administrative personnel remote working, strict sanitary and hygienic procedures and personal protection, rotation of field personnel by company cars, constant medical supervision during the work shift, regular sanitation of cars, offices and facilities. We continue to monitor the situation closely and will respond accordingly as the position develops.
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 emissions in everything the Company does and has started implementing alternatives to offset and/or mitigate emissions.
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.

Strategic Report continued

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, on an annual basis, a review of its oil and gas assets, impairs if necessary, and considers whether to commission a review from a third party 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. Cadogan entered into a 2-year loan agreement (euros 13.385 million) with Proger Management & Partners Srl with an option to convert it into an indirect 24 % equity interest in Proger Spa which represented a key transaction and element of the Group balance sheet.	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. As security for the reimbursement of the loan, Cadogan benefits from a pledge over the shares held by Proger Managers & Partners Srl in Proger Ingegneria Srl. In addition to that, details of the steps being taken by the Group to manage risks associated with the Proger loan are set out in the CEO's Statement and financial statements (note 4(d)). 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 scrutinize new counterparties via a Know Your Customer ("KYC") process, which covers their solvency. In addition, when trading gas, the Group seeks 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 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.

Country risks

Risk	Mitigation
Legislative changes may bring unexpected risk and create delays in securing licenses or ultimately prevent licenses and license renewals/ conversions from being secured.	Compliance procedures, monitoring and appropriate dialogue with the relevant authorities are maintained to minimize the risk. In all cases, deployment of capital in Ukraine is limited and investments are kept at the level required to fulfil license 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 minimizes this risk by maintaining funds in international banks outside Ukraine, by limiting the deployment of capital in the Country and by continuously maintaining a working dialogue with the regulatory authorities. Commitments are fulfilled and routinely verified by 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 2019.

Strategic Report continued

Summary of Reserves and Resources

In 2019, the company successfully drilled Blazhiv-10 well and conducted routine rig-less production support activities at the Blazhiv-1, Blazhiv-3 and Blazhiv-3 Monastyrets to maintain sustainable production.

Summary of Reserves[1] at 31 December 2019

	Mmboe
Proved, Probable and Possible Reserves at 1 January 2019	**7.59**
Production	0.1
Revisions (sale of Debeslavetska and Cheremkhivsko-Strupkhivska licences)	0
Proved, Probable and Possible Reserves at 31 December 2019	**7.49**

Reserves are assigned to the Bitlyanska and Blazhiv fields.

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

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

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 license to operate.

The Board recognizes 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 a 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, in conducting our operations, internationally recognized best practices and standards.

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 certifications 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 was the Chairman of the HSE Committee until 15 November 2019 and is supported in his role by Cadogan Ukraine's HSE Manager. In accordance with the ISO 14001 and ISO 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 organization with a 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 2019 to prevent incidents. Staff training on HSE matters and discussions on near miss reporting are recognized 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 2019, the Group recorded over 279,980 man-hours worked with no incidents and close to 1,098,027 hours have been worked since the last injury in February 2016.

During 2019 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 recruitment is undertaken on an open, transparent and fair basis with no discrimination against applicants. Each operating company has its

Strategic Report continued

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 recognizes 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 a diversity.

Gender diversity
The Board of Directors of the Company comprised five Directors as of 31 December 2019. The appointment of any new Director is made based on merit. See pages 17 and 18 for more information on the composition of the Board.

As at 31 December 2019, the Company comprised a total of 80 persons, as follows:

	Male	Female
Non-executive directors	3	1
Executive directors	1	-
Management, other than Executive directors	7	2
Other employees	45	21
Total	**56**	**24**

Human rights
Cadogan's commitment to the fundamental principles of human rights is embedded in our HSE polices and throughout our business processes. We promote the core principles of human rights pronounced in the UN Universal Declaration of Human Rights 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 minimizing 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 license'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 1 May 2020 and signed by order of the Board by:

Ben Harber
Company Secretary
1 May 2020

Board of Directors

Current Directors

Michel Meeùs, 67, Belgian
Non-Independent Non-Executive Chairman
Mr Meeùs was appointed as a Non-executive Director on 23 June 2014. Mr. Meeùs was former Chairman of the Board of Directors of Theolia, an independent international developer and operator of wind energy projects. Since 2007, he has been a director within the Alcogroup SA Company (which gathers the ethanol production units of the Group), as well as within some of its subsidiaries. Before joining Alcogroup, Mr Meeùs carved out a career in the financial sector, at Chase Manhattan Bank in Brussels and London, then at Security Pacific Bank in London, then finally at Electra Kingsway Private Equity in London.

Mr Meeus is currently Chairman of the Remuneration and Nomination Committees.

Fady Khallouf, 59, French
Chief Executive Officer
Fady Khallouf was appointed as Director and CEO on 15 November 2019. He has a 35-year experience in the energy, the environment, the engineering and the infrastructure sectors.

He has previously held the position of CEO and CFO of FUTUREN (Renewable Energy, listed on Euronext Paris) where he achieved the restructuring and the turnaround of the group.

Prior to that, he was the CEO of Tecnimont group (Petrochemicals and Oil & Gas), the Vice-President Strategy and Development of EDISON group (Electricity and Gas, E&P), the Head of M&A of EDF group (Energy). Fady Khallouf had beforehand held various management positions at ENGIE (Energy), Suez (Environmental Services), and DUMEZ (Construction and Infrastructures).

Lilia Jolibois, 55, American
Independent Non-Executive Director
Lilia Jolibois was appointed as Director on 15 November 2019. She is currently a member of four Boards: Futuren S.A., INSEAD, CARA (UK and Wales), and Aster Fab. Her career spans Merrill Lynch Investment Banking, Sara Lee, and Lafarge in the USA and Europe. At Lafarge Group, Ms. Jolibois served in numerous positions in finance, strategy, business development, CEO and Chair of the Board for Lafarge Cement and Gypsum in Ukraine, and SVP and Chief Marketing-Sales-Supply Chain Officer for Lafarge Aggregates, Asphalt & Paving.

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

Jacques Mahaux, 68, Belgian
Non-Executive Director
Jacques Mahaux was appointed as Director on 15 November 2019. He has held various executive and directorship positions in Group Crédit Agricole in Luxembourg, CA Indosuez, Indosuez Bank and various Luxembourg and Swiss Holding companies active in industrial sectors. Previously he acted as an Attorney at Law at the Brussels Bar. He is currently a Supervisory Board member of ETAM SCA.

Mr Mahaux is currently a member of the Audit, Remuneration and Nomination Committees.

Gilbert Lehmann, 74, 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 a member of the Remuneration and Nomination Committees.

Board of Directors continued

Directors during part of the period but not at the date of this report

Zev Furst, 71, American
Non-Executive Chairman
until 15 November 2019
Appointed to the Board on 2 August 2011.

Mr Furst was Chairman of the Company's Nomination Committee and a member of the Remuneration Committee until 15 November 2019

Guido Michelotti, 65, Swiss
Chief Executive Officer
until 15 November 2019
Mr Michelotti was appointed to the Board of Directors as Chief Executive Officer on 25 June 2015.

Adelmo Schenato, 67, Italian
Non-Executive Director
until 15 November 2019
Mr Schenato was appointed to the Board as Chief Operating Officer on 25 January 2012.

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 Srl, the Italian company which is 90% owned by the Group.

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

Enrico Testa, 67, Italian
Independent Non-Executive Director
until 15 November 2019
Appointed to the Board on 1 October 2011

Mr Testa was Chairman of the Company's Remuneration Committee and a member of the Audit and Nomination Committees Until 15 November 2019.

Report of the Directors

Directors
Following a general meeting on 15 November 2019 requisitioned by Mr Michel Meeus (who is also a current Director of the Company) and SPF Devola SA, a number of resolutions were put forward and subsequently passed changing the composition of the Board and resulted in the appointment of a new CEO. The resolutions put to the requisitioned general meeting resulted in the removal of Messrs Schenato and Testa as Directors of the Company and the appointment of three new Board members: Messers Mahaux, Jolibois and Khallouf as Directors of the Company.

Prior to the requisitioned general meeting in November 2019, the Board requested that the incumbent CEO Guido Michelotti extend his term to November 2019 to facilitate the orderly succession with the new CEO. Following the general meeting, Mr Khallouf succeeded Guido Michelotti as CEO of the Company and Michel Meeus, a non-executive Director of the Company was appointed as Chairman of the Company with immediate effect. Mr Michelotti resigned from the Company on 15 November 2019 whilst Zev Furst tendered his resignation as a Director of the Company with effect from 13th December 2019.

The Directors in office during the year and to the date of this report are as shown below:

Non-Executive Directors
Michel Meeùs (Chairman) (appointed 15 November 2019)
Zev Furst (Chairman) (resigned 13 December 2019)
Gilbert Lehmann
Lilia Jolibois (appointed 15 November 2019)
Jacques Mahaux (appointed 15 November 2019)
Enrico Testa (resigned 15 November 2019)
Adelmo Schenato (resigned 15 November 2019)

Executive Director
Fady Khallouf (appointed 15 November 2019)
Guido Michelotti (resigned 15 November 2019)

Directors' re-election
Following the General Meeting of the Company held on 15 November 2019 which resulted in the appointment of new Directors and changes to the composition of the Board, the Board has agreed that the Directors will not be seeking annual re-election at this year's annual general meeting as the members of the Board were appointed by the shareholders of the Company less than one year ago. Going forward, all Directors will be subject to annual election by shareholders.

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

Appointment and replacement of Directors
The 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 2019 and their connected persons in the Ordinary shares of the Company at 31 December 2019 are set out below.

Director	Number of Shares
Michel Meeùs	26,000,000
Fady Khallouf	–
Gilbert Lehmann	–
Lilia Jolibois	–
Jacques Mahaux	–

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 authorize 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.

Report of the Directors continued

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 2019 Annual General Meeting, remains unused.

Dividends
The Directors do not recommend payment of a dividend for the year ended 31 December 2019 (2018: 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.

Subsequent events
Refer to note 30 in the financial statements.

Structure of share capital
The authorized 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 2019 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 attached 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, where applicable 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 2019 and 17 April 2020, 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 2019		17 April 2020	
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 Jessica Friedender	17,409,000	7.39	17,409,000	7.39
Kellet Overseas Inc.	14,002,696	5.94	14,002,696	5.94
Credit Agricole Luxembourg	8,676,336	3.68	-	-
Mr Pierre Salik	7,950,000	3.37	7,950,000	3.37
Cynderella International Luxembourg	7,657,886	3.25	7,657,886	3.25
Julius Baer	7,270,000	3.08	7,270,000	3.08
CA Indosuez Wealth Mgt Luxembourg	6,000,000	2.55	14,676,336	6.23

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 1 May 2020 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.

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 11 to 13.

Having considered the Company's financial position and its principal risks and uncertainties, including the assessment of potential risks associated with Covid-19 including a) restrictions applied by governments, illness amongst our workforce and disruption to supply chain and sales channels; and b) market volatility in respect of commodity prices associated with Covid-19 in addition to geopolitical factors, 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 2019 to 31 December 2019.

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 76 to 78 in note 27 to the Consolidated Financial Statements.

Outlook
Future developments in the business of the Company are presented on pages 5 to 6.

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 two years.

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.

As the solution for reducing immediately the Company's emissions, a system for gas disposal was installed at Blazhiv-10 well. An integrated solution for the whole Blazhiv operations for the future periods is presently designed and expected to be commissioned in 2020.

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.

Report of the Directors continued

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 2019 increased compared to the previous year (8,799 tons in 2019 vs 4,810 tons in 2018), due to drilling of Blazhiv-10 well and increase in oil production from Monastyretska field.

Conversely, Scope 2 emissions decreased in 2019 (184 tons in 2019 vs 504 tons in 2018), 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 2019 were 8,983 tons versus the 5,314 tons of 2018.

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, 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 47%, from 58.3 tons CO_2e/Kboe in 2018 to 85.7 tons CO_2e/Kboe in 2019.

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

Greenhouse gas emissions source	E&P 2019	E&P 2018
Scope 1		
Direct emissions, including combustion of fuel and operation of facilities (tonnes of CO_2 equivalent)	**8,799**	4,809
Scope 2		
Indirect emissions from energy consumption, such as electricity and heating purchased for own use (tonnes of CO_2 equivalent)	**184**	504
Total (Scope 1 & 2)	**8,983**	5,314
Normalisation factor		
Barrels of oil equivalent, net	**104,816**	91,080
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	**85.7**	58.3

2020 Annual General Meeting

The 2020 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 2019 and any other announcements will be published on our website – **www.cadoganpetroleum.com**

This Report of Directors comprising pages 17 to 22 has been approved by the Board and signed by the order of the Board by:

Ben Harber
Company Secretary
1 May 2020

Corporate Governance Statement

This Corporate Governance Statement forms part of the Directors' Report

As a Company listed on the standard segment of the London Stock Exchange it is not required to apply a specific corporate governance code and, given its size has elected not to do so. However, 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-Independent non-executive Chairman, Chief Executive Officer, two Independent Non-Executive Directors and a non-executive Director. 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 17 and 18.

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.

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 are challenged appropriately. Two Non-Executive Directors, Ms Lilia Jolibois, and Mr Gilbert Lehmann are considered by the Board to be independent. Mr Michel Meeùs, who is a significant shareholder and Mr Jacques Mahaux are not considered independent as defined within the UK Corporate Governance Code 2018, however the Board believes they are independent in character and judgement and free from relationships or circumstances that could affect their judgement. 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.

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. All Directors have either been elected or re-elected in the past 12 months.

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 are 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.

Eleven Board meetings took place during 2019. 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	11	2	3	4
No. Attended:				
Z Furst	10	N/A	3	3
F Khallouf*	1*	N/A	N/A	N/A
G Michelotti	11	N/A	N/A	N/A
G Lehmann	11	2	3	3
M Meeùs	10	N/A	N/A	1**
A Schenato	10	N/A	N/A	N/A
E Testa	10	2	3	3
L Jolibois**	1*	N/A	N/A	1
J Mahaux**	1*	N/A	N/A	N/A

* Appointed 15 November 2019
** Appointed to Remuneration and Nomination Committees 15 November 2019
Note: A Schenato, E Testa removed as Directors of the Company on 15 November 2019, G Michellotti resigned as a Director of the Company on 15 November 2019, Z Furst resigned as a Director of the Company on 13 December 2019.

Corporate Governance Statement continued

This Corporate Governance Statement forms part of the Directors' Report

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.

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.

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 2019 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.

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.

Extraordinary Shareholders Meeting on 15 November 2019

As mentioned above, members of the Company requisitioned a general meeting on November 15th, 2019 with the aim of terminating the mandate of two Board directors and the election of three new directors. The Extraordinary Shareholders Meeting took place on 15 November 2019. The majority of shareholders voted in favour of these resolutions.

Directors' section 172 statement

The majority of the current Board of Directors were appointed on 15 November 2019 and as such this section 172 statement is made based on the activity of the Board as a whole starting from that date.

The disclosure describes how the Directors have regard to the matters set out in section 172(1)(a) to (f) and forms the Directors' statement required under section 414CZA of The Companies Act 2006. This new reporting requirement is made in accordance with the new corporate governance requirements identified in The Companies (Miscellaneous Reporting) Regulations 2018, which apply to company reporting on financial years starting on or after 1 January 2019.

The matters set out in section 172(1) (a) to (f) are that a Director must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long term;

(b) the interests of the Company's employees;

(c) the need to foster the Company's business relationships with suppliers, customers and others;

(d) the impact of the Company's operations on the community and the environment;

(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly between members of the Company.

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.

Further details of how the Directors have regard to the issues, factors and stakeholders considered relevant in complying with S 172 (1) (a)-(f), the methods used to engage with stakeholders and the effect on the Group's decision making can be found throughout the annual report and in particular page 15 (which outlines how the Company engages with its stakeholders), pages 15 to 16 (which contains Cadogan's corporate responsibility statement) pages 21 to 22 (which contains the Company's report on greenhouse gas emissions) and pages 23 to 24 (which outlines the ways in which the Company engages with its shareholders).

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. 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.

As set out on page 19, on 24 September 2019 the Company received a notice to requisition a General Meeting which was held on 15 November 2019. As a result of the General Meeting two directors departed the Board, one director resigned and it was also announced that the CEO would resign which subsequently took place on 15 November 2019. Significant activities and decisions of the Board arising prior to the General Meeting included the execution of the loan agreement with Proger together with other matters detailed in Operations Review and note 18.

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

Ms Jolibois and Mr Mahaux are both members of the Audit Committee. The Audit Committee is chaired by Ms Jolibois who had relevant financial experience within 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 2019 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 11 to 13, 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 including the assessment of the impact of Covid-19 and the basis for the conclusion, 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 70 to 73 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, considering 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, considering 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.

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.

Lilia Jolibois
Chairman of the Audit Committee
1 May 2020

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 was chaired by Mr Adelmo Schenato until 15 November 2019 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 2019, 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 regularly maintain and implement the continuous improvement of the HSE Management System with the aim of improving the Company's performances;
- Assessments of the risks to employees, contractors, customers, partners, and any other people who could be affected by the Company's activities with the aim of reducing the global risk of the Company and increasing its level of acceptability;
- 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:

- Company activities execution and control over contractors services execution in line with company policies and HSE procedures
- 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;
- 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;
- Compliance to ISO 14001 and ISO 45001 has been proved by the authorized third party auditor. Also the Company had its entire data calculation process as well as emissions measurement system re-validated by a different independent third party.
- 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 updated 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.

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 Michel Meeùs (Remuneration and Nomination Committee Chairman), Ms Lilia Jolibois, Mr Jacques Mahaux and Mr Gilbert Lehmann (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, ethnic, age, sex, disability, educational and professional backgrounds, etc.) on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment; and
- In identifying suitable candidates, the Nomination Committee shall use open advertising or the services of external advisers to facilitate the search and consider candidates from a wide range of backgrounds on merit, 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;
- Oversaw succession of the CEO prior to the requisitioned General meeting;
- The letters of appointment of the Directors and the CEO's Service Agreement.

The Committee recommends the re-election of the five 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.

Michel Meeùs
Nomination Committee Chairman
1 May 2020

Remuneration Committee

Statement from the Chairman

I am pleased to present the Annual Report on Remuneration for the year ended 31 December 2019.

Cadogan's 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.

The key elements of the 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.

In 2019 the Remuneration Committee enrolled again the CEO (Guido Michelotti) 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 agreed to award the CEO a bonus of €100,000 ($112,410), or 10% of the maximum allowable bonus under the current Remuneration Policy, and to split the post-tax amount in 50 % cash and 50% shares.

At the beginning of 2020, the Committee agreed that all there would be a 20 per cent decrease to the non-executive directors' salary and fees in base currency. There were no further changes made to the composition of directors' remuneration. A summary of the fees paid to directors is outlined on page 32.

Michel Meeùs
Chairman of the Remuneration Committee
1 May 2020

Annual Report on Remuneration 2019

continued

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 Michel Meeùs, Ms Lilia Jolibois, Mr Jacques Mahaux 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, with the exception of the review undertaken 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	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
F Khallouf[2]	**61,496**	-	**-**	-	**382,969**	-	**444,465**	-
G Michelotti	**431,085**	521,664	**45,453**	39,838	**112,140**	201,872	**588,678**	763,374
Non-executive Directors								
M Meeùs	**49,608**	46,953	**-**	-	**-**	-	**49,608**	46,953
Z Furst	**103,699**	114,028	**-**	-	**-**	-	**103,699**	114,028
L Jolibois	**5,918**	-	**-**	-	**-**	-	**5,918**	-
J Mahaux	**5,301**	-	**-**	-	**-**	-	**5,301**	-
G Lehmann	**54,707**	60,368	**-**	-	**-**	-	**54,707**	60,368
E Testa	**39,146**	46,953	**-**	-	**-**	-	**39,146**	46,953
A Schenato	**138,351**	147,428	**-**	-	**-**	-	**138,351**	147,428

1 Taxable benefits include life and medical insurance provided to the executive and leased car. There are no contributions to pension schemes.
2 Provision for welcome bonus of 5,500,000 ordinary shares based on a share's price of £0.0525 has been recognized. Precise value of the bonus will be calculated in 2020 using the market value of the shares on the business day prior to the date of issue.

Notes to the table

Long-term incentives were not paid in 2018 and 2019.

Mr Fady Khallouf

Mr Khallouf was appointed as Chief Executive Officer on 15 November 2019. Mr Khallouf's salary is €440,000 ($492,668) per annum. As part of Mr Khallouf's employment agreement, a welcome bonus equivalent in value to 5,500,000 ordinary shares (using the market value of the shares on the business day prior to the date of issue) is payable to Mr Khallouf and a holding period of two years is applicable to the shares acquired. Pursuant to the terms of the bonus, the amount must be subscribed for ordinary shares in the Company at such time as the executive agrees. The welcome bonus is yet to be paid to Mr Khallouf and will be paid during 2020.

Mr Guido Michelotti

Mr Michelotti was Chief Executive Officer until his resignation on 15th November 2019. Mr Michelotti's salary was €440,000 ($492,668) per annum.

Following shareholders' approval of the new Remuneration Policy, Mr Michelotti received in 2019 the Performance Bonus of €100,000 awarded to him based on the achievement vis a vis his 2019 scorecard and without a 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 together represent 45% of the weightings of the bonus (for target level performance) with change in net cash contributing 25% and portfolio management 20% (see following table).

KPI	Weighting %	Target[1]	Achievement	% of KPI related bonus achieved
Net profit/(loss), $ million	25	Approved budget (stretch target +20%)	Stretch target achieved	32.5
Change in free cash, $ million	25	Approved budget (stretch target +20%)	Stretch target achieved	25
Average production, bpd	20	Approved budget (stretch target +20%)	Budget target exceeded	14
Portfolio management	20	Min – max 1/2	Minimum target achieved	20
Emissions (tons of CO2) net of credits, % change y-o-y	10	5 per cent less than production increase	Minimum target achieved	10
	100			**101.5**

The Remuneration Committee decided to award in shares 50% of the awarded bonus less taxes and social contribution and therefore the €100,000 bonus was split in €72,500 cash (inclusive of income tax and social contributions to be paid by Mr Michelotti on the entire awarded amount) and €27,500 in shares priced at their market value at closing on the Business Day prior to the Subscription Date. The cash element was paid in November 2019.

Based on the Company's Remuneration Policy the shares are subject to a 3-year holding period in addition to malus and claw back provisions. The amount that may be clawed back from Mr Michelotti is limited to the value of an equivalent number of shares that Mr 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 Michelotti paid on his bonuses.

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

As mentioned above, fees for non-Executive Directors were reduced by 20 percent in November 2019. The new fees are as follows: the Chairman's fee at £69,255 ($89,000) and the fee for acting as a non-executive Director at £29,557 ($38,000) with an additional £7,778 ($10,000) for acting as Chairman of the Audit Committee and an additional £3,889 ($5,000) for a committee membership.

Adelmo Schenato received the same fees as in 2017, namely £20,600 ($23,430) as a non-executive Director and €101,040 ($114,921) per annum under a consultancy agreement as Advisor to the CEO of the Company and Chairman and CEO of Exploenergy.

Scheme interests awarded during the financial year (audited)

There were no scheme interests awarded during the year.

Payments to past directors (audited)

In 2019 there were no payments to past directors. However, Mr G Michelotti ceased to be a director as detailed above and received remuneration for his period in office.

1 The company does not disclose its budget as it considers the information to be commercially sensitive

Annual Report on Remuneration 2019

continued

Payments for loss of office (audited)

In 2019 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 2019 and their connected persons in the Ordinary shares of the Company at 31 December 2019 are set out below.

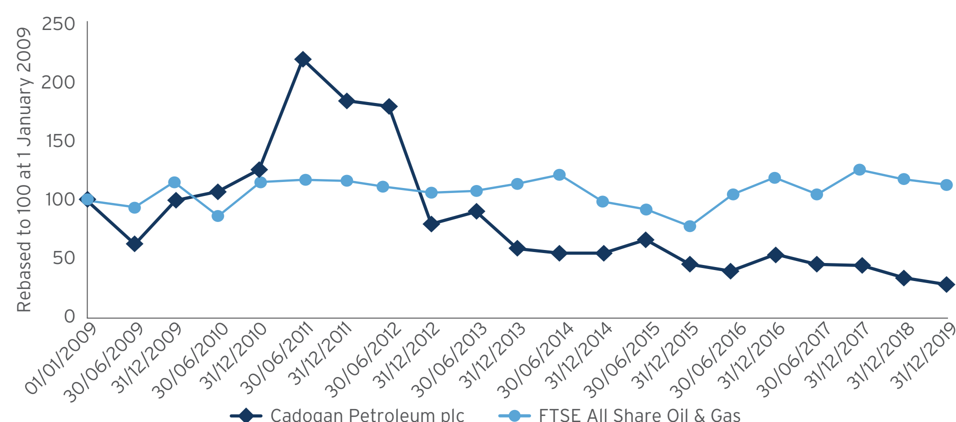
Shares as at 31 December	**2019**	2018
Michel Meeùs	**26,000,000**	26,000,000
Fady Khallouf	**-**	-
Gilbert Lehmann	**-**	-
Lilia Jolibois	**-**	-
Jacques Mahaux	**-**	-
Zev Furst	**-**	-
Guido Michelotti	**4,637,588**	4,637,588
Enrico Testa	**-**	-
Adelmo Schenato	**-**	-

There were no changes in the Directors shareholding as at 31 December 2019 compared to 27 April 2020.

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.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
2019	492,581	45,453	495,109[3]	-	-	-	1,033,143

In 2019 the annual bonus awarded to the CEO was 10% (2018: 32%) of the maximum bonus as per the approved Remuneration Policy[4].

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 %
2019	Mr. Khallouf[5]	444,465	-
	Mr. Michelotti	588,678	10
2018	Mr. Michelotti	763,374	32
2017	Mr. Michelotti	651,553	12
2016	Mr. Michelotti	712,937	22[6]
2015	Mr. Michelotti	502,021	27[3,7]
	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[8]	-
2011	Mr. des Pallieres[9]	273,201	-
	Mr. Barron	395,984	-
2010	Mr. Barron	547,067	-
2009	Mr. Barron[10]	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 2019 Annual bonus is a sum of Mr Michelotti's bonus of $112,140 and provision for welcome bonus for Mr Khallouf of $382,969 to be issued in shares during 2020
4 The new Remuneration Policy approved in June 2018, reduces the maximum allowable bonus from 200% to 125% of the base salary
5 The amount is including a provision for welcome bonus for Mr Khallouf of $382,969 to be granted in shares during 2020
6 Mr Michelotti undertook to use the entire bonus to buy company's share at market price in order to leave the Company cash neutral
7 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
8 $280,298 paid as fees, pension and loss of office
9 From 1 August 2011
10 From 19 March 2009

Annual Report on Remuneration 2019
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 2019 and 2018 compared to that of all employees within the Group.

		2019 $'000	2018 $'000	Average Change %
Base salary	CEO[1]	**493**	522	-6%
	All employees[2]	**2,237**	2,004	12%
Taxable benefits	CEO	**45**	40	13%
	All employees	**65**	60	8%
Annual Bonus	CEO[3]	**495**	202	145%
	All employees	**495**	381	30%
Total	CEO	**1,033**	764	35%
	All employees	**2,797**	2,445	14%

1 Included salary of Mr Michelotti and Mr Khallouf.
2 All employees mean all employees of the Group, including CEO and other Directors (note 11, page 68).
3 2019 Annual bonus is a sum of Mr Michelotti's bonus of $112,140 and welcome bonus provision for Mr Khallouf of $382,969 to be granted in shares during 2020.

In 2019 none of the directors participated in long-term incentives.

In 2019 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 2018 and 31 December 2019.

	2019 $'000	2018 $'000	Year-on-year change, %
All-employee remuneration	**2,797**	2,445	14%
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 and remains unchanged. The Remuneration Policy can be found on the Group's website and at pages 37 to 45 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 is approved by shareholders at each Annual General Meeting. A summary of the votes cast by proxy in 2018 and 2019 were as follows:

	2019		2018	
Director's Annual Report on Remuneration	**Number of votes**	**% of votes cast**	Number of votes	% of votes cast
For	**61,111,463**	**99.99**	62,192,743	100.00
Against	**14,370**	**0.01**	0	0
Total votes cast	**61,125,833**	**100.00**	62,192,743	100.00
Number of votes withheld	**0**		0	

Implementation of Remuneration Policy in 2020

The performance related elements of remuneration remain unchanged and will be built around a scorecard with a set of KPI's aligned with the Group strategy. The Remuneration Policy can be found on the Group's website and at pages 37 to 45 of this Annual Report on Remuneration.

Approval

The Directors' Annual Report on Remuneration was approved by the Board on 1 May 2020 and signed on its behalf by:

Michel Meeùs
Chairman
1 May 2020

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 2020 will remain at €440,000.

Annual Report on Remuneration 2019

continued

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.

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 has adopted and operates 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 2019 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.

Annual Report on Remuneration 2019

continued

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.

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 used 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.

Annual Report on Remuneration 2019

continued

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 be covered by the Company's insurance policy for directors.

Recruitment

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

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

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.

Annual Report on Remuneration 2019
continued

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
F Khallouf	15 November 2019	Six months

Directors' employment agreements are available for inspection at the Company's registered office in London 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.

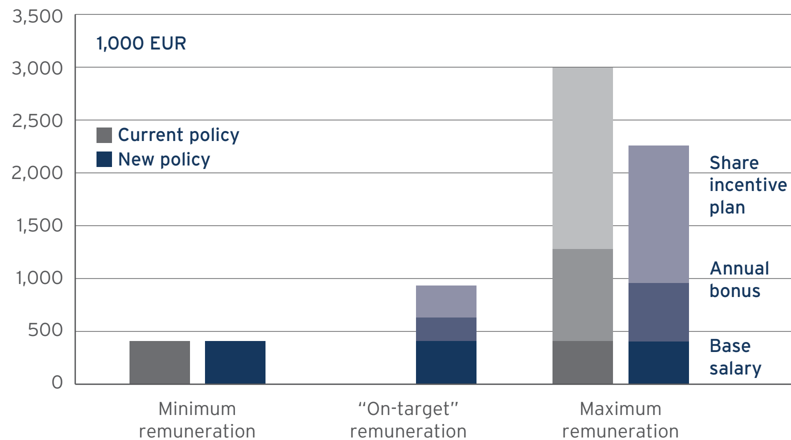
Typically, the non-executive directors are appointed by letter of appointment for an initial term of three years which may be extended. All non-executive directors are subject to annual re-election by the Company's shareholders and their appointments may be terminated earlier with one month's prior written 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. Non-executive directors' letters of appointment are available for inspection at the Company's registered office in London and at Zhylyanska street 48/50, 01033 Kyiv, Ukraine.

Director	Current agreement start date	Term
Michel Meeùs	31 July 2018	Three years
Lilia Jolibois	15 November 2019	Three years
Jacques Mahaux	15 November 2019	Three years
Gilbert Lehmann	31 July 2018	Three years

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.

CEO: 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 2019. 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.

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)

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

Michel Meeùs
Chairman
1 May 2020

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

Qualified 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 2019 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 company balance sheet, the company cash flow statement, the 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, except for the effects of the matters described in the Basis for qualified opinion paragraph below, the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for qualified opinion

The Group advanced a loan which is recorded at fair value through profit and loss in accordance with the Group's accounting policy set out in note 3(n) with the fair value at 31 December 2019 determined to be $15.7 million and a fair value gain recorded in the period of $0.7 million. As discussed in note 4(d) and note 27 to the financial statements, management have been unable to obtain relevant information in respect of the investee which the Directors consider is necessary to enable the fair value to be assessed applying recognised valuation methods for an instrument of this nature. As discussed in note 4(d) and 27, if and when such information is made available the Directors consider that the fair value may be materially higher or lower than $15.7 million.

In respect of this matter we:

- made inquiries of management and the Audit Committee regarding the structure of the transaction, reviewed the accounting entries and verified the payment to bank.
- reviewed valuation analysis performed on origination of the loan by third party advisors. We met with management to obtain an understanding of the requests made to Proger for the provision of information to support an assessment of fair value at 31 December 2019 and obtained confirmation from management that relevant information was unavailable. We considered, in conjunction with our internal specialists, whether recognised valuation methods could reasonably be applied by management that had not been considered. We considered whether sufficient and appropriate audit evidence could be obtained in respect of the fair value of the instrument given the information available.
- considered the accounting treatment and valuation adopted by management, given the absence of information considered necessary to perform a valuation using a recognised valuation method.
- reviewed the disclosures in relation to financial instruments including the accounting policy, critical judgments and estimates and financial instrument disclosures.

Given the above we have not been able to obtain sufficient, appropriate audit evidence, and accordingly are not able to conclude whether the fair value of the loan note instrument is materially accurate. As a result, our audit opinion is qualified in respect of this limitation on the scope of our audit.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independence

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.

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

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. In addition to the matter referred to in the Basis for qualified opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How the matter was addressed in our audit
Carrying value of oil and gas exploration and production assets At 31 December 2019 the Group held exploration and evaluation assets of $2.9m and $11.8m 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 Blazhivska 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. In addition, as detailed in note 4 and 15 significant judgment was required regarding the likelihood of the Bitlyanska licence being renewed/converted to a production licence following its expiry in December 2019 and subsequent delays in the licence being awarded. Additionally, as detailed in note 4 and 15, significant judgment was applied by management in concluding that the well rental agreements for 2 operating wells will be renewed following their expiry in November 2019 so that production can recommence. Management's conclusions that no impairments are applicable are critically dependent on the renewal of the licence and well rental agreements. 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 recalculated the discount rates in conjunction with our valuation specialists and benchmarked the discount rates against peer companies in the Ukraine. We performed sensitivity analysis on the impairment models to establish the impact of reasonably possible changes in key variables such as pricing, production 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 reviewed the licence agreements and confirmed that the Group holds a valid licence for Blazhivska which was renewed/converted to a production licence in December 2019. We gained an understanding of the licence conditions and remaining term. In respect of management's judgment that the rental well agreements would be renewed, we obtained representations from the Board regarding the assurances received from the counterparty as to the status of the renewal, reviewed copies of the proposed agreements and discussed the matter with management and the Audit Committee. In respect of the Bitlyanska licence, we met with operational management and considered the appropriateness of management's judgment that the Bitlyanska licence would be extended or converted to production licences following its expiry in December 2019, particularly noting the subsequent delays. In doing so we obtained documents demonstrating the 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. Additionally, we inspected claims submitted to the Ukrainian Courts to challenge the delay in granting a renewal, together with associated legal advice regarding the Group's right of renewal.
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, including the critical judgments regarding renewal of licences and well rental agreements are in line with accounting standards.	

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	$800,000	$600,000
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 $800,000 (FY 2018: $730,000), each significant component of the Group was audited to a lower performance materiality ranging from $100,000 to $300,000 (FY 2018: $97,500 to $412,500).

Performance materiality for the Parent Company was set at $300,000 (FY 2018: $412,500).

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 $40,000 (FY 2018: $36,000). 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 five significant components within the Ukrainian sub-group, comprising components holding exploration & development assets and gas trading activities which were subject to a full scope audit. Together with the parent company, Cadogan Petroleum Holdings Ltd, Cadogan Petroleum Holdings B.V. 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 98% of the Group's revenue and 95% 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, Cadogan Petroleum Holdings B.V. 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.
- As a result of travel restrictions resulting from the Covid-19 pandemic, the Group audit partner and senior members of the Group audit team were unable to visit the Ukraine to meet with component management and the component auditors during the audit as we have done historically. Accordingly, we performed a remote review of the component audit files in the Ukraine using our online audit software platform, held regular calls and videoconferences with the component audit team during the 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.

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

Except for any amendments that we may have considered necessary had we been able to obtain sufficient appropriate audit evidence in relation to the fair value of the loan receivable as described in the basis for qualified opinion section of our report, 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.

Arising solely from the limitation on our work relating to the loan receivable described above we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

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.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 46, 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. In respect of the year ended 31 December 2019 we were appointed as auditor by the members of the company at the annual general meeting held on 19 June 2019. This is the third 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
1 May 2020

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 2019

	Notes	**2019 $'000**	2018 $'000
CONTINUING OPERATIONS			
Revenue	6	**5,876**	14,730
Cost of sales		**(4,872)**	(12,849)
Provision against unsold gas inventory	8	**(1,946)**	-
Gross loss		**(942)**	1,881
Administrative expenses	7	**(5,652)**	(4,762)
Impairment of oil and gas assets		**-**	(56)
Reversal of impairment of other assets	8	**345**	1,730
Impairment of other assets	8	**(162)**	(751)
Fair value gain on convertible loan	27	**697**	-
Other operating income, net	9	**3,972**	2,419
Net foreign exchange losses		**(385)**	(58)
Operating (loss)/profit		**(2,127)**	403
Finance income, net	12	**25**	636
(Loss)/Profit before tax		**(2,102)**	1,039
Tax benefit	13	**-**	178
(Loss)/Profit for the year		**(2,102)**	1,217
Attributable to:			
Owners of the Company		**(2,103)**	1,220
Non-controlling interest		**1**	(3)
		(2,102)	1,217
(Loss)/Profit per Ordinary share		**cents**	cents
Basic and diluted	14	**(0.9)**	0.5

The notes on pages 57 to 79 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 $'000	2018 $'000
(Loss)/Profit for the year	**(2,102)**	1,217
Other comprehensive profit		
Items that may be reclassified subsequently to profit or loss:		
Unrealised currency translation differences	**3,541**	354
Other comprehensive profit	**3,541**	354
Total comprehensive profit for the year	**1,439**	1,571
Attributable to:		
Owners of the Company	**1,438**	1,574
Non-controlling interest	**1**	(3)
	1,439	1,571

The notes on pages 57 to 79 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	15	**2,971**	2,386
Property, plant and equipment	16	**12,338**	3,297
Prepayments for non-current assets		**-**	1,318
Loan classified at fair value through profit and loss	27	**15,707**	-
Deferred tax asset	22	**501**	501
		31,517	7,502
Current assets			
Inventories	19	**4,453**	4,487
Trade and other receivables	20	**2,639**	2,472
Assets held for sale		**-**	165
Cash and cash equivalents	21	**12,834**	35,136
		19,926	42,260
Total assets		**51,443**	49,762
LIABILITIES			
Non-current liabilities			
Provisions	25	**(289)**	(39)
		(289)	(39)
Current liabilities			
Trade and other payables	24	**(1,266)**	(1,271)
Liabilities held for sale		**-**	(140)
Provisions	25	**-**	(276)
		(1,266)	(1,687)
Total liabilities		**(1,555)**	(1,726)
NET ASSETS		**49,888**	48,036
EQUITY			
Share capital	26	**13,525**	13,525
Share premium		**329**	329
Retained earnings		**191,959**	194,062
Cumulative translation reserves		**(158,275)**	(161,816)
Other reserves		**2,081**	1,668
Equity attributable to owners of the Company		**49,619**	47,768
Non-controlling interest		**269**	268
TOTAL EQUITY		**49,888**	48,036

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 1 May 2020. They were signed on its behalf by:

Fady Khallouf
Chief Executive Officer
1 May 2020

The notes on pages 57 to 79 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Operating profit(loss)		**(2,127)**	403
Adjustments for:			
Depreciation of property, plant and equipment	16	**653**	425
Impairment of oil and gas assets		**-**	56
Impairment of property, plant and equipment	8	**-**	751
Termination fee on exit from WGI	18	**-**	(1,700)
Gain on disposal of subsidiaries	17	**(4,000)**	-
Impairment/(Reversal of impairment) of inventories	8	**1,946**	-
Impairment/(Reversal of impairment) of VAT recoverable	8	**162**	(1,730)
Movement in fair value of convertible loan	27	**(697)**	-
Interest received		**(431)**	-
Reversal of impairment of other assets		**(345)**	(152)
Effect of foreign exchange rate changes		**385**	58
Operating cash flows before movements in working capital		**(4,454)**	(1,889)
Increase in inventories		**(971)**	(2,100)
Decrease in receivables		**664**	3,651
Increase in payables and provisions		**78**	84
Cash used in operations		**(4,683)**	(254)
Interest paid		**-**	(130)
Interest received		**480**	230
Income taxes paid		**-**	-
Net cash outflow from operating activities		**(4,203)**	(154)
Investing activities			
Proceeds from disposal of subsidiaries		**4,000**	-
Proceeds on exit from WGI		**-**	1,700
Purchases of property, plant and equipment		**(6,952)**	(3,944)
Purchases of intangible exploration and evaluation assets		**(241)**	(857)
Proceeds from sale of property, plant and equipment		**345**	58
Loan provided		**(15,246)**	-
Interest received		**140**	553
Net cash used in investing activities		**(17,954)**	(2,490)
Financing activities			
Proceeds from short-term borrowings		**-**	3,965
Repayments of short-term borrowings		**-**	(3,887)
Net cash from/(used in) financing activities		**-**	78
Net decrease in cash and cash equivalents		**(22,157)**	(2,566)
Effect of foreign exchange rate changes		**(145)**	102
Cash and cash equivalents held for sale at end of year		**-**	(40)
Cash and cash equivalents at beginning of year		**35,136**	37,640
Cash and cash equivalents at end of year		**12,834**	35,136

The notes on pages 57 to 79 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	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 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**	**-**	**1,574**	**(3)**	**1,571**
Share based award	–	–	–	–	79	79	–	79
As at 1 January 2019	**13,525**	**329**	**194,062**	**(161,816)**	**1,668**	**47,768**	**268**	**48,036**
Net loss for the year	–	–	(2,103)	–	–	(2,103)	1	(2,102)
Other comprehensive profit	–	–	–	3,541	–	3,541	–	3,541
Total comprehensive profit for the year	**-**	**-**	**(2,103)**	**3,541**	**-**	**1,438**	**1**	**1,439**
Share based award	–	–	–	–	413	413	–	413
As at 31 December 2019	**13,525**	**329**	**191,959**	**(158,275)**	**2,081**	**49,619**	**269**	**49,888**

The notes on pages 57 to 79 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 pages 7 to 8 and the Financial Review on pages 9 to 10.

2. Adoption of new and revised Standards

New IFRS accounting standards, amendments and interpretations effective from 1 January 2019

The disclosed policies have been applied consistently by the Group for both the current and previous financial year with the exception of the new standards adopted:

(a) IFRS 16 'Leases'

(b) IFRIC 23 'Uncertainty over Income Tax Positions'

(c) Prepayment Features with Negative Compensation – Amendments to IFRS 9

(d) Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

(e) Annual Improvements to IFRS Standards 2015 – 2017 Cycle

(f) Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

The application of (a) to (f) has had no significant impact on the disclosures or the amounts recognized in the Group's consolidated financial statements.

In respect of IFRS 16 the Group amended accounting policies applied from 1 January 2019 are disclosed in Note 3 under 'Significant accounting policies.

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 results in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases was 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.

On adoption of IFRS 16 'Leases' the Group applied the modified retrospective approach to transition. The Group elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group also made use of the practical expedient to not recognise a right-of-use asset or a lease liability for leases for which the lease term ends within 12 months of the date of initial application. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term. On initial application, the Group elected to record right-of-use assets based on the corresponding lease liability where applicable. Based on the analysis, the impact of IFRS 16 was immaterial. The weighted-average rate incremental borrowing rate applied in the assessment was 13%.

The Group's well rental arrangements in Ukraine for oil and gas extraction activities are outside of the scope of IFRS 16.

Effective as of 1 January 2019, IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by the Group where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. Refer to note 28 for details of tax contingencies subject to this assessment.

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.

New IFRS accounting standards, amendments and interpretations not yet effective

Below is a list of new and revised IFRSs that are not yet mandatorily effective (but allow early application) for the year ending 31 December 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions.

- Amendments to IFRS 3, 'Business combinations'
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 17, 'Insurance contracts'

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

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, and in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS.

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 4 to 16. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 9 to 10.

The Group's cash balance at 31 December 2019 was $12.8 million (2018: $35.2 million). 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 21.

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.

Notwithstanding the Group's current financial performance and position, the Board are cognisant of the potential impacts of COVID-19 on the Group. Whilst there has been little impact of COVID-19 on the Group's operations at present there may be significant impacts on the business going forward which are currently unknown. The Board has considered possible reverse stress case scenarios for the impact on the Group's operations, financial position and forecasts. Whilst the potential future impacts of Covid-19 are unknown the Board has considered operational disruption that may be caused by the factors such as a) restrictions applied by governments, illness amongst our workforce and disruption to supply chain and sales channels; b) market volatility in respect of commodity prices associated with Covid-19 in addition to geopolitical factors.

In addition to sensitivities that reflect future expectations regarding country, commodity price and currency risks that the Group may encounter, in March 2020 and to date, reverse stress tests have been run to reflect possible negative effects of COVID-19. The Group's forecasts demonstrate that owing to its cash resources the Group is able to meet its operating cash flow requirements and commitments whilst maintaining significant liquidity for a period of at least the next 12 months allowing for sustained reductions in commodity prices and extended and severe disruption to operations should such a scenario occur.

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.

3. Significant accounting policies continued

(c) Basis of consolidation continued

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

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

(d) Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognized 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, amortization 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 based on measurement principles of IFRS 15 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 recognized 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

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 recognized 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 recognized 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 recognized 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 recognized 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 2019		Year ended 31 December 2018	
	GBP/USD	**USD/UAH**	GBP/USD	USD/UAH
Closing rate	**1.3263**	**23.7100**	1.2768	27.7477
Average rate	**1.2773**	**25.9003**	1.3415	27.2324

(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 recognized 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 recognized 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 recognized 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.

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 realized. 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 recognized impairment loss. Depreciation and amortization 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 recognized 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 capitalized 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 capitalized 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 capitalized 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 amortized 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 recognized in the income statement. Upon approval of a development programme, the carrying value, after any impairment loss, of the relevant E&E assets is reclassified to the development and production assets within PP&E.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

3. Significant accounting policies continued

(j) Intangible exploration and evaluation assets continued

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) license 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 recognized in the income statement as additional depreciation and amortization 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 capitalized, and the cost of recognizing 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 recognized as income immediately.

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 recognized in the consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Loan classified at fair value through profit and loss

Loan instruments which include options to convert the instrument into equity are classified as fair value through profit and loss instruments because they do not meet the criteria for amortized cost measurement as they are not held for the collection of contractual cash flows representing solely payments of principal and interest. Such loan instruments are initially recorded at fair value which is typically the cash advanced under the instrument and subsequently recorded at fair value with changes in fair value recorded in the income statement. Transaction costs for loans classified at fair value through profit or loss are expensed in the income statement.

Trade and other payables

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

Trade and other receivables

Trade and other receivables are recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognizing the decommissioning provision is included as part of the cost of the relevant asset and is thus charged to the income statement on a unit of production basis in accordance with the Group's policy for depletion and depreciation of tangible non-current assets. Period charges for changes in the net present value of the decommissioning provision arising from discounting are included within finance costs.

(q) Leases

Applicable for 2019 only.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Service agreements for equipment on the working sites are not considered leases as, based upon an assessment of the terms and nature of their contractual arrangements, the contracts do not convey the right to control the use of an identified asset.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

3. Significant accounting policies continued

(q) Leases continued

The asset is depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or the effect is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group elected to apply the practical expedient not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group also made use of the practical expedient to not recognize a right-of-use asset or a lease liability for leases for which the lease term ends within 12 months of the date of initial application.

The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

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 recognized 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 recognized 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 license 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 license which remains outstanding and overdue management considered the status of license commitments, the status of submissions necessary for the renewal, trends in the relevant region of the Ukraine with respect to license application approval together with legal advice in respect of the standing of the license in the event of delays by the authorities (note 15).

(b) Impairment of PP&E

Management assess its development and production assets for impairment indicators and if indicators of impairment are identified performs an impairment test. Management performed an impairment assessment using a value in use discounted cash flow model which required estimates including forecast oil prices, reserves and production, costs and discount rates. Where renewal of rental agreements for existing wells remains ongoing management consider the status of the renewal negotiations and discussions with the counterparties in assessing the likelihood of renewal (note 16).

(c) Recoverability and measurement of VAT

Judgment is 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, the likelihood of eligible future supplies to VAT, the pattern of recoveries and risks and uncertainties associated with the operating environment.

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

(d) Loan classified at fair value through profit and loss

In February 2019, the Group advanced a Euro 13,385,000 loan to Proger Managers & Partners Srl ("PMP"), a privately owned Italian company whose only interest is a 59.6% participation in Proger Ingegneria Srl ("Proger Ingegneria"), a privately owned company which has a 72.93% participating interest in Proger Spa ("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 (February 2019) and assuming that the call option described below is not exercised). The principal of the loan is secured by a pledge over PMP's current participating interest in Proger Ingegneria Srl, up to a maximum guaranteed amount of Euro 13,385,000.

As part of the instrument, the Group was granted a call option to acquire, at its sole discretion, 33% of the participating interest that PMP will be holding in Proger Ingegneria; the exercise of the option would give Cadogan, through CPHBV, an indirect 24% interest in Proger. The call option was 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 Cadogan shareholders having approved the exercise of the call option as explained further below. Should CPHBV 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 CPHBV, 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.

Under the Group's accounting policies the instrument is held at fair value through profit and loss and determination of fair value requires assessment of both key investee specific information regarding financial performance and prospects and market information.

The Group's original investment decision involved assessment of Proger Spa business plans and analysis with professional advisers including valuations performed using the income method (discounted cash flows) and market approach using both the precedent transactions and trading multiples methods.

Unfortunately, Proger has refused to provide Cadogan information regarding its 2019 financial performance or updated forecasts to undertake a detailed fair value assessment using the income method or market approach at 31 December 2019. As a consequence, management assessed the fair value of the instrument based on the terms of the agreement, including the pledge over shares, together with financial information in respect of prior periods and determined that $15.7 million represented the best estimate of fair value, being equal to anticipated receipts discounted at a market rate of interest of 5.5%. However, the absence of information regarding Proger's 2019 financial performance and prospects represents a significant limitation on the fair value exercise and, as a result, once received, the fair value could be materially higher or lower than this value. (Note 27).

(e) Well services and rental agreements

The Group's well rental arrangements in Ukraine for oil and gas extraction activities are outside of the scope of IFRS 16. Judgment was required in forming this assessment, based on analysis of the scope of IFRS 16 and the nature of the well rental arrangements. This assessment focused on the extent to which the rental agreements provided access to sub-surface well structures to extract hydrocarbons versus surface level infrastructure for the transport and processing of extracted hydrocarbons.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

5. Segment information continued

Trading

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Sales between segments are carried out at rates considered to approximate market prices. The segment result represents operating profit under IFRS before unallocated corporate expenses. Unallocated corporate expenses include management remuneration, representative expenses and expenses incurred in respect of the maintenance of office premises. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance. The Group does not present information on segment assets and liabilities as the CODM does not review such information for decision-making purposes.

As of 31 December 2019 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	4,861	-	956	5,817
Other revenue	-	59	-	59
Sales between segments	-	-	-	-
Total revenue	**4,861**	**59**	**956**	**5,876**
Cost of sales	(3,807)	(30)	(1,035)	(4,872)
Administrative expenses	(633)	(42)	(128)	(803)
Impairment	(30)	-	(1,916)	(1,946)
Finance income, net (Note 12)[1]	-	-	85	85
Segment results	**391**	**(13)**	**(2,038)**	**(1,660)**
Unallocated administrative expenses				(4,849)
Other income, net				4,954
Impairment				(162)
Net foreign exchange loss				(385)
Profit before tax				**(2,102)**

1 Net finance income includes $49 thousand of interest on cash deposits used for trading, $36 thousand of interest received on trading receivables.
2 The services business segment in 2019 primarily provided well workovers and other works to other Group companies as tenders secured with third parties had been deferred by customers.

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

	Exploration and Production $'000	Service $'000	Trading $'000	Consolidated $'000
Sales of hydrocarbons	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 12)[3]	-	-	(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**

3 Net finance income includes $135 thousand of interest on short-term borrowings and $78 thousand of interest on cash deposits used for trading.

6. Revenue

	2019 $'000	2018 $'000
Sale of hydrocarbons (exploration and production) – point in time	**4,861**	4,699
Sale of hydrocarbons (trading) – point in time	**956**	9,908
Service revenues – over time	**59**	123
	5,876	14,730

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 2019 are revenues of $0.9 million (2018: $6.9 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 2019 or 2018.

7. Administrative expenses

	2019 $'000	2018 $'000
Staff	**2,797**	2,570
Professional fees	**1,776**	1,247
Office costs including utilities and maintenance	**204**	181
Travel	**144**	176
IT and communication	**134**	133
Insurance	**103**	88
Bank charges	**81**	63
Other	**413**	304
	5,652	4,762

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

	2019 $'000	2018 $'000
VAT recoverable	**-**	1,730
Other Property, Plant and Equipment	**345**	–
Reversal of impairment of other assets	**345**	1,730

Reversal of impairment of other PPE includes the recoverable value of two gas treatment plants on the Pirkivska and Zagoryanska licenses based on sale consideration received in 2019. In 2018, $1.7 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.

$2.4 million of VAT refunds remains impaired. Refer to Note 4.

	2019 $'000	2018 $'000
VAT recoverable	**(162)**	-
Inventories	**(1,946)**	-
Other Property, Plant and Equipment	**-**	(751)
Impairment of other assets	**(2,108)**	(751)

Impairment of other assets totalled $2.1 million (2018: $0.7 million) and includes $1.9 million natural gas value impairment due to revaluation to market price at the year end and $0.2 million VAT impairment. In 2018, impairment of other PPE includes $0.8 million of impairment of assets at Pirkivska licence which were abandoned.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

9. Other operating income, net

	2019 $'000	2018 $'000
Profit on disposal of subsidiaries	**4,000**	-
Termination fee on exit from WGI	**-**	1,715
Other	**(28)**	704
	3,972	2,419

For the details on disposal of subsidiaries please refer to Note 17.

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:

	2019 $'000	2018 $'000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	**143**	114
Fees payable to the Company's auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	**13**	12
Total audit fees	**156**	126
Non-audit fees		
– Audit-related assurance services	**-**	-
– Taxation compliance services	**-**	-
Non-audit fees	**-**	-

Audit fees for 2019 refer to BDO LLP of $156 thousand for the audit of group accounts and subsidiaries as of and for the year ended 31 December 2019.

11. Staff costs

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

	2019 Number	2018 Number
Executive Directors	**1**	1
Other employees	**79**	64
	80	65
Total number of employees at 31 December	**80**	82

	$'000	$'000
Their aggregate remuneration comprised:		
Wages and salaries	**1,901**	2,038
Share based award for bonus granted in shares	**413**	79
Annual bonus	**82**	301
Social security costs	**401**	399
	2,797	2,817

12. Finance income/(costs), net

	2019 $'000	2018 $'000
Interest expense on short-term borrowings	-	(135)
Total interest expense on financial liabilities	-	(135)
Investment revenue	104	553
Interest income on cash deposits in Ukraine	49	230
Interest income on receivables	36	–
Total interest income on financial assets	189	783
Unwinding of discount on decommissioning provision (note 25)	(164)	(12)
	25	636

13. Tax

	2019 $'000	2018 $'000
Current tax	-	–
Deferred tax	-	–
Recognition of previously unrecognised deferred tax assets	-	(178)
	-	(178)

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% (2018: 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:

	2019 $'000	2019 %	2018 $'000	2018 %
(Loss)/profit before tax	(2,102)	100	1,039	100
Tax credit at Ukraine corporation tax rate of 18% (2018: 18%)	(378)	18	187	18
Permanent differences	(944)	45	(1,652)	(159)
Unrecognized tax losses generated in the year	1,448	(69)	972	94
Recognition of previously unrecognized deferred tax assets	-	-	(178)	(17)
Effect of different tax rates	(126)	6	493	47
	-	-	(178)	(17)
Adjustments recognized in the current year in relation to the current tax of prior years	-	-	–	–
Income tax (benefit)/expense recognized in profit or loss	-	-	(178)	–

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

14. (Loss)/profit per Ordinary share

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

(Loss)/profit attributable to owners of the Company	**2019 $'000**	2018 $'000
(Loss)/profit for the purposes of basic (loss)/profit per share being net (loss)/profit) attributable to owners of the Company	**(2,103)**	1,220

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

(Loss)/Profit per Ordinary share	**2018 Cent**	2017 Cent
Basic and diluted	**(0.9)**	0.5

In 2019 the Group generated a loss and therefore there is no difference between basic and diluted EPS.

15. Intangible exploration and evaluation assets

Cost	$'000
At 1 January 2018	**21,068**
Additions	857
Disposals	–
Change in estimate of decommissioning assets (note 25)	(274)
Exchange differences	533
At 1 January 2019	**22,184**
Additions	241
Disposals	(6,062)
Change in estimate of decommissioning assets (note 25)	(63)
Exchange differences	3,218
At 31 December 2019	**19,518**
Impairment	
At 1 January 2018	**19,353**
Exchange differences	445
At 1 January 2019	**19,798**
Disposals	(6,062)
Exchange differences	2,811
At 31 December 2019	**16,547**
Carrying amount	
At 31 December 2019	**2,971**
At 31 December 2018	2,386

The carrying amount of E&E assets as at 31 December 2019 of $2.9 million (2018: $2.4 million) relates to Bitlyanska license. Disposals of cost and impairment of $6.1 million represents liquidation of Pirkivska-1 well which had been fully impaired previously.

Management has performed an impairment indicator review. Refer to note 4 (a). As part of the impairment indicator assessment management considered the Bitlyanska license's economic model of underlying discounted cash flow forecasts which demonstrated significant headroom over carrying value and the absence of an impairment indicator. Accordingly, disclosure of estimation uncertainty for individual inputs is not included.

15. Intangible exploration and evaluation assets continued

A critical judgment in the impairment indicator assessment was the likelihood of the Bitlyanska license being renewed. Cadogan has fully complied with legislative requirements and submitted its application for a 20-year exploration and production license 5 months before its expiry on 23 December 2019. A decision on the award was expected to be provided by State Geological Service of Ukraine before 19 January 2020, since all other intermediary approvals have been secured in line with the applicable legislation requirements. Given the delay to granting of the new license beyond the regular timeline provided by legislation in the Ukraine, Cadogan has launched a claim before the Administrative Court to challenge the non-granting of the 20-year production license by the Licensing Authority. Given the compliance with license commitments and renewal process and having considered legal advice received, management have a reasonable expectation of the license being awarded.

16. Property, plant and equipment

Cost	Development and production assets $'000	Other $'000	Total $'000
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 1 January 2019	**8,532**	**2,721**	**11,253**
Additions	8,213	57	8,270
Change in estimate of decommissioning assets (note 25)	135	-	135
Disposals	(2,372)	-	(2,372)
Exchange differences	2,004	468	2,472
At 31 December 2019	**16,512**	**3,246**	**19,758**
Accumulated depreciation and impairment			
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 1 January 2019	**5,772**	**2,185**	**7,957**
Impairment	-	-	-
Charge for the year	495	158	653
Disposals	(2,372)	-	(2,372)
Exchange differences	810	372	1,182
At 31 December 2019	**4,705**	**2,715**	**7,420**
Carrying amount			
At 31 December 2019	**11,807**	**531**	**12,338**
At 31 December 2018	2,760	536	3,297

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 2019 of $11.8 million relates to the Blazhivska license. Depreciation includes $0.5 million for the Blazhivska license.

Management has performed an impairment review of Development and production assets. As part of the information considered management carried out the assessment of the Blazhivska license's value in use based on the underlying discounted cash flow forecasts. The impairment review supported the conclusion that no impairment indicator exists and impairment was not applicable. Key assumptions used in the impairment assessment were: future oil prices which were assumed at a constant $308, real per tonne; estimated 2P reserves and a pre-tax discount rate of 15%, nominal.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

16. Property, plant and equipment continued

A key judgment in the impairment assessment was that the Group would successfully renew the rental contracts with Ukrnafta for Blazhiv-3 and Blazhiv-3 Monastyrets wells which ended in November 2019, enabling operations at these wells to resume. Cadogan has fulfilled all its duties for the renewal of the contracts but due to internal process within Ukrnafta, these contracts are not yet signed. Cadogan's subsidiary, Usenco, has been informed that Ukrnafta's Board approved the rental contracts and that their signature will be shortly executed allowing production to resume.

17. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2019:

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	Dormant	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	Dormant	Hoogoorddreef 15, 1101 BA Amsterdam
Zagoryanska Petroleum BV	Netherlands	100	Holding company	Hoogoorddreef 15, 1101 BA Amsterdam
Pokrovskoe Petroleum BV	Netherlands	100	Dormant	Hoogoorddreef 15, 1101 BA Amsterdam
Cadogan Ukraine Holdings Limited	Cyprus	100	Dormant	48 Inomenon Ethnon, Guricon House, Floor 2 & 3, 6042, Larnaca, Cyprus
Momentum Enterprise (Europe) Ltd	Cyprus	100	Dormant	48 Inomenon Ethnon, Guricon House, Floor 2 & 3, 6042, Larnaca, Cyprus
Rentoul Ltd	Isle of Man	100	Liquidated February 16, 2020	Commerce House, 1 Bowring Road, Ramsey, Isle of Man IM8 2LQ
LLC Astro Gas	Ukraine	100	Exploration	5a, Pogrebnyak Street, ap. 2, Zinkiv, Poltava region, Ukraine, 38100
LLC Astroinvest-Energy	Ukraine	100	Trading	5a, Pogrebnyak Street, ap. 2, Zinkiv, Poltava region, Ukraine, 38100
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
LLC Astro-Service	Ukraine	100	Service Company	3 Petro Kozlaniuk str, Kolomyia, 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

In 2019, the Group disposed its subsidiaries LLC Astroinvest Ukraine and LLC Gazvydobuvannya for the consideration of $4 million. At the date of disposal, the subsidiaries had $1.8 million of VAT recoverable balance which was previously impaired in the Group's accounts and $136 million accumulated tax losses which were not recognised historically due to the lack of sufficient certainty regarding future profits to utilize the losses.

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.

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 licenses 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

	2019 $'000	2018 $'000
Natural gas	**4,949**	3,584
Other inventories	**1,627**	1,080
Impairment provision for obsolete inventory	**(2,123)**	(177)
Carrying amount	**4,453**	4,487

The impairment provision as at 31 December 2019 and 2018 is made so as to reduce the carrying value of the inventories to net realizable value.

20. Trade and other receivables

	2019 $'000	2018 $'000
VAT recoverable	**2,402**	1,874
Trading prepayments	**-**	258
Trading receivables	**-**	39
Receivable from joint venture	**-**	62
Other receivables	**237**	239
	2,639	2,472

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

VAT recoverable is presented net of the cumulative provision of $2.4 million (2017: $5.0 million) against Ukrainian VAT receivable that has been recognized as at 31 December 2019. VAT recoverable relates to the oil production and gas trading operations and 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 2019 of $12.8 million (2018: $35.2 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 2019, total amount of pledged cash is nil.

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

	Short term borrowings $'000
At 1 January 2018	**-**
Cash flows	78
Effects of foreign exchange	(78)
At 1 January 2019	**-**
Cash flows	-
Effects of foreign exchange	-
At 31 December 2019	**-**

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

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 2018	**323**
Deferred tax benefit	178
Exchange differences	–
Asset as at 1 January 2019	**501**
Deferred tax benefit	–
Exchange differences	–
Asset as at 31 December 2019	**501**

At 31 December 2019, the Group had the following unused tax losses available for offset against future taxable profits:

	2019 $'000	2018 $'000
UK	**30,756**	12,634
Ukraine	**50,257**	180,982
	81,013	193,615

Deferred tax assets have been recognized in respect of those tax losses where there is sufficient certainty that profit will be available in future periods against which they can be utilized. The Group's unused tax losses of $30.8 million (2018: $12.6 million) relating to losses incurred in the UK are available to shelter future non-trading profits arising within the Company. These losses are not subject to a time restriction on expiry. No deferred tax asset is recorded.

Unused tax losses incurred by Ukraine subsidiaries amount to $50.3 million (2018: $181.0 million) with the movement primarily due to the company sales in note 17. 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 utilized 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. In March 2019 the Group ceased to use the credit line, funds of $5 million became unpledged.

24. Trade and other payables

	2019 $'000	2018 $'000
Accruals	**604**	660
Trade creditors	**253**	437
Trading payables	**-**	51
VAT payable	**-**	-
Other payables	**409**	123
	1,266	1,271

Trade creditors and accruals principally comprise amounts outstanding for ongoing costs. The average credit period taken for trade purchases is 29 days (2018: 28 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 2019 comprise of $0.3 million (2018: $0.3 million) of decommissioning provision.

Decommissioning	$'000
At 1 January 2018	**770**
Change in estimate (note 15 and 16)	(368)
Utilization 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 1 January 2019	**315**
Change in estimate (note 15 and 16)	(63)
Additional provisions recognized in the period	135
Utilization of provision on impaired oil and gas assets	(335)
Unwinding of discount on decommissioning provision (note 12)	164
Exchange differences	73
At 31 December 2019	**289**
At 1 January 2018	**770**
Non-current	39
Current	276
At 1 January 2019	**315**
Non-current	289
Current	-
At 31 December 2019	**289**

In accordance with the Group's environmental policy and applicable legal requirements as of 31st December 2019, the Group intends to restore the sites it is working on after completing exploration or development activities.

A long-term provision of $0.3 million (2018: $0.3 million) has been made for decommissioning costs, which are expected to be incurred at the end of the licenses period as a result of the demobilization of gas and oil facilities and respective site restoration.

26. Share capital

	2019		2018	
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

Authorized 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 2017	**235,729,322**
Issued during year	–
At 31 December 2018	**235,729,322**
Issued during year	–
At 31 December 2019	**235,729,322**

Mr Khallouf was appointed as Chief Executive Officer on 15 November 2019. As part of Mr Khallouf's employment agreement, a welcome bonus equivalent in value to 5,500,000 ordinary shares (using the market value of the shares on the business day prior to the date of issue) is payable to Mr Khallouf and a holding period of two years is applicable to the shares acquired. Pursuant to the terms of the bonus, the amount must be subscribed for ordinary shares in the Company at such time as the executive agrees. The welcome bonus is yet to be paid to Mr Khallouf and will be paid during 2020.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

26 Share capital continued

Following shareholders' approval of the new Remuneration Policy, Mr Michelotti received in 2019 the Performance Bonus of €100,000 awarded to him based on the achievement versus his 2019 scorecard and without a discretionary element. The Remuneration Committee decided to award in shares 50% of the awarded bonus less taxes and social contribution and therefore the €100,000 bonus was split in €72,500 cash (inclusive of income tax and social contributions to be paid by Mr Michelotti on the entire awarded amount) and €27,500 in shares priced at their market value at closing on the Business Day prior to the Subscription Date. The cash element was paid in November 2019.

The share element of the transactions have been recorded as a charge to the income statement and a credit to equity (other reserves) based on the market price.

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.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Categories of financial instruments	2019 $'000	2018 $'000
Financial assets (includes cash and cash equivalents)		
Financial assets at fair value through profit and loss	**15,707**	-
Cash and cash equivalents – amortised cost	**12,834**	35,136
Trading receivable – amortized cost	**-**	39
Other receivables – amortized cost	**237**	239
Receivable from joint venture – amortized cost	**-**	62
	28,778	35,476
Financial liabilities – measured at amortized cost		
Accruals	**604**	660
Trade creditors	**253**	437
Trading payables	**-**	51
Other payables	**409**	123
	1,266	1,271

Refer to note 4(d) for details of the terms of the Proger loan recorded as a financial assets at fair value through profit and loss. The instrument is recorded at management's best estimate of fair value as set out in note 4(d) although management have not been able to undertake a valuation exercise under the income method or market based method which would incorporate relevant recent financial information on the investee or its prospects.

Financial assets at fair value through profit and loss	$'000
As at 1 January 2019	**-**
Long-term loans provided	15,246
Movement in FVPL	4,421
Exchange differences	364
As at 30 June 2019	**20,030**
Changes in valuation approach	(3,724)
Exchange differences	(599)
As at 31 December 2019	**15,707**

The Group has applied a level 3 valuation under IFRS as inputs to the valuation have included assessment of the cash repayments anticipated under the loan terms at maturity, historical financial information for the periods prior to 2019 and assessment of the security provided by the pledge over shares.

27. Financial instruments continued

If the Group had been provided with information to complete a valuation under the income method or market method the key assumptions would have included: a) In terms of the income method: forecast revenues, EBITDA and unlevered free cash flows of the investee including assessment of performance against its original business plan at the time the loan was advanced, growth rates and terminal values, determination of an appropriate discount rate, adjustments to the enterprise value for debt and working capital adjustments; b) In terms of the market method: 2019 EBITDA and information to assess the quality of such earnings, enterprise value multiples based on a basket of comparable transactions and companies, adjustments to the enterprise value for debt and working capital adjustments and other risk adjustment factors.

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

At 30 June 2019, the Group recorded a fair value increased based on 2018 financial information provided by Proger at that time and enterprise value multiples based on a basket of comparable transactions and companies adjusted to determine an estimate of equity value. The fair value has subsequently been reduced as explained above.

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 Petroleum Exporting Countries.

These fluctuations may have a significant effect on the Group's revenues and operating profits going forward. In 2019 the price for Ukrainian gas significantly decreased and 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. There was no material past due receivables as at year end.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2019

27. Financial instruments continued

Liquidity risk management

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

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

	Within 3 months $'000	3 months to 1 year $'000	More than 1 year $'000	Total $'000
At 31 December 2018				
Trade and other payables	1,271	–	–	1,271
At 31 December 2019				
Trade and other payables	**1,266**	**-**	**-**	**1,266**

28.Commitments and contingencies

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

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

	2019 $'000	2018 $'000
Within one year	**-**	1,583
Between two and five years	**2,573**	–
	2,573	1,583

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. Where management concludes that it is not probable that a particular tax treatment is accepted, a provision is recorded based on the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty. 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.

After an inspection conducted by Ukraine's tax authorities in September 2019, Astroinvest Energy LLC was notified of a tax claim related to the historic costs for the liquidation of wells on the Zagoryanska license. The tax authorities notified Astroinvest Energy LLC that they consider recoverable VAT ($3.6 million) that has subsequently been used to offset output VAT to be non-deductible and additionally that the subsidiary's tax losses carry forward should be reduced by $19 million (Note 28). Astroinvest Energy LLC has launched a claim against the tax authority's decision on the basis of the current tax legislation and related court decisions and considers the potential for a liability to be less than probable.

If unsuccessful Astroinvest Energy LLC would off-set the amount of notified tax losses with part of the historical accumulated tax losses. The disputed amount of VAT would be partially covered with recoverable VAT not recognized as of 31 December 2019 (note 20) such that the eventual impact would be $1.2 million.

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.

In February 2019, the Group entered in a 2-year loan agreement with Proger Management & Partners Srl with an option to convert it into an indirect 24% equity interest in Proger Spa. At that time, Mr Michelotti was a non-executive Director of Proger Ingegneria Srl and Proger Spa, and CEO of Cadogan Petroleum PLC. Mr Michelotti did not participate to the voting for the approval of the loan agreement at the Board of Cadogan.

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

	2019 $'000	2018 $'000
Revenues from services provided and sales of goods	**-**	-
Amounts owed by related parties	**-**	62

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 2019 on pages 32 to 45.

	Purchase of services		Amounts owing	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Directors' remuneration	**1,454**	1,182	**594**	230

The total remuneration of the highest paid Director was $0.6 million in the year (2018: $0.8 million).

The amounts outstanding are mostly represented by provision for shares to be issued in respect of a welcome bonus. 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

At the date of approval of these consolidated financial statements, Covid-19 continues to spread internationally, contributing to a sharp decline in global financial markets and a significant decrease in global economic activity. On 11 March 2020, the Covid-19 outbreak was declared a global pandemic by the World Health Organization and has since then resulted in numerous governments and companies, including Cadogan, introducing a variety of measures to contain the spread of the virus. The outbreak has also created significant volatility in financial markets and is considered to have negatively impacted commodity prices, including oil prices, which is relevant to financial performance since year end and may impact future asset values should they remain depressed. To date there has been no material adverse effect on the Group's operations, production continues albeit the reduced price environment has reduced revenues.

Company Balance Sheet
As at 31 December 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Non-current assets			
Receivables from subsidiaries	34	**37,324**	28,457
		37,324	28,457
Current assets			
Trade and other receivables	34	**-**	-
Cash and cash equivalents	34	**6,971**	17,477
		6,971	17,477
Total assets		**44,295**	45,934
LIABILITIES			
Current liabilities			
Trade and other payables	35	**(350)**	(614)
		(350)	(614)
Total liabilities		**(350)**	(614)
Net assets		**43,945**	45,320
EQUITY			
Share capital	36	**13,525**	13,525
Share premium		**329**	329
Retained earnings[1]		**138,318**	140,106
Other reserve		**492**	79
Cumulative translation reserves	37	**(108,719)**	(108,719)
Total equity		**43,945**	45,320

The financial statements of Cadogan Petroleum plc, registered in England and Wales no. 05718406, were approved by the Board of Directors and authorized for issue on 1 May 2020.

They were signed on its behalf by:

Fady Khallouf
Chief Executive Officer
1 May 2020

1 Included in retained earnings, loss for the financial year ended 31 December 2019 was $1.8 million (2018: $1.1 million).

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

Company Cash Flow Statement

For the year ended 31 December 2019

	2019 $'000	2018 $'000
Operating activities		
Loss for the year	**(1,788)**	(1,148)
Adjustments for:		
Interest received	**(50)**	(468)
Effect of foreign exchange rate changes	**143**	(74)
Other payables to subsidiaries written off	**(382)**	-
Reversal of receivables from subsidiaries	**-**	(78)
Operating cash flows before movements in working capital	**(2,077)**	(1,768)
(Increase)/decrease in receivables	**(2,699)**	78
Increase in payables	**530**	22
Cash used in operations	**(4,246)**	(1,668)
Income taxes paid	**-**	-
Net cash outflow from operating activities	**(4,246)**	(1,668)
Investing activities		
Interest received	**50**	468
Loans to subsidiary companies	**(6,237)**	(8,803)
Net cash used in investing activities	**(6,187)**	(8,335)
Net decrease in cash and cash equivalents	**(10,433)**	(10,003)
Effect of foreign exchange rate changes	**(73)**	74
Cash and cash equivalents at beginning of year	**17,477**	27,406
Cash and cash equivalents at end of year	**6,971**	17,477

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

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital $'000	Share premium account $'000	Retained earnings $'000	Other Reserve $'000	Cumulative translation reserves $'000	Total $'000
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)
Share based award	–	–	–	79	–	79
As at 1 January 2019	**13,525**	**329**	**140,106**	**79**	**(108,719)**	**45,320**
Net loss for the year	–	–	(1,788)	–	–	(1,788)
Total comprehensive loss for the year	–	–	(1,788)	–	–	(1,788)
Share based award	–	–	–	413	–	413
As at 31 December 2019	**13,525**	**329**	**138,318**	**492**	**(108,719)**	**43,945**

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

Notes to the Company Financial Statements

For the year ended 31 December 2019

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 2019 of $1.8 million (2018: $1.1 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 $349.9 million (2018: $341.1 million). The Company recognized no additional expected credit loss provisions in relation to receivables from subsidiaries in 2019 (2018: nil). The accumulated provision on receivables as at 31 December 2019 was $312.6 million (2018: $312.6 million). The carrying value of the receivables from the fellow Group companies as at 31 December 2019 was $37.3 million (2018: $28.5 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.

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.

Notes to the Company Financial Statements continued

For the year ended 31 December 2019

35. Financial liabilities

Trade and other payables	2019 $'000	2018 $'000
Accruals	**211**	157
Trade creditors	**139**	75
Other creditors and payables	**-**	382
	350	614

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 34 days (2018: 35 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	2019 $'000	2018 $'000
Financial assets – loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	**6,971**	17,477
Amounts due from subsidiaries	**37,324**	19,476
	44,295	36,953
Financial liabilities – measured at amortized cost		
Trade creditors	**(139)**	(75)
	(139)	(75)

Interest rate risk

All financial liabilities held by the Company are non-interest bearing. As the Company has no committed borrowings, the Company is not exposed to any significant risks associated with fluctuations in interest rates.

Credit risk

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

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

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

38. Financial instruments continued

Liquidity risk management

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

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

Foreign exchange risk and foreign currency risk management

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

	2019 $'000	2018 $'000
Cadogan Petroleum Holdings Limited	**37,324**	28,457
	37,324	28,457

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 2019 on pages 32 to 45.

	Remuneration		Amounts owing	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Directors' remuneration	**1,431**	1,182	**594**	–

The total remuneration of the highest paid Director was $0.6 million in the year (2018: $0.8 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 recoverable than probable Reserves.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
Prospective Resources	Those quantities of petroleum which are estimated as of a given date to be potentially recoverable from undiscovered accumulations.
P1	Proved Reserves
P2	Probable Reserves
P3	Possible Reserves
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserves
Workover	The process of performing major maintenance or remedial treatment of an existing oil or gas well
E&E/E&P	Exploration and Evaluation/Exploration and Production
LTI	Lost time incidents

Shareholder Information

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

Telephone number: UK: 0871 664 0300 (calls cost 12p per minute plus network extras).
International: +44 (0) 371 664 0300
Lines are open 9am – 5.30pm, Monday – Friday, excluding public holidays.

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

You can access your shareholding details and a range of other services at the Shareholder Portal www.signalshares.com.

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

Unsolicited mail

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

Financial calendar 2019/2020

Annual General Meeting	June 2020
Half Yearly results announced	August 2019
Annual results announced	May 2020

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

Notes

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