**CADOGAN PETROLEUM PLC**

**Half Yearly Report for the Six Months ended 30 June 2018**

**(Unaudited and unreviewed)**

## Highlights

**Cadogan Petroleum plc ("Cadogan" or the "Company") announces its unaudited results for the six months ended 30 June 2018.**

- The first half of 2018 was LTI and TRI[1] free and normalized emissions were further reduced to 15.9 tons $CO_2$,e/boe. Good progress has been made towards achieving ISO 14001 and ISO 45001 certification for our Ukrainian operations.
- Production continued to grow. The average net production rate over the first half of the year was 234 boepd which is 64% higher than the average in the first half of 2017 and 51% higher than the average for last year. The production increase was driven by the successful work-over campaign on the three producing wells of the Monastyretska licence, which have reached an aggregated gross oil production of 225 bpd, at 30 June 2018.
- Traded volumes of gas were slightly lower than in H1 2017, but the segment result significantly improved as a result of the cost saving initiatives taken by Management the previous year. Collection of the receivable at the end of December 2017 was nearly completed through the semester.
- The service business continued to support the Group's activities, thus retaining funds within the Group, while tendering for third party services to be rendered starting from the second part of the year (when the work-over campaign in Monastyretska is due to be finished); a multi-well work-over contract was won in a tender launched by one of the largest operators in Ukraine and the work has commenced in July.
- The active pursuit of opportunities to renew and diversify the portfolio has continued. More than 10 potential opportunities were scrutinized during the reporting period.
- The increased production, combined with higher prices and tight control on all spending, further reduced the Group's after tax loss which was down to $0.3 million (H1 2017: loss of $2 million). Gross profit increased to $0.6 million (30 June 2017: $0.5 million, 31 December 2017: $2.1 million).
- Net cash, i.e. cash and cash equivalents less short term borrowings, at the end of the period was $41.4 million; this is comparable to the level at the end of the same reporting period of last year ($40.3 million) and represents a $3.8 million increase over the value at the end of last year. The successful efforts to manage cash items allowed the Ukrainian operations to return some money to the UK parent company as a repayment of the loans received in the past.

[1] Respectively Lost Time Incident and Total Recordable Incident.

## Key performance indicators

The Group has monitored its performance in conducting its business with reference to a number of key performance indicators ('KPIs'):

- to increase oil, gas and condensate production measured on the barrels of oil equivalent produced per day ('boepd');
- to decrease administrative expenses;
- to increase the Group's basic earnings per share;
- to maintain an accident free working environment;
- to reduce its emisisons to the atmosphere; and
- to grow and geographically diversify the portfolio.

The Group's performance during the first six months of 2018 against these targets is set out in the table below, together with the prior year performance data. No changes have been made to the sources of data or calculations used in the period/year. The positive trend in the HSE performances continue with zero incidents and decrease of the emissions.

| | Unit | 30 June 2018 | 30 June 2017 | 31 December 2017 |
|---|---|---|---|---|
| Average production (working interest basis) [(a)] | Boepd | 234 | 143 | 155 |
| Administrative expenses [(b)] | $million | 2.0 | 2.7 | 5.0 |
| Basic loss per share [(c)] | Cent | (0.2) | (0.9) | (0.7) |
| Lost time incidents [(d)] | Incidents | 0 | 0 | 0 |
| Emissions to the atmosphere [(e)] | t/boe | 15.9 | 23.89 | 22.31 |
| Geographical diversification | New assets | - | - | 1 |

a. Average production is calculated as the average daily production during the period/year.
b. $0.3 million of one-off costs related to the streamlining of operating structure is included in H1 2017 cost
c. Basic loss per Ordinary share is calculated by dividing the net loss for the year attributable to equity holders of the parent company by the weighted average number of Ordinary shares during the period.
d. Lost time incidents relate to injuries where an employee/contractor is injured and has time off work (IOGP standard).
e. For E&P activity. Normalised to tons of $CO_2$ per total wellhead production, ton/boe.

Enquiries:


| | | |
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## Introduction

The first half of 2018 witnessed a further recovery of the oil price, with Brent almost reaching 80 $/bbl, and there were no other events of consequence that have affected Cadogan in any of the countries where the Company has activities.

The social, economic and political conditions in Ukraine remained stable. The Parliament passed in June the Anticorruption Court law, which was one of the requests of the International Monetary Fund to grant a further tranche of the Extended Fund Facility program.

Ukraine continued with its efforts to overhaul and modernise its oil & gas regulatory framework. A new law requiring licence applicants to submit an Environmental Impact Assessment (EIA) for approval through local councils which was introduced and took effect on 17 December 2017. The law was passed without the necessary clarity on how to enforce it and this created delays in the award processes, which were ongoing at the time it was passed. The issue was resolved later in the year with the Cabinet of Ministers approving amendments to avoid delays for application processes started before 31 December 2017.

A new law, which simplifies the licence application process came into force in June 2018. The new law significantly reduces the time available for the Ministry of Ecology and Natural Resources to approve applications. It also confirms that applications are deemed to be approved if the competent authorities do not send their approval or a motivated rejection within a defined time period to the State Service of Geology and Subsoil of Ukraine.

Against this somewhat positive context, Cadogan's gas operations remained subject to a punitive royalty regime.

In Italy, a new coalition government was formed following the general elections in March. Elections were also held in Lombardy which confirmed the Center-right collation which had ruled the region for the last 5 years. The Company has started the process of engaging with the newly appointed local authorities, with the objective of setting the licence award process in motion again.

## Operations

The E&P activity has focused on using the assets in Ukraine as a platform for growth by increasing production from the existing fields within the Debeslavetska, Cheremkhivska and Monastyretska licences. At the end of the reporting period, the average gross production rate increased to 242 boepd (234 boepd net to Cadogan), which is 56% higher than in the six months ended 30 June 2017 (155 boepd gross, 143 boepd net).

The focus of activity was the Monastyretska licence, where the Company completed in time and on budget a successful workover and stimulation campaign on the three producing wells. Gross oil production increased to 225 bpd, which represents a 150% increase over the oil production at the beginning of the work-over campaign and a fourfold increase over the stable 45 bpd, which the field had been producing a year and a half ago. With the addition of gas production from Debeslavetska, Cadogan's net, oil and gas combined production at the end of the reporting period was 272 boepd.

In parallel, the reservoir study to better understand the potential of the producing reservoir has progressed and it is anticipated that it will be concluded in the third quarter of the year.

The farm-out of the Bitlyanska licence has been actively advertised by the UK consultant engaged with this mandate and a couple of requests to access the data room have been received at the time this report has been prepared.

All activities were executed without LTI[2], with a total of nearly 700,000 manhours since the last incident, which occurred to a contractor, in February 2016. Emissions to the atmosphere were further reduced to

[2] Lost Time Incident

15.94 tons of $CO_2$e/boe produced, compared to 26.47 tons of $CO_2$e/boe of the same reporting period of last year.

In Italy, activity has focused on securing the award of the two licences in the Po Valley. The Company is engaging with the newly elected local politicians to progress the awards.

**Trading**

Volumes of gas trading are normally lower in the first half of the year due to the seasonality of this business and the first six months of 2018 were no exception. The exception was the abnormal behaviour of the gas price, which remained close or higher than its winter level in Ukraine as well in the European hubs. This reduced the room for arbitrage and consequently impacted the margin.

Cadogan's gas trading operations continued to take minimum credit risk and also recovered most of its past receivables.

**Financial position**

Cash and cash equivalents at 30 June 2018 were $41.4 million; this represents a $3.8 million increase over the value at 31 December 2017. This was driven by optimisation of working capital and recovery of VAT credits and of receivables. Short term borrowing at 30 June, 2018 was nil as Cadogan was able to use its own financial resources to support its gas trading operations.

The Directors believe that the capital available at the date of this report is sufficient for the Group to continue its operations for the foreseeable future.

**Outlook**

The position of Cadogan remains solid, with the resources and competences necessary to continue monetizing the value of its Ukrainian assets while pursuing opportunities outside of Ukraine to generate long term value for its shareholders.

In Ukraine, the Company will strive to further improve the performances of its oil production operations while looking for solutions to its gas producing operations which remain subject to an extremely high royalty rate. It will also start to prepare for the drilling of the two wells, which are required to fullfil the remaining commitments of the Bitlyanska and Monastyretska exploration licences and convert them into production licences.

The Company will continue to actively pursue opportunities to leverage the strength of its balance sheet, competence and low cost structure to create long term value for shareholders.

The results delivered in the first half of the year provide the management team with added confidence that Cadogan can be brought to profitability after many years of losses.

In H1 2018, the Group held working interests in four (2017: four) conventional gas, condensate and oil exploration and production licences in the West of Ukraine. All these assets are operated by the Group and are located in the prolific Carpathian basin, close to the Ukrainian gas distribution infrastructure. In the East, the Group took all necessary actions to convert the Pirkovskoe exploration licence which expired in 2015 into a production licence and is awaiting approval.

The Group's primary focus during the period continued to be on the cost optimisation and enhancement of current production.

| Summary of the Group's licences (as of 30 June 2018) | | | |
|---|---|---|---|
| **Working interest (%)** | **Licence** | **Expiry** | **Licence type[1]** |
| 99.8 | Bitlyanska | December 2019 | E&D |
| 99.2 | Monastyretska | November 2019 | E&D |
| 99.2 | Debeslavetska[2] | November 2026 | Production |
| 54.2 | Cheremkhivska[2] | May 2018 | Expired. Pending extension approval |

(1) E&D = Exploration and Development.

(2) The Group has respectively 99.2% and 54.2% of economic benefit in conventional activities in Debeslavetska and Cheremkhivsko-Strupkivska licences through Joint Activity Agreements ("JAA").

In addition to the above licences, the Group has a 15%, carried-through-exploration interest in the ENI-led WGI[3], which holds the Cheremkhivsko-Strupkivska, Debeslavetska Production, Baulinska, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska licences for unconventional activities. Cheremkhivsko-Strupkivska licence expired on 14 May 2018. WGI has submitted application for 10 years extension – pending State Geological Serivce approval.

Below we provide an update to the full Operations Review contained in 2017 Annual Report published on 25 April 2018.

## Bitlyanska licence

Borynya 3 well is routinely monitored as required by existing regulations for wells which are suspended. Internal assessment and third party evalution identified drillable oil prospects at the depth below 1000m.

A UK adviser has been engaged to assist in the farm-out of Bitlyanska licence.

## Monastyretska licence

The work-over and stimulation campaign of wells Blazhiv-1, Blazhiv-3 and Blazhiv-Monastyrets-3 was successfully completed. The field produced 164 bpd gross (H1 2017: 73 bpd) over the reporting period. An upgrade of the oil storage capacity to fit with the increased production volumes has been started.

A reservoir simulation study was awarded to an international consultant to assess the licence upside, as well as to assist in the selection of the optimal development scheme for the producing field.

[3] WestGasInvest LLC is a Ukraine registered company in which Cadogan owns a 15% participating interest; the remaining participating interest is held by eni ukraine LLC (50.01 %) and Nadra Ukrayny (34.99 %)

**Debeslavetska Production licence area**

The field produced 60 boepd gross (H1 2017: 56 boepd) over the reporting period. Rigless activity was regularly conducted to neutralize the natural production decline.

**Cheremkhivska Production licence area**

As reported, the licence expired on 14 May 2018 and production had to be suspended on that day. The licence owner WGI submitted in good time the application for a 10 years extension which is now pending approval of the State Service of Geology and Subsoil of Ukraine. Gross production over the reporting period was 19 boepd (H1 2017: 26 boepd). Assets related to this licence have been impaired in previous periods.

**Unconventional licences**

Eni, the majority owner of the operator WGI, is reconsidering its strategy and there is no certainty at this stage that well drilling and testing will be conducted. Cadogan, whose 15% interest is carried through exploration, had prudently impaired the residual value of the assets held as part of its investment in joint venture at the end of last year.

**Service Company activities**

Cadogan's 100% owned subsidiary, Astro Service LLC, continued to pursue opportunities to build a larger portfolio of orders, while serving intra-group operational needs. A multi-well work-over contract was signed with a local operator and has become effective from July 2018.

## Overview

### Income statement

Revenues increased to $5.3 million in the first half of 2018 (30 June 2017: $5.0 million, 31 December 2017: $15.1 million) and represent revenues from production, which doubled to $2.1 million (30 June 2017: $1.0 million) due to the increase of both production volumes  (57% over H1 2017) and average realised price (34% over H1 2017), and revenues from gas trading which decreased to $3.1 million (30 June 2017: $3.9 million, 31 December 2017: $12.7 million).

The service business in the first half of 2018 was focused on internal projects, in particular, on services to the Monastyretska licence.

The cost of sales consists of $3.1 million of purchases of gas, and $1.5 million of production royalties and operating costs (OPEX), such as depreciation and depletion of producing wells, direct staff costs for exploration and development and other operating costs.

Gross profit increased to $0.6 million (30 June 2017: $0.5 million, 31 December 2017: $2.1 million).

Other administrative expenses were further reduced to $2.0 million (30 June 2017: $2.7 million, 31 December 2017: $5.0 million). These comprise other staff costs, professional fees, Directors' remuneration and depreciation charges on non-producing property, plant and equipment.

The reversal of impairment of other assets includes $0.3 million of reversal of previously impaired VAT provision as offset of VAT recoverable against margin earned on trading and E&P operations and $0.1 million of reversal of previously impaired inventories which were sold at above cost.

### Balance sheet

The cash position of $41.4 million as at 30 June 2018, including pledged[4] cash of $7 million, increased compared with the $37.6 million at 31 December 2017, mostly due to seasonality of gas trading segment, and remained almost at same level of H1 2017 of $40.3 million.

Intangible Exploration and Evaluation ("E&E") assets of $1.7 million (30 June 2017: $2.8 million, 31 December 2017: $1.7 million) represent the carrying value of the Group's investment in E&E assets as at 30 June 2018. The Property, Plant and Equipment ("PP&E") balance of $2.7 million at 30 June 2018 (30 June 2017: $1.2 million, 31 December 2017: $2.1 million) include $1.5 million of development and production assets of Monastyretska licence and other PP&E of the Group.

Trade and other receivables of $1.3 million (30 June 2017: $2.9 million, 31 December 2017: $4.5 million) include $0.1 million trading prepayments and receivables (30 June 2017: $1.8 million, 31 December 2017: $3.1 million), and VAT recoverable of $0.6 million (30 June 2017: $0.3 million, 31 December 2017: $0.9 million) and $0.5 million of other receivables and prepayments (30 June 2017: $0.7 million, 31 December 2017: $0.4 million).

The $1.5 million of trade and other payables as of 30 June 2018 (30 June 2017: $1.5 million, 31 December 2017: $1.4 million) represents $1.1 million (30 June 2017: $0.8 million, 31 December 2017: $0.9 million) of other creditors and $0.4 million of accruals (30 June 2017: $0.7 million, 31 December 2017: $0.5 million).

### Cash flow statement

The Consolidated Cash Flow Statement shows operating cash outflow before movements in working capital of $1.1 million (30 June 2017: outflow $2.1 million, 31 December 2017: outflow $2.2 million). Cash inflows from movements in working capital in first half 2018 of $5.1 million represent a decrease in trade and other receivables of $3.4 million, decrease in inventories of $1.5 million, and a decrease in trade and other payables of $0.2 million.

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[4] To guarantee a $7 million credit line secured with the Ukrainian branch of the UK bank.

The Group had capital expenditure of $0.1 million on intangible Exploration and Evaluation ("E&E") assets for the six months ended 30 June 2018 (30 June 2016: $0.4 million, 31 December 2017: $0.6 million). This related to workovers on the Bitlyanska licence. On Monastyretska licence $0.7 million capital expenditure (30 June 2017: $nil, 31 December 2017: $0.1 million) on Property, Plant and Equipment ("PP&E") related to implementation of the work-over and stimulation campaign on Blazh wells.

**Commitments**

There has been no material change in the commitments and contingencies reported as at 31 December 2017 (refer to page 79 of the Annual Report).

**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 and holds these mostly in call deposits. Production revenues from the sale of hydrocarbons are received in the local currency in Ukraine ('UAH') and to date funds from such revenues have been partially held in Ukraine for further use in operations and partially ($2 million) remitted to the UK. Funds are transferred to the Company's subsidiaries in USD to fund operations, at which time the funds are converted to UAH. Some payments are made on behalf of the affiliates from the UK.

**Going concern**

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 Interim Financial Statements. For further detail refer to the detailed discussion of the assumptions outlined in note 2(a) to the Interim Financial Statements.

Cautionary Statement

The business review and certain other sections of this Half Yearly Report contain forward looking statements that have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report. However they should be treated with caution due to inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information and no statement should be construed as a profit forecast.

## Risks and uncertainties

There are a number of potential risks and uncertainties inherent in the oil and gas sector which could have a material impact on the long-term performance of the Group and which could cause the actual results to differ materially from expected and historical results. The Company has taken reasonable steps to mitigate these where possible. Full details are disclosed on pages 11 to 13 of the 2017 Annual Financial Report. There have been no changes to the risk profile during the first half of the year. The risks and uncertainties are summarised below:

**Operational risks**

- Health, safety, and environment
- Drilling and work-over operations
- Production and maintenance

**Subsurface risks**

**Financial risks**

- Changes in economic environment risk
- Counterparty risk
- Commodity price risk

**Country risk**

- Regulatory and licence issues
- Emerging market risk

**Other risks**

- Risk of losing key staff members
- Risk of entry into new countries

**Director’s Responsibility Statement**

We confirm that to the best of our knowledge:

(a) the Interim Financial Statements has been prepared in accordance with IAS 34 ‘*Interim Financial Reporting’*;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year);

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties’ transactions and changes therein); and

(d) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R.

This Half Yearly Report consisting of pages 1 to 21 has been approved by the Board and signed on its behalf by:

**Guido Michelotti**
Chief Executive Officer
21 August 2018

## CADOGAN PETROLEUM PLC

## Consolidated Income Statement
## Six months ended 30 June 2018

| | Notes | Six months ended 30 June<br>2018<br>$'000<br>(Unaudited) | 2017<br>$'000<br>(Unaudited) | Year ended<br>31 December<br>2017<br>$'000<br>(Audited) |
|---|---|---|---|---|
| **CONTINUING OPERATIONS** | | | | |
| Revenue | 3 | 5,313 | 4,967 | 15,145 |
| Cost of sales | 3 | (4,696) | (4,496) | (13,093) |
| **Gross profit** | | **617** | **471** | **2,052** |
| | | | | |
| Administrative expenses | | (2,002) | (2,697) | (4,981) |
| Impairment of oil and gas assets | | - | - | (162) |
| Reversal of impairment of other assets | | 368 | 503 | 1,462 |
| Share of losses in joint ventures | | - | (359) | (2,323) |
| Net foreign exchange losses | | (2) | (34) | (116) |
| Other operating income | | 121 | 174 | 480 |
| **Operating loss** | | **(898)** | **(1,942)** | **(3,588)** |
| | | | | |
| Finance income/(costs) | 4 | 476 | (51) | 672 |
| **Loss before tax** | | **(422)** | **(1,993)** | **(2,916)** |
| | | | | |
| Tax benefit | | 107 | - | 1,332 |
| **Loss for the period/year** | | **(315)** | **(1,993)** | **(1,584)** |
| | | | | |
| Attributable to: | | | | |
| Owners of the Company | 5 | (318) | (1,991) | (1,585) |
| Non-controlling interest | | 3 | (2) | 1 |
| | | **(315)** | **(1,993)** | **(1,584)** |
| | | | | |
| **Loss per Ordinary share** | | **cents** | **cents** | **cents** |
| Basic and diluted | 5 | **(0.1)** | **(0.9)** | **(0.7)** |

# CADOGAN PETROLEUM PLC

## Consolidated Statement of Comprehensive Income
## Six months ended 30 June 2018

| | Six months ended 30 June | | Year ended 31 December |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | **$'000** | **$'000** | **$'000** |
| | **(Unaudited)** | **(Unaudited)** | **(Audited)** |
| **Loss for the period/year** | **(315)** | **(1,993)** | **(1,584)** |
| **Other comprehensive loss** | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Unrealised currency translation differences | **127** | 423 | (671) |
| **Other comprehensive loss** | **127** | **423** | **(671)** |
| **Total comprehensive loss for the period/year** | **(188)** | **(1,570)** | **(2,255)** |
| | | | |
| Attributable to: | | | |
| Owners of the Company | (191) | (1,568) | (2,256) |
| Non-controlling interest | 3 | (2) | 1 |
| | **(188)** | **(1,570)** | **(2,255)** |

**CADOGAN PETROLEUM PLC**

**Consolidated Statement of Financial Position**
**Six months ended 30 June 2018**

| | Notes | Six months ended 30 June 2018 $'000 (Unaudited) | Six months ended 30 June 2017 $'000 (Unaudited) | Year ended 31 December 2017 $'000 (Audited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Intangible exploration and evaluation assets | | 1,713 | 2,819 | 1,715 |
| Property, plant and equipment | 6 | 2,651 | 1,169 | 2,095 |
| Investments in joint ventures | | - | 1,964 | - |
| Deferred tax asset | | 431 | - | 323 |
| | | **4,795** | **5,952** | **4,133** |
| **Current assets** | | | | |
| Inventories | 7 | 1,067 | 1,015 | 2,292 |
| Trade and other receivables | 8 | 1,294 | 2,861 | 4,497 |
| Cash and cash equivalents | | 41,371 | 40,344 | 37,640 |
| | | 43,732 | 44,220 | **44,429** |
| **Total assets** | | **48,527** | **50,172** | **48,562** |
| | | | | |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Long-term provisions | | (463) | (705) | (412) |
| | | (463) | (705) | (412) |
| **Current liabilities** | | | | |
| Short-term borrowings | 9 | - | - | - |
| Trade and other payables | 10 | (1,480) | (1,520) | (1,406) |
| Current provisions | | (386) | (1,393) | (358) |
| | | (1,866) | (2,913) | (1,764) |
| **Total liabilities** | | **(2,329)** | **(3,618)** | **(2,176)** |
| | | | | |
| **Net assets** | | **46,198** | **46,554** | **46,386** |
| | | | | |
| **EQUITY** | | | | |
| Share capital | | 13,525 | 13,337 | 13,525 |
| Share premium | | 329 | - | 329 |
| Retained earnings | | 192,524 | 192,436 | 192,842 |
| Cumulative translation reserves | | (162,043) | (161,076) | (162,170) |
| Other reserves | | 1,589 | 1,589 | 1,589 |
| **Equity attributable to equity holders of the parent** | | **45,924** | **46,286** | **46,115** |
| Non-controlling interest | | 274 | 268 | 271 |
| **Total equity** | | **46,198** | **46,554** | **46,386** |

## CADOGAN PETROLEUM PLC

### Consolidated Statement of Cash Flows
### Six months ended 30 June 2018

| | Six months ended 30 June | | Year ended 31 December |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | **$'000** | **$'000** | **$'000** |
| | **(Unaudited)** | **(Unaudited)** | **(Audited)** |
| **Operating loss** | **(898)** | **(1,942)** | **(3,588)** |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 96 | 69 | 211 |
| Impairment of oil and gas assets | - | - | 162 |
| Share of losses in joint ventures | - | 359 | 2,323 |
| Impairment of receivables | - | 4 | 51 |
| Reversal of impairment of inventories | (102) | (152) | (77) |
| Reversal of impairment of VAT recoverable | (266) | (389) | (1,436) |
| Gain on disposal of property, plant and equipment | (33) | - | (9) |
| Effect of foreign exchange rate changes | 2 | (34) | 116 |
| **Operating cash flows before movements in working capital** | **(1,201)** | **(2,085)** | **(2,247)** |
| Decrease/(Increase) in inventories | 1,570 | 1,125 | (564) |
| Decrease in receivables | 3,430 | 2,077 | 469 |
| Increase/(Decrease) in payables and provisions | 179 | (13) | 367 |
| **Cash from operations** | **3,978** | **1,104** | **(1,975)** |
| Interest paid | - | (108) | (298) |
| Interest on receivables received | - | - | 561 |
| Income taxes paid | - | (109) | (107) |
| **Net cash inflow/(outflow) from operating activities** | **3,978** | **887** | **(1,819)** |
| | | | |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | (664) | - | (68) |
| Purchases of intangible exploration and evaluation assets | (75) | (374) | (568) |
| Proceeds from sale of property, plant and equipment | 33 | - | 198 |
| Interest received | 476 | 79 | 205 |
| **Net cash used in investing activities** | **(230)** | **(295)** | **(233)** |
| | | | |
| **Financing activities** | | | |
| Proceeds from short-term borrowings | - | 699 | 3,365 |
| Repayment of short-term borrowings | - | (4,316) | (7,075) |
| **Net cash used in financing activities** | **-** | **(3,617)** | **(3,710)** |
| | | | |
| **Net increase (decrease) in cash and cash equivalents** | **3,748** | **(3,025)** | **(5,762)** |
| Effect of foreign exchange rate changes | (17) | 69 | 102 |
| Cash and cash equivalents at beginning of period/year | 37,640 | 43,300 | 43,300 |
| **Cash and cash equivalents at end of period/year** | **41,371** | **40,344** | 37,640 |

## CADOGAN PETROLEUM PLC

## Consolidated Statement of Changes in Equity
## Six months ended 30 June 2018

| | Share capital | Share premium account | Retained earnings | Cumulative translation reserves | Reorganisation | Equity attributable to owners of the Company | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **As at 1 January 2017** | **13,337** | **-** | **194,427** | **(161,499)** | **1,589** | **47,854** | **270** | **48,124** |
| Net loss for the period | - | - | (1,585) | - | - | (1,585) | 1 | (1,584) |
| Other comprehensive loss | - | - | | (671) | - | (671) | - | (671) |
| **Total comprehensive loss for the year** | **-** | **-** | **(1,585)** | **(671)** | **-** | **(2,256)** | **1** | **(2,255)** |
| Issue of ordinary shares | 188 | 329 | - | - | - | 517 | - | 517 |
| **As at 31 December 2017** | **13,525** | **329** | **192,842** | **(162,170)** | **1,589** | **46,115** | **271** | **46,386** |
| Net loss for the period | - | - | (318) | - | - | (318) | 3 | (309) |
| Other comprehensive gain | - | - | - | 127 | - | 127 | - | 121 |
| **Total comprehensive gain/(loss) for the year** | **-** | **-** | **(318)** | **127** | **-** | **(191)** | **3** | **(188)** |
| **As at 30 June 2018** | **13,525** | **329** | **192,526** | **(162,043)** | **1,589** | **45,924** | **274** | **46,198** |

**Notes to the Condensed Financial Statements**
**Six months ended 30 June 2018**

## 1. General information

Cadogan Petroleum plc (the 'Company', together with its subsidiaries the 'Group'), is incorporated in England and Wales under the Companies Act. 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 5 to 6 and the Financial Review on pages 7 to 8.

This Half Yearly Report has not been audited or reviewed in accordance with the Auditing Practices Board guidance on 'Review of Interim Financial Information'.

A copy of this Half Yearly Report has been published and may be found on the Company's website at www.cadoganpetroleum.com.

## 2. Basis of preparation

The annual financial statements of the Group are 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'). These Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as issued by the IASB.

The same accounting policies and methods of computation are followed in the condensed financial statements as were followed in the most recent annual financial statements of the Group, which were included in the Annual Report issued on 25 April 2018.

The Group has not early adopted any amendment, standard or interpretation that has been issued but is not yet effective. It is expected that where applicable, these standards and amendments will be adopted on each respective effective date.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2018. The adoption of these standards and amendments did not have a material effect on the financial statements of the Group.

The Company adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Customers' in the six month period, following the standards becoming effective for periods commencing on or after 1 January 2018.

IFRS 9 'Financial instruments' addresses the classification and measurement of financial assets and financial liabilities and replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. The adoption of IFRS 9 did not result in any material change to the consolidated results of the Group from the start of the earliest period presented. The Group took the option available on transition not to restate comparative information. Following assessment of the consolidated financial assets no changes to classification of those financial assets was required. The Group has applied the expected credit loss impairment model to its financial assets and no material credit loss provisions were considered to exist at the date of initial application or period end.

IFRS 15 introduced a single framework for revenue recognition and clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of IFRS 15 did not result in any material change to the Group's revenue recognition following analysis of its contracts.

### *(a) Going concern*

The Directors have continued to use the going concern basis in preparing these condensed financial statements. The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Operations Review. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review.

The Group’s cash balance at 30 June 2018 was $41.4 million (31 December 2017: $37.6 million), including pledged cash of $7 million (2017: $7 million).

The Group’s forecasts and projections, taking into account reasonably possible changes in operational performance, 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 strategy on Bitlyanska licence with the objective of managing risks and mitigating capital deployment.

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 financial statements. In making its statement the Directors have considered the recent political and economic uncertainty in Ukraine.

### *(b) Foreign currencies*

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the Company is US dollar. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars, which is the presentation currency for the consolidated financial statements.

The relevant exchange rates used were as follows:

| **1 US$ = £** | **Six months ended 30 June** | | **Year ended** |
|---|---|---|---|
| | **2018** | **2017** | **31 Dec 2017** |
| Closing rate | 1.3218 | 1.3004 | 1.3494 |
| Average rate | 1.3763 | 1.2589 | 1.2890 |

| **1 US$ = UAH** | **Six months ended 30 June** | | **Year ended** |
|---|---|---|---|
| | **2018** | **2017** | **31 Dec 2017** |
| Closing rate | 26.3500 | 26.1819 | 28.3865 |
| Average rate | 26.9419 | 26.9720 | 26.8034 |

### *(c) Dividend*

The Directors do not recommend the payment of a dividend for the period (30 June 2017: $nil; 31 December 2017: $nil).

## 3. 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 assessment provided to the Group's chief operating decision maker ("CODM"). The Group has identified its executive management team as its CODM and the internal assessment used by the top management team to oversee operations and make decisions on allocating resources serve as the basis of information presented.

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

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

Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions.

The Group's reportable segments under IFRS 8 are therefore as follows:

*Exploration and Production*

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

*Service*

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

*Trading*

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

The accounting policies of the reportable segments are the same as the Group's accounting policies. Sales between segments are carried out at market prices. The segment result represents profit under IFRS before unallocated corporate expenses. Unallocated corporate expenses include management and Board remuneration and expenses incurred in respect of the maintenance of Kiev 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 30 June 2018 and for the six months then ended the Group's segmental information was as follows:

| | Exploration and Production $'000 | Service[1] $'000 | Trading $'000 | Consolidated $'000 |
|---|---|---|---|---|
| Sales of hydrocarbons | 2,030 | - | 3,270 | 5,300 |
| Other revenue | - | 13 | - | 13 |
| Sales between segments | 108 | - | (108) | - |
| **Total revenue** | 2,138 | 13 | 3,162 | 5,313 |
| Other cost of sales | (1,534) | (4) | (3,098) | (4,636) |
| Depreciation | (43) | (17) | - | (60) |
| Other administrative expenses | (197) | (26) | (43) | (266) |
| **Segment results** | 364 | (34) | 21 | **351** |
| Unallocated other administrative expenses | - | - | - | (1,736) |
| Net foreign exchange gains | - | - | - | (2) |
| Other income, net | - | - | - | 965 |
| **Loss before tax** | - | - | - | (422) |

As of 30 June 2017 and for the six months then ended the Group's segmental information was as follows:

| | Exploration and Production $'000 | Service $'000 | Trading $'000 | Consolidated $'000 |
|---|---|---|---|---|
| Sales of hydrocarbons | 832 | - | 4,135 | **4,967** |
| Other revenue | - | - | - | - |
| Sales between segments | 188 | - | (188) | - |
| **Total revenue** | 1,020 | - | 3,947 | 4,967 |
| Other cost of sales | (704) | - | (3,774) | (4,478) |
| Depreciation | (5) | (13) | - | (18) |
| Other administrative expenses | (198) | (13) | (143) | (354) |
| Finance cost, net[(2)] | - | - | (88) | (88) |
| **Segment results** | 113 | (26) | (58) | 29 |
| Unallocated other administrative expenses | - | - | - | (2,360) |
| Share of losses in joint ventures | - | - | - | (359) |
| Net foreign exchange gain | - | - | - | (34) |
| Other losses, net | | | | 731 |
| **Loss before tax** | - | - | - | (1,993) |

(1) In first half 2017 and in the first half 2018 the Service business was focused on internal projects, in particular, providing servises to Monastyretska licence.

(2) Finance cost includes $108 thousand of interest on short-term borrowings and $20 thousand of interet on cash deposits used for trading.

## 4. Finance cost, net

| | Six months ended 30 June 2018 $'000 | Six months ended 30 June 2017 $'000 | Year ended 31 December 2017 $'000 |
|---|---|---|---|
| Interest expense on short-term borrowings | - | (108) | (256) |
| Interest on tax provision | - | (17) | - |
| **Total interest expenses on financial liabilities** | **-** | **(125)** | **(256)** |
| Reversal of interest expense on tax provision | - | - | 189 |
| Interest income on receivables | - | - | 494 |
| Investment revenue | 315 | 59 | 205 |
| Interest income on cash deposit in Ukraine | 180 | 20 | 67 |
| **Total interest income on finacial assets** | **495** | **79** | **955** |
| Unwinding of discount on decomissioning provision | (19) | (5) | (27) |
| | **476** | **(51)** | **672** |

## 5. Loss per ordinary share

Loss per ordinary share is calculated by dividing the net loss for the period/year attributable to Ordinary equity holders of the parent by the weighted average number of Ordinary shares outstanding during the period/year. The calculation of the basic loss per share is based on the following data:

| | Six months ended 30 June | | Year ended 31 December |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| **Loss attributable to owners of the Company** | **$'000** | **$'000** | **$'000** |
| Loss for the purposes of basic loss per share being net loss attributable to owners of the Company | (312) | (1,991) | (1,585) |
| | **Number** | **Number** | **Number** |
| **Number of shares** | **'000** | **'000** | **'000** |
| Weighted average number of Ordinary shares for the purposes of basic loss per share | 231,092 | 231,092 | 232,251 |
| | **Cent** | **Cent** | **Cent** |
| **Loss per Ordinary share** | | | |
| Basic | **(0.1)** | **(0.9)** | **(0.7)** |

The diluted loss per share is equal to the basic loss per share owing to the loss for the period.

## 6. Proved properties

As of 30 June 2018 the proved properties assets balance which forms part of PP&E has increased in comparison to 31 December 2017 due to work overs on Monastyretska licence.

## 7. Inventories

The Group had volumes of natural gas stored at 31 December 2017 which were sold during the six months ended 30 June 2018; this resulted in a reduction of the natural gas balance from $1.3 million to nil. No other substantial changes in inventories balances occured.

## 8. Trade and other receivables

| | Six months ended 30 June | | Year ended 31 December |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| | $'000 | $'000 | $'000 |
| VAT recoverable | 588 | 277 | 896 |
| Prepayments | 110 | 269 | - |
| Trading prepayments | 99 | 445 | 1,797 |
| Trading receivables | 41 | 1,405 | 1,338 |
| Receivable from joint venture | 29 | - | 56 |
| Other receivables | 427 | 465 | 410 |
| | **1,294** | **2,861** | **4,497** |

The Directors consider that the carrying amount of the other receivables approximates their fair value.

Management expects to realise VAT recoverable through the activities of the business segments.

## 9. Short-term borrowings

In 2018 the Group continued to use short-term borrowings as a financing facility for its trading activities. Borrowings are represented by a credit line drawn in UAH at a Ukrainian bank, a 100% subsidiary of a European bank. The credit line is secured by $7 million of cash balance placed at a European bank in the UK.

The Group did not use the credit line during the six months ended 30 June 2018 as it has managed to finance its trading activities with its own funds.

## 10. Trade and other payables

The $1.5 million of trade and other payables as of 30 June 2018 (30 June 2017: $1.5 million, 31 December 2017: $1.4 million) represent $1.1 million (30 June 2017: $0.8 million, 31 December 2017: $0.9 million) of other creditors and $0.4 million of accruals (30 June 2017: $0.7 million, 31 December 2017: $0.5 million).

## 11. Commitments and contingencies

There have been no significant changes to the commitments and contingencies reported on page 79 of the Annual Report.