CADOGAN PETROLEUM PLC

Half Yearly Report for the Six Months ended 30 June 2009

(Unaudited and Unreviewed)

Cadogan Petroleum plc, an independent oil and gas exploration, development and production company with onshore gas, condensate and oil assets in Ukraine, announces its results for the six months ended 30 June 2009.

Summary

- Significant management changes, including the appointment of Ian Baron as Interim Chief Executive Officer
- Initiation of a full strategic and operational review
- Commencement of litigation against certain former executives and suppliers
- Reduced operating expenses through minimising rig operations and lowering head count
- Drilling on Borynya 3 continues with target depth expected in September 2009
- Currently re-evaluating data across all fields
- Continued vigorous defence of Pirkovskoe and Zagoryanska licences and with an extension received for the latter to 2014
- Total capital expenditure of £20.8 million during the first half of 2009 (30 June 2008: £22.5 million)

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Introduction

The non-executive Directors progressively lost confidence in the management team during the latter part of 2008 and the beginning of 2009 and assumed effective operational control of the Company shortly thereafter in March 2009. Following the resignation of the former Chief Executive Officer, the Board appointed Ian Baron as Interim Chief Executive Officer to undertake both a detailed review of the operations and an evaluation of the potential commercial viability of the Group's assets. Soon after, the Company launched an investigation into procurement procedures and, as a result of early findings of that investigation, initiated litigation that is expected to be heard in the High Court of London in early 2010. Between March and June 2009 all the previous executive Directors resigned both as executives and as Directors of the Company.

Litigation

Subsequent to the departure of the former Chief Executive Officer, the Board commenced an internal investigation into potential procurement irregularities within the Group. As a result of this process, the Board has to date identified certain payments that were inappropriately capitalised in the Company's Consolidated Financial Statements for the years ended 31 December 2006, 2007 and 2008.

In June 2009, the Company and three of its subsidiaries commenced litigation in the High Court of London against the former Chief Executive Officer and Chief Operating Officer and certain third parties. This action was initiated to seek a return of funds to the Company associated with the procurement of and payment for certain assets and services.

Operations

The Company has so far not been successful in capitalising on the potential of its asset base in the Pokrovskoe, Pirkovskoe and Zagoryanska licence areas in eastern Ukraine. Well results have demonstrated flow rates much lower than anticipated, leaving questions as to the potential of the fields in eastern Ukraine. Due to these disappointing results, the Board has curtailed the strategy outlined at the time of the Initial Public Offer ('IPO') in 2008 of concurrently drilling a large number of wells with significant expenditure on each of its licences. The Board has also initiated a review to indentify the primary reasons for the poor test results, which includes further analysis of reservoir characteristics for all major fields. Drilling operations on the Pirkovskoe, Pokrovskoe and Zagoryanska licences will remain suspended until further data evaluation is complete, including seismic re-processing and interpretation and the evaluation of well tests to understand the key issues inhibiting the production of gas from these fields. Subject to the results of the data evaluation, the Board may seek to farm-out the retained assets to reduce the Group's upfront capital commitments whilst retaining upside from commercial production. Contingent on results from this analysis, a decision will be taken as to both the commercial viability of the oil and gas zones tested and the possible development alternatives.

While this evaluation is underway, drilling operations continue only on Borynya 3 on the Bitlyanska licence in western Ukraine where it is expected to reach target depth ('TD') in September 2009. The well had encouraging test results from a secondary target interval at approximately 3,700 metres. Restricting drilling to Borynya 3 requires the use of only one rig, which has significantly reduced the Group's capital commitments and operating costs. The Board is evaluating the merits of further seismic data acquisition and interpretation for the Bitlyanska licence to enable a better understanding of its potential.

Work on the Group's other minor fields will be limited to production operations and technical updates required to market these assets.

Significant changes have also been made to technical and operational practices and organisational structures within Ukraine. A personnel reduction of approximately 25% was made in the first six months of 2009.

Operations (continued)

A physical check of the Group's inventory is currently underway, which is expected to be complete by September 2009, thereafter the Directors expect to pursue the orderly sale of surplus inventory.

The Board will commission a new third party Competent Persons Report ('CPR') to incorporate all the new well data and related information so that it can accurately value the Group's asset base. Until receipt of the new CPR, the Directors do not believe it is practical or appropriate to assess whether there is a need to provide for any impairment, in the current or previous accounting periods, to the carrying value of the Group's oil and gas assets. This report is expected to be available by the end of 2009.

Political and licence issues

As previously reported, during 2008 the Group was faced with indirect challenges to the Zagoryanska and Pirkovskoe licences. The Group immediately embarked on an extensive programme of court actions and political lobbying to protect its interests. A number of successful court hearings followed. However, in February 2009 the High Administrative Court of Ukraine ('High Administrative Court') ruled in favour of the original indirect challenge to the Pirkovskoe licence. The Group, supported by the Prosecutor General of Ukraine, lodged an appeal to the Supreme Court of Ukraine ('the Supreme Court') in relation to the Pirkovskoe licence and on 16 June 2009 the Supreme Court cancelled the February 2009 ruling of the High Administrative Court. In addition, the Supreme Court instructed the High Administrative Court to reconsider their earlier ruling against the Group without taking any further evidence into consideration. The Group has not yet been advised of the date for the new hearing in the High Administrative Court.

There will no longer be a hearing at the Supreme Court for the Zagoryanska licence as similar to the verdict on Pirkovskoe, the Supreme Court referred the earlier ruling back to the High Administrative Court. The Group has also not yet been advised of the date for the new hearing in the High Administrative Court.

In addition, the Board obtained a second independent opinion from a leading Ukrainian law firm that had not been previously involved in the case, confirming the legal validity of the Group's licences. The Directors believe that, notwithstanding the previous uncertainties, the validity of the Group's licences will be reconfirmed and that the challenges are entirely without merit.

Overview of financial position and restatement of 2008 Annual Financial Report

Based on the uncertainties relating to the effects of potential procurement irregularities within the Group, the outcome of litigation in the High Court of London and any potential adjustment to the carrying value of the Group's oil and gas assets as a result of the new CPR report, the Board has doubts about the validity and appropriateness of accounting treatments previously applied to certain items of expenditure. Accordingly, in June 2009, the Board withdrew the 2008 Annual Financial Report with a view to restating it as issues not known at the date of issuance were subsequently identified that had a material impact on the accuracy, validity and completeness of the report. Certain revisions to previously applied accounting treatments have been reflected in this unaudited and unreviewed Half Yearly Report ('the Half Yearly Report') based on the Board's investigations to date. As a result of the litigation process and the internal investigation, further irregularities may also be identified that could further impact accounting treatments and disclosures applied for the six months ended 30 June 2009 and the years ended 31 December 2006, 2007 and 2008. As described in more detail on page 11, while there are still uncertainties regarding the recognition, measurement and presentation of some of the Group's assets and expenditure, the Board is still able to assess its cash position as at 30 June 2009 and manage effectively the Group's financial position. The Board anticipates issuing a restated 2008 Annual Financial Report in October 2009 to be considered by shareholders at the Annual General Meeting scheduled for 11 November 2009 as adjusted for errors identified as of the date this is approved by the Board.

At the date of this report, the Group has cash and cash equivalents of approximately £40.1million. The Directors believe that the capital available at the date of this report is sufficient for the Group to continue operations for the foreseeable future.

Outlook

The Company will continue to: rationalise its asset portfolio by selling or relinquishing all licences which are non-strategic; reduce expenditure and commitments, in line with the reduced operational activity levels; and realise cash from disposal of surplus inventory.

The Board is actively seeking ways to distribute surplus cash to shareholders. This will need to take account of the amount and timing of receipt of funds from surplus inventory sales and the probability and quantum of funds recovered from the litigation process. The Directors are currently working with advisers to devise an arrangement that will provide maximum flexibility to return such surplus cash, as is available, in a tax efficient manner.

The Group owns and operates working interests in 11 gas, condensate and oil exploration and production licences throughout east and west Ukraine. The assets lie in two of the three hydrocarbon basins in Ukraine: the Carpathian Basin and the Dnieper-Donets Basin, both of which have extensive gas transportation infrastructure.

In western Ukraine, the Group has interests in six exploration and development and two production licences within the Carpathian Basin. In eastern Ukraine, the Group operates the Pokrovskoe, Zagoryanska and Pirkovskoe licences in the Poltava region. These licences lie in the Dnieper-Donets basin, a prolific oil and gas basin. The Group's primary focus is on the Bitlyanska licence in western Ukraine and the Pokrovskoe, Zagoryanska and Pirkovskoe fields in eastern Ukraine.

Reserves and resources

The Group's reserve and resource estimates as at 30 June 2009 and 31 December 2008 are based on a reserve report produced by an independent reservoir engineer, Gaffney, Cline & Associates Ltd, dated 30 November 2008. The Directors will commission a new CPR providing an independent evaluation of the Group's reserves and resources estimates. This new CPR is not expected to be produced until the end of 2009 and, as a result, no changes for additions, disposals, revisions or production have been incorporated into the Group's reserves and resources estimates for the six months ended 30 June 2009. The following is a reserves summary from the CPR of November 2008:

	Working interest basis (1)			
	Gas Bcf(2)	**Condensate mmbbl**	**Oil mmbbl**	**Total mmboe**
Proved and probable reserves				
At 31 December 2008 and 30 June 2009	**330.5**	**22.7**	**0.8**	**83.0**
Possible reserves				
At 31 December 2008 and 30 June 2009	**284.0**	**21.2**	**0.9**	**73.1**
Contingent resources				
At 31 December 2008 and 30 June 2009	**1,583.2**	**48.0**	**1.5**	**334.5**
Prospective resources				
At 31 December 2008 and 30 June 2009	**1,192.0**	**50.2**	**15.7**	**280.5**
Total reserves and resources	**3,389.7**	**142.1**	**18.9**	**771.1**

(1) Information is presented based on the Group's working interest share in the fields to which the Group has an interest.

(2) Conversion factor: bcf to mmboe at a factor of 0.18.

Bitlyanska licence area

The Bitlyanska exploration and development licence covers an area of 390 square kilometres and expires in December 2009. The Group is in the process of applying for a five year extension to this licence. The Group has a 96.5 per cent to 97.1 per cent working interest in the licence, varying on production. There are three hydrocarbon discoveries in this licence area; Bitlya, Borynya and Vovchenska. The Borynya and Bitlya fields respectively hold 188.6 mmboe (2007: 188.6 mmboe) and 114.0 mmboe (2007: 114.0 mmboe) of contingent resources, while no reserves or resources have yet been attributed to the Vovchenska field.

Key developments

Borynya 3

The well was spudded on 15 December 2007 and is currently drilling at 4,514 metres. Drilling operations continue towards a proposed TD of 5,200 metres, expected to be reached in September 2009. Borynya 3 is a licence obligation well and during drilling has encountered significant gas indications. An open-hole drill stem test at approximately 3,700 metres produced encouraging volumes of gas to surface, during a limited duration test. The well is designed to test the main target reservoir in the Verchovinsky formation at a projected depth below 4,800 metres.

Should Borynya 3 confirm production capability of this primary target reservoir it would indicate a potentially major gas discovery. Based on the reserve report produced by an independent reservoir engineer, Gaffney, Cline & Associates Ltd, dated 30 November 2008, 186 mmboe of contingent resources were attributed to the Borynya licence.

Bitlya 2

This well is located on a 3,000 metre normally pressured gas field which has previously been drilled by a third party. This structure was identified by Soviet era 2D seismic that has been re-processed and re-interpreted using modern geophysical techniques. The Bitlya 2 well is planned to be drilled during the extension period of the Bitlyanskya licence once awarded.

Pokrovskoe licence area

All wells on the Pokrovskoe licence are currently suspended, pending the outcome of the ongoing review. The Group has a 100 per cent working interest in the Pokrovskoe licence which holds 58.6 mmboe (2007: 58.6 mmboe) of prospective resources. The exploration licence covers 49.5 square kilometres and runs until August 2011. There is a work commitment of four wells and a 3D seismic programme under this licence. The processing of the previously acquired 3D seismic data over the entire field is now complete and two wells, Pok 1 and Pok 2, have been drilled to date.

Key developments

Pok 2

This was the first exploration well drilled on the Pokrovskoe structure and was spudded in late 2006. During drilling and coring operations across the Visean (V17 to V22) formations, there were several strong indications in the well. The main objectives of this well are to determine the productivity of the upper and lower Visean formations and to convert prospective resources to reserves.

The well has been temporarily suspended at 5,185 metres in order to review test results and integrate these with 3D Seismic in order to evaluate the licence.

Pokrovskoe licence area (continued)

Key developments (continued)

Pok 1

This is the second exploration well on the licence, which was spudded in early 2008. Drilling was suspended in May 2009 at 5,004 metres pending evaluation of the well test data obtained and integration with 3D seismic.

Pirkovskoe licence

All wells on the Pirkovskoe licence have been suspended. The Group has a 97 per cent working interest in the Pirkovskoe licence which holds 82.4 mmboe (2007: 79.7 mmboe) of proved and probable reserves, 73.0 mmboe (2007: 68.9 mmboe) of possible reserves and 190.6 mmboe (2007: 194.96 mmboe) of contingent and prospective resources. The exploration and appraisal licence covers 71.6 square kilometres and runs until October 2010. The required work programme includes the workover of Pirk 460 and the drilling of two additional wells. The workover of Pirk 460 and drilling of Pirk 1 is complete. However, the second well has not yet been drilled.

Key developments

Pirk 1

This well was drilled in the northern part of the Pirk licence to TD of 5,710 metres in the Devonian D3 formation. The well tested several shallower Carboniferous reservoirs which were oil and gas bearing but considered marginal from the V-16 formation. During June 2009, the well produced an average of 11 cubic metres of oil per day (70 boepd). The Group farmed out the cost of completing this well for production.

Pirk 2

This well has now reached 4,580 metres, but has been put on temporary suspension until the results of the well test evaluation have been completed.

Pirk 460

Initial well testing was completed in the first half of 2008. It was interpreted that the poor condition of the well was impacting production due to water influx from surrounding horizons. As a result, the well has been plugged and abandoned.

Facilities and infrastructure programme

The Group owns the Kraznozayarska gas treatment plant, on the Pirkovskoe licence area, which is connected to the UkrTransGas system. Its capacity was upgraded in July 2007 to 300,000 cubic metres per day of gas and 150 tonnes per day of condensate.

Zagoryanska licence

All wells on the Zagoryanska licence have been suspended and completion of the work programme will be undertaken before expiry of the licence. The Group has a 90 per cent working interest in the Zagoryanska licence area, which holds 44.5 mmboe (2007: 44.4 mmboe) of contingent and prospective resources and is located immediately to the east of the Pirkovskoe licence. The exploration and production licence covers 49.6 square kilometres. In January 2009 the Group received a five year extension for this licence which now expires in April 2014. The required work programme includes the acquisition of 3D seismic data, which was completed in the first quarter of 2009 and the testing of well Zag 3, which is currently in progress. The workover of Zag 2 and the drilling of a new appraisal well are yet to be completed.

Key developments

Zag 3

The well has been drilled to a TD of 5,110 metres in the lower Visean (V26) and has been temporarily suspended in order to evaluate the well test data. Several potential gas bearing reservoirs were tested in the Carboniferous. Negotiations are currently being pursued with potential partners in order to complete some of the zones in the well and possibly commence production.

On successful completion of this well and conclusion of the data evaluation, management will consider the workover of the previously drilled wells, Zag 2 and 8.

Minor fields

The Group has a number of minor assets all located in western Ukraine. These include the following:

- *Debeslavtska licence area*
- *Cheremkhivska licence area*
- *Slobodo-Rungerske licence area*
- *Monastyretske licence area*
- *Krasnoilska licence area*
- *Malynovetske licence area*
- *Mizhrichenska licence area*

The minor fields and assets add limited strategic and economic benefit to the long-term future of the business. The Group is currently pursuing options to dispose of its interests in these non-strategic assets by either relinquishing or selling the licence.

Restatement

Subsequent to the departure of the former Chief Executive Officer, the Board commenced an internal investigation into potential procurement irregularities within the Group. As a result of this process, the Board has identified to date certain payments that were inappropriately capitalised in the Company's consolidated financial statements for the years ended 31 December 2006, 2007 and 2008. Accordingly, an adjustment has been made retrospectively, reducing Exploration and evaluation assets by £4.3 million and Property, plant and equipment by £0.6 million with a corresponding decrease in equity as at 31 December 2008 of £4.9 million.

The Board investigations are ongoing and the possibility that further accounting adjustments may be necessary cannot be ruled out. Note 2(a) to the unudited and unreviewed Condensed Financial Statements ('the Condensed Financial Statements') presents a description of the fundamental uncertainties associated with this report and note 5 details a summary of the adjustments made to restate the prior period/year comparative financial information.

Income statement

The Group, being in an exploration and development stage, continued to operate at a loss in 2009, recognising a loss before tax of £17.1 million (30 June 2008[1]: £8.5 million; 31 December 2008[1]: £24.4 million). Revenue of £1.1 million (30 June 2008: £0.8 million; 31 December 2008: £1.8 million) consisted of the sale of gas from well testing and from the producing wells in the Debeslavetska and Cheremkhivskoe minor fields. A zero net margin is reflected on test production during an evaluation programme. This has resulted in a gross profit from the Group's hydrocarbons sales of £0.1 million (30 June 2008: £0.1 million; 31 December 2008: loss £0.2 million).

Administrative expenses of £17.6 million (30 June 2008[1]: £9.9 million; 31 December 2008[1]: £27.0 million) consist of staff costs, professional fees, Directors' remuneration, depreciation charges for the Group's property, plant and equipment and its other intangible assets, any currency effects from operating transactions or from the currency-related restatement of the value of monetary assets or liabilities. In addition to recurring administrative expenses, £0.8 million (30 June 2008: £nil; 31 December 2008: £nil) of professional costs were recognised in relation to the litigation process currently underway; £0.8 million (30 June 2008: £nil; 31 December 2008: £6.4 million) of consultancy fees incurred to defend the legal challenges indirectly associated with the Pirkovskoe and Zagoryanska licences and also to extend the Zagoryanska licence; £13.5 million (30 June 2008: £nil; 31 December 2008: £0.8 million) relates to the provision for Value Added Tax ('VAT') recoverable associated with Ukraine operations as the Directors are no longer certain that these amounts will be recovered (see note 8 to the Condensed Financial Statements for further details); and £0.8 million (30 June 2008: £0.4 million expense; 31 December 2008: £0.2 million expense) relates to the reversal of equity-settled share-based payment transactions previously expensed due to certain options being forfeited and a change in the estimated period of vesting for the remaining options.

Investment revenue decreased during the six months ended 30 June 2009 to £0.3 million (30 June 2008: £1.3 million; 31 December 2008: £2.9 million) due mainly to a reduction in interest income earned on funds held.

Cash flow statement

The Consolidated Cash Flow Statement on page 17 shows expenditure of £12.0 million (30 June 2008[1]: £12.6 million; 31 December 2008[1]: £38.3 million) on intangible exploration and evaluation assets and £8.7 million (30 June 2008[1]: £10.2 million; 31 December 2008[1]: £32.3 million) on property, plant and equipment. No asset acquisitions were made in the six months ended 30 June 2009 (30 June 2008: £2.4 million; 31 December 2008: £2.4 million).

[1] Restated and unaudited, see note 2(a) for further details

Balance sheet

As at 30 June 2009, the Group had a net cash and cash equivalents of £45.9 million (30 June 2008: £151.4 million; 31 December 2008: £72.0 million) and no external borrowings. Intangible exploration and evaluation assets of £55.1 million (30 June 2008[1]: £41.9 million; 31 December 2008[1]: £47.9 million) represent the carrying value of the Group's investment of exploration and evaluation assets throughout Ukraine. The property, plant and equipment balance of £43.6 million at 30 June 2009 (30 June 2008[1]: £32.6 million; 31 December 2008[1]: £38.9 million) relates primarily to the cost of developing fields with commercial reserves to bring them into production. Net assets have decreased by £30.1 million to £173.3 million at 30 June 2009 from £203.4 million at 31 December 2008[1].

Related party transactions

Following the former Chief Executive Officer's departure, the Board initiated legal actions against the former Chief Executive Officer and Chief Operating Officer and certain third parties in order to obtain redress for the Company arising from potential irregularities surrounding the procurement of and payment for certain assets and services contracted for by the Group.

Commitments

In July 2008, the Group entered into agreements to build two gas treatment plants; the first to process the anticipated production from the Bitlyanska licence area (containing the Bitlya and Borynya fields) and the second to process the anticipated production from the Pirkovskoe field. The total price contracted for the two gas processing plants is USD54.4 million (£32.9 million), of which USD10.9 million (£6.6 million) has not been paid. Due to concerns surrounding potential procurement irregularities, the Company has entered into litigation against the supplier of these gas plants and it is expected that the hearing will take place in the High Court of London in January 2010.

Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash and cash equivalents in both USD and GBP held primarily in the UK and holds these mostly in term deposits depending on the Group's operational requirements. 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 held in Ukraine for further use in operations rather than being remitted to the UK. Funds are primarily converted to USD and transferred to the Company's subsidiaries to fund operations at which time the funds are converted to UAH. Some payments are made on behalf of the subsidiaries from the UK.

Key performance indicators

The Group monitors its performance implementing its strategy with reference to clear targets set out for four key financial and one key non-financial performance indicators ('KPIs'):

- to increase oil, gas and condensate production measured on number of barrels of oil equivalent produced per day ('boepd');
- to increase the Group's oil and gas reserves by de-risking possible resources and contingent reserves into proved plus probable reserves ('2P'). This is measured in million barrels of oil equivalent ('mmboe');
- to increase the realised price for natural gas per 1,000 cubic metres;
- to decrease the cost per barrel for exploration and acquisition related expenditure; and
- to reduce the number of lost time incidents.

[1] Restated and unaudited, see note 2(a) for further details

Key performance indicators (continued)

These KPIs are applied on a Group wide basis. The Group's performance in 2009 against these targets is set out in the table below, together with the prior year performance data. No changes have been made to the source of data or calculation used in the year.

	Unit	First half 2009	First half 2008	Full Year 2008
Financial KPIs				
Average production (working interest basis) (1)	boepd	239	273	263
2P reserves (2)	mmboe	83.0	80.4	83.0
Finding and development cost per barrel (3)	£	N/A	N/A	16.13
Realised price per 1,000 cubic metres (4)	£	300.0	104.4	104.1
Non-financial KPIs				
Lost time incidents (5)	Incidents	Nil	Nil	1

(1) Average production is calculated as the average daily monthly production during the year.

(2) Quantity of proved plus probable ('2P') reserves as at 30 June 2009 and 31 December 2008 is based on Gaffney, Cline & Associates independent reserves report dated 30 November 2008. Quantity of 2P reserves as at 30 June 2008 is based on Gaffney, Cline & Associates independent reserves report dated 31 January 2008. Conversion factor: bcf to mmboe at a factor of 0.18.

(3) Calculated as exploration and acquisition expenditures paid during the year divided by 2P reserves additions in the year. First half of 2009 and 2008 are N/A as there were no 2P reserves additions in the period.

(4) This represents the average price received for gas sold during the year (excluding VAT).

(5) Lost time incidents relate to injuries where an employee/contractor is injured and has time off work.

The Board reviewed the principal financial and non-financial risks and uncertainties at the time that the 2008 Annual Financial Report was published. That report contained a detailed analysis of the risk mitigation procedures in place. As discussed in note 1 and 2 to the Condensed Financial Statements, this report was withdrawn in June 2009 and the Board intends to reissue the 2008 Annual Financial Report in October 2009. A full review of the principal risks and uncertainties will be contained in the restated document.

As at the date that the 2008 Annual Financial Report was approved the principal financial risks and uncertainties facing the Group were as follows:

- *Validity of the Group's licences*
- *Recoverability of the Group's assets*
- *Commodity price risk management*
- *Inflation risk management*
- *Foreign exchange risk management*
- *Credit risk management*
- *Interest rate risk management*
- *Liquidity risk management and going concern assumption*

The principal non-financial risks and uncertainties facing the Group were as follows:

- *Operating environment*
- *Regulatory and licence issues*
- *Political risks*
- *Economic environment*
- *Drilling and workover activities*
- *Reserves and resources*

The Board has identified further risks that the business is currently facing, since the review was undertaken in April 2009, as follows:

- *Fundamental uncertainties*

  In 2009, the former Chief Executive Officer and Chief Operating Officer resigned as Directors of the Company and, subsequent to the departure of the Chief Executive Officer, the Board commenced an internal investigation into potential procurement irregularities within the Group. During 2009, the Chief Financial Officer and Asset Development Director also resigned.

  During the Board's investigation, subsequent to the issuance of the 2008 Annual Financial Report, certain payments were identified that were inappropriately capitalised in the Company's consolidated financial statements for the years ended 31 December 2006, 2007 and 2008. Consequently, an adjustment for these payments has been made, reducing Exploration and evaluation assets by £4.3 million and Property, plant and equipment by £0.6 million with a corresponding decrease in equity as at 31 December 2008 of £4.9 million. Refer to note 5 to the Condensed Financial Statements for a summary of the adjustments made retrospectively in the years ended 31 December 2007, 2008 and the six months ended 30 June 2008.

  In June 2009 the Company and three of its subsidiaries, commenced litigation in the High Court of London, against the former Chief Executive Officer and Chief Operating Officer and certain third parties in order to obtain redress for the Company arising from potential irregularities surrounding the procurement of and payment for certain assets and services contracted for by the Group.

A physical check of the Group's inventory is currently underway, which is expected to be complete by September 2009, which may result in further adjustments to the carrying value of the Group's assets

Based on the uncertainties relating to the effects of the potential procurement irregularities within the Group, the outcome of litigation in the High Court of London and any potential adjustment to the carrying value of the Group's oil and gas assets as a result of the new CPR report, the Board has doubts concerning the validity and appropriateness of accounting treatments previously applied to expenditure incurred throughout the Group. Accordingly, in June 2009, the Board withdrew the 2008 Annual Financial Report with the view to restating it, as issues not known at the date of issuance were subsequently identified that have a material impact on the accuracy, validity and completeness of the report. In addition to the restatement adjustment already reflected in this Half Yearly Report, as a result of the ongoing litigation process and the internal investigation, further irregularities may also be identified that could further impact the accounting treatments and disclosures applied for the six months ended 30 June 2009 and the years ended 31 December 2006, 2007 and 2008.

The value attributable to the Group's E&E and PP&E assets as at 31 December 2008 was supported by the reserve report produced by an independent reservoir engineer, Gaffney, Cline & Associates Ltd, dated November 2008. IAS 36 Impairment of assets and IFRS 6 Exploration for and evaluation of mineral resource require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In order to assess the value of the Group's E&E and PP&E assets, the Directors will commission a new CPR providing an independent evaluation of the Group's reserves and resources estimates which is expected to be produced by the end of 2009. Until receipt of the new CPR, the Directors do not believe it is practical or appropriate to assess and provide for any impairment.

The Directors advise the users of these financial statements to take into account, that when considering the accuracy, completeness and validity of these financial statements, potential additional restatement and or disclosures may be required as a result of the litigation process, internal investigations currently underway, and any potential adjustment to carrying value of the Group's oil and gas assets as a result of the new CPR report.

While there are still uncertainties regarding the recognition, measurement and presentation of some of the Group's assets and expenditure, the Board is still able to assess its cash position as at 30 June 2009 and manage effectively the Group's financial position.

- *Litigation risk*

  The Group has commenced major litigation against, among others, its former Chief Executive Officer and Chief Operating Officer and certain suppliers. As with all commercial litigation the costs are high and there is no certainty of recovering sums claimed or costs incurred or the timing of any recoveries.

- *Staffing and personnel*

  Since March 2009 significant changes to senior and middle management have been implemented. Although the Directors believe that the management team has been strengthened significantly, the business is dependent on a limited number of key staff and there is a risk that certain corporate knowledge might have been lost.

The Board continues to maintain a close review of these areas to mitigate the potential impact of these risks.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

(a) the Condensed set of 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); and

(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).

This Half Yearly Report consisting of pages 1 to 27 has been approved by the Board and signed on its behalf by:

Stefan Bort
Company Secretary
27 August 2009

Condensed Consolidated Income Statement

For the six months ended 30 June 2009

	Notes	Unaudited 30 June 2009 £'000	Restated and unaudited 30 June 2008 £'000	Restated and unaudited Year December 2008 £'000
CONTINUING OPERATIONS				
Revenue		1,064	793	1,792
Cost of sales		(936)	(724)	(1,966)
Gross profit/ (loss)		**128**	**69**	**(174)**
Administrative expenses:				
IPO fees expensed		-	(4,275)	(4,399)
Other administrative expenses		(17,590)	(5,634)	(22,584)
Operating loss		**(17,462)**	**(9,840)**	**(27,157)**
Investment revenue		335	1,340	2,850
Finance costs		(5)	(5)	(56)
Loss before tax		**(17,132)**	**(8,505)**	**(24,363)**
Tax		(269)	(352)	(514)
Loss for the period/year	6	**(17,401)**	**(8,857)**	**(24,877)**
Attributable to:				
Equity holders of the parent		(16,868)	(8,872)	(24,039)
Minority interest		(533)	15	(838)
		(17,401)	**(8,857)**	**(24,877)**
Loss per ordinary share		**£**	**£**	**£**
Basic and diluted	7	(0.07)	(0.06)	(0.17)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Unaudited	Restated and unaudited	
			Year
	30 June	30 June	December
	2009	2008	2008
	£'000	£'000	£'000
Loss for the period/year	(17,401)	(8,857)	(24,877)
Unrealised currency translation differences	(11,585)	5,381	(9,486)
Total comprehensive loss for the period/year	**(28,986)**	**(3,476)**	**(34,363)**

Condensed Consolidated Balance Sheet

As at 30 June 2009

	Note	Unaudited 30 June 2009 £'000	Restated and unaudited 30 June 2008 £'000	Restated and unaudited December 2008 £'000
ASSETS				
Non-current assets				
Goodwill		2,243	3,114	2,508
Intangible exploration and evaluation assets		55,080	41,924	47,870
Other intangible assets		37	39	144
Property, plant and equipment		43,605	32,578	38,923
Other receivables	8	294	4,106	18,866
		101,259	81,761	108,311
Current assets				
Inventories		7,539	2,544	8,156
Trade and other receivables	8	28,688	10,797	21,489
Cash and cash equivalents		45,927	151,408	72,026
		82,154	164,749	101,671
Total assets		**183,413**	**246,510**	**209,982**
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities		(1,274)	(1,762)	(1,238)
Long-term provisions		(318)	(873)	(469)
		(1,592)	(2,635)	(1,707)
Current liabilities				
Trade and other payables		(7,941)	(8,660)	(4,325)
Current tax liabilities		(20)	-	(55)
Current provisions		(555)	(581)	(450)
		(8,516)	(9,241)	(4,830)
Total liabilities		**(10,108)**	**(11,876)**	**(6,537)**
Net assets		**173,305**	**234,634**	**203,445**
EQUITY				
Share capital		6,933	6,933	6,933
Share premium account		250,373	250,422	250,373
Accumulated deficit		(66,345)	(34,310)	(49,477)
Cumulative translation reserves		(21,582)	4,870	(9,997)
Other reserves		5,093	6,500	6,247
Equity attributable to equity holders of the parent		**174,472**	**234,415**	**204,079**
Minority interest		(1,167)	219	(634)
Total equity		**173,305**	**234,634**	**203,445**

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	Note	Unaudited 30 June 2009 £'000	Restated and unaudited 30 June 2008 £'000	Restated and unaudited Year December 2008 £'000
Net cash outflow from operating activities	9	**(3,924)**	**(9,405)**	**(42,532)**
Investing activities				
Acquisition of subsidiaries		-	(2,416)	(2,416)
Purchases of property, plant and equipment		(8,743)	(10,236)	(32,295)
Purchases of intangible exploration and evaluation assets		(12,007)	(12,642)	(38,329)
Purchase of other intangible assets		(4)	(26)	(149)
Proceeds from sale of property, plant and equipment		75	-	5
Interest received		424	1,184	2,761
Net cash used in investing activities		**(20,255)**	**(24,136)**	**(70,423)**
Financing activities				
Proceeds from issue of shares		-	171,453	171,404
Net cash from financing activities		**-**	**171,453**	**171,404**
Net (decrease)/increase in cash and cash equivalents		**(24,179)**	**137,912**	**58,449**
Effect of foreign exchange rate changes		(1,920)	(461)	(380)
Cash and cash equivalents at beginning of period /year		72,026	13,957	13,957
Cash and cash equivalents at end of period /year		**45,927**	**151,408**	**72,026**

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Accumulated deficit £'000	Cumulative translation reserves £'000	Other reserves £'000	Minority interest £'000	Total £'000
As at 1 January 2008 as previously stated	**4,169**	**78,028**	**2,260**	**(21,518)**	**(492)**	**5,564**	**204**	**68,215**
Restatement (note 5)	-	-	-	(3,920)	(19)	-	-	**(3,939)**
As at 1 January 2008 restated	**4,169**	**78,028**	**2,260**	**(25,438)**	**(511)**	**5,564**	**204**	**64,276**
Issue of equity shares	2,709	179,423	-	-	-	-	-	**182,132**
Equity shares to be issued	55	2,205	(2,260)	-	-	-	-	**-**
Expenses of issue of equity shares	-	(9,095)	-	-	-	-	-	**(9,095)**
Share-based payments	-	(139)	-	-	-	936	-	**797**
Net loss for the period as restated (note 5)	-	-	-	(8,872)	-	-	15	**(8,857)**
Exchange translation differences on foreign operations	-	-	-	-	5,381	-	-	**5,381**
As at 30 June 2008 restated	**6,933**	**250,422**	**-**	**(34,310)**	**4,870**	**6,500**	**219**	**234,634**
Expenses of issue of equity shares	-	(50)	-	-	-	-	-	**(50)**
Share-based payments	-	1	-	-	-	(253)	-	**(252)**
Net loss for the period as restated (note 5)	-	-	-	(15,167)	-	-	(853)	**(16,020)**
Exchange translation differences on foreign operations	-	-	-	-	(14,867)	-	-	**(14,867)**
As at 31 December 2008 restated	**6,933**	**250,373**	**-**	**(49,477)**	**(9,997)**	**6,247**	**(634)**	**203,445**
Share-based payments	-	-	-	-	-	(1,154)	-	(1,154)
Net loss for the period	-	-	-	(16,868)	-	-	(533)	(17,401)
Exchange translation differences on foreign operations	-	-	-	-	(11,585)	-	-	(11,585)
As at 30 June 2009	**6,933**	**250,373**	**-**	**(66,345)**	**(21,582)**	**5,093**	**(1,167)**	**173,305**

1. General information

Cadogan Petroleum plc (the 'Company', together with its subsidiaries the 'Group'), is incorporated in Great Britain under the Companies Act 1985 and began trading on the London Stock Exchange on 23 June 2008.

The financial information for the year ended 31 December 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985, but is derived from those accounts. The auditors reported on those accounts; their reports were unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985, but included a matter of emphasis in relation to the current status of legal proceedings contesting the validity of certain of the Group's licences in Ukraine. As discussed in note 2(a), the 2008 Annual Financial Report, issued on 21 April 2009, was withdrawn by the Board on 26 June 2009, as a result of known errors identified by the Company subsequent to its release. The restated 2008 Annual Financial Report, as adjusted for errors identified as at the date it is approved by the Board, will be delivered to the Registrar of Companies following the Company's Annual General Meeting in November 2009 and will be made available on the Company's website. Certain revisions to previously applied accounting treatments have been reflected in this Half Yearly Report based on the Board's investigation to date. The audit of the restated amounts has not yet been completed, and therefore the 2008 comparatives included within this report are unaudited.

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

A copy of the 2009 Half Yearly Report has been published and is available on the Company's website.

2. Basis of preparation

The annual financial statements of Cadogan are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The condensed set of financial statements included in this Half Yearly Financial Report has been prepared in accordance with International Standards 34 *Interim Financial* Reporting, as adopted by the European Union, subject to the matters discussed in note (a) below.

The same accounting policies and presentation methods are followed in the condensed set of financial statements as applied in the Group's latest annual financial statements. However, refer to note 1 above and note (a) below for a discussion on the withdrawal of these financial statements. During the period ended 30 June 2009, the Group adopted IFRS 8 *Operating Segments* and International Accounting Standard ('IAS') 1 (revised 2007) *Presentation of Financial Statements*. Adoption of IFRS 8 did not result in any changes to the disclosures made by the Group and the principal change instituted as a result of the adoption of IAS 1 (revised 2007) was the presentation of a condensed consolidated statement of comprehensive Income as a primary statement.

(a) Fundamental uncertainty

In 2009, the former Chief Executive Officer and Chief Operating Officer resigned as Directors of the Company and, subsequent to the departure of the former Chief Executive Officer, the Board commenced an internal investigation into potential procurement irregularities within the Group. During 2009, the Chief Financial Officer and Asset Development Director also resigned.

2. Basis of preparation (continued)

(a) Fundamental uncertainty (continued)

During the Board's investigation, subsequent to the issuance of the 2008 Annual Financial Report, certain payments were identified that were inappropriately capitalised in the Company's consolidated financial statements for the years ended 31 December 2006, 2007 and 2008. Consequently, an adjustment for these payments has been made, reducing Exploration and evaluation ('E&E') assets by £4.3 million and Property, plant and equipment ('PP&E') by £0.6 million with a corresponding decrease in equity as at 31 December 2008 of £4.9 million. Refer to note 5 for a summary of the adjustments made retrospectively in the years ended 31 December 2007, 2008 and the six months ended 30 June 2008.

In June 2009 the Company and three of its subsidiaries commenced litigation in the High Court of London, against the former Chief Executive Officer and Chief Operating Officer and certain third parties regarding potential irregularities surrounding the procurement of and payment for certain assets and services contracted for by the Group.

A physical check of the Group's inventory is currently underway, which is expected to be complete by September 2009 which may result in further adjustments to the carrying value of the Group's assets.

Following the former executives' departure and the legal actions initiated, the Board now has doubts concerning the validity and appropriateness of accounting treatments previously applied to expenditure incurred throughout the Group. Accordingly, in June 2009 the Board withdrew the 2008 Annual Financial Report with the view to restating it, as issues not known at the date of issuance were subsequently identified that have a material impact on the accuracy, validity and completeness of the report. In addition to the restatement adjustment already reflected in this Half Yearly Report, as a result of the litigation process and internal investigation further irregularities may also be identified that could further impact the accounting treatments and disclosures applied for the six months ended 30 June 2009 and the years ended 31 December 2006, 2007 and 2008.

The value attributable to the Group's E&E and PP&E assets as at 31 December 2008 was supported by the reserve report produced by an independent reservoir engineer, Gaffney, Cline & Associates Ltd, dated November 2008. IAS 36 Impairment of assets and IFRS 6 Exploration for and evaluation of mineral resources require that a review for impairment be carried out if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In order to assess the value of the Group's E&E and PP&E assets, the Directors will commission a new Competent Person's Report ('CPR') providing an independent evaluation of the Group's reserves and resources estimates which it is expected will be produced by the end of 2009. Until receipt of the new CPR, the Directors do not believe it is practical or appropriate to assess and provide for any impairment.

The Directors advise the users of these financial statements to take into account, that when considering the accuracy, completeness and validity of these financial statements, potential additional restatement and or disclosures may be required as a result of the litigation process and internal investigations currently underway.

While there are still uncertainties regarding the recognition, measurement and presentation of some of the Group's assets and expenditure, the Board is still able to assess its cash position as at 30 June 2009 and manage effectively the Group's financial position.

(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 Business Review. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review.

2. Basis of preparation (continued)

(b) Going concern (continued)

The Group holds £45.9 million of cash and cash equivalents as at 30 June 2009, with no external debt financing to date and the Directors believe that the capital available at the date of the issue of this report is sufficient for the Group to manage its business risks successfully despite the current uncertain economic outlook.

The Group's forecasts and projections, taking into account reasonably possible changes in operational performance, start dates and flow rates for commercial production and the price of hydrocarbons sold to Ukrainian customers, show that the Directors have reasonable expectation that the Group will be able to operate on funds currently held and those generated internally, for the foreseeable future, without the requirement to seek external financing.

The Group is currently faced with legal challenges associated with its interests in the Pirkovskoe and Zagoryanska licences, which could adversely affect the cash flows of the Group if Cadogan was not successful in defending its position. In the event that the Group lost these licences or made a strategic decision not to pursue these licences any further, this impact alone will not affect the Group's ability to operate as a going concern.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

(c) Legal proceedings surrounding the validity of the Pirkovskoe and Zagoryanska licences

The Group is currently involved in legal proceedings, surrounding the validity of the Pirkovskoe and Zagoryanska licences. On 17 June 2008, the Poltava Regional Commercial Court ('Poltava Court') made written rulings, following a hearing on 12 June 2008, in favour of Poltavanaftogazgeology ('PNG'), a subsidiary of the Group's joint venture partner, NJSC Nadra Ukraine, a state-owned company ('Nadra'), in relation to the earlier licences held by PNG, relating to the Pirkovskoe and Zagoryanska fields. The court rulings: (a) declared as invalid the licences re-registered to Nadra (which were subsequently re-registered to the Group); and (b) recognised as valid the earlier licences held by PNG.

On 28 July 2008, the Ministry of Environmental Protection of Ukraine (the 'Ministry') issued an order, making reference to the decisions of the Poltava Court on 17 June 2008, in favour of PNG, invalidating the Group's licences for its Pirkovskoe and Zagoryanska fields.

The following developments have occurred as a result of legal action taken by the Group to protect its licences:

(1) on 29 September 2008, the Administrative Court cancelled the written rulings of the Poltava Court of 17 June 2008. The Administrative Court rejected in full the claim filed by PNG that the special permit which was issued to Nadra was invalid and that the earlier licences held by PNG remained valid;

(2) on 7 October 2008, following a court judgment, Cadogan received written confirmation that, the Ministry revoked its earlier orders nullifying the Pirkovskoe and Zagoryanska licences and declared the special permit dated 19 October 2007, issued to Cadogan's subsidiary LLC Astroinvest-Ukraine and LLC Astro Gas JAA for the Pirkovskoe licence and LLC Astroinvest-Energy for the Zagoryanska licence, as valid;

2. Basis of preparation (continued)

(c) Legal proceedings surrounding the validity of the Pirkovskoe and Zagoryanska licences (continued)

(3) on 7 October 2008, Cadogan signed a co-operation agreement with the Ministry demonstrating the Ministry's support for Cadogan's rights to licences;

(4) in January 2009, the Group received from the Ministry a five year extension for the Zagoryanska licence now expiring in April 2014;

(5) on 25 February 2009, the Higher Administrative Court of Ukraine (the 'Administrative Court') found in favour of PNG in the appeal hearing in relation to the transfer of the Pirkovskoe licence to Nadra in June 2007 (the 'Decision'). Notwithstanding this decision, Cadogan's licence to operate the Pirkovskoe field remains valid and there has to date been no direct legal challenge to Cadogan's interest in this licence. Cadogan has been advised that new legal proceedings would need to be brought against Cadogan and would need to succeed before Cadogan's interests in its licences would be affected. Cadogan has yet to receive a date for the PNG initiated appeal hearing with respect to the Zagoryanska licence;

(6) in support of Cadogan's position, on 30 March 2009, the Prosecutor General of Ukraine ('Prosecutor General') submitted a case to the Supreme Court of Ukraine ('Supreme Court') arguing that the High Administrative Court had been mistaken in reaching its decision and that the ruling is therefore invalid; and

(7) Cadogan then, supported by the Prosecutor General, lodged an appeal to the Supreme Court on the Pirkovskoe licence and an initial hearing took place on 2 June 2009 where the case was adjourned to 16 June 2009. The Supreme Court upheld the claim made by the Prosecutor General and Cadogan and cancelled the ruling of the Administrative Court dated 25 February 2009.

The Supreme Court will not now hear the Zagoryanska licence or whether the case will be returned to the Administrative Court, as the verdict is similar to the ruling made on the Pirkovskoe licence.

As noted above, Cadogan's licences remain valid and effective despite the Decision. The Board remains firmly of the view that the challenges to the licences previously held by PNG, are wholly unwarranted but, were PNG to succeed, this would pose an unacceptable risk to Cadogan.

The Directors have considered the implications of the above legal proceedings with respect to IAS 36 *Impairment of assets*, and IFRS 6 *Exploration for and evaluation of mineral resources*, and have concluded that recognition of impairment is not appropriate on the basis that the Directors believe that, notwithstanding the uncertainties described above, the validity of the Group's licences is expected to be reconfirmed. However, the ultimate outcome is uncertain, and should the Courts in Ukraine ultimately rule that the licences were improperly awarded and further annul the existing licences, the Group would be required to impair the value of these assets in Ukraine. The amounts capitalised within intangible exploration and evaluation assets and property, plant and equipment in respect of these licences at 30 June 2009 was £38.1 million (30 June 2008[1]: £38.3million; 31 December 2008[1]: £43.3million).

1 Restated and unaudited, see note 2(a) for further details

3. Business and geographical segments

The Group has one principal business activity being the exploration and development of oil and gas revenues. The Group's operations are located in Ukraine and form the basis on which the Group reports its segment information.

4. Dividend

The Directors do not recommend the payment of a dividend for the period (30 June 2008: £nil; 31 December 2008: £nil).

5. Restatement

As discussed in note 2(a), subsequent to the issuance of the 2008 Annual Financial Report, the Board identified certain payments that were inappropriately capitalised in the Company's consolidated financial statements for the years ended 31 December 2006, 2007 and 2008. Accordingly, an adjustment has been made retrospectively reducing E&E assets by £4.3 million and PP&E by £0.6 million with a corresponding decrease in equity as at 31 December 2008 of £4.9 million.

As a result, the comparative financial information for the six months ended 30 June 2008 and the years ended 31 December 2008 have been restated with the adjustments made to the opening balances of assets, liabilities and equity for prior period restatements that occurred before the earliest period presented. A summary of the adjustments made to restate the prior period/year financial statements is as follows:

Balance sheet

	Unaudited			
	E&E £'000	PP&E £'000	Accumulated deficit £'000	Cumulative translation reserves £'000
At 1 January 2008 as previously stated	**28,687**	**22,733**	**(21,518)**	**(492)**
Inappropriate amounts capitalised	(3,663)	(276)	(3,920)	(19)
As at 1 January 2008 restated	**25,024**	**22,457**	**(25,438)**	**(511)**
At 30 June 2008 as previously stated	**47,221**	**32,966**	**(29,166)**	**5,411**
Inappropriate amounts capitalised	(5,297)	(388)	(5,144)	(541)
As at 30 June 2008 restated	**41,924**	**32,578**	**(34,310)**	**4,870**
At 31 December 2008 as previously stated	**52,136**	**39,543**	**(43,963)**	**(10,625)**
Inappropriate amounts capitalised	(4,266)	(620)	(5,514)	628
As at 31 December 2008 restated	**47,870**	**38,923**	**(49,477)**	**(9,997)**

5. Restatement (continued)

Income statement

	Unaudited		
	Other administrative expenses £'000	**Loss for the period/year £'000**	**Loss per share £'000**
For the six months ended 30 June 2008 as previously stated	**(4,410)**	**(7,633)**	**(0.05)**
Inappropriate amounts capitalised	(1,224)	(1,224)	(0.01)
For the six months ended 30 June 2008 restated	**(5,634)**	**(8,857)**	**(0.06)**
For the year ended 31 December 2008 as previously stated	**(20,990)**	**(23,283)**	**(0.16)**
Inappropriate amounts capitalised	(1,594)	(1,594)	(0.01)
For the year ended 31 December 2008 restated	**(22,584)**	**(24,877)**	**(0.17)**

Statement of comprehensive income

	Unaudited		
	Loss for the period/year £'000	**Unrealised currency translation difference £'000**	**Total comprehensive loss for the period/year £'000**
For the six months ended 30 June 2008 as previously stated	**(7,633)**	**5,903**	**(1,730)**
Inappropriate amounts capitalised	(1,224)	(522)	(1,746)
For the six months ended 30 June 2008 restated	**(8,857)**	**5,381**	**(3,476)**
For the year ended 31 December 2008 as previously stated	**(23,283)**	**(10,133)**	**(33,416)**
Inappropriate amounts capitalised	(1,594)	647	(947)
For the year ended 31 December 2008 restated	**(24,877)**	**(9,486)**	**(34,363)**

Cash flow statement

	Unaudited			
	Net cash outflow from operating activities £'000	**Purchases of PP&E £'000**	**Purchases of E&E £'000**	**Net cash used in investing activities £'000**
For the six months ended 30 June 2008 as previously stated	**(8,094)**	**(10,318)**	**(13,871)**	**(25,447)**
Inappropriate amounts capitalised	(1,311)	82	1,229	1,311
For the six months ended 30 June 2008 restated	**(9,405)**	**(10,236)**	**(12,642)**	**(24,136)**
For the year ended 31 December 2008 as previously stated	**(41,169)**	**(32,668)**	**(39,319)**	**(71,786)**
Inappropriate amounts capitalised	(1,363)	373	990	1,363
As at 31 December 2008 restated	**(42,532)**	**(32,295)**	**(38,329)**	**(70,423)**

6. Loss for the year

The loss for the period/ year has been arrived at after charging/(crediting):

	Unaudited 30 June 2009 £'000	Restated and unaudited 30 June 2008 £'000	Restated and unaudited Year December 2008 £'000
Depreciation of property, plant and equipment	518	364	1,044
Amortisation of other intangible assets	6	-	23
Loss on disposal of property, plant and equipment	45	-	112
Write-off of VAT recoverable	13,498	-	833
Consultancy fees	780	-	6,358
Staff costs	1,312	793	3,715
Net foreign exchange (gains)/ losses	(3,748)	(54)	1,482

Consultancy fees relate to consultancy fees paid in order to defend the legal issues over the Pirkovskoe and Zagoryanska licences and with the successful extension of the Zagoryanska licence.

Included within staff costs, is income of £0.8 million (30 June 2008: £0.4 million expense; 31 December 2008: £0.2 million expense) relating to the reversal of equity-settled share-based payment transactions previously expensed due to the forfeiture of options previously recognised and a change in the estimated period of vesting for the remaining options.

7. Loss for the year

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 and diluted loss per share is based on the following data:

Losses	Unaudited 30 June 2009 £'000	Restated and unaudited 30 June 2008 £'000	Restated and unaudited Year December 2008 £'000
Loss for the purposes of basic loss per share being net loss attributable to equity holders of the parent	(16,868)	(8,872)	(24,039)
Number of shares	**Number '000**	**Number '000**	**Number '000**
Weighted average number of Ordinary shares for the purposes of basic loss per share	231,092	153,780	139,721
	£	**£**	**£**
Loss per Ordinary share			
Basic and diluted	(0.07)	(0.06)	(0.17)

Dilutive loss per Ordinary share equals basic loss per Ordinary share as, due to the losses incurred in the six months ended 2009 and 2008 and the year ended 31 December 2008, there is no dilutive effect from the subsisting share warrants and share options.

8. Trade and other receivables

Other non-current receivables

	Unaudited	Restated and unaudited	
	30 June 2009	30 June 2008	Year December 2008
	£'000	£'000	£'000
Other receivables	294	4	301
VAT recoverable	-	4,102	8,153
Prepayments	-	-	10,412
	294	**4,106**	**18,866**

Trade and other receivables

	Unaudited	Restated and unaudited	
	30 June 2009	30 June 2008	Year December 2008
	£'000	£'000	£'000
Other receivables	226	1,001	304
VAT recoverable	200	4,283	1,814
Prepayments	28,262	5,513	19,371
	28,688	**10,797**	**21,489**

All sales are made on a prepayment basis, so there are no trade receivables.

Value Added Tax ('VAT') recoverable from Ukraine authorities will only be recovered once significant production commences. As at 30 June 2009, the Directors are uncertain as to the commercial viability of the Group's major fields and therefore believe it inappropriate to present these amounts as assets given the uncertainties surrounding the expectation for recovery. A provision of £13.5 million has been recognised as at 30 June 2009 (30 June 2008: £nil; 31 December 2008: £0.8 million) as the Directors are no longer certain that VAT previously recognised as an asset will be recovered.

9. Notes to the cash flow statement

	Unaudited 30 June 2009 £'000	Restated and unaudited 30 June 2008 £'000	Restated and unaudited Year December 2008 £'000
Operating loss	**(17,462)**	**(9,840)**	**(27,157)**
Adjustments for:			
Depreciation of property, plant and equipment	518	364	1,044
Amortisation of other intangible assets	6	-	23
Loss on disposal of property, plant and equipment	45	-	112
Share-based payments	(814)	418	205
Effect of foreign exchange rate changes	(599)	411	(3,961)
Operating cash flows before movements in working capital	**(18,306)**	**(8,647)**	**(29,734)**
Decrease / (increase) in inventories	617	(729)	(6,494)
Decrease / (increase) in receivables	10,406	(5,701)	(7,408)
Increase in payables	3,484	5,729	1,383
Cash used in operations	**(3,799)**	**(9,348)**	**(42,253)**
Income taxes paid	(125)	(57)	(279)
Net cash outflows from continuing operations	**(3,924)**	**(9,405)**	**(42,532)**

Cash and cash equivalents (which are presented as a single class of assets on the balance sheet) comprise cash at bank and other short term highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value.

10. Commitments

In July 2008, the Group entered into agreements to build two gas treatment plants; the first to process the anticipated production from the Bitlyanska licence area (containing the Bitlya and Borynya fields) and the second to process the anticipated production from the Pirkovskoe field. The total price contracted for the two gas processing plants is USD54.4 million (£32.9 million), of which USD10.9 million (£6.6 million) has not been paid. Due to potential procurement irregularities, the Company has entered into litigation against the supplier of these gas plants and it is anticipated that the hearing will be in January 2010. The Company is taking all measures to recover damages arising from these potential irregularities.

11. Related party transactions

Following the departure of the former Chief Executive Officer, the Board initiated legal actions against the former Chief Executive Officer and Chief Operating Officer and certain third parties in order to obtain redress for the Company arising from potential irregularities surrounding the procurement of and payment for certain assets and services contracted for by the Group. There is a possibility that through the litigation process, related party transactions will be identified, but at the date of this report, the Directors believe that no related party transactions have taken place in the six months ended 30 June 2009 that have materially affected the financial position or the performance of the Group during the period.

Refer to note 2(a) for an overview of the fundamental uncertainties surrounding this report.