
ANNUAL FINANCIAL REPORT 2011

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

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Summary of 2011

The Group has undergone significant management changes during the year, including the appointment of Zev Furst as Chairman and Bertrand Des Pallieres as Chief Executive Officer.

Other developments during 2011 included the following:

- > The completion of a major transaction with Eni S.p.A ('Eni') resulting in Eni owning 60% of the Group's interest in the Zagoryanska licence and 30% of the Group's interest in the Pokrovskoe licence
- > A \$30 million (excluding VAT) drilling programme on the Pokrovskoe field
- > A three-well work-over programme on the Zagoryanska field
- > Total capital expenditure of \$21.3 million (2010: \$12.1 million) during the year
- > Net cash and cash equivalents at year end of \$65.0 million (2010: \$36.4 million)

Group Overview



- Ukraine gas network input
- Ukraine gas network output
- Gas pipeline

Our Operations

The Group's assets are located in two of the three proven hydrocarbon basins in Ukraine, the Dnieper-Donets basin and the Carpathian basin.

1. Zagoryanska field

The Zagoryanska licence covers an area of 49.6 square kilometres. Four wells have been drilled to date in the field. The previous wells in the field have encountered gas in the Upper and Lower Visean and Tournaisian reservoirs, and in one well hydrocarbons have been encountered in the Devonian reservoir. Reservoir depths vary from 4,500 to 5,500 metres.

Eni S.p.A ('Eni'), the major Italian integrated energy company, on 6 July 2011, acquired a 60 per cent interest in the licence. A programme of work-overs has been underway during the second half of 2011.

2. Pokrovskoe field

The Pokrovskoe licence area covers 49.5 square kilometres and is located in the Dnieper-Donets basin. The Pokrovskoe field is approximately 10 kilometres from the UkrTransGas system.

As part of the transaction with Eni, that company acquired on 6 July 2011 a 30 per cent interest in the licence, with an option to acquire a further 30 per cent interest in the future, which has now expired. The consideration comprised the funding of a work programme, up to \$30 million, which has been used to fulfil the work obligations on the licence through the deepening of Pokrovskoe 1 and the re-drilling of Pokrovskoe 2 in order to test the potential of the Upper and Lower Visean intervals.

3. Pirkovskoe field

Pirkovskoe is located in the faulted transgression zone that forms the northern shoulder of the Dnieper-Donets Graben and is adjacent to the Group's Zagoryanska licence. The exploration and appraisal licence covers 71.6 square kilometres and holds 2.4 million barrels of oil equivalent ('mmboe') of Proved and Probable ('2P') Reserves. Cadogan owns the Kraznozayarska gas treatment plant, on the Pirkovskoe licence area, which is connected to the UkrTransGas system.

4. Borynya and Bitliya fields

The Bitlyanska exploration and development licence covers an area of 390 square kilometres, tectonically belonging to the Krosno zone of the folded Carpathians and includes the Bitliya, Borynya and Vovchenska fields. The Bitliya and Borynya fields are approximately 20 kilometres apart and both fields are close to the UkrTransGas pipeline at Turka.

5. Minor fields

Cadogan owns exploration, development and production licences either directly or through subsidiaries or joint ventures in several minor fields, of which two are currently in commercial production (Debeslavetska and Cheremkhivska).

Chairman's Statement

Introduction

I am pleased to be introducing Cadogan Petroleum plc's first Annual financial report since I became Chairman in August of 2011.

The initiatives taken by the Board during the year have positioned the Group to enable it to become the premier operator in the emerging Ukraine oil and gas business. These initiatives include not only improving operational efficiency and undertaking value enhancing commercial transactions, but also building strong links with Ukrainian political contacts and state companies, which will in time position Cadogan to become the partner of choice in Ukraine.

In July 2011 the business completed its major transaction with Eni whereby Eni acquired a 60 per cent interest in Cadogan's appraisal and development field at Zagoryanska and a 30 per cent interest in Cadogan exploration asset at Pokrovskoe. This was a significant development for the Group and is in line with its strategy of partnering with major industry partners whilst providing the in country expertise and capability.

Board and governance

The Board of Cadogan has gone through a complete transformation during the year. On 1 August 2011 Bertrand des Pallieres took over as Chief Executive Officer, focusing on the strategic development of the business, in particular new acquisitions, key government relationships and industrial partnerships. Ian Baron who had been brought in as Chief Executive Officer in March 2009, and had resolved many of the issues that the Group faced in 2009 and 2010, continued with the Company as Chief Operating Officer whilst the Company recruited a specialist in that role, Adelmo Schenato, who joined the Board in January 2012. I am delighted that Ian is continuing with the Company as Business Development Director assisting in many new ventures that the Group is pursuing; whilst Adelmo's considerable operational knowledge and experience will improve Cadogan's performance on both the projects currently underway and new ventures that we are planning.

The non-executive team has also changed during the year. Enrico Testa joined the Board in October 2011, he has a long and varied background in the energy market. Gilbert Lehmann also joined as Senior Independent Director and Chairman of the Audit Committee in November 2011. Gilbert is currently an adviser to the Executive Board of Areva, the French nuclear energy business, having previously been its Deputy Chief Executive Officer responsible for finance. He is also a past Chief Financial Officer and deputy CEO of Framatone, the predecessor to Areva. I believe that the experience

and connections that both these appointments bring to the Company will greatly assist the development of Cadogan.

I would like to place on record the Board's appreciation to Simon Duffy, Gordon Stein and their fellow non-executive directors, Philip Dayer, Alan Cole and Nick Hooke, all of whom stood down during the year. The directors of Cadogan have, since the IPO in June 2008, faced a difficult and challenging time and their dedication and resolution to resolve those issues as they arose enabled the Company to recover.

During the year shareholders approved the Board's recommendation that the Company's listing category on the London Stock Exchange be transferred from 'Premium Listing' to 'Standard Listing'. This move will give the Board flexibility to proceed with transactions to generate shareholder value, avoiding unnecessary cost. The Board has decided that it will continue to govern the Group in accordance with the UK Corporate Governance Code, where appropriate for a business of the size and at the development stage of Cadogan at present.

Employees

I am pleased to express the Board's thanks to its entire staff for their contribution during the year. Our staff are predominantly Ukraine nationals, supported by international professionals, and they have responded positively to a year of change.

Zev Furst
Non-executive Chairman
27 April 2012

Chief Executive's Review

Introduction

2011 has been a significant year for Cadogan Petroleum plc, as it seeks to develop its oil and gas business in Ukraine.

On 6 July 2011 we completed a transaction whereby Eni acquired a 60 per cent interest in the Group's Zagoryanska licence for \$38 million and acquired a 30 per cent interest in our Pokrovskoe licence by funding a \$36 million (\$30 million plus VAT) work programme and an option to purchase a further 30 per cent dependent on the results of the drilling programme.

Financial position

At 27 April 2012 the Group had current cash and cash equivalents of approximately \$58.0 million. This is more than adequate to fulfil the Group's current work programme.

Operations

The Operations review on pages 6 to 9 details the extensive work programme that the Group has undertaken on its assets in the Dnieper-Donets basin in eastern Ukraine. Although results on the Zagoryanska work-overs have been delayed due to technical issues, the Group continues to test Zagoryanska 1 and 2 which were worked over in Q3 and Q4 of 2011. Zagoryanska 8 is also being worked over at present and will be put on test in Q2 of 2012. All of these wells are close to the Zagoryanska 3 well which continues to produce at around 35 mcm/day. In addition the Group spudded a 5,160 metres appraisal well at Zagoryanska 11 on 7 March 2012. Working with Eni's technical staff, considerable analysis of the potential reservoir has been undertaken.

Initial results from our exploratory Pokrovskoe 1 well, which was deepened in 2011, and Pokrovskoe 2a well, which was re-drilled in Q4 of 2011 and Q1 of 2012, were not as positive as hoped. As a consequence Eni have decided not to exercise their option to acquire a further 30 per cent in the licence, a development that was announced on 19 March 2012. This is of course disappointing, but the indications of hydrocarbons throughout the drilling process is of sufficient interest that Cadogan is considering options to re-enter the Pokrovskoe 2a well to assess the potential of the Upper Visean in the future. Should this be successful, the Group would consider options to commercially exploit the field.

Efforts continue to farm-out the Group's highly attractive Bitlyanska asset in western Ukraine. The Group intends to review possible work-over projects for the Pirkrovskoe field in eastern Ukraine. Low cost analysis techniques are being reviewed for use on the Group's shallow gas fields, currently under production, in Debeslavetska aimed at stimulating production increases whilst a borehole formation cleaning programme is underway at Monastyrtska to attempt to increase oil production from the existing wells.

Litigation

During the year the Group concluded a settlement with the final main defendant in its litigation against former management and third parties over alleged procurement irregularities. The Group continues to be owed \$30 million by Global Process System Inc ('GPS') of Dubai, under the settlement agreement entered into October 2009. The settlement was based on the sale of two gas plants, which were manufactured by GPS that were not required by the Group. Under the agreement GPS undertook to take the plants back into stock and resell them. Cadogan retains title over the plants manufactured. The Board believes that the value of these plants equates to the sum due, and continues to assist GPS in its attempts to sell the plants whilst pursuing legal remedies to recover the outstanding debt.

Business development and strategy

Ukraine, with its significant existing and yet-to-be discovered resources in both conventional and unconventional gas, as well as its significant infrastructure bordering Western Europe, has a tremendous opportunity: it has the potential to offer international energy companies a viable business proposition with reasonable fiscal terms and a stable political and regulatory environment, where many existing fields have been underexploited because of an insufficient exposure to modern field-optimisation techniques. Field rehabilitation and field optimisation would help generate significant increases in production.

The results of the Group's current work programme for 2011-12 will be critical in determining its next steps. Cadogan is very focused on the appraisal of the Zag field with the objective to define a full field development plan by the end of 2012. We will continue to invest in exploration and appraisal of our other

existing assets, while starting investment in new areas with an emphasis on offshore activities in the Black Sea. Cadogan also hopes to start preliminary exploration of unconventional gas assets in 2012.

Cadogan is already the most active foreign company in the Ukrainian upstream sector, and the Group intends to bolster this position. Cadogan's ongoing strategy is to focus on acquiring low capital investment positions on Ukraine oil and gas assets, either in joint venture with State companies or not, and developing them in joint venture with international energy companies. We expect the next 12 to 24 months to bring considerable change to Ukraine's E&P sector. While historically only small foreign companies have been active, a number of international oil majors are about to enter Ukraine for the first time. Cadogan is extremely well positioned to support and exploit this transition.

Bertrand Des Pallieres
Chief Executive Officer
27 April 2012

Operations Review

In 2011 the Group held working interests in nine (2010: nine) gas, condensate and oil exploration and production licences in the east and west of Ukraine. All these assets are operated by the Group and are located in either the Carpathian basin or the Dnieper-Donets basin, in close proximity to the Ukrainian gas distribution infrastructure. The Group's primary focus is on the four licences where the main reserve and resource potential is located, Zagoryanska, Pokrovskoe, and Pirkovskoe in the Dnieper-Donets basin of east Ukraine and Bitlyanska, in the Carpathian Basin of west Ukraine.

Summary of the Group's licences (as of 31 December 2011)

Working interest (%)	Licence	Expiry	Licence type ⁽¹⁾
Major licences			
40.0	Zagoryanska	April 2014	E&D
70.0	Pokrovskoe	August 2016	E&D
100.0	Pirkovskoe	October 2015	E&D
96.5	Bitlyanska ⁽²⁾	December 2014	E&D
Minor licences			
98.3	Debeslavetska	October 2026	Production
98.3	Debeslavetska	September 2016 ⁽³⁾	Exploration
49.8	Cheremkhivska	May 2018	Production
100.0	Slobodo-Rungerska	April 2016 ⁽³⁾	E&D
95.0	Monastyretska	November 2014	E&D

(1) E&D = Exploration and Development.

(2) The working interest on the Bitlyanska licence declines on a stepped basis, every five years after the commencement of production on each well. The Joint Activity Agreement ('JAA') also distinguishes working interests on new wells and workover wells with the former offering a higher share to the Group. Effective working interests are shown above.

(3) The licence is in the process of renewal by the Ukraine authorities for further 5 years, from its expiration date in 2011. The renewal process is expected to be completed during the first half of 2012.

Operations Review 2011

Zagoryanska licence

The Group now has a 40 per cent working interest in the Zagoryanska licence area. The Zagoryanska licences hold 96.4 mmboe of Contingent Resources (2010: 96.4 mmboe of Contingent Resources). The exploration and development licence covers 49.6 square kilometres and the licence was extended in 2009 until April 2014. The remaining work programme includes: (a) the work-over of well Zagoryanska 2 (underway); (b) the drilling of an appraisal well (which is ongoing); and (c) conducting geological and economic estimation of hydrocarbon reserves.

In 2008, the Zagoryanska 3 well had been drilled to a target depth ('TD') of 5,110 metres and was suspended in order to evaluate the data obtained. In 2009 the well was perforated and commercial flow rates were achieved. Production commenced in August 2010 at a flow rate of 55 mcm/day (2 million scf/day) of gas and 15 t/day (120 bpd) of condensate and the well was tied into the Group's Zagoryanska gas treatment plant. Average monthly production rates during 2011 were 36 mcm/day gas and 6.5 t/day condensate. The Group has since purchased the Zagoryanska 3 well, (which it was previously renting), together with four additional wells on the field.

On 6 July 2011 Eni, the major Italian integrated energy company, acquired a 60 per cent interest in the Zagoryanska licence for a payment of \$38 million. Following completion of this transaction a work over plan was prepared for three of the four additional wells purchased on the field. Wells Zagoryanska 1 and 2 have been worked over in preparation

for rig-less operations (including coiled tubing operations); work over of Zagoryanska 8 is on-going and testing will commence in Q2 2012. These work-overs are designed to allow re-entry of zones that previously produced hydrocarbons in Zagoryanska Field, but were suspended for various technical or commercial reasons in the 1990's.

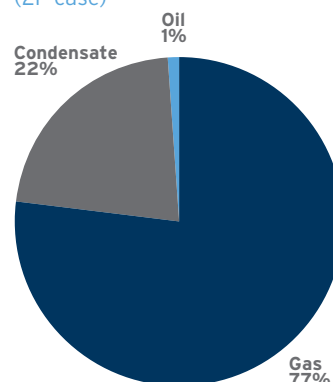
During the year Cadogan acquired the remaining 10 per cent interest in the Zagoryanska licence from NSJC Nadra Ukraine for a consideration of \$1.5 million.

Pokrovskoe licence

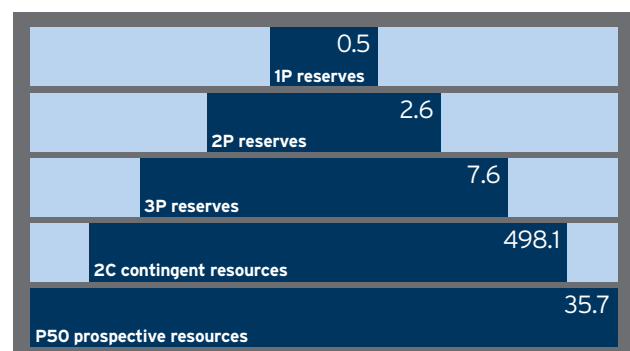
The Group now has a 70 per cent working interest in the Pokrovskoe licence which holds 51.1 mmboe (2010: 51.1 mmboe) of Prospective Resources. The exploration licence covers 49.5 square kilometres and the initial licence was extended during the year until August 2016.

Interpretation of the 3D seismic was completed in early 2010 and confirmed the presence of a prospect with four-way closure at the Lower Visean and the deeper Tournasian level, beneath both the Pokrovskoe 1 and Pokrovskoe 2 suspended well locations. The Pokrovskoe 1 well had encountered strong indications of gas during drilling and logging over significant sections in the Lower Visean and was suspended due to equipment limitations at 5,450 metres. Pokrovskoe 2 was drilled to a depth of 5,185 metres and suspended for future evaluation and possible deepening as the Upper Visean formations provided strong indications of gas, supported by well log data.

Portfolio composition (2P case)



Reserves and resources (mmboe)



Operations Review *continued*

As part of the Eni transaction, that company acquired a 30 per cent interest in the Group's Pokrovskoe licence, with an option to acquire a further 30 per cent interest in the future. On 9 March 2012 the Group has been advised by Eni, that, after their analysis of the results for the Pokrovskoe 1 and Pokrovskoe 2a wells, Eni do not intend to exercise their option to acquire the additional 30 per cent (refer to note 33 to the Consolidated Financial Statements). Notwithstanding the option not being exercised, Eni will continue with an existing 30 per cent share in Pokrovskoe licence.

The consideration comprised 100 per cent funding of a work programme of approximately \$30 million (excluding VAT), which was used to fulfil the work obligations on the licence. This comprised the deepening of Pokrovskoe 1 to test the potential of the Lower Visean and the re-drilling of Pokrovskoe 2 (designated 2a) in order to test the potential of the Upper Visean intervals.

On Pokrovskoe 1, the primary Lower Visean target proved to be water bearing and while preparing to test the secondary zone, mechanical problems prevented completion of operations. As a result, the well was suspended and the Saipem drilling rig was moved to the Pokrovskoe 2a location while remedial operations were considered for Pokrovskoe 1.

On Pokrovskoe 2a, the well was drilled to a casing point at 4,783 metres where the logs acquired indicated the presence of hydrocarbons and a decision was taken to continue drilling after casing the open-hole section. During the casing operation the running string became stuck and the limited fishing equipment available in country prevented the running tool from being recovered. The well has therefore been suspended while future options are considered for the well.

Pirkovskoe licence

The Group has a 100 per cent working interest in the Pirkovskoe licence which holds 2.4 mmboe (2010: 2.4 mmboe) of 2P Reserves, 5.0 mmboe (2010: 5.0 mmboe) of Possible Reserves, and 134.0 mmboe of Contingent Resources (2010: 134.0 mmboe). This exploration and appraisal licence covers 71.6 square kilometres and has been renewed until October 2015. The remaining work programme includes: (a) the testing of Pirkovskoe 1; (b) deepening to 5,450 metres and testing of the suspended Pirkovskoe 2 well; (c) the drilling of a new well (scheduled for 2013); and (d) calculation of the potential hydrocarbon reserves.

Pirkovskoe 1 was the first appraisal well drilled in the northern part of the Pirkovskoe licence. The well was terminated at a TD of 5,723 metres and after testing the Devonian and Lower Carboniferous, the well was temporarily suspended. The testing and subsequent completion of several shallower Carboniferous oil and gas bearing zones was farmed out to a local company at no cost to Cadogan, in return for a share of any future production. This interval produced small volumes of oil and gas and is currently shut-in.

The Pirkovskoe 2 well was drilled to a depth of 4,580 metres, and has been suspended until the results of Pirkovskoe 1 have been reviewed.

The Group owns the Kraznozayarska gas treatment plant located 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 in anticipation of future production.

Bitlyanska licence area

The Bitlyanska exploration and development licence covers an area of 390 square kilometres and the Group's interest ranges from 96.5 per cent to 97.1 per cent, varying with production. There are three hydrocarbon discoveries in this licence area, namely Bitlya, Borynya and Vovchenska. The Borynya and Bitlya fields hold 211.5 mmboe (2010: 211.5 mmboe) and 113.9 mmboe (2010: 113.9 mmboe) of Contingent Resources respectively, while no Reserves and Resources have been attributed to the depleted Vovchenska field.

In the 1970s drilling of the Borynya 1 resulted in a blow out and on Borynya 2 reportedly tested gas at very high rates. Cadogan drilled the Borynya 3 well proximal to these two Soviet era wells and in June 2009, tested gas from one of the secondary reservoir targets at around 3,600 metres at a maximum flow rate of 128,000 cubic metres per day during a limited duration drill stem test. Borynya 3 was terminated at a drilled depth of 5,325 metres and the well was suspended for future evaluation having encountered several deep high-pressure gas bearing intervals that could not be tested with the equipment available at that time. In 1994 the Bitlya 1 well tested non-commercial gas from several zones down to 3,200 metres. Although this well established the presence of an active hydrocarbon system, the recent 2D seismic data interpretation demonstrates that the well was poorly located in relation to any structural closure.

In 2010 a 2D survey was completed in the southern part of the licence to complement the Soviet era 2D seismic data that had been reprocessed by Cadogan. This integrated data set has been interpreted with the benefit of recent surface geological mapping and balanced section generation, and a series of prospects for future exploration drilling have been identified.

The remaining work obligation for this licence was recently re-negotiated.

Minor fields

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

Debeslavetska Production licence area

A production licence, containing 0.2 mmboe of Proved, Probable and Possible ('3P') Reserves (2010: 0.3 mmboe). The field is currently producing 84.0 boepd (2010: 100.7 boepd). Production during the year was impacted by a compressor failure that resulted in a period of planned maintenance being bought forward into 2011; equipment optimisation is foreseen during 2012. The Group drilled a series of three shallow wells on the field in 2011 using its own drilling rig which added minor commercial production but also assisted in the geological interpretation of the wider area.

Debeslavetska Exploration licence area

An exploration licence surrounding the Debeslavetska Production licence area which has similar shallow gas production potential to the Debeslavetska Field.

Cheremkhivska Production licence area

A production licence containing 0.1 mmboe of 3P Reserves (2010: 0.1 mmboe). This licence is currently producing 32.8 boepd (2010: 33.2 boepd).

Slobodo-Rungerska licence area

An exploration and development licence, with no booked Reserves and Resources (2010: nil). Seismic data for this area was reprocessed in 2010 and the results indicate a deeper structure underlying the depleted and abandoned Slobodo-Rungerska Field.

Monastyretska licence area

An exploration and development licence, with no booked Reserves or Resources (2010: nil). Re-entry of the Blazhiv 1 well was undertaken in the year and minor oil production re-established at the rate of 16 bopd. A hydraulic formation cleaning programme on the well is currently under way in the attempt to increase production levels.

Financial Review

Overview

In 2011 the Group mainly focused on exploration activity at Pokrovskoe and appraisal activity at Zagoryanska fields together with its joint venture partner Eni.

A substantial increase in the gas price in Ukraine has enabled revenue to increase from \$5.0 million in 2010 to \$7.0 million in 2011. A gain on disposal of two subsidiaries in 2011 of \$164.9 million, including revaluation of the remaining jointly-controlled interest of \$91.1 million, in the above mentioned subsidiaries that the Group has lost control in, contributed to the profit for the year of \$153.1 million (2010: \$1.3 million). This profit was reflected by a corresponding increase in the net asset position as at 31 December 2011 to \$283.0 million from \$131.2 million as at 31 December 2010. The cash position of \$65.0 million at 31 December 2011 has increased from \$36.4 million at 31 December 2010 mainly as the result of the cash consideration received from the disposal of interest in two subsidiaries to Eni.

Change in the presentation currency of the financial statements

The Directors decided to change the Group's presentation currency from sterling to US dollars with effect from 1 January 2011. These are the first financial statements and the accompanying notes to be reported in US dollars (refer to note 3(b) to the Consolidated Financial Statements).

Income statement

Profit before tax was \$152.6 million (2010: \$0.8 million). Revenues of \$7.0 million (2010: \$5.0 million) comprised sales of gas from the Debeslavetska, Cheremkivska fields and Zagoryanska 3 well. Cost of sales, which represents production royalties and taxes, depreciation and depletion of producing wells and direct staff costs increased to \$6.3 million in 2011 from \$4.1 million in 2010 to give a gross profit of \$0.7 million (2010: \$0.9 million).

- > Other administrative expenses of \$11.6 million (2010: \$13.0 million) comprise other staff costs, professional fees, directors' remuneration, depreciation charges on non-producing property, plant and equipment. In addition to recurring administrative expenses, \$1.2 million (2010: \$2.2 million) of professional costs were incurred in relation to litigation, \$0.9 million (2010: \$nil) of professional fees were incurred in relation to the transaction with Eni on the two Pokrovskoe and Zagoryanska licences.
- > Profit on disposal of subsidiaries amounted to \$164.9 million which represents a difference between \$17.6 million of net assets disposed, the sum of \$91.4 million consideration received and \$91.1 million of net fair value of the residual interest (including a \$80.2 million of fair value uplift). At year end the changes in the fair value of financial asset and liability arising from the Eni transaction resulted in net charge to the income statement of \$3.3 million (refer to note 29 to the Consolidated Financial Statements).
- > Other operating income of \$4.6 million (2010: \$11.8 million) includes \$2.1 million (2010: \$9.3 million) related to recoveries from former management and suppliers and \$2.4 million (2010: \$2.5 million) related to net foreign exchange gains.
- > Net impairment charges of \$2.8 million (2010: \$0.9 million reversal of impairment) comprised of \$3.2 million impairment (2010: \$2.3 million reversal of impairment) of Ukrainian VAT and \$0.4 million reversal of provision for inventory (2010: \$1.4 million provision).

Cash flow statement

The Consolidated Cash Flow Statement on page 37 shows expenditure of \$16.9 million (2010: \$6.2 million) on intangible Exploration and evaluation assets and \$4.4 million (2010: \$5.9 million) on Property, plant and equipment. In addition, the Group received \$58.0 million (2010: \$nil) as a result of disposal of subsidiaries.

Balance sheet

As at 31 December 2011, the Group had net cash and cash equivalents of \$65.0 million (2010: \$36.4 million, 2009: \$48.6 million). Intangible E&E assets of \$66.0 million (2010: \$6.2 million, 2009: \$nil) represent the carrying value of the Group's investment of exploration and appraisal assets as at 31 December 2011, including \$40.3 million of fair value uplift on the valuation of the 70 per cent jointly-controlled interest in the former subsidiary which holds Pokrovskoe licence. The PP&E balance of \$99.4 million at 31 December 2011 (2010: \$53.9 million, 2009: \$51.0 million), comprised of the cost of developing fields with commercial reserves and bringing them into production and \$40.0 million of fair value uplift on the valuation of the 40 per cent jointly-controlled interest in the former subsidiary which holds Zagoryanska licence. Trade and other receivables of \$66.3 million (2010: \$38.7 million, 2009: \$38.6 million) include \$30.0 million (2010: \$33 million, 2009: \$30.0 million) of non-current other receivables and \$6.5 million of current other receivables) receivables in respect of the settlement with GPS (refer to note 4(b) to the Consolidated Financial Statements), \$29.1 million (2010: \$nil, 2009: \$nil) represent deferred and contingent consideration for the disposal of two of Group's subsidiaries to Eni (refer to note 29 to the Consolidated Financial Statements) and \$4.3 million prepayments (2010: \$0.4 million, 2009: \$0.6 million) mostly relate to prepayments made to drilling contractor in Ukraine and long lead materials for the drilling and work over campaign.

Key performance indicators

The Group monitors its performance in implementing its strategy with reference to clear targets set out for five 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 2P Reserves. This is measured in million barrels of oil equivalent ('mmboe');
- > to increase the realised price per 1,000 cubic metres;
- > to decrease the cost per barrel for exploration and acquisition related expenditure;
- > to increase the Group's basic and diluted earnings per share; and
- > to reduce the number of lost time incidents.

The Group's performance in 2011 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	2011	2010
Financial KPIs			
Average production (working interest basis) ⁽¹⁾	boepd	297	268
2P reserves ⁽²⁾	mmboe	2.6	2.6
Realised price per 1,000 cubic metres ⁽³⁾		\$ 395.1	307.3
Basic and diluted earnings per share ⁽⁴⁾	cent	65.6	0.6
Non-financial KPIs			
Lost time incidents ⁽⁵⁾	incidents	2	-

- (1) Average production is calculated as the average daily production during the year.
- (2) Quantities of 2P reserves as at 31 December 2010 and 2011 are based on Gaffney, Cline & Associates' independent reserves report on 2P Reserves as at 31 December 2009, dated 16 March 2010, as adjusted for the actual production during 2010 and 2011 respectively.
- (3) This represents the average price received for gas sold during the year (including VAT).
- (4) Basic profit per Ordinary share is calculated by dividing the net profit for the year attributable to Ordinary equity holder of the parent by the weighted average number of Ordinary shares during the year.
- (5) Lost time incidents relate to injuries where an employee/contractor is injured and has time off work.

Related party transactions

Related party transactions are set out in note 32 to the Consolidated Financial Statements.

Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash and cash equivalent balances mainly in US dollars ('USD') held primarily in the UK 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 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 subsidiaries from the UK.

Risks and Uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's long-term performance and could cause the actual results to differ materially from expected and historical results. Executive management review the potential risks and then classify them as having a high impact, above \$5 million, medium impact above \$1 million but below \$5 million, and low impact below \$1 million. They also

assess the likelihood of these risks occurring. Risk mitigation factors are reviewed and documented based on the level and likelihood of occurrence. The Audit Committee reviews the risk register and monitors the implementation of improved risk mitigation procedures via the Executive Committee.

The Group has analysed the following categories as key risks:

Operational risks

Risk	Mitigation
Health, Safety and Environment ('HSE') The oil and gas industry is by its nature an activity which can be seriously impacted by health, safety & environmental incidents. Serious incidents cannot only lead to a financial impact but can also damage reputation in country and the opportunity to undertake further projects.	The Group ensures that there is a proper HSE system in place and demands that management, staff and contractors adhere to it. The system ensures that the Group meets Ukraine legislative standards in full and achieves international standards to the maximum extent possible.
Drilling operations The technical difficulty of drilling wells in the Group's locations and equipment limitations can result in the unsuccessful completion of the well.	The incorporation of detailed subsurface analysis into a robust engineered well design and work programme, with appropriate procurement procedures and on site management competence aims, to minimise risk.
Production and maintenance Some of the Group's facilities have been inherited, and although fully checked were not installed under our supervision and there is a risk of plant failure. There is a risk that production or transportation facilities can fail due to poor performance of the Group's suppliers and control of some facilities being with other governmental or commercial organisations.	All plants are operated at standards above the Ukraine minimum legal requirements. Operative staff is chosen for its experience and receive supplemental training to ensure that facilities are operated and maintained at a high standard. Service providers are rigorously reviewed at tender stage and monitored during the contract period.
Work over and abandonment Certain of the Group's wells were drilled by the state and will be worked over. There is a risk that Cadogan activities fail because of problems inherited with these sites. Any well stock that is not considered satisfactory for purpose or poses an environmental hazard will be abandoned.	Work programmes are designed to assess the status of the wells and any work that is not safe or is not technically feasible will be abandoned. Qualified professionals will be used to design a step-by-step approach to re-entering old wells. All sites that are abandoned will be restored and re-cultivated to meet or exceed standard required by the relevant environmental control authorities and in compliance with recognised international standards.

Sub-surface risks

Risk	Mitigation
The success of the business relies on accurate and detailed analysis of the sub-surface. This can be impacted by poor quality data, either historic or recently gathered, and limited coverage. Certain information provided by external sources may not be accurate.	All externally provided and historic data is rigorously examined and discarded when appropriate. New data acquisition is considered and appropriate programmes implemented, but historic data can be reviewed and reprocessed to improve the overall knowledge base.
Some local contractors may not acquire data accurately, and there is frequently limited choice of locally available equipment or contractors of desirable standard.	Detailed supervision of local contractors by Cadogan management is followed. Plans are discussed well in advance with both local and international contractors in an effort to ensure that appropriate equipment is available.
Data can be misinterpreted leading to the construction of inaccurate models and subsequent plans.	All analytical outcomes are challenged internally and peer reviewed. Interpretations are carried out on modern geological software. A staff training programme has been put in place.

Financial risks

Risk	Mitigation
The Group may not be successful in achieving commercial production from an asset and consequently the carrying values of the Group's oil and gas assets may not be recovered through future revenues.	The Group considers on an annual basis whether to commission a Competent Person's Report ('CPR') from an independent reservoir engineer. The CPR provides an estimate of the Group's reserves and resources by field/licence area. A new CPR will be prepared for Cadogan in the middle of 2012. As part of the annual budget approval process the Board considers and evaluates projects for the forthcoming year and considers the appropriate level of risk. The Board has approved a work programme for 2012. Further attempts to bring in partners and mitigate the Group's risk exposure are underway.
Insufficient funds are available to meet development obligations to allow the Group to continue as a going concern.	The Group manages liquidity risk by maintaining adequate cash reserves and monitoring forecasts. New management reporting procedures have been introduced which include a rolling forecast considering different future capital expenditure requirements. The 2012 budget includes a contingent capital expenditure budget which the Board may apply if sufficient funds are available. The farm-out campaign to conserve cash and mitigate risk will continue through 2012.
Insufficient cash flow is generated from the Group's Ukraine operations to exploit and commercialise the Group's major licences.	
The Group could be impacted by failing to meet regulatory reporting requirements in the UK, and statutory tax and filing requirements in both Ukraine and the UK.	These risks are mitigated by employing suitably qualified professionals in both the UK and Ukraine who, working with advisers when needed, are monitoring regulatory reporting requirements, and who ensure that timely submissions are made.
The Group operates primarily in Ukraine, an emerging market, where certain inappropriate business practices may from time to time occur. This includes bribery, theft of Group property, and fraud all of which can lead to financial loss.	Thorough authority levels and approval processes are in place, with stringent controls over cash management and the tendering and procurement process. Adequate office and site protection is in place to protect assets.
The Group is at risk from changes in the economic environment both in Ukraine and globally which can cause foreign exchange movements, changes in the rate of inflation and interest rates and lead to credit risks with key suppliers in Ukraine.	Revenues are received in UAH and expenditure is made in UAH, but funds are transferred in US dollar to Ukraine. The Group continues to hold most of its cash reserves in the UK in US dollar and some GBP deposits with leading financial institutions. The Group is predominantly a US dollar dominated business. Foreign exchange risk is considered a normal and acceptable business exposure and the Group does not hedge against this risk. Inflation effects in Ukraine are closely monitored and budgets adjusted accordingly. The retention of cash reserves in US dollar in the UK enables the Group to lessen the impact of inflation. The Group does not hedge against interest rate risk as it considers it as a normal business risk. It maintains cash reserves in several UK financial institutions which are all approved by the Audit Committee. Refer to note 30 to the Consolidated Financial Statements for detail on financial risks.
The Group does not at present have a considerable credit risk exposure except for the receivable from GPS.	The Board has reviewed a valuation of the GPS plants and is at present satisfied that the outstanding receivable is covered by the value of the plants.

Corporate risks

Risk	Mitigation
Should the Group not comply with licence obligations there is a risk that its entitlement to the licence will be lost.	The Group designs a work programme and budget to ensure that all licence obligations are met. The Group engages proactively with government to re-negotiate terms and ensure that they are not onerous.
Ukraine is an emerging market and as such the Group is exposed to greater regulatory, economic and political risks than other jurisdictions. Emerging economies are generally subject to rapid change of political risk which could adversely impact on Cadogan's ability to operate in the market.	Management will, once operations in Ukraine become profitable, consider alternative markets to diversify the risk.
The Group carries an insurance programme appropriate for the risks that are incurred. There is a risk that insurance levels are not sufficient or that insurance policies placed in Ukraine are not honoured.	The Group ensures it has adequate levels of cover in place by reviewing policy levels with its brokers on a quarterly basis. Operational policies have been moved from Ukraine to the UK and remaining non-operational policies in Ukraine are being reviewed.

Statement of Reserves and Resources

The Group did not commission an independent Reserves and Resources Evaluation of the Group's oil and gas assets in Ukraine, as at 31 December 2011 due to the insufficient new information being obtained from operational activity before the year end. The summary of the Reserves and Resources below are based on the Independent Reserves and Resources Evaluation performed by Gaffney Cline and Associates as at 31 December 2009 adjusted for 2010 and 2011 actual production.

Summary of Reserves as of 31 December 2011

	Working interest basis		
	Gas bcf	Condensate mmbbl	Oil mmbbl
Proved and Probable Reserves at 1 January 2011	11.3	0.6	-
Production	(0.2) ⁽¹⁾	-	-
Proved and Probable Reserves at 31 December 2011	11.1	0.6	-
Possible Reserves at 1 January 2010 and 2011 and 31 December 2011	19.5	1.5	-

(1) During 2010 and 2011 the Group produced additional 0.6bcf (2010: 0.3 bcf) of natural gas and 0.02mmbbl (2010: 0.01 mmbbl) of condensate from the Zagoryanska field which were not included by Gaffney Cline and Associates in the Reserves balances at 31 December 2009 provided in the Reserves and Resources Evaluation Report as at that date.

Summary of Contingent Resources as of 31 December 2011

	Working interest basis			
	Gas bcf	Condensate mmbbl	Oil mmbbl	Total mmboe
Contingent Resources at 1 January 2010 and 2011	2,488.0	108.1	-	555.9
Change in working interest	(236)	(15.3)	-	(57.8)
Contingent Resources at 31 December 2011	2,252.0	92.8	-	498.1

Reserves are only assigned to Pirkovskoe, Debeslavetska and Cheremkhivska fields.

Although commercial production has been achieved at Zagoryanska field no 2P reserves have been booked as of 31 December 2011 (2010: nil) as the Group did not receive an update CPR to independently confirm the Reserves quantities.

Contingent Resources are assigned to Zagoryanska, Pirkovskoe, Borynya and Bitlya fields, where development is contingent on further appraisal.

Prospective Resources of 165.9 bcf (2010: 237.0 bcf) of gas and 5.9 mmbbl (2010: 8.4 mmbbl) of condensate are attributed to Pokrovskoe field (Cadogan's working interest), where there has not yet been a production test. The difference between 2011 and 2010 figures is a result of the change in Cadogan's working interest.

Corporate Responsibility

The Group considers the sustainability of its business as a key and competitive element of its strategy. Meeting the expectations of our stakeholders is the way we have to secure our licence to operate and be recognised in the values we declare is the best added value we can bring to and profitably prolong our business. The Board recognises that the health and safety of its employees and of the communities and the environment it impacts with is the key driver for the sustainable development of the Company's activity. Our Code of Ethics and internationally recognised best practices and standards are our and our employees' references for conducting our operations.

Our activity is operated under the respect of Company's Code of Ethics, adopted at Board level, which has been disseminated to all management. A whistle-blowing procedure has been put in place, and all staff in both Ukraine and the United Kingdom have been made aware of it.

The Group Health, Safety and Environment Manager reports directly to the Chief Executive Officer. His role is to ensure that the Group has developed suitable procedures and that operational management have incorporated them into daily operations.

The Board believes that health and safety procedures and training across the Group should be to the standard expected in any company operating in the oil and gas sector. Accordingly, it has set up a Committee of the Board to review and agree health and safety initiatives and report back on progress. The monthly management report to the Board contains a full report on both health and safety, and environmental issues and key safety and environmental issues are discussed at the Executive Committee. The Health, Safety and Environment Committee report is on page 22.

Health safety and environment

The Group has developed an integrated Health Safety and Environmental management system. The system aims by a continuous improvement programme to ensure that a safety and environmental protection culture is embedded in the organisation. The HSE management system ensures that both Ukrainian and international standards can be met with the Ukrainian HSE legislation requirements taken as an absolute minimum although the international requirements are in the main met or exceeded. Both the local operating companies in east and west Ukraine have all the necessary documentation and systems in place to ensure compliance with Ukrainian legislation.

A proactive approach to the prevention of incidents has been put in place during 2011, which relies on an observation cards system and improved near-miss reporting. Staff training on HSE matters is also recognised as the key factor to generate continuous improvement. In house training is provided to meet international standards and best practices. At present special attention is being given to training on risk assessments, incident reporting and investigation, as well as hazard and operational ('HAZOP') studies to ensure that international standards are maintained even if they exceed that required by Ukrainian legislation.

The Board monitors lost time incidents as a key performance indicator of the business, to responsibly verify that the procedures in place are robust. The Board has benchmarked safety performance against the HSE performance index measured and published annually by the International Association of Oil & Gas Producers. In 2011, the Group recorded a total of 510,564 man hours worked. There were two Lost Time Incidents ('LTIs') recorded in 2011, both associated with a freak weather incident that occurred in July. Two separate investigations, one conducted by a committee including the state authorities' representatives, and another performed by an independent external specialist, concluded that this particular incident was not attributable to the Group's procedures and was not caused by any negligence on the part of the work force. 278,878 man hours without an LTI have been worked since then.

A proactive approach to vehicle safety has also been adopted by the Group as road traffic accidents are a leading cause of occupational fatalities and LTIs, particularly in the oil and gas industry. As of the end of 2011, the Group has recorded over 5.8 million kilometres driven without an LTI. A Group driving policy was developed and implemented in 2011 to promote road safety.

The European Bank for Reconstruction and Development is a substantial shareholder in the Company and closely monitors the environmental and community aspects of the Group's activities. An environmental report is submitted to them each year summarising the Group's compliance with local HSE regulation and standards. It requires audits to be undertaken by external consultants to generate an environmental action plan, the results of which are reviewed by the bank.

Employees

Certain of the Group's operations are undertaken by sub-contractors' specialists having the technical knowledge required for complex wells' operations. Local content is part of the Company's sustainable development policy and wherever possible local staff is recruited and procedures are in place to ensure that all recruitments are undertaken on transparent and fair basis with no discrimination between applicants. Each operating company has its own Human Resources staff to ensure that the Group's employment policies are properly implemented. As required by Ukrainian legislation Collective Agreements are in place with the Group's Ukrainian subsidiary companies that implement an agreed level of staff benefits and regulation. The Human Resources policy covers key areas such as equal opportunities, wages, overtime and non-discrimination. All staff is aware of the Group's grievance procedure. Sufficient levels of health insurance are provided by the Group to employees to ensure they have access to good medical facilities. Each employee's training needs are assessed on an individual basis to ensure that their skills are adequate to support the Group's operations, and to help them to develop.

Community

The Group's activities are carried out in rural areas of Ukraine and the Board is aware of its responsibilities to the local communities in which the Group operates and from which some of the employees are recruited from. At current operations' sites, management works with the Local Councils to ensure that the impact of activities is as low as practical and eventual mitigation actions are put in place. Key projects undertaken include preventive improving of the road infrastructure in the area, so that sites are accessible and allow improved road communications in the local community. Specific charitable activities are made for the direct benefit of local schools, sporting facilities and medical services, as well as other community focused facilities. All activities are followed and supervised by Company's responsible people. The Group has in 2011 spent \$153,882 predominantly as contributions for repair work and additional furniture and equipment for local schools.

The Group's local companies see themselves as part of the community and are involved not only with financial assistance, but also with practical help and support. Wherever possible general site staff is recruited from the local area and given appropriate training, thereby generating additional income for areas predominantly dependent on the agricultural sector.

Board of Directors

Zev Furst, 64, American Chairman

Appointed to the Board on 2 August 2011, Mr Furst is a leading global business and communications strategist who has advised political leaders, foreign principals and corporate executives of Fortune 100 companies. He is the Chairman and CEO of First International Resources, an international corporate and political consulting firm he founded in 1992. Mr Furst specialises in providing strategic counsel on crisis management, market entry, corporate positioning and personal reputational issues. In recent years, he has also advised and consulted with candidates running for national office in Israel, Japan, Mexico and Ukraine.

In 1986, Mr Furst was a founding partner of Meridian Resources and Development Ltd, an international commodities trading company specialising in chemicals and petroleum products.

Mr Furst currently serves as Chairman of the International Board of the Peres Center for Peace and is a member of the Advisory Board of the Kennan Institute in Washington, DC. He has written and lectured extensively on international affairs, business and political strategy and the role of media in politics and diplomacy.

Mr Furst is Chairman of the Company's Nomination Committee and a member of the Remuneration Committee.

Bertrand des Pallieres, 45, French Chief Executive Officer

Mr des Pallieres, was appointed as Chief Executive Officer on 1 August 2011, having joined the Board as a non-executive Director on 26 August 2010. Mr des Pallieres is also the CEO of SPQR Capital Holdings SA, a major shareholder of the Company.

Previously he was the Global Head of Principal Finance and member of the Global Market Leadership Group of Deutsche Bank from 2005 to 2007. From 1992 to 2005 he held various positions at JPMorgan including Global Head of Structured Credit, European Head of Derivatives Structuring and Marketing and Co-head of sales for Europe, Middle East and Africa. He is a non-executive director of Versatile Systems Inc. listed on the Toronto and London Stock Exchanges and Equus Total return, Inc., listed on the NYSE, and Orco Property Group listed on Paris Euronext.

Mr des Pallieres is a member of the Nomination Committee.

Adelmo Schenato, 60, Italian Chief Operating Officer

Mr Schenato was appointed to the Board as Chief Operating Officer on 25 January 2012. He joined the Company after a 35 year career at Eni, the Italian integrated energy business, where he served in senior global and regional positions.

His global roles at Eni included Well Operations Research and Development and Technical Management, and Vice President HSE & Sustainability. His regional roles include General Manager of Tunisia, Gabon and Angola as well as CEO of Eni's Italian gas storage company.

Ian Baron, 55, British Business Development Director

Mr Baron has over 30 years of international experience in the upstream petroleum industry and has worked in several countries in the former Soviet Union. He was a founding partner of Energy Services Group Ltd, a firm which provides project management and advisory services to the oil and gas industry. He joined the Board as Interim Chief Executive on 19 March 2009, a role he undertook until 1 August 2011. He was previously a non-executive Director of the Company until 19 April 2008. He is also a non-executive director of Petro Vista Energy Corporation and Stream Oil & Gas limited.

Gilbert Lehmann, 66, French Senior Independent non-executive Director

Mr Lehmann was appointed to the Board on 18 November 2011. He is currently acting as an adviser to the Executive Board of Areva, the French nuclear energy business, having previously been its Deputy Chief Executive Officer responsible for finance. He is also a past Chief Executive Officer and deputy CEO of Framatome, the predecessor to Areva, and was CFO of Sogee, part of the Rothschild Group. Mr Lehmann is also Deputy Chairman and Chairman of the Audit Committee of Eramet, the French minerals and alloy business. He is Deputy Chairman and Audit Committee Chairman of Assystem SA, the French engineering and innovation consultancy. He was Chairman of ST Microelectronics NV, one of the world's largest semiconductor companies, from 2007 to 2009, and stepped down as Vice Chairman in 2011.

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

Alessandro Benedetti, 50, Italian Non-executive Director

Appointed to the Board on 26 August 2010, Mr Benedetti is an Italian national with nearly 30 years of business experience in a diverse range of industries including telecoms, agro-industrial engineering, industrial mining, real estate, renewable and non-renewable energy and investment companies. He is fully conversant with business conditions and operating procedures in the world's key markets, especially Western and Eastern Europe, Scandinavia, CIS, Africa, North America and the Middle East.

From 2002 onward he began structuring the acquisition of a controlling interest in Italian telecom giant WIND Telecom, and subsequently formed a consortium to close a €17.2 billion leveraged buyout in 2005, at that time the largest deal of its type in Europe. Taking control of SAE Capital in 2003 he disposed of the production and distribution activity transforming the group into an M&A boutique, which has structured various multi-billion Euro acquisitions, focusing on the telecom and energy market across Europe. He is a non-executive director of Versatile Systems Inc., which is listed on the Toronto and London Stock Exchanges, and Equus Total return, Inc., listed on the NYSE.

Enrico Testa, 60, Italian Independent non-executive Director

Appointed to the Board on 1 October 2011, Mr Testa has a long and varied background in the energy market. He was Chairman of the Board of ACEA (the Rome electricity and water utility company) from 1996 to 2002. He was Chairman of the Board of Enel S.p.A, the major Italian electricity supplier, during its privatisation. From 2005 to 2009 he was Chairman of Roma Metropolitana, the Rome council owned company constructing new underground lines. He was also Chairman of the Organising Committee for the 20th World Energy Congress held in Rome in November 2007, Senior Partner at the Franco Beranbe Group which owns several investments in the IT sector and from 2002 to 2005, he was member of the Advisory Board of Carlyle Europe and Chairman of the Italian Nuclear Forum since 2010.

He is currently Managing Director of Rothschild S.p.A, Chairman of the AIM listed telecommunications company Telit Communications Plc, Vice Chairman of Intecs S.p.A and Chairman of Energie Valsabbia S.p.A - a company developing hydropower and solar generating plants.

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

Corporate Governance Statement

The Board of Cadogan Petroleum plc is committed to the highest standards of corporate governance and bases its actions on the principles set out in the UK Corporate Governance Code (the 'Code').

This statement describes how the Group applies the principles of the Code. On 20 December 2011 the Company's listing category on the London Stock Exchange was transferred from 'Premium Listing' to 'Standard Listing'. Although companies with a Standard Listing are not required to have a governance code, the Board has decided that the Group will continue to govern itself in accordance with the principles of the Code and explain why it has chosen not to comply with any of the provisions of the Code.

During the year under review, the Group has complied with the provisions set out in Section 1 of the Code with the following exceptions:

- > Code provision B.1.2 – for a period of four months from August to November 2011, the Company as a smaller company, did not have two independent non-executives in post.
- > Code provision B.2.1 – for a period of four months from August to November 2011, a formal Nomination Committee was not in place.
- > Code provision C.3.1 – for a period of four months from August to November 2011, a formal Audit Committee was not in place.
- > Code provision D.2.1 – for a period of four months from August to November 2011, a formal Remuneration Committee was not in place.

The reason for the above four non-compliances is due to there being a period whilst the Board was reorganised and new appointments were being made. The role of all three principal committees of the Board was undertaken by the full Board during this period. All three committees are now properly constituted and the Company has two independent non-executive Directors in place.

- > Code provision B.6.1 – No formal performance evaluation of the Board, its Committees and its individual Directors has been undertaken.
- > Code provision B.6.3 – The Senior Independent Director has not met with the non-executive Directors to review the performance of the Chairman, following a Board performance evaluation.

As a consequence of the restructuring of the Board during 2011 no formal review of Board performance has been undertaken. No independent non-executive Directors are being put forward for re-election at the forthcoming Annual General Meeting as all have only been appointed since the last Annual General Meeting and are being put forward for re-appointment.

Board

The Board provides leadership and stewardship. The Board comprises the Chairman, Chief Executive Officer, Chief Operating Officer, Business Development Director, two independent non-executive directors and one non-executive director appointed by SPQR Capital Holdings SA. Mr Zev Furst joined the Board on 2 August 2011; Mr Enrico Testa joined the Board on 1 October 2011, and Mr Gilbert Lehmann joined the Board on the 18 November 2011. Mr Simon Duffy and Mr Alan Cole ceased to be directors on 16 June 2011; Mr Phillip Dayer and Mr Nick Hooke ceased to be directors on 1 August 2011; and Mr GB Stein ceased to be a director on 21 October 2011. All other directors have served throughout the whole year. Mr A Schenato was appointed a director on 25 January 2012. The membership of the Board and biographical details for all of the directors are incorporated into this report by reference and appear on page 16.

The Board has a formal schedule of matters specifically reserved for it to decide, including approval of acquisitions and disposals, major capital projects, financial results, Board appointments, dividend recommendations, material contracts and Group strategy. The Board met six times formally during 2011.

The Chairman, in conjunction with the Company Secretary, plans the programme for the Board during the year. The agenda for Board and Committee meetings is considered by the relevant Chairman and issued with supporting papers during the week preceding the meeting. For each Board meeting, the Directors receive a Board pack including detailed monthly management accounts, briefing papers on commercial and operational matters and major capital projects including acquisitions. The Board also receives briefings from key management on specific issues. The attendance of those Directors in place at the year end at Board and Committee meetings during the year was as follows:

	Board meetings since appointment	Board	Audit Committee ⁽¹⁾	Nomination Committee	Remuneration Committee ⁽²⁾
No. held		6	1	-	2
No. attended:					
Z Furst (appointed 1 August 2011)	3	3	-	-	1
B des Pallieres		6	-	-	-
I Baron		6	-	-	-
G Lehmann (appointed 18 November 2011)	1	1	-	-	1
E Testa (appointed 1 October 2011)	1	1	-	-	1
A Benedetti		5	-	-	-

(1) No Audit Committees were held in 2011 after the appointment of Mr Lehmann and Mr Testa.

(2) Only one Remuneration Committee was held in 2011 following the appointments of Messrs Testa, Furst and Lehmann.

Corporate Governance Statement *continued*

In addition to the six formal Board meetings, six conference calls were convened to discuss urgent issues as they arose, most of them attended by the majority of Directors. A procedure exists for the Directors, in the furtherance of their duties, to take independent professional advice if necessary, under the guidance of the Company Secretary and at the Company's expense. All directors have access to the advice and services of the Company Secretary, who is responsible to the Chairman for ensuring that Board procedures are complied with and that applicable rules and regulations are followed.

Board independence

The roles and responsibilities of Chairman and Chief Executive Officer are separate. A formal division of each individual's responsibilities has been agreed and documented by the Board. Mr G Lehmann is the Senior Independent Director.

The non-executive Directors bring an independent view to the Board's discussions and the development of its strategy. Their range of experience ensures that management's performance in achieving the business goals is challenged appropriately. Two of the non-executive Directors, Messrs Testa and Lehmann, are considered by the Board, in accordance with the Code, to be independent. Mr Benedetti is not considered to be independent in accordance with the Code as he was appointed by the major shareholder, SPQR Capital Holdings SA. Up to 1 August 2011 Mr des Pallieres was also considered a non-executive Director who was not independent in accordance with the Code. The letters of appointment for the independent non-executive Directors are available for review at the Registered Office and prior to the Annual General Meeting. For information regarding the Annual General Meeting please refer to the separate Notice of Meeting.

Responsibilities and membership of Board committees

The Board has agreed written terms of reference for the Nomination Committee, Remuneration Committee and Audit Committee. The terms of reference for all three Board Committees are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. A review of the terms of reference, membership and activities of all Board Committees is detailed on pages 20 to 23 and 27.

Internal control

The directors are responsible for the Group's system of internal control and for maintaining and reviewing its effectiveness. The Board has delegated responsibility for the review of the Group's internal controls to the Audit Committee. The Group's systems and controls are designed to safeguard the Group's assets and to ensure the reliability of information used both within the business and for publication.

Systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The key features of the internal control systems which operated during 2011 and up to the date of signing the accounts are documented in the Group's Corporate Governance Manual and Finance Manual. These manuals have been circulated throughout the Group.

Day-to-day responsibility for the management and operations of the business has been delegated to the Chief Executive Officer and his Executive Committee comprising of the Chief Operating Officer and Business Development Director.

Certain specific administrative functions are controlled centrally. Taxation, treasury and insurance functions report to the Director of Group Finance who reports directly to the Chief Executive Officer. The legal function is managed by the Company Secretary who reports to the Board and also attends all Board and Executive Committee Meetings. The Health and Safety and Environment functions report to the Chief Executive Officer. An overview of the Group's treasury policy is set out on page 11.

The Group does not have an internal audit function. Due to the small scale of the Group's operations at present, the Board do not feel that it is appropriate or economically viable to have this function in place. The Audit Committee will continue to consider the position periodically.

The Board had regularly reviewed the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 (the 'Turnbull Guidance'). During the course of its review of the risk management and internal control systems, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Relations with shareholders

The Chairman and Executive Directors of the Company have a regular dialogue with analysts and substantial shareholders. The outcome of these discussions are reported to the Board and discussed in detail.

The Annual General Meeting is used as an opportunity to communicate with all shareholders. In addition, preliminary results are posted on the Company's website, www.cadoganpetroleum.com, as soon as they are announced. The Notice of the Annual General Meeting is contained in a separate document and will be sent to shareholders at least 20 business days before the meeting. Each substantially separate issue will be proposed in the Notice of Annual General Meeting as a separate resolution and there are separate resolutions relating to the Annual Financial Report and the Directors' Remuneration Report. Furthermore, it is intended that the Chairmen of the Nomination, Audit and Remuneration Committees will be present at the Annual General Meeting. The results of all resolutions will be published on the Company's website www.cadoganpetroleum.com.

Going concern

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

Directors' responsibilities

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required under that law to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have also elected to prepare the Parent Company financial statements under IFRSs as adopted by the European Union ('EU'). Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of Company and the Group for that period. In preparing the Company and Group's financial statements, International Accounting Standard 1 requires that directors:

- > properly select and apply accounting policies;
- > present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- > provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and the Group's financial position and financial performance; and
- > make an assessment of the Company's and the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibilities statement

We confirm that to the best of our knowledge:

- (1) the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (2) the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of information to auditors

As required by section 416 of the Companies Act 2006, each of the directors as at 27 April 2012 confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Words and phrases used in this confirmation should be interpreted in accordance with section 416 of the Companies Act 2006.

Board Committee Reports

Audit Committee Report

The Audit Committee (the 'Committee') is appointed by the Board, on the recommendation of the Nomination Committee, from the non-executive Directors of the Company. The Committee's terms of reference include all matters indicated by the Combined Code. They are reviewed annually by the Committee and any changes are then referred to the Board for approval. The terms of reference of the Committee are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum.

Responsibilities

- To monitor the integrity of the annual and interim financial statements, the accompanying reports to shareholders, and announcements regarding the Group's results.
- To review and monitor the effectiveness and integrity of the Group's financial reporting and internal financial controls.
- To review the effectiveness of the process for identifying, assessing and reporting all significant business risks and the management of those risks by the Group.
- To oversee the Group's relations with the external auditor and to make recommendations to the Board, for approval by shareholders, on the appointment and removal of the external auditor.
- To consider whether an internal audit function is appropriate to enable the Committee to meet its objectives.
- To review the Group's arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Governance

On 16 June 2011 Mr Cole resigned as a member of the Committee. Mr Phillip Dayer and Mr Nick Hooke resigned as member of the Committee on 1 August 2011. Mr Testa and Lehmann were appointed members of the Committee on 1 October 2011 and 18 November 2011 respectively. Both the current members of the Committee are non-executive Directors who are considered to be independent in accordance with provision A.3.1 of the Combined Code. For a period of four months whilst the Board of the Company was reconstituted the Audit Committee was not formally in place. The duties of the Committee were undertaken by the Board in its entirety. As a consequence the Committee only formally met once in 2011.

The Committee is chaired by Mr Lehmann who has recent and relevant financial experience both as a former finance director of major European companies as well as holding several non-executive roles in major international entities.

At the invitation of the Committee, the Director of Group Finance and external auditor regularly attend. The Company Secretary attends all meetings of the Committee.

The Audit Committee also meets the external auditor without management being present.

Activities of the Audit Committee

During the year, the Committee discharged its responsibilities as follows:

Financial statements

The Committee examined the Group's consolidated and Company's financial statements, and considered the appropriateness of accounting policies adopted and whether the financial statements give a true and fair view, prior to recommending them to the Board.

Internal controls and risk management

In addition the Committee reviews and keeps under review financial and control issues throughout the Group including the Group's key risks and the approach for dealing with them.

External auditor

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

The Committee considers the scope and materiality for the audit work, approves the audit fee, and reviews the results of the external auditor's work. Following the conclusion of each year's audit, it considers the effectiveness of the external auditor during the process. The Audit Committee periodically reviews if it is necessary to re-tender the audit engagement.

Deloitte LLP was first appointed in 2005. Having satisfied itself as to their qualifications, expertise, resources and independence and the effectiveness of the audit process, it has recommended to the Board, for approval by shareholders, the reappointment of Deloitte LLP as the Company's external auditor.

There is an agreed policy on the engagement of the external auditor for non-audit services to ensure that their independence and objectivity are safeguarded. Work closely related to the audit, such as taxation or financial reporting matters, can be awarded to the external auditor by the executive Directors provided the work does not exceed £50,000 in fees per item. Work exceeding £50,000 requires approval by the Committee. All other non-audit work either requires Committee approval or forms part of a list of prohibited services, where it is felt the external auditor's independence or objectivity may be compromised.

A breakdown of the non-audit fees is disclosed in note 10 to the notes to the Consolidated Financial Statements. The Company's external auditor, Deloitte LLP, has provided non-audit services (excluding audit related services) which amounted to \$322,000 (2010: \$147,000). This mainly comprised the provision of taxation advisory services relating to the disposal of the subsidiaries. The Audit Committee has reviewed the level of these services in the course of the year and is confident that the objectivity and independence of the auditor are not impaired by the reason of such non-audit work.

Internal audit

In 2011 the Committee considered the necessity for an internal audit function. It concluded that at that time, due to the size of the Group and the current stage of development, an internal audit function will be of little benefit to the Group.

The Group's whistle-blowing procedure provides a mechanism for employees to raise serious concerns. This was implemented during 2008 and the Committee received confirmation that it had been circulated to all staff in the UK and Ukraine.

Overview

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor. A formal review of the Committee's effectiveness has not been undertaken, however, a review will be conducted following the publication of the 2011 financial statements. The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

On behalf of the Audit Committee

Gilbert Lehmann

Chairman of the Audit Committee

Board Committee Reports *continued*

Health, Safety and Environment Committee Report

The Health, Safety and Environment Committee (the 'Committee') is appointed by the Board, on the recommendation of the Nomination Committee. The Committee's terms of reference are reviewed annually by the Committee and any changes are then referred to the Board for approval. The terms of reference of the Committee are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum, one of whom must be a director.

Responsibilities

- To develop a framework of the policies and guidelines for the management of health, safety and environment issues within the Group.
- Evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety and environmental risks within the Group's operation.
- Assess the policies and systems within the Group for ensuring compliance with health, safety and environmental regulatory requirements.
- Assess the performance of the Group with regard to the impact of health, safety, environmental and community relations decisions and actions upon employees, communities and other third parties and also assess the impact of such decisions and actions on the reputation of the Group and make recommendations to the Board on areas for improvement.
- On behalf of the Board, receive reports from management concerning all fatalities and serious accidents within the Group and actions taken by management as a result of such fatalities or serious accidents.
- Evaluate and oversee, on behalf of the Board, the quality and integrity of any reporting to external stakeholders concerning health, safety, environmental and community relations issues.
- Where it deems it appropriate to do so, appoint an independent auditor to review performance in regard to health, safety, environmental and community relations matters and review any strategies and action plans developed by management in response to issues raised and, where appropriate, make recommendations to the Board concerning the same.

Governance

The Committee was in place throughout 2011 and Mr Ian Baron was Committee Chairman during 2011. Mr Baron stood down as Chairman in early 2011 and membership of the Committee as at 27 April 2012 is Mr Adelmo Schenato (Chief Operating Officer and HSE Committee Chairman), Mr Andrew Cooper (Operations Manager) and Mr Oleg Sybria (HSE Manager). The Company Secretary attends all meetings of the Committee.

The Committee meets monthly to monitor continuously progress by management.

Activities of the Health, Safety and Environment Committee

During the year the Committee discharged its responsibilities as follows:

- Following a Lost Time Incident in July 2011, the Committee reviewed the reports on an accident at the Group's Pokrovskoe 2 well site from the local authorities and independent HSE experts, which indicated that no liability for the accident could be apportioned to any party.
- As a result of the accident in July 2011, the Committee has in conjunction with an independent HSE expert, reviewed its existing Health, Safety and Environment policies to ensure completeness.
- Monitored the implementation of the Environmental Action Plan.

Overview

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference.

On behalf of the Health, Safety and Environment Committee

Ian Baron

2011 Chairman of the Health, Safety and Environment Committee

Nomination Committee Report

The Nomination Committee (the 'Committee') is appointed by the Board predominantly from the non-executive Directors of the Group. The Committee's terms of reference include all matters indicated by the Combined Code. They are reviewed annually by the Committee and any changes are then referred to the Board for approval. The terms of reference of the Committee are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum.

Responsibilities

- To regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes.
- Be responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise.
- Before appointment is made by the Board, evaluate the balance of skills knowledge and experience on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee shall use open advertising or the services of external advisers to facilitate the search and consider candidates from a wide range of backgrounds on merit, taking care that appointees have enough time available to devote to the position.

The Committee shall also make recommendations to the Board concerning:

- Formulating plans for succession for both executive and non-executive directors and in particular for the key roles of Chairman and Chief Executive Officer.
- Membership of the Audit and Remuneration Committees, in consultation with the Chairmen of those committees.
- The reappointment of any non-executive director at the conclusion of their specified term of office, having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.
- The re-election by shareholders of any director under the 'retirement by rotation' provisions in the Company's Articles of Association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.
- Any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company subject to the provisions of the law and their service contract.

Governance

The Committee was reconstituted on 18 November 2011, following the restructuring of the Board in the third quarter of 2011, and Mr Zev Furst (Board and Committee Chairman), Mr Bertrand des Pallieres (Chief Executive Officer), and Messrs Gilbert Lehmann and Enrico Testa (independent non-executive Directors) became members of the Committee. Mr Duffy stood down as a Director on 16 June 2011, Mr Dayer resigned as a director on 1 August 2011 and ceased to be members of the Committee. Mr Baron ceased to be a member of the Committee on 18 November 2011.

The Company Secretary attends all meetings of the Committee.

Activities of the Nomination Committee

During the second half of the year up to 17 November 2011, the responsibilities of the Committee were undertaken by the full Board. The search for appropriate non-executive Directors was undertaken by an external search agency and supplemented by the network contacts of both the existing Board and its advisers. The appointment of Mr Enrico Testa and Mr Gilbert Lehmann as independent non-executive Directors was undertaken by this method, and the appointment of Mr Adelmo Schenato as a Director and Chief Operating Officer on 25 January 2012 was reviewed and considered by the Board in its entirety.

Overview

The Company has not utilised the services of the Nomination Committee fully in accordance with the Code in 2011. This was due to the complete reorganisation of the Board during the year. The Committee is now fully reconstituted and the Board intends to undertake any further appointments to the Board via the Committee in the normal manner. The Chairman of the Nomination Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

On behalf of the Nomination Committee

Zev Furst

Chairman of the Nomination Committee

Other Statutory Information

Directors

The following were Directors during the year and held office throughout the year and to the date of this Report, unless otherwise indicated:

Zev Furst, Chairman (appointed on 2 August 2011)
 Bertrand des Pallieres, Chief Executive Officer
 Ian Baron, Business Development Director
 Adelmo Schenato, Chief Operating Officer (appointed 25 January 2012)
 Alessandro Benedetti, non-executive Director
 Gilbert Lehmann, non-executive Director (appointed 18 November 2011)
 Enrico Testa non-executive Director (appointed 1 October 2011)
 Simon Duffy, Chairman (resigned 16 June 2011)
 Philip Dayer, non-executive Director (resigned 1 August 2011)
 Alan Cole, non-executive Director (resigned 16 June 2011)
 Nick Hooke, non-executive Director (resigned 1 August 2011)
 Gordon Stein, Chief Finance Officer (left 21 October 2011)

Biographical details for all Directors are shown on page 16.

Directors' interests in shares

The beneficial interests of the Directors in office as at 31 December 2011 and connected persons in the Ordinary shares of the Company at 31 December 2011 are set out below. Options granted to the directors under the 2007 Share Option Plan, the 2008 Share Option Plan and the 2008 Approved Option Plan and shares awarded under the 2008 Performance Share Plan are shown on page 31 of this report.

Shares as at December 31	2011	2010
Z Furst ⁽¹⁾	-	-
B des Pallieres	200,000	200,000
IR Baron	600,000	500,000
A Benedetti	-	-
G Lehmann ⁽¹⁾	-	-
E Testa ⁽¹⁾	-	-

(1) On date of appointment

Between the year end and 27 April 2012, the date of signing this Annual Report, Mr I Baron acquired a further 150,000 shares. An update will be given in the Notice of Annual General Meeting.

Dividends

The Directors do not recommend payment of a dividend for the year to 31 December 2011 (2010: \$nil).

Law of Member State of Incorporation

Cadogan Petroleum plc is subject to the laws of England and Wales.

Structure of share capital

The authorised share capital of the Company is currently £30,000,000 divided into 1,000,000,000 Ordinary shares of 3 pence each. The number of shares in issue as at 31 December 2011 is 231,091,734 Ordinary shares of 3 pence each with a nominal value of £6,932,752 (\$13,337,000). The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the 'Regulations') allow companies to hold shares in treasury rather than cancel them. Following the consolidation of the issued capital of the Company on 10 June 2008, 66 residual new Ordinary shares were transferred to treasury. No dividends have been paid on shares whilst held in treasury and no voting rights attach to the shares held in treasury.

Rights and obligations of Ordinary shares

On a show of hands at a general meeting every holder of Ordinary shares present in person or by proxy and entitled to vote shall have one vote and on a poll, every member present in person or by proxy, shall have one vote for every Ordinary share held. In accordance with the provisions of the Company's Articles of Association, holders of Ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes. On a return of capital on a winding up, holders of Ordinary shares are entitled to participate in such a return.

Restrictions on transfer of securities

The restrictions on the transfer of shares in the Company are as follows:

- > The Board may, in its absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share.
- > The Board may also decline to register any transfer of a certificated share unless:
 - (a) the instrument of transfer, duly stamped (or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty), is lodged at the place where the register of members of the Company is kept accompanied by the certificate for the shares to which it relates (save in the case of a transfer by a person to whom the Company is not required by law to issue a certificate and to whom a certificate has not been issued) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do;

- (b) the instrument of transfer is in respect of only one class of share; and
- (c) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

- > Where a shareholder has declined to provide certain information requested by the Company in accordance with the Companies Act, the Board can, in certain circumstances, refuse to register a transfer of such shares.
- > Restrictions may be imposed on certain employees who are required to seek approval from the Company before dealing in shares in accordance with the requirements of the Listing Rules of the United Kingdom Listing Authority.
- > Awards of shares under the Company incentive arrangements, the Performance Share Plan, are subject to restrictions on transfers of shares prior to vesting.

Exercise of rights of shares in employee share schemes

None of the share awards under the Company's incentive arrangements are held in trust on behalf of the beneficiaries.

Restrictions on voting deadlines

The notice of any general meeting of the Company shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote at a general meeting. It is the Company's policy at present to take all resolutions at a general meeting on a poll and the results of the poll are published on the Company's website after the meeting.

Significant direct and indirect holdings of securities

As at 31 December 2011 and 27 April 2012, the Company had been notified of the following voting rights attached to the Company's shares in accordance with the Disclosure and Transparency Rules:

Major shareholder	31 December 2011		27 April 2012	
	Number of shares held	% of total voting rights	Number of shares held	% of total voting rights
SPQR Capital Holdings SA	67,248,448	29.12	67,248,448	29.12
Lloyds Banking Group plc	27,931,043	12.09	27,931,043	12.09
J Benaim	18,787,886	8.12	18,787,886	8.12
P Salik	11,290,000	4.89	16,937,164	7.33
European Bank for Reconstruction and Development Ltd	11,632,866	5.03	11,632,866	5.03
M Meeus	7,500,000	3.25	11,500,000	4.98

An update will be given in the Notice of the Annual General Meeting.

Directors' indemnities and insurance

The Company continues to maintain Director's and Officer's Liability Insurance. The Company has not entered into any indemnities directly with individual Directors.

Appointment and replacement of Directors

The Company may, by ordinary resolution, appoint any individual to the Board. The Board may appoint any individual willing to act as a director either to fill a vacancy or act as an additional director. The appointee can only hold office until the next Annual General Meeting whereupon they will be put forward for reappointment.

The Company's Articles of Association prescribe that there should be no less than three Directors and no more than 15.

Amendment of the Company's Articles of Association

The Company's Articles of Association can only be amended by a special resolution at a general meeting of shareholders.

Payments to creditors

It is the Group's policy to make payments to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions. Creditor days for the Group for the year ended 31 December 2011 were an average of 62 days (2010: 58 days). The Company creditor days at 31 December 2011 were 53 days (2010: 43 days).

Charitable and political donations

The Group has made charitable donations of \$153,882 (2010: \$38,983) during the year principally to charities serving the local communities in which the Group operates in Ukraine. No payments were made to political parties.

Post Balance sheet event

Refer to note 33 to the Consolidated Financial Statements for post balance sheet events.

Auditor

Deloitte LLP have indicated that they are willing to continue in office. Their reappointment, at a remuneration to be agreed by the Directors, will be proposed at the Annual General Meeting.

Powers of Directors

The Directors are responsible for the management of the business and may exercise all powers of the Company subject to UK legislation, any directions given by special resolution and the Memorandum and Articles of Association.

Other Statutory Information **continued**

Change of control - significant agreements

The Company has no significant agreements which contain provisions which allow a counterparty to alter and amend the terms of the agreement following a change of control of the Company.

Should a change in control occur then certain senior staff are entitled to a payment of salary and benefits for a period of six months.

Certain of the Company's long-term incentive arrangements contain provisions which permit awards or options to vest or become exercisable on a change of control in accordance with the rules of the plans.

This Directors' Report comprising pages 4 to 26 has been approved by the Board and signed on its behalf by:

Stefan Bort

Company Secretary
27 April 2012

Registered Office:
One Fleet Place, London, EC4M 7WS
Company registered in England and Wales - No 5718406

Remuneration Committee Report

Although the Remuneration Committee has met twice during the year, due to the restructuring of the Board some decisions that would normally have been made by the Committee have been made by the full Board but without the individual Director being present. Accordingly the Committee do not believe that it is appropriate for it to make a full report for 2011. During a year of significant change to Board membership, the Company has continued with a policy of ensuring that executive Director remuneration is at an appropriate level for the size of the Company, but taking into account the complexity of the operations in the emerging market of Ukraine.

The Remuneration Committee was reconstituted on 18 November 2011 and now consists of Mr E Testa a non-executive Director and Chairman of the Committee, Mr G Lehmann, non-executive Director and Mr Z Furst, Chairman of the Board. PricewaterhouseCoopers LLP continued to act as Remuneration Committee adviser throughout the year.

The Remuneration Committee unanimously recommends that shareholders vote to approve the Directors' Remuneration Report at the 2012 Annual General Meeting.

Enrico Testa

Chairman of the Remuneration Committee

Directors' Remuneration Report

This report has been prepared in accordance with the UK Corporate Governance Code (the 'Code'), Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Listing Authority Listing Rules and will be submitted to the shareholders for their approval at the Annual General Meeting of the Company. In preparing this report, the Board has followed the provisions of Schedule A of the Code.

Information not subject to audit:

Composition and terms of reference of the Remuneration Committee

The Remuneration Committee (the 'Committee') is appointed by the Board, on the recommendation of the Nomination Committee, from the non-executive Directors of the Company.

The Committee is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. In its work, the Committee considers fully the principles and provisions of the Code. The terms of reference of the Committee (which will be reviewed annually) are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office.

Responsibilities

In summary, the Committee's responsibilities, as set out in its terms of reference, are as follows:

- > To set remuneration policy for executive directors, the Company Secretary and other members of the executive management as appropriate.
- > To approve the design, award levels, performance measures and targets for any annual or long-term incentives and approve any payments made and awards vesting under such schemes.
- > To determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards.
- > To ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company.

Governance

The Committee at the end of 2011 comprised the following non-executive directors: Messrs Enrico Testa and Gilbert Lehmann who are independent non-executive Directors in accordance with provision B.1.1 of the Code. Mr Zev Furst, Company Chairman who has been independent since appointment, is also a member of the Committee. All three Committee members were appointed on 18 November 2011. Mr A Cole who was Chairman of the Committee resigned as a director on 16 June 2011, and Messrs Dayer and Hooke resigned on 1 August 2011.

The Committee met twice during the year. Attendance at meetings is shown on page 17.

PricewaterhouseCoopers LLP acted as the Committee's remuneration adviser throughout the year. PricewaterhouseCoopers LLP provide independent advice to the Committee on remuneration issues in accordance with the Committee's terms of reference. They do not provide any other advice to the Company on remuneration. The Committee also received legal advice from SNR Denton, who also provides other legal services to the Company.

At the discretion of the Committee, the Chief Executive Officer can be invited to attend meetings when appropriate, but is not present when his own remuneration is being discussed. The Committee is also supported by the Company Secretary.

The Chairman of the Remuneration Committee will be available at the Annual General Meeting to answer any questions regarding the Company's remuneration policy and about the work of the Committee.

Remuneration policy and package for executive directors

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

- > remuneration arrangements should align executive and employee interests with those of shareholders;
- > remuneration arrangements should help retain key executives and employees; and
- > remuneration arrangements should incentivise executives to achieve short, medium and long-term business targets which represent value creation for shareholders. Exceptional rewards should only be delivered if there are exceptional returns.

Arrangements for existing directors

During 2011 a number of remuneration arrangements were put in place to reflect the change in management throughout the year.

In February 2011 the Company agreed terms with Mr I Baron, who has previously acted as interim Chief Executive Officer, to make the arrangement permanent. Mr Baron's permanent contract was entered into on 24 March 2011, coming into effect on 1 April 2011, and provided for a basic salary of £220,000 (\$352,968) per annum with a bonus opportunity of 100 per cent for achieving pre-determined targets based on the Group's forecast production and revenue targets, its budgeted costs for the year, the achievement of no lost time incidents for any employees and contractors and specific personal targets. No bonus award has been made for 2011. Any bonus award made for 2012 under this arrangement will be reported, against the original targets set, in the Remuneration Report for that year.

Mr Baron was granted an option over 1,600,000 shares at an exercise price of 35 pence on 3 February 2011 (the 'Option'). The Option shall vest (but not become exercisable) if and when the share price of an Ordinary share in the Company achieves a mid-market closing price of not less than 50 pence over a continuous period of 10 trading days during the period from the Grant Date of the Option and ending on 3 February 2014. Trading days means the days on which the London Stock Exchange is open for business. The Option shall become exercisable, but only to the extent vested, on the 3 February 2014. The Option will remain exercisable until 3 February 2021.

The Company has now agreed with Mr Baron that he will continue to act as Business Development Director and will undertake that role on a part-time consultancy basis. Mr Baron's fee will be £120,000 (\$192,528) per annum and contractual arrangements are being finalised.

On 1 August 2011 Mr Bertrand des Pallieres took over as Chief Executive Officer. The Board agreed that the basic salary should be £242,000 (\$388,264) per annum, with a bonus opportunity of 100 per cent of salary for achieving pre-determined targets based on the Group's forecast production and revenue targets, its budgeted costs for the year, the achievement of no lost time incidents for any employees and contractors and specific personal targets. No bonus award has been made for 2011. Any bonus award made for 2012 under this arrangement will be reported, against the original targets set, in the Remuneration Report for that year. The package has been benchmarked by PricewaterhouseCoopers LLP. An award under either the Executive Share Option Plan or Performance Share Plan will be made to Mr des Pallieres after the announcement of results in April 2012.

The Remuneration Committee has agreed that in recognition of the work undertaken by Mr des Pallieres during the first half of 2011, whilst he was acting as an unpaid non-executive Director, that he receive a payment of £67,250 (\$107,896).

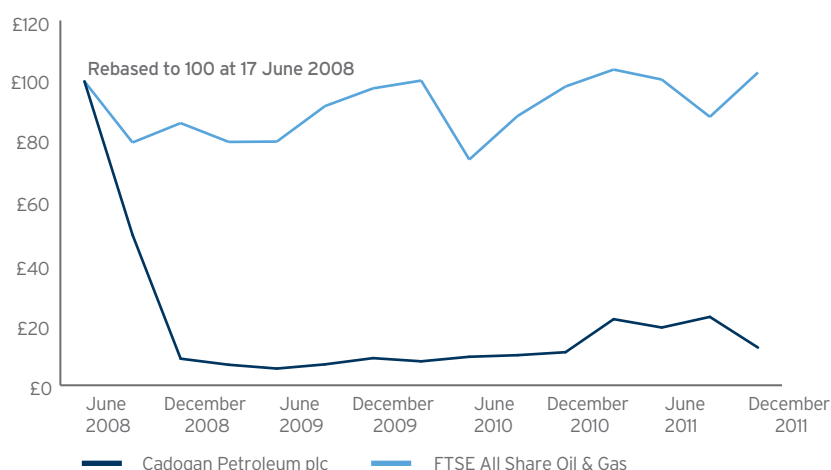
Adelmo Schenato joined the Company as Chief Operating Officer on 25 January 2012. His basic salary was agreed as £185,000 (\$296,814) per annum, with a bonus opportunity of 80 per cent of salary for achieving pre-determined targets based on the Group's forecast production and revenue targets, its budgeted costs for the year, the achievement of no lost time incidents for any employees and contractors and specific personal targets. Any bonus award made for 2012 under this arrangement will be reported, against the original targets set, in the Remuneration Report for that year. The package has been benchmarked by PricewaterhouseCoopers LLP. An award under either the Executive Share Option Plan or Performance Share Plan will be made to Mr Schenato after the announcement of results in April 2012.

Arrangements for past Directors

Mr GB Stein left the Company on 21 October 2011. In accordance with his contract he was paid £90,000 (\$144,396) as a payment in lieu of notice. No bonus award was made in 2011.

Performance graph

The graph below highlights the Company's total shareholder return ('TSR') performance since listing compared to the FTSE All Share Oil & Gas Producers index. This index has been selected on the basis that it represents a sector specific group which is an appropriate group for the Company to compare itself against. TSR is the return from a share or index based on share price movements and notional reinvestment of declared dividends.



Pension

Mr Baron is entitled to a payment of 10 per cent of his base salary into a suitable pension arrangement as long as he can demonstrate that he has made a contribution equating to 5 per cent of salary to the arrangement. A payment relating to the accrued value from February 2011 to February 2012 was made in March 2012.

Directors' Remuneration Report *continued*

Service agreements

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

Director	Current agreement start date	Unexpired term	Notice period
I Baron	1 April 2011	Six months	Six months

Contracts for B des Pallieres and A Schenato contracts are being finalised but will have a six month notice period.

Non-executive directors

Independent non-executive directors

The payment policy for independent non-executive directors is to pay the market rate to secure persons of a suitable calibre. The remuneration of the non-executive directors is determined by the Board. External benchmarking data and specialist advisers are used when setting fees, which will be reviewed at appropriate intervals.

The Company's policy at IPO was to pay a basic fee of £40,000 (\$64,176) a year to all non-executive directors. Additional fees of £5,000 (\$8,022) were payable for chairmanship of a Board Committee and for being a Senior Independent Director. From 1 April 2010 the non-executive directors agreed to reduce their basic fee to £25,000 (\$40,110) with no chairmanship fee to reflect the difficulties that the Group then faced. The Chairman's fee was reduced from £120,000 (\$192,528) a year to £40,000 (\$64,176) a year.

Following a review in May 2011 it was agreed by the Board that the Chairman's fee be increased to £85,000 (\$136,374) and that the fee for acting as an independent non-executive director be set at £35,000 (\$56,154) with an additional £10,000 (\$16,044) for acting as Chairman of the Audit Committee.

The non-executive directors' fees are non-pensionable. The non-executive Directors are not eligible to participate in any incentive plans. All non-executive directors have a letter of appointment that appoints them to the Board for an initial three year period. They are subject to retirement and reappointment by shareholders at the first Annual General Meeting following appointment, and then at least once every three years thereafter. Appointments can be terminated immediately by the Company by three months' notice or immediately due to a breach.

Other non-executive Directors

During 2010 at the request of its largest shareholder, SPQR Capital Holdings SA, Messrs Benedetti and des Pallieres were appointed as non-executive directors. They were not independent as defined by the Code. Mr Benedetti has waived the right to a fee and does not have a letter of appointment. His expenses associated with the business of the Group are met by the Group. Mr des Pallieres became an executive director during 2011.

The dates of the non-executive Directors' original appointment and expiry of current term in accordance with their letters of appointment are:

Non-executive Director	Date of appointment	Expiry of current term
Z Furst	2 August 2011	1 August 2014
E Testa	1 October 2011	1 October 2014
G Lehmann	18 November 2011	18 November 2014
A Benedetti	26 August 2010	Not applicable

Mr des Pallieres is a non-executive Director of Versatile Systems Inc., Equus Total Returns inc, and Orco Property Group. Mr I Baron, is a non-executive director of Petro Vista Energy Corporation and Stream Oil and Gas Ltd. Any fees paid are retained by the individual.

**Information subject to audit:
2011 Directors' emoluments**

Director	\$ Salary/fees	\$ Pension	\$ Loss of office	\$ Total	\$ 2010
Z Furst (appointed 2 August 2011)	56,823	-	-	56,823	-
B des Pallieres	273,201	-	-	273,201	-
I Baron	395,984	-	-	395,984	547,071
A Benedetti	-	-	-	-	-
G Lehmann (appointed 18 November 2011)	8,902	-	-	8,902	-
E Testa (appointed 1 October 2011)	13,778	-	-	13,778	-
GB Stein (left 21 October 2011)	272,347	43,319	144,396	460,062	46,389
SP Duffy (resigned 16 June 2011)	29,702	-	-	29,702	94,712
PJ Dayer (resigned 1 August 2011)	78,832	-	-	78,832	50,255
AJ Cole (resigned 16 June 2011)	18,564	-	-	18,564	44,456
NJ Hooke (resigned 1 August 2011)	39,657	-	-	39,657	44,456
NC Corby (resigned 30 June 2010)	-	-	-	-	304,272
JC Donaldson (resigned 30 June 2010)	-	-	-	-	27,739
TOTAL	1,187,790	43,319	144,396	1,375,505	1,159,350

(1) The remuneration of the highest paid Director, Mr Stein, was \$460,062 (2010: Mr Baron \$547,071).

There were no performance payments or benefits in kind paid in 2011 (2010: \$nil).

Share Incentive Arrangements

The Company currently operates the following incentive plans:

- > 2008 Performance Share Plan.
- > 2008 Share Option Plan with a corresponding HMRC approved plan.

The Company made two awards in 2011 under the 2008 Share Option Plan.

2008 Performance Share Plan ('PSP')

The PSP offers the opportunity to earn shares in the Company subject to the achievement of stretching performance targets. Awards can be made under the PSP at the direction of the Remuneration Committee with a value of up to a maximum of 200 per cent of base salary (400 per cent in exceptional circumstances).

No Directors who held office during the year have received any awards under the PSP.

Share options

The Company operates two share option plans: the 2008 Share Option Plan (unapproved for HMRC purposes) and the 2008 Approved Option Plan ('CSOP') (which is an HMRC approved plan). On 3 February 2011 the Company made an option grant under the 2008 Share Option plan to Mr I Baron and one other senior manager at a price of 35 pence a share, the mid-market closing price for the trading day prior to the date of grant. The Option shall vest (but not become exercisable) if and when the share price of an ordinary share in the Company achieves a mid-market closing price of not less than 50 pence over a continuous period of 10 trading days during the period from the Grant Date of the Option and ending on 3 February 2014. Trading days means the days on which the London Stock Exchange is open for business. The Option shall become exercisable, but only to the extent vested, on the 3 February 2014. The award made to Mr I Baron was 1,600,000 options over Ordinary shares of 3 pence.

No options have been exercised under any Option Scheme and thus no gain on exercise has been realised.

Options outstanding at 31 December 2011 are 1,942,857 (refer to note 27 to the Consolidated Financial Statements).

The market price of Ordinary shares subject to the above options as at 31 December 2011 was 24.88 pence. During the year the shares traded in the range 20.75 pence to 53.12 pence (prices at mid-market close).

This Directors' Remuneration Report comprising pages 28 to 31 has been approved by the Board and signed on its behalf by:

Stefan Bort

Company Secretary
27 April 2012

Independent Auditor's Report to Members of Cadogan Petroleum plc

We have audited the financial statements of Cadogan Petroleum plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 45. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- > the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- > the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 4(b) to the consolidated financial statements which describes a fundamental uncertainty over recoverability of an amount of \$30 million included within current other receivables in respect of two gas plants being sold by Global Process Systems LLC. The payments per the Settlement are overdue. The directors have explained that they have security over the plants and that on the basis of the desktop studies of the plants commissioned by the Board in 2011 and 2010, they expect the value to be recovered in full. However, given the difficulties experienced to date in collecting the amounts due and the inherent uncertainty in estimating the value of the plants, and the market to sell the plants, this has been disclosed as a key judgement and uncertainty.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- > the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- > the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- > adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

Although not required to do so, the directors have voluntarily chosen to make a Corporate Governance Statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed:

- > the directors' statement contained within note 3(c) to the Consolidated Financial Statements in relation to going concern;
- > the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- > certain elements of the report to shareholders by the Board on directors' remuneration.

Graham Hollis ACA

(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
27 April 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 \$'000	2010 \$'000
CONTINUING OPERATIONS			
Revenue	5	6,981	5,027
Cost of sales		(6,264)	(4,148)
Gross profit		717	879
Administrative expenses:			
Other administrative expenses		(11,634)	(12,983)
(Impairment)/reversal of impairment of other assets	8	(2,818)	941
		(14,452)	(12,042)
Gain on disposal of subsidiaries	29	164,945	-
Other gains and (losses)	29	(3,299)	-
Other operating income	6	4,552	11,790
Operating profit		152,463	627
Investment revenue	12	155	201
Finance costs	13	(11)	(6)
Profit before tax		152,607	822
Tax	14	473	496
Profit for the year	9	153,080	1,318
Attributable to:			
Owners of the Company		151,549	1,318
Non-controlling interest		1,531	-
		153,080	1,318
Profit/(loss) per Ordinary share			
		cent	cent
Basic and diluted	15	65.6	0.6

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 \$'000	2010 \$'000
Profit for the year	153,080	1,318
Unrealised currency translation differences	(2,067)	(3,323)
Total comprehensive profit/(loss) for the year	151,013	(2,005)
Attributable to:		
Owners of the Company	149,482	(2,005)
Non-controlling interest	1,531	-
	151,013	(2,005)

Consolidated Balance Sheet

As at 31 December 2011

	Notes	2011 \$'000	2010 \$'000	2009 \$'000
ASSETS				
Non-current assets				
Intangible exploration and evaluation assets	16	65,972	6,163	-
Property, plant and equipment	17	99,373	53,923	50,984
Other non-current receivables	21	-	-	30,000
Other financial assets	21	-	664	717
		165,345	60,750	81,701
Current assets				
Inventories	20	6,556	3,985	8,795
Trade and other receivables	21	66,251	38,659	8,585
Other financial assets	21	-	372	-
Cash and cash equivalents	21	65,039	36,419	48,588
		137,846	79,435	65,968
Total assets		303,191	140,185	147,669
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	22	(11,538)	(982)	(1,550)
Long-term provisions	24	(548)	(453)	(280)
		(12,086)	(1,435)	(1,830)
Current liabilities				
Short-term borrowings		-	(372)	-
Trade and other payables	23	(7,552)	(6,767)	(11,527)
Current tax liabilities		-	-	(25)
Current provisions	24	(524)	(441)	(1,112)
		(8,076)	(7,580)	(12,664)
Total liabilities		(20,162)	(9,015)	(14,494)
NET ASSETS		283,029	131,170	133,175
EQUITY				
Share capital	25	13,337	13,337	13,337
Retained earnings	26	389,734	237,963	229,292
Cumulative translation reserves		(123,784)	(121,717)	(118,394)
Other reserves		3,344	2,720	10,073
Equity attributable to owners of the Company		282,631	132,303	134,308
Non-controlling interest		398	(1,133)	(1,133)
TOTAL EQUITY		283,029	131,170	133,175

The consolidated financial statements of Cadogan Petroleum plc, registered in England and Wales no. 5718406, were approved by the Board of Directors and authorised for issue on 27 April 2012. They were signed on its behalf by:

Bertrand Des Pallieres

Chief Executive Officer
27 April 2012

The notes on pages 39 to 65 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 \$'000	2010 \$'000
Net cash (outflow)/inflow from operating activities	28	(7,885)	34
Investing activities			
Disposal of subsidiaries (note 29)		57,954	-
Purchases of property, plant and equipment		(4,402)	(5,888)
Purchases of intangible exploration and evaluation assets		(16,893)	(6,182)
Proceeds from sale of property, plant and equipment		87	629
Interest received		155	201
Net cash from/(used in) investing activities		36,901	(11,240)
Financing activities			
Proceeds from short-term borrowings		(371)	371
Net cash (used in)/from financing activities		(371)	371
Net increase/(decrease) in cash and cash equivalents		28,645	(10,835)
Effect of foreign exchange rate changes		(25)	(1,334)
Cash and cash equivalents at beginning of year		36,419	48,588
Cash and cash equivalents at end of year		65,039	36,419

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital \$'000	Retained earnings \$'000	Cumulative translation reserves \$'000	Other reserves		Non-controlling interest \$'000	Total \$'000
				Share-based payment \$'000	Reorganisation \$'000		
As at 1 January 2010	13,337	229,292	(118,394)	8,484	1,589	(1,133)	133,175
Share-based payments (note 27)	-	7,353	-	(7,353)	-	-	-
Net income for the year	-	1,318	-	-	-	-	1,318
Exchange translation differences on foreign operations	-	-	(3,323)	-	-	-	(3,323)
As at 1 January 2011	13,337	237,963	(121,717)	1,131	1,589	(1,133)	131,170
Share-based payments (note 27)	-	222	-	624	-	-	846
Net income for the year	-	151,549	-	-	-	1,531	153,080
Exchange translation differences on foreign operations	-	-	(2,067)	-	-	-	(2,067)
As at 31 December 2011	13,337	389,734	(123,784)	1,755	1,589	398	283,029

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 One Fleet Place, London, EC4M 7WS. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 6 to 9 and the Financial Review on pages 10 and 11.

These financial statements are presented in US dollars. The directors decided to change the Group's presentation currency from sterling to US dollars with effect from 1 January 2011 (refer to note 3(b)). These are the first financial statements and the accompanying notes to be reported in US dollars. Foreign operations are included in accordance with the policies set out in note 3.

2. Adoption of new and revised Standards

In the current year, the following new and revised Standards and Interpretations are effective but have not had any significant impact on the financial statements:

IFRS 3 (amended)	<i>Business Combinations</i>
IAS 24 (amended)	<i>Related Party Disclosures</i>
IAS 32 (amended)	<i>Classification of Rights Issues</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
IFRIC 14 (amended)	<i>Prepayments of a Minimum Funding Requirement</i>

At the date of authorisation of the financial statements, the following Standards and Interpretations which have not been applied in the financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 1 (amended)	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
IFRS 7 (amended)	<i>Disclosures - Transfers of Financial Assets and offsetting of Financial Assets and Financial Liabilities</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 (amended)	<i>Presentation of Items of Other Comprehensive Income</i>
IAS 12 (amended)	<i>Deferred Tax: Recovery of Underlying Assets</i>
IAS 19 (revised)	<i>Employee Benefits</i>
IAS 27 (revised)	<i>Separate Financial Statements</i>
IAS 28 (revised)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- > IFRS 9 will impact both the measurement and disclosures of financial instruments;
- > IFRS 10 may impact the amounts reported in the consolidated financial statements as it provides a single basis for consolidation with a new definition of control;
- > IFRS 11 may result in changes in the accounting of the Group's jointly-controlled entities that are currently accounted for using proportionate consolidation. Under IFRS 11, a joint arrangement is classified as either a joint operation or a joint venture, and the option to proportionately consolidate joint ventures has been removed. Interests in joint ventures must be equity accounted;
- > IFRS 12 will impact the disclosure of interests Cadogan Petroleum plc has in other entities such as subsidiaries, joint arrangements, associates and/or unconsolidated structured entities;
- > IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures; and
- > IAS 1 (amendment) requires to be grouped in other comprehensive income based on whether those items are subsequently reclassified to profit or loss.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

3. Significant accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU'), and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost convention basis, except for share-based payments and other financial assets and liabilities, which have been measured at fair values, and using accounting policies consistent with IFRS.

The principal accounting policies adopted are set out below:

(b) Transition to US dollar reporting

The directors decided to change the Group's presentation currency from sterling to US dollars with effect from 1 January 2011. These are the first financial statements and the accompanying notes to be reported in US dollars.

The majority of the Group's earnings and costs are linked to US dollars or US dollar linked currencies. The investing activity of the Company is being conducted in US dollars and the majority of the Group's funds are currently denominated in US dollars. The change of presentation currency from sterling to US dollar will more closely align the Group's external reporting with international oil and gas industry, thus improving investors' ability to compare financial data.

The change of the Group's presentation currency has been accounted for in accordance with IAS 21 '*The Effects of Changes in Foreign Exchange Rates*'. The change in the presentation currency from sterling to US dollars has been applied retrospectively in accordance with IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*' and therefore requires comparative information to be restated and consequently, a third balance sheet is required to be presented in the financial statements.

The following methodology was used to re-present the 2010 and 2009 financial information, originally reported in pounds sterling, into US dollars:

- a) assets and liabilities were translated into US dollars at the closing rate prevailing at the balance sheet dates;
- b) income and expenses were translated into US dollars at the average exchange rate for the relevant period; and
- c) equity items were translated at historical exchange rates from 1 January 2006, the date for which the financial statements were first prepared under IFRS, all resulting exchange rate differences have been recognised in other comprehensive income, within the foreign currency translation reserve.

The relevant exchange rates used were as follows:

	Year ended 31 Dec 2010 1US\$ = £	Year ended 31 Dec 2009 1US\$ = £
Closing rate	0.6465	0.6278
Average rate	0.6467	0.6386

(c) 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 on pages 4 to 15. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 10 and 11.

The Group's cash balance at 31 December 2011 was \$65.0 million (2010: \$36.4 million, 2009: \$48.6 million) with no external debt (2010: \$0.4 million, 2009: \$nil) and the directors believe that the funds available at the date of the issue of these financial statements is sufficient for the Group to manage its business risks successfully.

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 there are reasonable expectations that the Group will be able to operate on funds currently held and those generated internally, for the foreseeable future, without taking into account receivables from litigation and without the requirement to seek external financing.

As the Group engages in oil and gas exploration and development activities, the most significant risk faced by the Group is delays encountered in achieving commercial production from the Group's major fields. The Group also continues to pursue its farm-out campaign, which, if successful, will enable it to farm-out a portion of its interests in its oil and gas licences to spread the risks associated with further exploration and development.

After making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and consider the going concern basis of accounting to be appropriate. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3. Significant accounting policies continued

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities are disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

(e) Business combinations

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

(f) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled venture the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

3. Significant accounting policies *continued*

(g) Investments in jointly-controlled entities

A jointly-controlled entity is an entity in which the Group holds a long-term interest and shares joint control over the operating and financial decisions with one or more other venturers under a contractual arrangement. Jointly-controlled entities are accounted for using proportionate consolidation, which combines the Group's share of the results of the jointly-controlled entity on a line-by-line basis with similar items in the Group's financial statements.

When a Group entity transacts with its jointly-controlled entity, profits and losses resulting from the transactions with the jointly-controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly-controlled entity that are not related to the Group.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for hydrocarbon products and services provided in the normal course of business, net of discounts, value added tax ('VAT') and other sales-related taxes.

Sales of hydrocarbons are recognised when the title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

To the extent that revenue arises from test production during an evaluation programme, an amount is charged from evaluation costs to cost of sales, so as to reflect a zero net margin.

(i) 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 pounds sterling. 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.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency of each Group company ('foreign currencies') are recorded in the functional currency at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into the functional currency at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the results and financial position of each entity of the Group are translated into US dollars as follows:

- i. assets and liabilities of the Group's foreign operations are translated at the closing rate on the balance sheet date;
- ii. income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of the transactions are used; and
- iii. all resulting exchange differences arising, if any, are recognised in other comprehensive income and accumulated equity (attributed to non-controlling interests as appropriate), transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(j) Taxation

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

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

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

3. Significant accounting policies continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(k) Property, plant and equipment and other intangible assets

Property, plant and equipment ('PP&E') and other intangible assets are carried at cost less accumulated depreciation and any recognised impairment loss.

Depreciation and amortisation is charged so as to write off the cost or valuation of assets, other than land, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	4 per cent
Fixtures and equipment	10 per cent to 30 per cent

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

(l) Impairment of tangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Intangible exploration and evaluation assets

The Group applies the full cost method of accounting for intangible exploration and evaluation ('E&E') expenditure as set out in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Under the full cost method of accounting, expenditure made on exploring for and evaluating oil and gas properties is accumulated and initially capitalised as an intangible asset, by reference to appropriate cost centres being the appropriate oil or gas property. E&E assets are then assessed for impairment on a cost pool basis as described below.

E&E assets comprise costs of (i) E&E activities which are in progress at the balance sheet date, but where the existence of commercial Reserves has yet to be determined (ii) E&E expenditure which, whilst representing part of the E&E activities associated with adding to the commercial Reserves of an established cost pool, did not result in the discovery of commercial Reserves.

Costs incurred prior to having obtained the legal rights to explore an area are expensed directly to the income statement as incurred.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

3. Significant accounting policies *continued*

Exploration and Evaluation costs

E&E expenditure is initially capitalised as an E&E asset. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are also capitalised as intangible E&E assets.

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment) are normally classified as PP&E. However, to the extent that such assets are consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of PP&E items utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

E&E assets are not amortised prior to the conclusion of appraisal activities.

Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each exploration property are carried forward, until the existence (or otherwise) of commercial Reserves has been determined. If commercial Reserves have been discovered, the related E&E assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant E&E assets is then reclassified to the development and production assets within PP&E.

Intangible E&E assets that relate to E&E activities that are determined not to have resulted in the discovery of commercial Reserves remain capitalised as intangible E&E assets at cost less accumulated amortisation, subject to meeting a pool-wide impairment test in accordance with the accounting policy for impairment of E&E assets set out below. Such E&E assets are amortised on a unit-of-production basis over the life of the commercial Reserves of the pool to which they relate.

Impairment of E&E assets

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such indicators include, but are not limited to, those situations outlined in paragraph 20 of IFRS 6 *Exploration for and Evaluation of Mineral Resources* and include the point at which a determination is made as to whether or not commercial Reserves exist.

Where there are indications of impairment, the E&E assets concerned are tested for impairment. Where the E&E assets concerned fall within the scope of an established full cost pool, they are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit.

The aggregate carrying value of the relevant assets is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial Reserves from that pool. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial Reserves and the E&E assets concerned will generally be impaired in full.

Impairment losses are recognised in the income statement as additional depreciation and amortisation and are separately disclosed.

The Group considers the whole of Ukraine to be one cost pool and therefore aggregates all Ukrainian assets for the purposes of determining whether impairment of E&E assets has occurred.

(n) Development and production assets

Development and production assets are accumulated on a field-by-field basis and represent the cost of developing the commercial Reserves discovered and bringing them into production, together with E&E expenditures incurred in finding commercial Reserves transferred from intangible E&E assets.

The cost of development and production assets comprises the cost of acquisitions and purchases of such assets, directly attributable overheads, finance costs capitalised, and the cost of recognising provisions for future restoration and decommissioning.

Depreciation of producing assets

Depreciation is calculated on the net book values of producing assets on a field-by-field basis using the unit of production method. The unit of production method refers to the ratio of production in the reporting year as a proportion of the proved and probable Reserves of the relevant field, taking into account future development expenditures necessary to bring those Reserves into production.

Producing assets are generally grouped with other assets that are dedicated to serving the same Reserves for depreciation purposes, but are depreciated separately from producing assets that serve other Reserves.

Impairment of development and production assets

Development and production assets are assessed for impairment whenever events and circumstances arising during both the development and production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

3. Significant accounting policies continued

The carrying value of the asset is compared with its expected recoverable amount of the asset, by reference to the present value of the future cash flows expected to be derived from production of commercial Reserves from it. The cash-generating unit applied for impairment test purpose is normally the field or group of fields if the cash flow of the relevant fields is interdependent.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is allocated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(p) Financial instruments

Recognition of financial assets and financial liabilities

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

Derecognition of financial assets and financial liabilities

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

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expired.

Financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date which will then be classified as non-current assets. Loans and receivables are classified as 'other receivables' and 'cash and cash equivalents' in the balance sheet.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on-demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash with three months or less remaining to maturity and are subject to an insignificant risk of changes in value.

Financial assets at FVTPL

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss which is included in the 'Other gains and losses' line item in the consolidated income statement. Fair value is determined in the manner described in note 29.

Impairment of financial assets

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

Evidence of impairment could include:

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

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

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

3. Significant accounting policies *continued*

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss and is included in the 'Other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 29.

Trade payables and short-term borrowings

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

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(r) Decommissioning

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

(s) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

(t) Share-based payments

The Group has applied IFRS 2 Share-based Payments for all grants of equity instruments.

The Group issues equity-settled share-based payments to certain parties in return for services or goods. The goods or services received and the corresponding increase in equity are measured directly at the fair value of the goods or services received at the grant date. The fair value of the services or goods received is recognised as an expense except in so far as they relate to the cost of issuing or acquiring its own equity instruments. The costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

The Group also issues equity-settled share-based payments to certain Directors and employees. Equity settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date for each tranche of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions.

The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

For those equity settled share-based payments with market-based performance conditions, fair value is measured by use of the Stochastic model. For those which are not subject to any market based performance conditions, fair value is measured by use of the Black-Scholes model. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

The following are the critical judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

(a) Disposal of subsidiaries and acquisition of jointly-controlled entities – Eni transaction

As described in note 3(d), to calculate the gain on disposal on the loss of control of the subsidiaries sold to Eni (details of the transaction in note 29), it was necessary to determine the fair value of the consideration received and the fair value of any retained interest. In addition, the fair value of the investment retained in the former subsidiary at the date when control was lost has been regarded as the costs on initial recognition of the jointly controlled entities.

Fair value of the consideration received

The consideration received has been measured at the aggregate of the fair values (at the date of exchange) of the assets received and liabilities incurred or assumed, including any asset or liability resulting from a contingent consideration arrangement. All subsequent changes in the fair value of contingent consideration classified as an asset or liability have been accounted for in accordance with relevant IFRSs.

The determination of the fair value of the contingent consideration and liability arising from the option granted to Eni to acquire a further 30 per cent of the share capital of Pokrovskoe Petroleum BV (the 'Pok Option') requires the directors to use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners have been applied. The Group has applied the Black-Scholes Model to value the Pok Option (recognised as a financial liability at FVTPL). As a result, the Group has made assumptions for the expected volatility and the share price of Pokrovskoe Petroleum BV.

The fair value of the consideration received at the date of exchange, including the fair values of the contingent consideration and the Pok Option liability, together with the key assumptions used therein, are shown in note 29.

Fair value of any retained interest

IFRSs require that the value of the Group's retained interests in the joint controlled entities be recognised at the fair value of the assets and liabilities as at the date of acquisition. In accordance with normal industry practice, identifiable assets and liabilities have been ascribed fair values, and the balance of the fair value of the consideration has been allocated to the fair value attributable to the oil and gas properties held by the jointly controlled entities and the related hydrocarbon reserves. The actual value that will be realised, if any, from them is inherently uncertain and reflects a wide range of factors (including, but not limited to, geological and geophysical factors, future costs and commodity prices, the duration of the licence and its terms and the availability of the financial and other resources needed to progress exploration and development activities). Further details of the carrying amount of assets and liabilities acquired with the jointly controlled entities are provided in note 29.

(b) Other receivable recognised in relation to settlement with Global Process Systems LLC ('GPS')

An amount of \$30.0 million has been recognised in current other receivables as at 31 December 2011, representing receivables from a settlement agreement reached with GPS (2010: \$33.0 million; 2009: \$30 million as non-current other receivable and \$6.5 million as current other receivable, see note 21).

During October 2009, a settlement was reached with GPS resolving previous disputes which existed between the Group and GPS concerning the manufacture and delivery of two gas treatment plants for a total purchase price of \$54.5 million.

The key commercial terms of the settlement provided for GPS exclusively to market the two gas plants for a 10 month period and, if a sale was achieved, for the Group to receive in stage payments an aggregate cash consideration of \$38.5 million. If the plants were not sold within this period, then GPS agreed to take the plants to stock and the Group would receive stage payments for an aggregate cash consideration of \$37.5 million.

The settlement also provided for the release by GPS of a potential \$10.9 million contractual claim against the Group for the unpaid balance of the consideration for the plants. The amounts of \$43.5 million paid to GPS in respect of the gas plants had previously been recognised as prepayments, as title to the gas plants was to pass on delivery. As a result of the settlement, these prepayments were then reclassified as receivables included within other receivables at 31 December 2009. An impairment charge of \$6.0 million was provided in the year ended to 31 December 2009 to reduce the carrying value of the original prepayments to their fair value, being the expected proceeds from the settlement.

GPS were not able to sell the plants within the stipulated period, and so the stage payments terms apply. During the years to 31 December 2009, 2010 and 2011, \$1.0 million, \$3.5 million, and \$3.0 million were received from GPS respectively.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

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

The first payment of \$10.0 million of the remaining \$30.0 million was due to be paid to the Group on 14 February 2011 but was not received. A cure period subsequently expired on 18 April 2011 and on 19 July 2011 the Group rescinded the exclusive right of sale of GPS and as such are able to market the gas plants themselves.

In support of the carrying value of the amounts receivable under the settlement agreement with GPS the Board commissioned a desktop study of the plants by an independent third party in April 2011, which included an estimate of value subject to certain assumptions and caveats. In March 2012, the Board commissioned a different independent third party to provide a report estimating cost to build equivalent gas plants at today's prices. Having taken the foregoing into account, the Board considers that the plants are likely to be worth close to the \$30.0 million receivable that remains outstanding under the agreement.

The Group retains legal title to the plants until the final payment has been received from GPS, with whom negotiations continue. As such, the Group maintains insurance cover for the gas plants against fire, accidental damage, and theft to the full value of the \$30.0 million receivable at the date of this report.

The Directors consider that the amount of \$30.0 million due from GPS under the settlement agreement as at 31 December 2011 is likely to be fully recovered, as supported by the value of the plants as described above and claim against GPS, therefore no impairment charge has been recognised in the year then ended. However, given the difficulties experienced to date in collecting the amounts due from GPS, and inherent uncertainty involved in estimating the value of the plants and the market to sell the plants, this is judgemental.

(c) Impairment of E&E and PP&E

At 31 December 2011 the Group reviewed the carrying amounts of its PP&E and E&E assets to determine whether there is any indication that those assets have suffered an impairment loss. No indicators of non-recoverability of the carrying amounts of the above mentioned assets existed at the balance sheet date.

(d) Reserves

Commercial Reserves are proven and probable ('2P') oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable Reserves will be more than the amount estimated as proven and probable Reserves and a 50 per cent statistical probability that it will be less.

Commercial Reserves used in the calculation of depreciation and for impairment test purposes are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. Management base their estimate of oil and gas Reserves and Resources upon the Report provided by independent advisers.

Although as at 31 December 2009 no 2P reserves were identified at Zagoryanska, in August 2010 commercially recoverable gas was identified in that field.

(e) Recoverability of VAT

The Group has significant receivables from the State Budget of Ukraine relating to reimbursement of VAT arising on purchases of goods and services from external service and product providers. Although \$2.8 million of Ukrainian VAT was recovered in the year to 31 December 2010, largely through a bond scheme initiated by the Government of Ukraine, the directors consider that this scheme was one-off in nature. Management anticipates no significant cash settlements of receivables from the State Budget.

The Group therefore recognises recoverable VAT only to the extent that it is probable that VAT payable arising on the sales of gas production will be sufficient to offset the VAT due from the State within a reasonable period. Estimating the recoverability of VAT requires management to make an estimate of the future revenues in order to calculate amounts and timing of the VAT payable available for offset. The Group will continue to use an approach consistent with prior years by impairing Ukrainian VAT and recognising the recovery in the period it has been made. A provision of \$18.2 million (2010: \$18.9 million, 2009: \$22.3 million) against Ukrainian VAT receivable has thus been recognised as at 31 December 2011.

5. Revenue

	2011 \$'000	2010 \$'000
Sale of hydrocarbons	6,981	5,027
Investment revenue (note 12)	155	201
	7,136	5,228

Information about major customers

Included in revenues for the year ended 31 December 2011 are revenues of \$5.0 million (2010 - \$2.6 million) which arose from sales to the Group's largest customers, which are the only two customers that individually account for more than 10 per cent of the Group's revenues.

6. Other operating income

	2011 \$'000	2010 \$'000
Out of court settlements	2,144	9,283
Net foreign exchange gains	2,408	2,507
	4,552	11,790

Out of court settlements in 2011 represent \$2.1 million (2010: \$4.5 million received during the year from Smith Eurasia a former supplier to the Group and \$4.8 million from the Group's former executives).

7. Business and geographical segments

The directors continue to consider there to be only one business segment, the exploration and development of oil and gas revenues and only one geographical segment, being Ukraine.

8. (Impairment)/reversal of impairment of other assets

	2011 \$'000	2010 \$'000s
Inventories (note 20)	344	(1,360)
VAT recoverable (note 4(e))	(3,162)	2,301
(Impairment)/reversal of impairment of other assets	(2,818)	941

The carrying value of inventory as at 31 December 2011 and 2010 has been impaired to reduce it to net realisable value (see note 20).

During the year a net impairment of \$3.2 million (2010: \$2.3 million reversal of impairment) in respect of Ukrainian VAT was provided which comprised of VAT impairment on new program capital expenditure and VAT recovery of historical balances through offset of VAT liabilities arising on sales.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

9. Profit for the year

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

	2011 \$'000	2010 \$'000
Depreciation of property, plant and equipment	(2,411)	(1,882)
Loss on disposal of property, plant and equipment	(13)	(160)
(Impairment)/reversal of impairment (note 8)	(2,818)	941
Staff costs	(4,587)	(4,622)
Net foreign exchange gains	2,408	2,507

In addition to the depreciation of PP&E of \$2.4 million (2010: \$1.9 million) in the year ended 31 December 2011, depreciation of \$0.7 million (2010: \$0.8 million) was capitalised to E&E assets being depreciation of tangible assets used in E&E activities.

10. Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2011 \$'000	2010 \$'000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	186	170
Fees payable to the Company's auditor and their associates for other services to the Group: The audit of the Company's subsidiaries	32	31
Total audit fees	218	201
Non-audit fees		
- Audit-related assurance services	53	23
- Taxation compliance services	72	34
- Other taxation advisory services	197	87
- Remuneration services	-	3
Non-audit fees	322	147

Within audit related assurance services fees of \$53,000; \$37,000 relate to services provided to the jointly-controlled entities for which the Group's share is \$20,350.

11. Staff costs

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

	2011 Number	2010 Number
Executive Directors	2	2
Other employees	128	121
	130	123
Total number of employees at 31 December	148	117
	\$'000	\$'000
Their aggregate remuneration comprised:		
Wages and salaries	3,196	3,933
Loss of office	144	-
Other pension costs	123	28
Social security costs	749	470
Share-based payments	846	-
	5,058	4,431

Within wages and salaries \$0.9 million (2010: \$0.8 million) relates to amounts paid and accrued to executive Directors for services rendered.

Included within wages and salaries, is \$0.4 million (2010: \$0.2 million) capitalised to intangible E&E assets and \$0.4 million (2010: \$0.2 million) capitalised to development and production assets.

12. Investment revenue

	2011 \$'000	2010 \$'000
Interest on bank deposits	155	201

No additional investment revenue earned from loan and receivables (including cash and bank balances) has been recognised other than interest on bank deposits.

13. Finance costs

	2011 \$'000	2010 \$'000
Unwinding of discount on decommissioning provision (note 24)	11	6

No additional gains or losses have been recognised on financial liabilities measured at amortised cost.

14. Tax

	2011 \$'000	2010 \$'000
Current tax	132	74
Deferred tax (note 22)	(605)	(570)
	(473)	(496)

The Group's operations are conducted primarily outside the UK. The most appropriate tax rate for the Group is therefore considered to be 23 per cent (2010: 25 per cent), the rate of profit tax in Ukraine which is the primary source of revenue for the Group. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The taxation credit for the year can be reconciled to the profit per the income statement as follows:

	2011 \$'000	2011 %	2010 \$'000	2010 %
Profit before tax				
Continuing operations	152,607	100	822	100
Tax credit at Ukraine corporation tax rate of 23% (2010: 25%)	35,100	23.0	205	25
Permanent differences	(34,987)	(22.9)	2,867	349
Foreign exchange on operating activities	(387)	(0.3)	(462)	(56)
Tax losses generated in the year not yet recognised	128	0.2	1,639	200
Other temporary differences	(566)	(0.4)	(2,364)	(288)
Utilisation of deferred tax asset not previously recognised on losses	136	0.1	(2,463)	(300)
Effect of different tax rates	103	0.1	(54)	(6)
Prior year adjustment	-	-	136	17
Tax credit and effective tax rate for the year	(473)	(0.3)	(496)	(58)

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

15. Profit per Ordinary share

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

	2011 \$'000	2010 \$'000
Profit attributable to owners of the Company		
Profit for the purposes of basic profit per share being net profit attributable to owners of the Company	151,549	1,318
	2011 Number '000	2010 Number '000
Number of shares		
Weighted average number of Ordinary shares for the purposes of basic profit per share	231,092	231,092
Effect of dilutive potential Ordinary shares:		
Options and warrants outstanding	95	
Weighted average number of Ordinary shares for the purposes of diluted profit per share	231,187	231,092
	2011 cent	2010 cent
Profit per Ordinary share		
Basic	65.6	0.6
Diluted	65.6	0.6

16. Intangible exploration and evaluation assets

Cost	\$'000
At 1 January 2010	88,558
Additions	6,799
Change in estimate of decommissioning assets (note 24)	(82)
Transfer to property, plant and equipment (note 17)	(32,517)
Exchange differences	530
At 1 January 2011	63,288
Additions	17,387
Acquisition of jointly-controlled entities (note 29)	49,181
Disposal of subsidiaries (note 29)	(33,955)
Change in estimate of decommissioning assets (note 24)	301
Disposals	(9)
Exchange differences	(280)
At 31 December 2011	95,913
Impairment	
At 1 January 2010	88,558
Transfer to property, plant and equipment (note 17)	(31,963)
Exchange differences	530
At 1 January 2011	57,125
Disposal of subsidiaries (note 29)	(26,984)
Exchange differences	(258)
At 31 December 2011	29,941
Carrying amount	
At 31 December 2011	65,972
At 31 December 2010	6,163
At 31 December 2009	-

Additions during the year include \$0.5 million (2010: \$0.6 million, 2009: \$2.6 million) of capitalised depreciation of development and production assets used in exploration and evaluation activities.

17. Property, plant and equipment

Cost	Other \$'000	Development and production assets \$'000	Total \$'000
At 1 January 2010	4,079	63,150	67,229
Additions	204	6,900	7,104
Transfer from intangible exploration and evaluation (note 16)	-	554	554
Transfer between property, plant and equipment	(36)	36	-
Change in estimate of decommissioning assets (note 24)	-	(400)	(400)
Disposals	(731)	(3,170)	(3,901)
Exchange differences	8	365	373
At 1 January 2011	3,524	67,435	70,959
Additions	465	4,645	5,110
Acquisition of jointly-controlled entities (note 29)	72	49,522	49,594
Disposal of subsidiaries (note 29)	(421)	(7,248)	(7,669)
Transfer between property, plant and equipment	(1)	1	-
Change in estimate of decommissioning assets (note 24)	-	107	107
Disposals	(439)	(811)	(1,250)
Exchange differences	(19)	(331)	(350)
At 31 December 2011	3,181	113,320	116,501
Accumulated depreciation and impairment			
At 1 January 2010	1,585	14,660	16,245
Charge for the year	653	2,046	2,699
Disposals	(436)	(1,662)	(2,098)
Exchange differences	-	190	190
At 1 January 2011	1,802	15,234	17,036
Disposal of subsidiaries (note 29)	(313)	(1,955)	(2,268)
Charge for the year	583	2,513	3,096
Disposals	(365)	(279)	(644)
Exchange differences	(13)	(79)	(92)
At 31 December 2011	1,694	15,434	17,128
Carrying amount			
At 31 December 2011	1,487	97,886	99,373
At 31 December 2010	1,722	52,201	53,923
At 31 December 2009	2,494	48,490	50,984

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

18. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2011, which principally affected the profits and net assets of the Group:

Name	Country of incorporation and operation	Proportion of voting interest %	Activity
<i>Directly held</i>			
Cadogan Petroleum Holdings Ltd	UK	100	Holding company
Ramet Holdings Ltd	Cyprus	100	Holding company
<i>Indirectly held</i>			
Rentoul Ltd	Isle of Man	100	Holding company
LLC AstroInvest - Ukraine	Ukraine	100	Exploration
LLC Astro Gas	Ukraine	100	Exploration
USENCO International Inc.	USA	100	Holding company
DP USENCO Ukraine	Ukraine	100	Exploration
USENCO Nadra	Ukraine	95	Exploration
Cadogan Momentum Holdings Inc	Canada	100	Holding company
Momentum Enterprise (Europe) Ltd	Cyprus	100	Holding company
LLC JV Delta	Ukraine	100	Exploration
Radley Investments Ltd	UK	100	Holding company
LLC Astro-Energy	Ukraine	100	Holding company
OJSC AgroNaftoGasTechService	Ukraine	79.9	Construction services
LLC Cadogan Ukraine	Ukraine	100	Corporate services
Cadogan Petroleum Holdings BV	Netherlands	100	Holding company
Cadogan Bitlyanske BV	Netherlands	100	Holding company
Cadogan Delta BV	Netherlands	100	Holding company
Cadogan Astro Energy BV	Netherlands	100	Holding company
Cadogan Pirkovskoe BV	Netherlands	100	Holding company

During the year ended 31 December 2011, the Group structure was continued to be rationalised both so as to reduce the number of legal entities inside Ukraine and also to replace the structure of multiple jurisdictions with one based on a series of sub-holding companies incorporated in the Netherlands for each licence area.

As part of this process, LLC Mercor, ('Mercor') a company which had investments in a suspended well in the Zagoryanska licence area, but which had in fact been dormant for several years, was liquidated on 6 September 2011.

As part of the same process, Colby Petroleum Ltd and Stickle Ltd were liquidated on 11 May 2011 and 12 April 2011 respectively. Momentum Energy International Inc and Momentum Enterprises Inc were merged to form Cadogan Momentum Holdings Inc. The restructuring of the Group continues into 2012.

19. Jointly controlled entities

The Group obtained the following interests in jointly controlled entities, as a result of disposal of subsidiaries (refer to note 29) in 2011:

Name	Country of incorporation and operation	Ownership share %	Activity
LLC Industrial Company Gazvydobuvannya	Ukraine	70	Exploration
LLC Astroinvest-Energy	Ukraine	40	Exploration
Pokrovskoe Petroleum BV	Netherlands	70	Holding company
Zagoryanska Petroleum BV	Netherlands	40	Holding company

According to the shareholders' agreements, which regulate activities of jointly controlled entities, all key decisions require unanimous approval from the shareholders, therefore these entities are jointly controlled.

19. Jointly controlled entities continued

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation as at 31 December 2011 (2010: \$nil):

	2011 \$'000
Intangible exploration and evaluation assets	63,788
Property, plant and equipment	54,206
Non-current assets	117,994
Inventories	2,795
Trade and other receivables	3,612
Cash and cash equivalents	745
Current assets	7,152
Deferred tax liabilities	(11,543)
Long-term provisions	(155)
Non-current liabilities	(11,698)
Trade and other payables	(3,958)
Current provisions	(388)
Current liabilities	(4,346)
Net assets	109,102

	2011 \$'000
For the period from 6 July to 31 December	
Revenue	1,591
Cost of sales	(1,245)
Other administrative expenses	(691)
Impairment of other assets	(3,250)
Investment revenue	15
Finance costs	(2)
Loss for the period	(3,582)
Other comprehensive income loss	(402)
	(3,984)

20. Inventories

	2011 \$'000	2010 \$'000	2009 \$'000
Cost	8,476	6,093	19,286
Impairment provision	(1,920)	(2,108)	(10,491)
Carrying amount	6,556	3,985	8,795

The impairment provision as at 31 December 2011, 2010 and 2009 is made so as to reduce the carrying value of the inventories to net realisable value.

21. Other financial assets**Other non-current receivables**

	2011 \$'000	2010 \$'000	2009 \$'000
Other receivables	-	-	30,000
	-	-	30,000

Trade and other receivables

	2011 \$'000	2010 \$'000	2009 \$'000
Other receivables	61,816	38,085	7,446
VAT recoverable	127	139	535
Prepayments	4,308	435	604
	66,251	38,659	8,585

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

Out of \$61.8 million of other receivables \$30.0 million as at 31 December 2011 (2010: \$33.0 million, 2009: \$30 million and \$6.5 million) represent receivables from a settlement agreement with GPS (note 4(b)), \$29.1 million (2010: \$nil, 2009: \$nil) represents deferred and contingent consideration for the disposal of two of Group's subsidiaries to Eni (note 29).

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

21. Other financial assets *continued*

VAT recoverable of \$0.1 million (2010: \$0.1 million, 2009: \$0.5 million) relates to the UK VAT recoverable.

\$4.3 million prepayments (2010: \$0.4 million, 2009: \$0.6 million) mostly relate to prepayments made to drilling contractors in Ukraine and long lead materials for the drilling and work over campaign.

The directors consider that the carrying amount of the remaining other receivables approximates their fair value and none of which are past due except for the amounts due from GPS (see note 4(b)).

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2011 of \$65.0 million (2010: \$36.4 million, 2009: \$48.6 million) comprise cash held by the Group and the Company. The directors consider that the carrying amount of these assets approximates to their fair value.

Other financial assets

In 2011, the Group received \$0.7 million held in escrow by the Group's lawyers in Cyprus to support a bank guarantee provided to the Cypriot court in relation to obtaining a freezing order in Cyprus associated with the litigation case. In addition a short-term deposit of \$0.4 million which related to the collateral for short-term borrowings was also released in 2011.

22. Deferred tax

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

	Temporary differences \$'000
Liability as at 1 January 2010	1,550
Deferred tax expense	(570)
Exchange differences	2
Liability as at 1 January 2011	982
Acquisition of jointly-controlled entities (note 29)	11,153
Deferred tax expense	(605)
Exchange differences	8
Liability as at 31 December 2011	11,538

At 31 December 2011, temporary differences of \$6.0. million (2010: \$9.6 million, 2009: \$3.5 million) existed in respect of foreign exchange gains arising on net investments in foreign subsidiaries for which deferred tax liabilities have not been recognised. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2011, the Group had the following unused tax losses available for offset against future taxable profits:

	2011 \$'000	2010 \$'000	2009 \$'000
UK	5,557	2,483	7,505
USA	-	-	5,322
Ukraine	66,410	69,451	63,827
	71,967	71,934	76,654

Deferred tax assets have not been recognised in respect of these tax losses owing to the uncertainty that profits will be available in future periods against which they can be utilised.

The Group's unused tax losses of \$5.6 million (2010: \$2.5 million, 2009: \$7.5 million) relating to losses incurred in the UK are available to shelter future non-trading profits arising within Cadogan Petroleum plc. These losses are not subject to a time restriction on expiry.

Unused tax losses incurred by Ukraine subsidiaries amount to \$66.4 million (2010: \$69.5 million, 2009: \$63.8 million). Under general provisions, these losses may be carried forward indefinitely to be offset against any type of taxable income arising from the same company of origination. Tax losses may not be surrendered from one Ukraine subsidiary to another. However, in the past, Ukrainian legislation has been imposed which restricted the carry forward of tax losses. During 2011 a new tax legislation in Ukraine was implemented which resulted in certain ambiguity about the restriction to accumulated losses at 1 April 2011. Tax authorities were disallowing the accumulated tax losses as of 1 April 2011 which resulted in a significant number of disputes for the Ukrainian businesses. The Group has contested the tax authorities' view in respect of the accumulated losses using administrative procedures and court claims where applicable. Therefore out of \$66.4 million of accumulated tax losses in Ukraine \$58.6 million may potentially not be used.

There are further temporary differences arising on assets in Ukraine for which deferred tax assets of \$6.3 million (2010: \$15.2 million, 2009: \$19.1 million) have not been recognised due to the uncertainty of future recovery.

23. Other financial liabilities

Trade and other payables

	2011 \$'000	2010 \$'000	2009 \$'000
Trade creditors	3,877	4,044	6,426
Other taxes and social security	18	25	32
Other creditors and payables	258	350	362
Accruals	3,399	2,348	4,707
	7,552	6,767	11,527

Trade creditors and accruals principally comprise amounts outstanding for capital work programme purchases and ongoing costs. The average credit period taken for trade purchases is 62 days (2010: 58 days, 2009: 38 days). The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe.

The directors consider that the carrying amount of trade and other payables approximates to their fair value. No interest is generally charged on balances outstanding.

24. Provisions

	Decommissioning \$'000	Other \$'000	Total \$'000
At 1 January 2010	1,345	47	1,392
Change in estimate (note 16 and 17)	(482)	-	(482)
Utilisation of provision	-	(28)	(28)
Unwinding of discount on decommissioning provision (note 13)	6	-	6
Exchange differences	6	-	6
At 1 January 2011	875	19	894
Change in estimate (note 16 and 17)	408	-	408
Utilisation of provision	-	(19)	(19)
Unwinding of discount on decommissioning provision (note 13)	11	-	11
Disposal of subsidiaries (note 29)	(588)	-	(588)
Acquisition of jointly-controlled entities (note 29)	367	-	367
Exchange differences	(1)	-	(1)
At 31 December 2011	1,072	-	1,072
Included in long-term provisions	233	47	280
Included in current provisions	1,112	-	1,112
At 1 January 2010	1,345	47	1,392
Included in long-term provisions	434	19	453
Included in current provisions	441	-	441
At 1 January 2011	875	19	894
Included in long-term provisions	548	-	548
Included in current provisions	524	-	524
At 31 December 2011	1,072	-	1,072

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

A short-term provision of \$0.5 million (2010: \$0.4 million, 2009: \$1.1 million) has been made for decommissioning costs, which are expected to be incurred within the next year as a result of the demobilisation of drilling equipment and respective site restoration.

The long-term provision recognised in respect of decommissioning reflects management's estimate of the net present value of the Group's share of the expenditure expected to be incurred in this respect. This amount has been recognised as a provision at its net present value, using a discount rate that reflects the market assessment of time value of money at that date, and the unwinding of the discount on the provision has been charged to the income statement. These expenditures are expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the facilities currently in place (currently estimated to be between one and 17 years). The effect of discounting on provisions would be immaterial.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

25. Share capital

Authorised and issued equity share capital

	2011 Number		2010 Number		2009 Number	
	'000	\$'000	'000	\$'000	'000	\$'000
Authorised						
Ordinary shares of £0.03 each	1,000,000	57,713	1,000,000	57,713	1,000,000	57,713
Issued						
Ordinary shares of £0.03 each	231,092	13,337	231,092	13,337	231,092	13,337

Authorised but unissued share capital of £30 million has been translated into US dollars at the average exchange rate of the issued share capital.

The Company has one class of Ordinary shares which carry no right to fixed income.

Issued equity share capital

	Ordinary shares of £0.03 Number
At 31 December 2009, 2010 and 2011	231,091,734

26. Capital reduction

On 9 December 2009, the High Court approved the cancellation of the Company's share premium account \$491.2 million (£250.4 million) and on 28 December 2009 the approval was registered with Companies House. The cancellation of the share premium account was offset against the Group's accumulated deficit creating retained earnings of \$229.3 million (£93.6 million) as at 31 December 2009.

27. Share-based payments

Equity-settled share-based payments

Under the terms of an agreement dated 17 February 2006, which was subsequently updated on 20 September 2006 and 8 May 2007 the Company's then broker and financial adviser Fox-Davies Capital ('Fox-Davies') were granted 5.1 million warrant rights, to be exercisable at an average price of £0.82 and £1.23 and to be exercisable at any time within the five year period following completion of the placing. In 2011, \$0.2 million (2010: \$nil) previously recognised in other reserves in respect of equity-settled share-based payments (1.0 million warrant rights) that have expired during the year were transferred to retained earnings from other reserves.

Equity-settled share option scheme

The Company has two Share Option schemes, the 2007 and 2008 Share Option Plans, under which options to subscribe for the Company's shares have been granted to certain executive Directors and employees of the Group. Options are exercisable at various prices and vest on achieving certain performance criteria. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the executive Director or employee leaves the Group before the options vest. All 2007 share option plans have been restated to Ordinary shares of £0.03.

Details of the share options outstanding at the end of the year were as follows:

	2007 Share Option Plan		2008 Share Option Plan		Total	
	Number of share options '000	Weighted Average price £	Number of share options '000	Weighted average price £	Number of share options '000	Weighted average price £
Outstanding at 1 January 2010	5,713	0.82	-	-	5,713	0.82
Forfeited during the year	(5,713)	0.82	-	-	(5,713)	0.82
Outstanding at 1 January 2011	-	-	-	-	-	-
Granted during the year	-	-	1,943	0.35	1,943	0.35
Outstanding at 31 December 2011	-	-	1,943	0.35	1,943	0.35
Exercisable at						
1 January 2010	5,713	0.82	-	-	5,713	0.82
31 December 2010 and 2011	-	-	-	-	-	-

No share options were exercised or expired during the year (2010: nil). Options were granted under the 2007 Share Option Plan on 11 September 2007 and 19 February 2008, and under the 2008 Share Option Plan, on 9 October 2008 and 3 February 2011.

The options were split into three tranches with each tranche subject to performance conditions.

Only the below tranches were outstanding either as at 31 December 2009, 2010 and 2011.

27. Share-based payments continued

Under the 2007 Option plan, options vest upon grant date.

Under the 2008 Share Option Plan, granted in 2011, options vest (but do not become exercisable) if and when the share price of an ordinary share in the Company achieves a mid-market closing price of not less than 50 pence over a continuous period of 10 trading days during the period from the Grant Date of the Option and ending on 3 February 2014. Trading days means the days on which the London Stock Exchange is open for business. The Option shall become exercisable, but only to the extent vested, on 3 February 2014. Options outstanding at 31 December 2011 are 1,942,857 and have a weighted average exercise price of 35 pence a share, the mid-market closing price for the trading day prior to the date of grant.

The fair values of the options have been calculated using the following models:

- > 2007 Share Option - not subject to any market-based performance conditions, and therefore the Black-Scholes model has been used.
- > 2008 Share Option - market-based performance conditions must be included in the calculation of fair value and therefore the Stochastic and Binomial model has been considered the most appropriate.

The inputs into the models were as follows:

	2007 Share Option Plan	2008 Share Option Plan
	Black- Scholes	Binomial
Year of grant	2007	2011
Weighted average share price (£)	1.23	0.35
Weighted average exercise price (£)	0.82	0.35
Expected volatility (per cent)	55	70.0
Expected term (years)	2.5	10
Risk free rate (per cent)	4.99	3.88
Expected dividend yield (per cent)	-	-

As the Company has listed shares, the expected volatility was determined by considering the historical volatility of other similar entities. Similar entities have been chosen as the FTSE AIM Oil & Exploration constituents (with a market capitalisation of greater than £100 million) for the 2007 Share Option Plan and the FTSE All Share Oil & Exploration sector (with a market capitalisation between £40 million and £500 million) for the 2008 Share Option Plan at the grant date.

The exercise price was established in accordance with the terms included within the share option scheme.

The aggregate of the estimated fair values of the options granted under the two share option plans at 31 December 2011 is \$0.8 million (2010: \$nil), all related to 2008 Share Option. Due to certain employees and directors resigning from their duties to the Company in 2009, share options granted under Option Tranche 1 were forfeited in 2010.

The Group recognised \$0.8 million expense in 2011 related to equity-settled share-based payment transactions (2010: \$nil). In 2010, \$7.4 million previously recognised in other reserves in respect of the vested options that have expired during the year were transferred to retained earnings from other reserves. No such transfer occurred in 2011.

Equity-settled performance share plan

Following the IPO of the Company on 23 June 2008, the Company implemented an equity-settled performance share plan ('PSP') scheme for executive Directors and certain employees within the Group. Awards under the PSP are satisfied by the issue of new shares or from shares purchased in the market. The PSP offers an option that grants the right to acquire shares at no cost, subject to meeting performance and vesting criteria.

The PSP awards entitled the recipient to up to 150 per cent of their salary valued at the share price at the grant date. The awards vest three years after being issued subject to the Company achieving certain production and Reserves targets. The production performance criteria will be measured on the average barrels of oil equivalent per day for the period 1 July 2010 to 31 December 2010. PSP awards require service with the Company for three years.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

27. Share-based payments continued

Details for each tranche outstanding at the end of the year were as follows:

	Number of share awards '000
Outstanding at 1 January 2010	848
Forfeited during the year	(532)
Outstanding at 1 January 2011	316
Forfeited during the year	(316)
Outstanding at 31 December 2011	-

No PSP awards were exercised or expired during the (2010: nil) and no PSP awards are exercisable at 31 December 2011 (2010: nil).

There are no options outstanding at 31 December 2011.

The awards were not subject to any market-based performance conditions and therefore the Black-Scholes model was used. The inputs into the models were as follows:

	Black- Scholes
Weighted average share price (£)	0.87
Weighted average exercise price (£)	-
Expected volatility (per cent)	51.5
Expected term (years)	3
Risk free rate (per cent)	-
Expected dividend yield (per cent)	-

As the Company has listed shares, the expected volatility was determined by considering the historical volatility of other similar entities. Similar entities have been chosen as the FTSE All Share Oil & Exploration sector (with a market capitalisation between £40 million and £500 million) at the grant date.

The estimated fair value of the awards granted under the PSP is \$nil (2010: \$0.5 million).

The Group did not recognise any expense associated with these awards as the achievement of the performance conditions was not met (2010: \$nil).

28. Notes to the cash flow statement

	2011 \$'000	2010 \$'000
Operating profit	152,463	627
Adjustments for:		
Depreciation of property, plant and equipment	2,411	1,882
Share-based payment charge (note 27)	846	-
Gain on disposal of subsidiaries (note 29)	(164,945)	-
Other (gain) and losses (note 29)	3,299	-
(Reversal of impairment)/impairment of inventories	(344)	1,360
Impairment/(reversal of impairment) of VAT recoverable	3,162	(2,301)
Loss on disposal of property, plant and equipment	13	160
Effect of foreign exchange rate changes	(1,691)	(91)
Operating cash flows before movements in working capital	(4,786)	1,637
(Increase)/decrease in inventories	(2,563)	3,195
(Increase)/decrease in receivables	(3,027)	68
Increase/(decrease) in payables and provisions	1,589	(4,426)
Decrease/(increase) in restricted cash	1,035	(339)
Cash (used in)/from operations	(7,752)	135
Income taxes paid	(133)	(101)
Net cash (outflow)/inflow from operating activities	(7,885)	34

29. Disposal of subsidiaries and acquisition of jointly-controlled entities

On 6 July 2011 the Group completed the transaction with Eni, selling a 30 per cent interest in the share capital of Pokrovskoe Petroleum BV (the parent company of the holder of the Pokrovskoe licence), and a 60 per cent interest in the share capital of Zagoryanska Petroleum BV (the parent company of the holder of the Zagoryanska licence). Both licences relate to the Group's operations in eastern Ukraine.

The consideration received comprised a cash payment of \$38.1 million for its interest in Zagoryanska Petroleum BV and \$0.2 million as the working capital adjustment for both the Zagoryanska and Pokrovskoe licences. Eni is also committed to finance the Pokrovskoe appraisal work programme to an amount of up to \$36 million (including VAT).

Under the terms of the sale and purchase agreement and subject to successful results from the Pokrovskoe appraisal work programme, Eni also had the option under the agreement to acquire a further 30 per cent of Pokrovskoe Petroleum BV for an additional payment of \$40 million (the 'Pok Option'). Eni will also pay additional amounts of \$15 million and \$35 million (the 'Contingent Consideration') should the Group successfully acquire production licences on each of the Pokrovskoe and Zagoryanska fields respectively. The Pokrovskoe Contingent Consideration is only payable if the Pok Option is exercised.

As at 6 July 2011, the net assets of the subsidiaries disposed (Pokrovskoe Petroleum BV and Zagoryanska Petroleum BV), together with the net assets acquired on the jointly-controlled entities which are since being proportionately consolidated into the Group's financial statements, were as follows:

	Pok \$'000	Zag \$'000	Total \$'000	Net assets acquired by the Group \$'000
Intangible exploration and evaluation assets	6,970	-	6,970	49,181
Property, plant and equipment	1,177	4,223	5,400	49,594
Inventories	783	135	918	602
Trade and other receivables	3,463	530	3,993	2,636
Cash and cash equivalents	2,180	703	2,883	1,807
Deferred tax liabilities	(3)	-	(3)	(11,153)
Long-term provisions	(90)	(58)	(148)	(86)
Trade and other payables	(1,223)	(728)	(1,951)	(1,147)
Current provisions	(353)	(88)	(441)	(282)
	12,904	4,717	17,621	91,152
Gain on disposal	65,012	99,933	164,945	
Total consideration	28,624	62,790	91,414	
Fair value of residual interest	49,292	41,860	91,152	
Consideration satisfied by				
Cash and cash equivalents	-	38,115	38,115	
Deferred consideration received in cash in 2011	20,915	-	20,915	
Deferred consideration/(reimbursement) outstanding at the balance sheet date	4,410	(1,572)	2,838	
Fair value of the Pok Option	(4,200)	-	(4,200)	
Contingent consideration	7,499	26,247	33,746	
	28,624	62,790	91,414	
Net cash inflow arising on disposal				
Consideration received in cash and cash equivalents	20,915	38,115	59,030	
Less: net cash and cash equivalents disposed of	(654)	(422)	(1,076)	
	20,261	37,693	57,954	

The consideration received from the Eni has been measured at the aggregate of the cash received, the deferred consideration (of which \$20.9 million was received in cash during the second half of the year), the reimbursement payable to Eni in respect to part of Zagoryanska 3 well cost, which is to be transferred to the licence-holder at no cost to Eni, the Contingent Consideration and the fair value of the Pok Option.

The Contingent Consideration was calculated applying probability assumptions for the potential payment, which will be triggered upon successful acquisition of the production licences. A probability of 60 per cent and 90 per cent was applied to Pokrovskoe and Zagoryanska fields respectively based on management's assessment of the appraisal and exploration risks. The Contingent Consideration was discounted using a rate 10 per cent which is management's view that reflects the market assessment of time value of money and the expected timing of the payment.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

29. Disposal of subsidiaries and acquisition of jointly-controlled entities *continued*

A financial liability was recognised in relation to the issuance of the Pok Option to Eni. The fair value of the Pok Option was calculated, using the Black-Scholes model. The variables and assumptions used in computing the fair value of the Pok Option are based on the directors' best estimates. The value of an option varies with different variables of certain subjective assumptions. The inputs into the model were as follows:

	As at 6 July 2011
Pokrovskoe Petroleum BV's price (\$ million)	28.5
Exercise price (\$ million)	40.0
Expected volatility (%)	70
Expected term (years)	0.75
Risk free rate (%)	10
Expected dividend yield (%)	-

The share price was determined on the basis of the price paid by Eni for 30 per cent interest in Pokrovskoe licence, rounded to the nearest half million.

The exercise price and the expected term of the Pok Option are set out in the terms of the agreement. The expected volatility was determined on the basis of the Company's share price volatility and compared to the shares of comparable companies (companies in evaluation and exploration stage). The risk free rate was determined with reference to the yield on US bonds with duration similar to the expected contractual life of the Pok Option and country premium risk. The expected dividend yield is based on the planned dividend policy of Pokrovskoe Petroleum BV.

Changes in the fair value of other financial assets and liabilities

Financial liability Pok Option	4,200
Contingent Consideration	(7,499)
	(3,299)

The above changes in the fair value of the Pok Option and the Contingent Consideration have been presented in the Other gains and losses line in the Consolidated Income Statement for the year.

As of 31 December 2011, management consider that there was no indication of Eni's intention to exercise the Pok Option and in March 2012 Eni informed the Group that they will not exercise the Pok Option (refer to note 33). Therefore, management's estimate of the fair value of financial liability, evaluated at \$4.2 million at the date of acquisition, decreased to \$nil as at 31 December 2011. On the same basis, the fair value of the Contingent Consideration decreased from \$7.5 million to \$nil as at 31 December 2011, for which the exercise of the Pok Option was a prerequisite.

30. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while maximising the return to shareholders. The Group's overall strategy remains unchanged from 2010.

The capital resources of the Group consists of cash and cash equivalents arising from equity attributable to owners of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the Consolidated Financial Statements.

30. Financial instruments continued**Categories of financial instruments**

	2011 \$'000	2010 \$'000	2009 \$'000
Financial assets – loans and receivables (includes cash and cash equivalents)			
Cash and cash equivalents	65,039	36,419	48,588
Other financial assets (current and non-current)	-	1,036	717
Other receivables (current and non-current)	61,816	38,085	37,446
	126,855	75,540	86,751
Financial liabilities – measured at amortised cost			
Trade creditors	3,877	4,044	6,426
Short-term borrowing	-	372	-
Other creditors and payables	258	350	362
	4,135	4,766	6,788

Financial risk management objectives

Management provides services to the business, co-ordinates access to domestic and international financial markets and monitors and manages the financial risks relating to the operations of the Group in Ukraine through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include commodity price risks, foreign currency risk, credit risk, liquidity risk and cash flow interest rate risk.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

As the Group has no committed borrowings, the Group is not exposed to any significant risks associated with fluctuations in interest rates on loans. A five per cent fluctuation in interest rates applied to cash balances held at the balance sheet date would impact the Group by approximately \$3.3 million (2010: \$1.8 million, 2009: \$2.4 million) over a 12 month period.

The Audit Committee of the Board reviews and monitors risks faced by the Group through meetings held throughout the year.

Commodity price risk

The commodity price risk related to Ukrainian gas and condensate prices and, to a lesser extent, prices for crude oil are the Group's most significant market risk exposures. World prices for gas and crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments, including actions taken by the Organisation of Petroleum Exporting Countries.

These fluctuations may have a significant effect on the Group's revenues and operating profits going forward. The principal factor in the current Ukrainian gas price is bilateral negotiations with Gazprom to establish the price of gas imports from Russia. The price for Ukrainian gas is based on the current price of these gas imports from Russia, which are nonetheless influenced by world prices. Management continues to expect that the Group's principal market for gas will be the Ukrainian domestic market.

The Group does not hedge market risk resulting from fluctuations in gas, condensate and oil prices, and holds no financial instruments which are sensitive to commodity price risk.

Foreign exchange risk and foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group to date has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities			Assets		
	2011 \$'000	2010 \$'000	2009 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
US dollars ('USD')	106	97	780	116,533	60,746	38,568

Foreign currency sensitivity analysis

The Group is exposed primarily to movements in currencies against the US dollar as this is the presentational currency of the Group. In order to fund operations, US dollar funds are converted to UAH just before being contributed to the Ukrainian subsidiaries. Sensitivity analyses have been performed to indicate how the profit or loss would have been affected by changes in the exchange rate between the GBP and US dollar. The analysis is based on a weakening of the US dollar by 10 per cent against GBP, a functional currency in which the Group has significant assets and liabilities at the end of each respective period. A movement of 10 per cent reflects a reasonably possible sensitivity when compared to historical movements over a three to five year timeframe. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10 per cent change in foreign currency rates.

Notes to the Consolidated Financial Statements *continued*

For the year ended 31 December 2011

30. Financial instruments *continued*

A positive number below indicates a decrease in profit where US dollar strengthens ten per cent against the other currencies. For a 10 per cent weakening of the US dollar against the other currencies, there would be an equal and opposite impact on the profit, and the balances would be negative.

Inflation risk management

The following table details the Group's sensitivity to a 10 per cent decrease in the US dollar against the GBP.

	2011 \$'000	2010 \$'000
Income statement	(10,987)	(5,755)

Inflation in Ukraine and in the international market for oil and gas may affect the Group's cost for equipment and supplies. The directors expect that the Group's practices of keeping deposits in US dollar accounts until funds are needed and selling its production in the spot market, coupled with the linkage of the currency in Ukraine and to the US dollar, enable the Group to manage the risk of inflation.

Credit risk management

The credit risk on other receivables due from GPS is mostly mitigated as the Company maintains title of the assets throughout the settlement period (refer to note 4(b)).

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not have any significant credit risk exposure on trade receivables as the normal terms for sales of gas and condensate to the Group's customers require payment before delivery.

The Group makes allowances for impairment of receivables where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The credit risk on liquid funds (cash) is considered to be limited because the counterparties are financial institutions with high and good credit ratings, assigned by international credit-rating agencies in the UK and Ukraine respectively.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Liquidity risk management

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

The Group's financial liabilities are not significant and therefore no maturity analysis has been presented. All financial liabilities held by the Group are non-interest bearing.

31. Commitments and contingencies

Joint activity agreements

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

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

	2011 \$'000	2010 \$'000	2009 \$'000
Within one year	7,440	15,700	21,474
Between two and five years	44,469	69,500	52,473
	51,909	85,200	73,947

A greater level of capital expenditure could, however, be incurred in the above period to achieve the Group's corporate targets. \$3.7 million within one year capital commitments (2010: nil, 2009: nil) and \$7.4 million between two and five years capital commitments (2010: nil, 2009: nil) relate to joint ventures activities.

32. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 28 to 31.

	Purchase of services		Amounts owing		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Short-term employee benefits	852	1,410	476	45	298
Share-based payments	695	-	-	-	-
	1,547	1,410	476	45	288

The total remuneration of the highest paid director was \$0.5 million in the year (2010: \$0.6 million, 2009: \$0.8 million).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received and no provisions have been made for doubtful debts in respect of the amounts owed by related parties.

33. Events after the balance sheet date

Pokrovskoe update

On 9 March 2012 the Group has been advised by Eni that after analysis of the results for the Pokrovskoe 1 and Pokrovskoe 2a wells that Eni do not intend to exercise their option to acquire a further 30 per cent of the share capital of Pokrovskoe Petroleum BV. The option formed part of the transaction entered into with Eni in July 2011 (note 29).

As advised in the Company's announcement dated 16 February 2012 the logs acquired during the drilling programme indicated the presence of hydrocarbons in the lower part of the well. A decision had been taken to deepen the Pokrovskoe 2a well by approximately 350 metres. Whilst pulling out of the hole the running string became stuck and subsequent fishing operations with the limited equipment available in country did not allow the running tool to be recovered. Cadogan management will continue to evaluate the most effective option, amongst those available, to re-enter the well.

Company Balance Sheet

As at 31 December 2011

	Notes	2011 \$'000	2010 \$'000	2009 \$'000
ASSETS				
Non-current assets				
Investments	36	-	-	-
Receivables from subsidiaries	37	95,091	112,045	97,686
		95,091	112,045	97,686
Current assets				
Trade and other receivables	37	63	59	51
Cash and cash equivalents	37	30,856	15,865	36,215
		30,919	15,924	36,266
Total assets		126,010	127,969	133,952
LIABILITIES				
Current liabilities				
Trade and other payables	38	(666)	(677)	(777)
		(666)	(677)	(777)
Total liabilities		(666)	(677)	(777)
Net assets		125,344	127,292	133,175
EQUITY				
Share capital	39	13,337	13,337	13,337
Retained earnings		212,428	214,970	209,653
Cumulative translation reserves	40	(102,176)	(102,146)	(98,299)
Share-based payment reserve	41	1,755	1,131	8,484
Total equity		125,344	127,292	133,175

The financial statements of Cadogan Petroleum plc, registered in England and Wales no. 5718406, were approved by the Board of Directors and authorised for issue on 27 April 2012.

They were signed on its behalf by:

Bertrand Des Pallieres

Chief Executive Officer
27 April 2012

The notes on pages 69 to 71 form part of these financial statements.

Company Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 \$'000	2010 \$'000
Net cash outflow from operating activities	42	(1,965)	(2,199)
Investing activities			
Interest received		32	76
Loans to subsidiary companies		16,953	(17,175)
Net cash from/(used in) investing activities		16,985	(17,099)
Net increase/(decrease) in cash and cash equivalents		15,021	(19,298)
Effect of foreign exchange rate changes		(30)	1,052
Cash and cash equivalents at beginning of year		15,865	36,215
Cash and cash equivalents at end of year		30,856	15,865

Company Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital \$'000	Retained earnings \$'000	Cumulative translation reserves \$'000	Share-based payment reserve \$'000	Total \$'000
As at 1 January 2010	13,337	209,653	(98,299)	8,484	133,175
Share-based payment (note 41)	-	7,353	-	(7,353)	-
Net loss for the year	-	(2,036)	-	-	(2,036)
Exchange translation differences	-	-	(3,847)	-	(3,847)
As at 1 January 2011	13,337	214,970	(102,146)	1,131	127,292
Share-based payment (note 41)	-	222	-	624	846
Net loss for the year	-	(2,764)	-	-	(2,764)
Exchange translation differences	-	-	(30)	-	(30)
As at 31 December 2011	13,337	212,428	(102,176)	1,755	125,344

Notes to the Company Financial Statements

For the year ended 31 December 2011

34. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006 (the 'Act'). As permitted by the Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 3 to the Consolidated Financial Statements except as noted below.

As permitted by section 408 of the Act, the Company has elected not to present its profit and loss account for the year. Cadogan Petroleum plc reports a loss for the financial year ended 31 December 2011 of \$2.8 million (2010: \$2.0 million).

Investments

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

Critical accounting judgements and key sources of estimation uncertainty

The Company's financial statements, and in particular its investments in and receivables from subsidiaries, are affected by certain of the critical accounting judgements and key sources of estimation uncertainty described in note 4 to the Consolidated Financial Statements.

35. Auditor's remuneration

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

36. Investments

The Company's subsidiaries are disclosed in note 18 to the Consolidated Financial Statements. The investments in subsidiaries are all initially stated at cost. As a result of significant impairment losses provided by the Group in 2009 the carrying value of the Company's investments in Ukraine subsidiaries were re-assessed for recoverable value. No additional investments were made directly by the Company during 2010 and 2011.

37. Financial assets

Receivables from subsidiaries

At the balance sheet date gross amounts receivable from the fellow Group companies were \$349.1 million (2010: \$366.2 million, 2009: \$359.4 million). As a result of the impairment losses provided by the Group in 2009, the carrying value of the Company's receivables from Ukraine subsidiaries was assessed. At 31 December 2009, an impairment loss of \$261.7 million was provided reducing the carrying value of the receivables to \$97.7 million. No additional impairment was recognised in 2010 and 2011. The carrying value of the receivables from the fellow Group companies as at 31 December 2011 was \$95.1 million (2010: \$112.0 million; 2009: \$97.9 million). There are no past due receivables.

Trade and other receivables

	2011 \$'000	2010 \$'000	2009 \$'000
Other receivables	7	2	8
VAT recoverable	43	38	14
Prepayments	13	19	29
	63	59	51

The Company's principal financial assets are bank balances and cash and cash equivalents and receivables from related parties none of which are past due. The directors consider that the carrying amount of receivables from related parties approximates their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

38. Financial liabilities

Trade and other payables

	2011 \$'000	2010 \$'000	2009 \$'000
Trade creditors	299	302	174
Other creditors and payables	367	375	603
	666	677	777

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 53 days (2010: 43 days, 2009: 62 days).

The directors consider that the carrying amount of trade and other payables approximates to their fair value. No interest is charged on balances outstanding.

Notes to the Company

Financial Statements *continued*

For the year ended 31 December 2011

39. Share capital

The Company's share capital is disclosed in note 25 to the Consolidated Financial Statements.

40. Cumulative translation reserve

The functional currency of the Company is pounds sterling. The financial statements of the Company are expressed in US dollars, which is its presentation currency. Cumulative translation reserve represents the effect of translating into US dollars the results and financial position of the Company.

41. Share-based payments

The Company's share-based payments information is disclosed in note 27 to the Consolidated Financial Statements.

42. Notes to the cash flow statement

	2011 \$'000	2010 \$'000
Operating loss from continuing operations	(2,796)	(2,090)
Adjustments for:		
Share-based payments	846	-
Operating cash flows before movements in working capital	(1,950)	(2,090)
(Increase) in receivables	(4)	(9)
(Decrease) in payables	(11)	(77)
Cash used in operations	(1,965)	(2,176)
Income taxes paid	-	(23)
Net cash outflow from continuing operations	(1,965)	(2,199)

43. Financial instruments

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to shareholders. Refer to note 30 for the Group's overall strategy and financial risk management objectives.

The capital resources of the Group consists of cash and cash equivalents arising from equity, comprising issued capital, reserves and retained earnings.

Categories of financial instruments

	2011 \$'000	2010 \$'000	2009 \$'000
Financial assets - loans and receivables (includes cash and cash equivalents)			
Cash and cash equivalents	30,856	15,865	36,215
Amounts due from subsidiaries	95,091	112,045	97,686
	125,947	127,910	133,901
Financial liabilities - measured at amortised cost			
Trade creditors	(299)	(302)	(174)
Other creditors and payables	-	(45)	(550)
	(299)	(347)	(724)

Interest rate risk

All financial liabilities held by the Company are non-interest bearing. As the Company has no committed borrowings, the Company is not exposed to any significant risks associated with fluctuations in interest rates. A 5 per cent fluctuation in interest rates applied to cash balances held at the balance sheet date would impact the Company by approximately \$1.5 million (2010: \$0.8 million, 2009: \$1.8 million) over a 12 month period.

Credit risk

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

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

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

43. Financial instruments continued

Liquidity risk management

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

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

Foreign exchange risk and foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Company holds a large portion of its foreign currency denominated monetary assets and monetary liabilities in US dollars. More information on the foreign exchange risk and foreign currency risk management is disclosed in note 30 to the Consolidated Financial Statements.

44. Related parties

Amounts due from subsidiaries

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

	2011 \$'000	2010 \$'000	2009 \$'000
Cadogan Petroleum Holdings Limited	95,091	112,045	97,686
	95,091	112,045	97,686

Refer to note 37 for a discussion on the Company's receivables due from subsidiaries.

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 28 to 31.

	Purchase of services		Amounts owing		
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Short-term employee benefits	852	1,184	224	45	247
Share-based payments	695	-	-	-	-
	1,547	1,184	224	45	247

The total remuneration of the highest paid director was \$0.5 million in the year (2010: \$0.6 million, 2009: \$0.8 million).

45. Events after the balance sheet date

Events after the balance sheet date are disclosed in note 33 to the Consolidated Financial Statements.

Glossary

IPO	Initial public offering
IFRSs	International Financial Reporting Standards
JAA	Joint activity agreement
UAH	Ukrainian hryvnia
GBP	Great Britain pounds
\$	United States dollars
bbl	Barrel
boe	Barrel of oil equivalent
mmboe	Million barrels of oil equivalent
mboe	Thousand barrels of oil equivalent
mboepd	Thousand barrels of oil equivalent per day
boepd	Barrels of oil equivalent per day
bcf	Billion cubic feet
mmcm	Million cubic metres
mcm	Thousand cubic metres
Reserves	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves include proved, probable and possible reserve categories.
Proved Reserves	Those additional Reserves which analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from reservoirs and under defined economic conditions, operating methods and government regulations.
Probable Reserves	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved Resources but more certain to be recovered than possible Reserves.
Possible Reserves	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable Reserves.
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
Prospective Resources	Those quantities of petroleum which are estimated as of a given date to be potentially recoverable from undiscovered accumulations.
1P	Proved Reserves
2P	Proved plus probable Reserves
3P	Proved plus probable plus possible Reserves
Carboniferous	A geological period 295 million to 354 million years before present
Devonian	A geological period between 417 million and 354 million years before present
Visean	Geological period within the early to middle Carboniferous
Spud	To commence drilling, once the cement cellar and conductor pipe at the well-head have been constructed
TD	Target depth
Workover	The process of performing major maintenance or remedial treatment of an existing oil or gas well
LWD	Logging while drilling

Shareholder information

Enquiries relating to the following administrative matters should be addressed to the Company's registrars: Capita Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA.

Telephone number: +44 (0) 871 664 0300

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

You can access your shareholding details and a range of other services at the Capita website www.capitashareportal.com.

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

Boiler room scams

Over the last year, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority ('FSA') has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited advice:

- > make sure you get the correct name of the person and organisation;
- > check that they are properly authorised by the FSA before getting involved by visiting: www.fsa.gov.uk/register;
- > report the matter to the FSA either by calling +44 (0) 845 606 1234 or visiting: www.moneymadeclear.fsa.gov.uk; and
- > if the call persists, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at: www.fsa.gov.uk/pages/doing/regulated/law/alert/overseas.shtml.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website: www.moneymadeclear.fsa.gov.uk.

Unsolicited mail

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

Shareholder Information continued

Financial calendar 2012/2013

Interim Management Statement	May 2012
Annual General Meeting	June 2012
Half Yearly Report	August 2012
Interim Management Statement	November 2012
Results announcement for 2012	April 2013

Investor relations

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

CADOGAN

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