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# [***CADOGAN PETROLEUM PLC - Annual Financial Report***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5C3C-FRF1-DXKS-J16T-00000-00&context=1516831)

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**Body**

CADOGAN PETROLEUM PLC

ANNUAL FINANCIAL REPORT 2013

Key developments during 2013:

- In Pokrovskoe Field, new prospects have been identified in the

Permian formation and Upper Carboniferous

- Borynya 3 well re-entered and tested with promising results

- Significant, further reductions to the Company's cost base to

maintain financial strength pending results from operations

- Monastyretska production back up to previous levels and expected

to rise further

- $29.5 million received in full and final settlement of the GPS

litigation.

- Net cash and cash equivalents at year-end of $56.5 million

(2012: $40.5 million) excluding $0.2 million (2012: $0.7 million) of Cadogan's share

of cash and cash equivalents in joint ventures. Cash and cash equivalents at

28 April of $47.8 million excluding $1.4 million of Cadogan's share of cash and

cash equivalents in joint ventures and excluding $5.3 million of

yield-generating fixed income investments.

Group Overview

The Group's assets are located in two of the three proven hydrocarbon basins

in Ukraine, the Dniper-Donets basin and the Carpathian basin.

Zagoryanska field

The Zagoryanska licence covers an area of 49.6 square kilometres.

Five wells have been drilled to date in the field. Wells in the field

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.

On 6 July 2011 Eni S.p.A ("Eni"), the major Italian integrated

energy company acquired a 60% interest in the licence.

Following the mechanical failure in the Zag 3 production tubing a

work-over to open new intervals was completed but commercial production was

not achieved due to formation low permeability. A work-over activity on Zag 2

well started in November and is still continuing.

As at 31 December 2012 and 2013 the Group assessed the

recoverability of the carrying value of the development and production assets

related to the Zagoryanska licence. This has resulted in the impairment of the

mentioned assets to nil.

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. On 6 July 2011 Eni acquired a 30%

interest in the licence. The work obligations on the licence have been

fulfilled.

Following the 3D seismic interpretation, new prospects have been

identified in the Permian formation and Upper Carboniferous.

Pirkovskoe field

Pirkovskoe is adjacent to the Group's Zagoryanska licence. The

exploration and appraisal licence covers 71.6 square kilometres and holds

2.5 million barrels of ***oil*** equivalent (`mmboe') of Proved and Probable (`2P')

Reserves and 138.2 mmboe of 2C Contingent Resources. Cadogan owns the

Krasnozayarska gas treatment plant, on the Pirkovskoe licence area, which is

connected to the UkrTransGas system.

A work-over activity on Pirk 1 well started in October 2013 and is

still continuing. 3D seismic reinterpretation is ongoing.

Borynya and Bitlya 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 Bitlya, Borynya and Vovchenska areas. The

Bitlya and Borynya areas are approximately 9 kilometres apart and both fields

are close to the UkrTransGas pipeline at Turka, approximately 15 kilometres

away. The Borynya and Bitlyanska fields hold 219.2 mmboe

(100 per cent - 2012: 219.2 mmboe) and 117.3 mmboe (100 per cent - 2012: 117.3 mmboe)

of Contingent Resources respectively, while no Reserves and Resources have been attributed

to the depleted Vovchenska field.

Borynya 3 well was re-entered and tested in the Krasno 1 interval

with promising results. The decision was made to put the fracturing job on hold

due to lack of data from the previous drilling activity.

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) and one (Monastyretska) is in pilot commercial development.

Strategic Report

The Strategic Report has been prepared in accordance with Section

414A of the Companies Act 2006 (the "Act"). Its purpose is to inform members

of the Company and help them assess how the Directors have performed their

legal duty under Section 172 of the Act to promote the success of the Company.

Our consistent business model

We aim to increase value through:

- Our unique expertise and knowledge of both the Ukrainian market and best

Western practices;

- Having very disciplined investment process with capital used as underwriting

capital to farm-out;

- Focusing our stand-alone drilling or workover activities to lower risk

initiatives with limited capital commitment until we obtain success in

generating new or increased production; and

- Obtaining a high return on cash to achieve material impact on the

company's profitability or cash flow focusing on yield-generating fixed income

investments, within the company's or its management's areas of expertise.

Principal activity and status of the Company

The Company is registered as a public limited company (registration

number 05718406) in England and Wales. Its principal activity is ***oil*** and gas

exploration, development and production.

The Company's shares have a standard listing on the Official List

of the UK Listing Authority and are traded on the main market of the London

Stock Exchange.

Chairman's Statement

2013 saw the continuation of operations as planned on the Company's

assets in the East and the West of the Country while significant, further

reductions have been made to the Company's cost base to maintain its financial

strength pending results from operations. Revenue, largely reflecting

production from the Group's Cheremkhivska and Debeslavetska fields and

services provided to third parties was stable at the level $3.8 million. The

loss before tax was $14.4 million (2012: $92.4 million).

At 31 December 2013 the Group had cash and cash equivalents of $56.5 million.

Operations

As anticipated, the principal focus for 2013 was to reduce the risk

of present and anticipated operations while maximising the potential existing

production potential. With workover activity on Zag 2 having commenced in

November 2013, new prospects having been identified in Pokrovskoe following 3D

seismic interpretation and continuing workover activity on Pirk 1 since

October 2013 with so far promising indications, the de-risking targets set for

our technical operations and sub-surface explorations teams have largely been

met. Borynya 3 has thus far proved disappointing with lack of data from

previous drilling activities having hampered our current efforts. However, we

remain confident in its potential value and our assessment work continues.

Production has increased moderately in Debeslavetska while potential gas

production from Cheremkhivska appears promising at this stage. In

Monastyretska production is now back up to 25 bopd and expected to rise

further. The re-evaluation of the Groups' assets continues and we remain

positive in our outlook.

The Board

There were no changes to the Board during the year, reflecting a

year of internal stability as we continue to reshape the Group. The presence

of a high-quality, experienced Board able and available to steer the Group

through challenging and occasionally volatile periods should not be taken

lightly and I wish to thank all the Board members for their continuing efforts

on behalf of the Company.

The Company is committed to acting professionally, fairly and with

integrity in all of its dealings and relationships wherever it operates, and

to implementing and enforcing effective systems to counter bribery and

corruption in all its forms. The Board recently undertook an update to all our

policies, statements and programmes entitled, "Working with Integrity". All

policies have been disseminated to staff and are available to view on the

Company's website. Our adherence to the principles contained in these policy

documents remains unshakeable and I would urge shareholders to review these.

Recent Political Developments

At the outset of this Report, I wish to state the great personal

pride I have taken in the performance and dedication of our employees and

senior management based in Kiev and across the regions, during this very

difficult period for Ukraine and its people. It is people, not bricks and

mortar, which make a company. The continuing bravery, honesty and commitment

of our employees in such turbulent times do them and, by extension, the

Company, great credit.

The Company is an apolitical organisation that will always support

the democratic process in the countries in which it operates. As stated in our

"Working with Integrity" policy documents, we stand for the principles of

greater transparency and the highest standards of corporate governance. These

overriding principles form the framework for our relations and relationships

with all governmental and non-governmental institutions both within Ukraine

and elsewhere.

Ukraine is and always has been, a bridge between East and West,

with a rich and diverse cultural history. It is now nine years since our

activities in Ukraine first began and the country continues to fascinate all

of us at the Company, driving us to continue to make a success of our

operations and forge closer relationships in Ukraine.

Strategy and Prospects

Following any period of uncertainty comes the certainty of

opportunity, and recent events in Ukraine have provided many opportunities for

the Company. While the Board continues to develop further relationships and

opportunities overseas, our established presence in Ukraine, our skilled staff

both in Kiev and also in the east and west of the country and our adherence to

the highest standards of corporate governance, give us the opportunity to act

as a beacon for western industrials and industry standards. We believe that

the Company is uniquely placed to afford such companies an opportunity to

commence or expand their presence in Ukraine in a secure environment working

alongside people who know and understand the country, its people and its

culture.

We look forward to an exciting and successful 2014 for both the

Company and the people of Ukraine.

Annual General Meeting

I look forward to meeting shareholders at the Company's Annual General Meeting

to be held at 10.30am on Thursday 26 June 2014 at Chandos House, 2 Queen Anne

Street, London W1G 9LQ.

Zev Furst

Non-executive Chairman

28 April 2014

Chief Executive Officer's Report

2013 has been another challenging year for Cadogan. Results from

***oil*** and gas operations and activities have so far not, in general, met

expectations. However, while this and the political events of the last few

months have added an unhelpful layer of complexity to the execution of our

strategy, these circumstances should not overshadow other, tremendous

achievements. In particular our continued balance sheet recoveries have

increased Cadogan's financial strength despite the negative cash flow of our

core business. This positions us to take full advantage of the unprecedented

opportunities in the following quarters that we believe will follow the

current political upheavals, as Ukraine gets an increased focus and support

from the international community.

Core Operations

This year's purposely limited workover activity in the Zagoryanska,

Bitlyanska and Monastyretska licenses has not yet delivered the expected

results despite some success in Blazh-1. This has led management to implement

further cuts to our cost base at the end of 2013 and beginning of 2014 that

should materially reduce the G&A figures in 2014. Our continuous efforts in

seismic acquisition and interpretation across all our licenses have allowed

Cadogan to achieve a more systematic understanding of the potential of its

resources, as well as identifying promising new horizons. The Company's

strategy of focusing its stand-alone drilling or workover activities to lower

risk initiatives with limited capital commitment will be intensified, until it

obtains success in generating new or increased production. The main, low-cost

project currently underway is the targeting of shallow horizons across several

of our Western licenses and drilling of the first well in Deb is expected this

summer. For this upcoming well, as well as future shallow wells, Cadogan's

ability to use its own rig will keep capital expenditures moderate. The

activities requiring larger risk or capital commitment in comparison with the

company's current financial resources will for now remain conditional on

farm-out agreements.

The shale gas project with WGI has been progressing and the

planning on the first exploratory well is now at an advanced stage, although

we may anticipate some delay to drilling operations as a consequence of the

unstable political situation.

Non-Core Business

While the company progresses carefully and assesses its options in

its core business, we have put an increased emphasis on non-core activities as

a means to stabilise the company's cash flows. The management has worked hard

to strike a balance between shrinking our costs and maintaining our presence

in and commitment to, Ukraine while finding alternative ways to compensate for

low ***oil*** and gas sales from production. After only two years since its launch

and without the need for any meaningful investment, our service subsidiary,

Astro Service, has produced more than a third of our revenues in 2013 and

should continue its progression in 2014. The company also commenced at the end

of 2013 a physical gas trading activity that has produced limited revenues so

far but opened up new horizons that we hope will enable us to exploit

significant market distortions in the future. Finally, Cadogan is increasingly

proactive in prudent management of its cash balance, given its size in

comparison with its current revenues and P&L and the skill-set of several

senior executives within the Group. Conservative use of this cash will

maximize its utility and availability for a significant period as the company

continues to explore its strategic options in ***oil*** and gas. Obtaining a proper

return on this cash should therefore be an important objective with material

impact on the company's profitability or cash flow. Management believes that

the main focus of this activity should be on yield-generating fixed income

investments, within the company's or its management's areas of expertise.

It is the management's goal to achieve a recurrent positive cash

flow in 2014 regardless of success in the core E&P activity thanks to the

contribution of non-core service, trading and investment activities in

addition to cost reduction initiatives. Management expects to monetize further

balance sheet recoveries in 2014 to complement the cash generation from core

and non-core activities, principally relating to existing, complex tax claims

receivables.

Outlook

Ukraine has never been more relevant on the world geopolitical map

and Cadogan management continues to believe that it is ideally placed, thanks

to its ongoing efforts to maximize its resources while minimizing costs, to

turn this opportunity into value for shareholders.

Bertrand des Pallieres

Chief Executive Officer

28 April 2014

Operations Review

In 2013 the Group held working interests in nine conventional

(2012: 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 infrastructures. The Group's

primary focus during 2013 was on the four biggest licences in which 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 at 31 December 2013)

Working

interest(%) Licence Expiry Licence type(1)

Major licences

40.0 Zagoryanska April 2014(3) E&D

70.0 Pokrovskoe August 2016 E&D

100.0 Pirkovskoe October 2015 E&D

99.8 Bitlyanska December 2014(3) E&D

Minor licences

99.2 Debeslavetska(2) November 2026 Production

99.2 Debeslavetska(2) September 2016 E&D

53.4 Cheremkhivska(2) May 2018 Production

100.0 Slobodo-Rungerska April 2016 E&D

99.2 Monastyretska November 2014(3) E&D

(1) E&D = Exploration and Development.

(2) Debeslavetska and Cheremkhivska licences are held by WGI, in

which the Group has a 15% interest. The Group has 99.2% and 53.4% of economic

benefit in conventional activities in Debeslavetska and Cheremkhivska licences

respectively through Joint Activity Agreements ("JAA").

(3) License extension process is ongoing

In addition to above licences the Group has a 15% interest in

Westgasinvest LLC ("WGI"), which holds the Reklynetska, Zhuzhelianska,

Cheremkhivsko-Strupkivska, Debeslavetska Exploration, Debeslavetska

Production, Baulinska, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska

licences for unconventional activities.

Zagoryanska licence

The Group has a 40 per cent working interest in the Zagoryanska

licence area. The Zagoryanska licence previously reported 96.4 mmboe of

contingent resources but, in light of the 2012 drilling campaign and a recent

expert review carried out in Kiev by Brand Vick, the total contingent

resources (gas and condensate) (2C) have been reduced to 7.7 mmboe.

The exploration and development licence covers 49.6 square

kilometres and in 2009 the licence was extended until April 2014. The work

obligations have been fulfilled.

Following the joint venture ("JV") formed with Eni in July 2011,

under which Eni acquired a 60 per cent interest in the Zagoryanska licence, a

work-over and drilling plan was implemented to verify and exploit the

potentially productive intervals.

The work over in the wells Zag 1, 2, and 8 did not bring to commercial production.

The well Zag 3 was worked over after a mechanical failure, the V19

and V18 intervals were perforated, lifted and tested but no commercial

production was achieved.

The Zag 11 well drilling assessed and tested the V24, V23, V19, and

V18 intervals. Hydrocarbons were proven but with no commercial flow.

As at 31 December 2012 the Group assessed the recoverability of the

carrying value of the development and production assets related to the

Zagoryanska licence. This has resulted in the impairment of the mentioned

assets to nil (for details refer to Note 4(b) of the Consolidated

Financial Statements).

An extensive revision and reinterpretation of the 3D seismic and

Geological and Geophysical ("G&G") studies to value and price all the possible

reserves potential is still ongoing.

Zag 3 for V18 and V19 perforation and nitrogen lifting did not

bring to commercial production results.

Zag 2 for V17 perforation and nitrogen lifting did not bring to

commercial production results. A coiled tubing intervention is planned.

Zag 1 and Zag 11 wells are under evaluation for possible work-over

intervention.

Pokrovskoe licence

The Group holds a 70 per cent working interest in the Pokrovskoe

licence. Prospective resources reported by GCA at the end of December 2009

were 51.1 mmboe.

The exploration licence covers 49.5 square kilometres and the

initial licence was extended until August 2016.

After the JV with Eni, that acquired 30 per cent of the Group's

Pokrovskoe licence, the drilling of the Pokrovskoe 2a well indicated the

presence of hydrocarbons in the deeper Tournasian levels, beneath both the

Pokrovskoe 1 and Pokrovskoe 2 wells, but due to mechanical problems the well

was suspended with a future option of re-entry.

On 9 March 2012 the Group was advised by Eni that, following their

analysis of the results for the Pokrovskoe 1 and Pokrovskoe 2a wells, they did

not intend to exercise the option to acquire the additional 30 per cent.

Notwithstanding Eni's decision not to exercise the option, Eni continues to

hold a 30 per cent share in the Pokrovskoe licence.

On the basis of the previous results and the clear indication of

the presence of a positive hydrocarbons generation and migration system, it

was decided to continue the investigation of the area. The thorough 3D seismic

re-interpretation has been successfully concluded for the relative shallow

horizons. One drillable new prospect in the Permian formation

(about 2.200m deep) and other two leads in the moderately deeper horizons have been

identified.

Pirkovskoe licence

The Group has a 100 per cent working interest in the Pirkovskoe

licence which holds 2.5 mmboe of 2P Proven and Probable Reserves

(2012: 2.5 mmboe) and 138.2 mmboe of 2C Contingent Resources. This exploration and

appraisal licence covers 71.6 square kilometres and expires October 2015.

The remaining work programme includes: (a) the testing of

Pirkovskoe 1, which is ongoing; (b) deepening to 5,450 metres and testing of

the suspended Pirkovskoe 2 well; (c) the drilling of a new well;

and (d) calculation of the potential hydrocarbon reserves.

The Pirkovskoe 2 well is currently suspended. The revision and

reinterpretation of the 3D seismic and G&G studies is still ongoing to value

and price all the possible reserves potential.

The Group owns the Krasnozayarska gas treatment plant located in

the Pirkovskoe licence area, which is connected to the UkrTransGas system and

is continuing the service contract with a nearby local operator.

The work-over in Pirk 1 started in October 2013 with the objective

to perforate V17 interval, lifting and testing. Results were encouraging but

no sustainable production with gas and liquid hydrocarbon was achieved.

Operations are still ongoing.

Bitlyanska licence area

The Bitlyanska exploration and development licence covers an area

of 390 square kilometres with the Group's interest at 99.8 per cent. There are

three hydrocarbon discoveries in this licence area, namely Bitlyanska, Borynya

and Vovchenska. The Borynya and Bitlyanska fields hold 219.2 mmboe (gross)

(2012: 219.2 mmboe) and 117.3 mmboe (gross) (2012: 117.3 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

Borynya 2 reportedly tested gas at very high rates. In 2009 Cadogan drilled

the Borynya 3 well down to 5,325m, proximal to these two Soviet era wells,

suspended due to very highly pressured gas bearing zones. Several intervals

showed very interesting evidence of gas during drilling, confirmed by logging.

Due to the difficult operations' conditions, three very limited open hole

drill stem tests were run. In particular, from one of the secondary reservoir

targets at around 3,600m gas was tested at a maximum flow rate of 128,000

cubic metres per day.

In 1994 the Bitlya 1 well tested non-commercial gas from several

zones down to 3,200 metres. Although, at that time, the presence of an active

hydrocarbon system was established, 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 area 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.

Based on the new prospect structures model, and internal

re-evaluation, 430 mmboe of contingent resources have been estimated (p50) in

house.

Borynya 3 well has been re-entered and tested in two Krosno 1

intervals (2685-2745m and 2890m- 2935m) with interesting flows of gas,

condensate and ***oil***. The planned fracturing job remains on hold because the

engineering study was inconclusive due to essential information not being

available from the previous drilling data collection; a way forward is under

evaluation and the deeper horizons will be considered.

The planned vintage seismic lines in the Vovchenska area were

purchased and interpreted; a new additional seismic program has been prepared

to define possible prospective areas.

The remaining work obligations for this licence are under re-negotiation.

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 0.860 mmboe of Proved Reserves

(2012: 0.845 mmboe). The field is currently producing 95.0 boepd

(2012: 84.0 boepd). Newcompressor unit and dehydration facilities for production

optimisation have been installed as per the programme and are contributing to

energy and emissions saving in 2013.

- Debeslavetska Exploration licence area

An exploration licence surrounding the Debeslavetska Production

licence area which is considered quite promising in shallow gas production

potential following the positive preliminary results of Amplitude versus

Offset ("AVO") and Inversion Analysis. The purchase of vintage seismic data

was completed in 2013. The acquisition of 100 linear kilometres of 2D seismic

lines is in progress, expected to be completed by April 2014. One shallow well

is approved for drilling from July 2014, a second one is contingent. A

geomechanical model from satellite data, using the "InSar" technologies, will

be applied to understand and predict the gas depletion in the area for better

wells location identification.

- Cheremkhivska Production licence area

A production licence containing 0.038 mmboe of proved reserves

(2012: 0.029 mmboe). This licence is currently producing 23.9 boepd

(2012: 32.8 boepd).

Potential gas production from shallow intervals seems to be

promising from this licence. Preliminary studies have not yet been conclusive.

Vintage seismic data were purchased. Acquisition of 30 linear kilometres of 2D

seismic lines to assess and estimate the reserves will be considered in 2014.

- Slobodo-Rungerska licence area

An exploration and development licence, with no booked Reserves and

Resources (2012: 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. The ongoing re-evaluation of the block has identified

6.7 mmboe of ***oil*** prospective resources (best estimate), further petrophysical

and reservoir studies are currently underway.

- Monastyretska licence area

An exploration and development licence, with no booked Reserves or

Resources (2011: nil). The Blazhiv 1 well was re-entered during the year.

After the formation cleaning performances deteriorated from 20-25

to 10-15 bopd. It was decided to clean the formation with a light ***acid***

chemical that is showing good results. The well is now spontaneously producing

at a rate of 25 bopd and a sucker rod pump is going to be installed. Expected

production is 40 bopd.

The other two presently shut-in wells could be suitable for

intervention and are under evaluation.

Financial Review

Overview

In 2013 the Group focused on the operations in west Ukraine on

Borynya 3 well, re-interpretation of the existing seismic, and preparation for

the seismic acquisition in the selected western assets.

Revenue was stable at the level of $3.8 million; however the sales

mix has changed from that in 2013. Sales of hydrocarbons have decreased from

$3.0 million to $2.5 million due to decreasing production volumes at

Debeslavetska and Cheremkhivska fields. Revenue from service business has

increased from $0.8 million to $1.3 million. The cash position of

$56.5 million at 31 December 2013 has increased from $40.5 million at

31 December 2012 mainly due to receivable from Global Process Systems ("GPS")

paid in April 2013.

Income statement

Loss before tax was $14.4 million (2012: $92.4 million). Revenues

of $3.8 million (2012: $3.8 million) comprised sales of gas from the

Debeslavetska and Cheremkhivska fields, and revenue from the service business.

Cost of sales, which represents production royalties and taxes, depreciation

and depletion of producing wells and direct staff costs increased to

$3.0 million in 2013 from $2.6 million in 2012 to give a gross profit of

$0.8 million (2012: $1.1 million).

- Other administrative expenses of $8.9 million

(2012: $7.5 million) comprise other staff costs, professional fees, Directors'

remuneration and depreciation charges on non-producing property, plant and

equipment. In addition to recurring administrative expenses, $0.5 million

(2012: $0.5 million) of professional costs were incurred in relation to

litigation and $0.5million (2012: nil) of shortfall between the receivable

from GPS and the amount of settlement.

- Share of losses in joint ventures of $6.7 million (2012: $58.3 million),

represents the loss from the operations of joint ventures, which

have been consolidated using the equity method. This comprised of loss of i) $2.8

million from operations on Zagoryanska license of which $0.4million is the

foreign exchange loss on the loans to Cadogan Group, ii) loss of $3.4 million

from operations on Pokrovska license of which $2.3 million is the foreign

exchange loss on the loans to Cadogan Group, and iii) loss of $0.5 million

from operations of Westgasinvest LLC.

- Other operating expenses of $0.3 million (2012: $2.9 million)

includes $0.3 million of net foreign exchange losses (2012: $3.6 million)

related to the revaluation of USD denominated monetary assets of the Group's

UK entities which have GBP as the functional currency.

Cash flow statement

The Consolidated Cash Flow Statement below shows cash from

operations of $24.0 million (2012: cash used in operations of $0.5 million)which

related mainly to receivable from GPS of $30.0 million, $29.5 million of which

has been recovered under the settlement in April 2013. In addition, the Group

has occurred capital expenditure of $3.0 million (2012: $0.1 million) on

intangible Exploration and Evaluation ("E&E") assets and $0.8 million

(2012: $1.1 million) on Property, Plant & Equipment ("PP&E"). In 2013 the Group

invested into joint ventures $4.7 million (2012: $22.5 million), mainly to cover

the historical capex incurred in 2012 and to repay the operating service charges

to Cadogan as the operating services provider.

Balance sheet

As at 31 December 2013, the Group had net cash and cash equivalents

of $56.5 million (2012: $40.5 million). Intangible E&E assets of $6.0 million

(2012: $3.0 million) represent the carrying value of the Group's investment in

exploration and appraisal assets as at 31 December 2013. The PP&E balance of

$43.9 million at 31 December 2013 (2012: $46.4 million), reflects the cost of

developing fields with commercial reserves and bringing them into production.

Investments in joint ventures of $65.9 million (2012: $67.9 million) mainly

represents the carrying value of the Group's investment into Pokrovska

licenses and Westgasinvest LLC (costs related to Zagoryanska license have been

fully impaired), which are accounted for in accordance with IFRS 11 using the

equity method (for details please see Note 19). Trade and other receivables of

$6.9 million (2012: $39.6 million) includes $4.1 million (2012: $6.9 million)

receivable from joint ventures in respect of management charges, loan issued

to ***Oil*** and Gas Management Services Group Limited ("OAGSG") of $1.6 million,

VAT recoverable of $0.3 million (2012: $0.1 million) in respect to VAT arose

at UK companies, and $0.4 million (2012: $0.8 million) in prepayments.

Key performance indicators

The Group monitors its performance in implementing its strategy

with reference to clear targets set out for four key financial and one key

non-financial performance indicators (`KPIs'):

- to increase ***oil***, gas and condensate production measured on number

of barrels of ***oil*** equivalent produced per day (`boepd');

- to increase the Group's ***oil*** and gas reserves by de-risking

possible resources and contingent reserves into 2P Reserves. This is measured

in million barrels of ***oil*** equivalent (`mmboe');

- to increase the realised price per 1,000 cubic metres;

- to increase the Group's basic and diluted earnings per share; and

- to maintain no lost time incidents.

The Group's performance in 2013 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 2013 2012

Financial KPIs

Average production (working interest basis)(1) boepd 88 181

2P reserves(2) mmboe 2.6 2.6

Realised price per 1,000 cubic metres(3) $ 483.8 486.0

Basic and diluted loss per share(4) cents (6.4) (40.1)

Non-financial KPIs

Lost time incidents(5) incidents 0 0

(1) Average production is calculated as the average daily

production during the year.

(2) Quantities of 2P reserves as at 31 December 2012 and 2013 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 2012 and 2013 respectively.

(3) This represents the average price received for gas sold during

the year (including VAT).

(4) Basic and diluted profit per Ordinary share is calculated by

dividing the net profit for the year attributable to equity holders of the

parent company 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 29 to the

Consolidated Financial Statements.

Treasury

The Group continually monitors its exposure to currency risk. It

maintains a portfolio of cash and cash equivalent balances mainly in US dollars

('USD') held primarily in the UK. Production revenues from the sale of

hydrocarbons are received in the local currency in Ukraine ('UAH'), however

the hydrocarbon prices are linked to the USD denominated gas and ***oil*** prices.

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.

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 Executive management.

The Group has analysed the following categories as key risks:

Risk Mitigation

Operational risks

Health, Safety and Environment ("HSE")

The ***oil*** and gas industry by its The Group maintains HSE system in

nature conducts activities which can in place demands that

be seriously impacted by health, management, staff and

safety & environmental incidents. contractors adhere to it. The

Serious incidents can have not only a system ensures that the Group

financial impact but can also damage meets Ukraine legislative

the Group's reputation and the standards in full and achieves

opportunity to undertake further international standards to the

projects. maximum extent possible.

Drilling operations

The technical difficulty of drilling The incorporation of detailed

wells in the Group's locations and sub-surface analysis into a

equipment limitations can result in robust engineered well design and

the unsuccessful completion of the work programme, with appropriate

well. procurement procedures and on

site management competence aims

to minimise risk.

Production and maintenance

Some of the Group's facilities have All plants are operated at

been inherited, and although fully standards above the Ukraine

checked were not installed under our minimum legal requirements.

supervision and there is a risk of Operative staff is chosen for its

plant failure. experience and receives

supplemental training to ensure

that facilities are operated and

maintained at a high standard.

There is a risk that production or Service providers are rigorously

transportation facilities can fail reviewed at the tender stage and

due to poor performance of the are monitored during the contract

Group's suppliers and control of period.

some facilities being with other

governmental or commercial

organisations.

Work over and abandonment

Certain of the Group's wells were Work programmes are designed to

drilled by the State and other assess the status of the wells

private companies and will be worked and any work that is not safe or

over. There is a risk that Cadogan's is not technically feasible will

activities fail because of problems be abandoned. Qualified

inherited with these sites. professionals will be used to

design a step-by-step approach to

re-entering old wells.

Any well stock that is not considered All sites that are abandoned will

satisfactory for purpose or poses an be restored and re-cultivated to

environmental hazard will need to be meet or exceed standards required

abandoned. by the relevant environmental

control authorities and in

compliance with recognised

international standards.

Sub-surface risks

The success of the business relies on All externally provided and

accurate and detailed analysis of the historic data is rigorously

sub-surface. This can be impacted by examined and discarded when

poor quality data, either historic or appropriate. New data acquisition

recently gathered, and limited is considered and appropriate

coverage. Certain information programmes implemented, but

provided by external sources may not historic data can be reviewed and

be accurate. reprocessed to improve the

overall knowledge base.

Some local contractors may not Detailed supervision of local

acquire data accurately, and there is contractors by Cadogan management

frequently limited choice of locally is followed. Plans are discussed

available equipment or contractors of well in advance with both local

a desirable standard. and international contractors in

an effort to ensure that

appropriate equipment is

available.

Data can be misinterpreted leading to All analytical outcomes are

the construction of inaccurate models challenged internally and peer

and subsequent plans. reviewed. Interpretations are

carried out on modern geological

software. A staff training

programme has been put in place.

Financial risks

The Group may not be successful in The Group performs a review of

achieving commercial production from its O&G assets for impairment on

an asset and consequently the annual basis. The Group considers

carrying values of the Group's ***oil*** on an annual basis whether to

and gas assets may not be recovered commission a Competent Person's

through future revenues. Report (`CPR') from an

independent reservoir engineer.

The CPR provides an estimate of

the Group's reserves and

resources by field/licence area.

As no new production has been

achieved during 2013, Management

has decided not to commission a

new CPR during 2013.

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 2014. Further

attempts to bring in partners and

mitigate the Group's risk

exposure are underway.

There is a risk that insufficient The Group manages the risk by

funds are available to meet maintaining adequate cash

development obligations to reserves and by closely

commercialise the Group's major monitoring forecast and actual

licences. cash flow, as well as short and

longer funding requirements.

Management reviews these

forecasts regularly and updates

are made where applicable and

submitted to the Board for

consideration.

The farm-out campaign to conserve

cash and mitigate risk will

continue through 2014.

The Group could be impacted by These risks are mitigated by

failing to meet regulatory reporting employing suitably qualified

requirements in the UK, and statutory professionals who, working with

tax and filing requirements in both advisers when needed, are

Ukraine and the UK. monitoring regulatory reporting

requirements, and who ensure that

timely submissions are made.

The Group operates primarily in Clear authority levels and robust

Ukraine, an emerging market, where approval processes are in place,

certain inappropriate business with stringent controls over cash

practices may from time to time management and the tendering and

occur. This includes bribery, theft procurement process. Adequate

of Group property and fraud, all of office and site protection is in

which can lead to financial loss. place to protect assets.

Anti-bribery policies are in

place.

Risk Mitigation

Financial risks

The Group is at risk from changes in Revenues are received in UAH and

the economic environment both in expenditure is made in UAH, but

Ukraine and globally, which can cause funds are transferred in US

foreign exchange movements, changes dollars to Ukraine. The Group

in the rate of inflation and interest continues to hold most of its

rates and lead to credit risk in cash reserves in the UK mostly in

relation to the Group's key US dollars. Cash reserves are

counterparties. placed with leading financial

institutions which are approved

by the Audit Committee. The Group

is predominantly a US dollar

denominated business. Foreign

exchange risk is considered a

normal and acceptable business

exposure and the Group does not

hedge against this risk.

Refer to note 29 to the

Consolidated Financial Statements

for detail on financial risks.

Corporate risks

Should the Group fail to comply with The Group designs a work

licence obligations there is a risk programme and budget to ensure

that its entitlement to the licence that all licence obligations are

will be lost. 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 The Group minimises this risk by

such the Group is exposed to greater maintaining the funds in

regulatory, economic and political international banks outside

risks than other jurisdictions. Ukraine and by continuously

Emerging economies are generally maintaining a working dialogue

subject to a volatile political with the regulatory authorities.

environment which could adversely

impact on Cadogan's ability to

operate in the market.

Since November 2013, Ukraine has been

in a political and economic turmoil.

The Ukrainian Hryvnia devalued against

major world currencies and significant

external financing is required to

maintain stability of teh economy.

In February 2014, Ukraine's sovereign

rating has been downgraded to CCC with

a negative outlook. The Government

however is expecting significant

funding from the international creditors

in 2014, with Interntaional Monetary Fund

("IMF") being the largest.

The further political developments are

currently unpredictable and may

adversely affect the Ukrainian econmy.

The Group's success depends upon The Group periodically reviews

skilled management, technical and the compensation and contract

administrative staff. The loss of terms of its staff.

service of critical members from the

Group's team could have an adverse

effect on the business.

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

2013, due to insufficient new information arising 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 subsequent actual

production and expert review and studies performed with an external firm in

Kiev and in house.

Summary of Reserves

As of 31 December 2013

Working interest basis

Gas Condensate ***Oil***

bcf mmbbl mmbbl

Proved and Probable Reserves at 1 January 2013 11.3 0.6 -

Production (0.2) - -

Proved and Probable Reserves at 31 December 2013 11.1 0.6 -

Possible Reserves at 1 January 2013 and 31 December 19.5 1.5 -

2013

Summary of Contingent Resources

As of 31 December 2013

Working interest basis

Gas Condensate ***Oil*** Total

Bcf mmbbl mmbbl mmboe

Contingent Resources at 1 January 2013 2,357.3 97.9 - 522.2

Change in working interest - - - -

Contingent Resources at 31 December 2013 2,357.3 97.9 - 522.2

Reserves are assigned only to the Pirkovskoe, Debeslavetska and

Cheremkhivska fields.

Contingent Resources are assigned to the Zagoryanska, Pirkovskoe,

Borynya and Bitlya fields, where development is contingent on further

appraisal.

Prospective Resources of 165.9 billion cubic feet ("bcf")

(2011: 165.9 bcf) of gas and 5.9 mmbl (2011: 5.9 mmbl) of condensate are attributed

to the Pokrovskoe field (reflecting Cadogan's working interest), where there

has not yet been a production test.

The Board recognises the requirement under Section 414C of the Act

to detail information about employees, human rights and community issues,

including information about any policies it has in relation to these matters

and the effectiveness of these policies.

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 in which we secure our licence to operate, and to be

recognised in the values we declare is the best added value we can bring in

order to profitably prolong our business. The Board recognises that the health

and safety of its employees and of the communities and protecting the

environment it impacts are the key drivers for the sustainable development of

the Company's activity. Our Code of Ethics and the adoption of internationally

recognised best practices and standards are our and our employees' references

for conducting our operations.

Our activities are carried out in accordance with a policy manual,

endorsed by the Board, which has been disseminated to all staff. The manual

includes policies on business conduct and ethics, anti-bribery, the acceptance

of gifts and hospitality, and whistleblowing.

The Group's Health, Safety and Environment Manager reports directly

to the Chief Operations Officer. His role is to ensure that the Group has

developed suitable procedures and that operational management have

incorporated them into daily operations, and he has the necessary level of

autonomy and authority to discharge his duties effectively and efficiently.

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 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 by the Executive Management. The Health, Safety and Environment

Committee Report is below.

Health, safety and environment

The Group has developed an integrated Health, Safety and

Environmental ('HSE') 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. All the Group's

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 in

place throughout 2013, which relies on an observation cards system and

reliable near-miss reporting. Staff training on HSE matters is recognised as

the key factor to generate continuous improvement. In-house training is

provided to help staff meet international standards and follow best practice.

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 those required by Ukrainian legislation.

The Board monitors lost time incidents as a key performance

indicator of the business, to reasonably 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 2013, the Group recorded a total of

440,386 man hours worked. There were no Lost Time Incidents ('LTIs') recorded

in 2013 and a total of over one million man hours have been worked without an

LTI since the previous incident was recorded in July 2011.

Vehicle safety and driving conduct remain among the Company's

priorities in controlling hazards and preventing injuries. As of the end of

2013, the Company has recorded almost 8.4 million kilometres driven without an

LTI.

The European Bank for Reconstruction and Development ('EBRD') was,

until February 2013, a substantial shareholder in the Company and closely

monitored the environmental and community aspects of the Group's activities.

An environmental report was submitted to the EBRD each year summarising the

Group's compliance with local HSE regulation and standards. The EBRD required

and reviewed the results of audits undertaken by external consultants which

were used to generate an environmental action plan. The Group remains highly

conscious of the need to optimise its activities in order to reduce their

environmental impact of its operations. In 2012, a number of steps were taken

in this direction, such as replacing the old compressor unit at the

Debeslavetske Gas Treatment Facility, which benefited the environment by

decreasing fuel consumption and air emissions while improving the overall

efficiency of the plant.

Starting from 2013, the Company is committed to prepare a baseline

to assess and monitor its environmental performance, namely, the consumption

of electricity and industrial water and fuel consumption by cars, plants and

other work sites. We have developed of procedures necessary for

improving the Group's environmental performance, taking into account

the requirements of any applicable policies, such as UK

regulations on mandatory reporting of greenhouse gas emissions.

Employees

Certain of the Group's operations are undertaken by sub-contractors' specialists

having the technical knowledge required for complex wells' drilling operations.

Local interest is part of the Company's sustainable development policy and wherever

possible local staff are recruited and procedures are in place to ensure that all

recruitments are undertaken on a 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 and followed.

As required by Ukrainian legislation, Collective Agreements are in place with the Group's

Ukrainian subsidiary companies which provide an agreed level of staff benefits

and other safeguards for employees. The Group's Human Resources policy covers

key areas such as equal opportunities, wages, overtime and non-discrimination.

All staff are aware of the Group's grievance procedures.

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.

Gender diversity

The Board of Directors of the Company comprised of five male

Directors throughout the year to 31 December 2013. The appointment of any new

Director is made on the basis of merit. See below for more information on

the composition of the Board. There were no females holding Senior Manager

position as at 31 December 2003 (1).

As at 31 December 2013, the Company comprised a total of 121

employees, as follows:

Male Female

Non-executive directors 3 0

Executive directors 2 0

Other employees 85 31

All employees 90 31

(1) Senior Managers are directors of subsidiary companies or who otherwise have

responsibility for planning, directing or controlling the activities of the

company or a strategically significant part of it.

Human rights

Cadogan's commitment to the fundamental principles of human rights is embedded

in our HSE policies and throughout our business processes. We promote the core

principles of human rights pronounced in the UN Universal Declaration of Human

Rights. Our support for these principles is embedded throughout our Code of

Conduct, our employment practices and our relationships with suppliers

wherever we do business.

Community

The Group's activities are carried out in rural areas of Ukraine

and the Board is aware of its responsibilities to the local communities in

which the Group operates and from which some of the employees are recruited.

At current operational sites, management works with the local councils to

ensure that the impact of operations is as low as practicable by putting in

place measures to mitigate their effect. Key projects undertaken include

improvement of the road infrastructure in the area, which provides easier

access to the operational sites while at the same time minimising

inconvenience for the local population and allowing improved road

communications in the local communities. Specific charitable activities are

undertaken for the direct benefit of local kindergartens, schools, sporting

facilities and medical services, as well as other community-focused

facilities. All activities are followed and supervised by managers who are

given specific responsibility for such tasks.

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. The recruitment of local staff generates additional income

for areas that otherwise are predominantly dependent on the ***agricultural***

sector.

Approval

The Strategic Report was approved by the Board of Directors on

28 April 2014 and signed on its behalf by:

Laurence Sudwarts

Company Secretary

28 April 2014

Board of Directors

Zev Furst, 66, 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, 47, 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.

Mr des Pallieres is a member of the Nomination Committee.

Adelmo Schenato, 62, 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 S.p.A

('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.

Gilbert Lehmann, 68, 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 former Chief Financial Officer

and deputy CEO of Framatone, the predecessor to Areva, and was CFO of Sogee,

part of the Rothschild Group. Mr Lehmann is also Deputy Chairman and Chairman

of the Audit Committee of Eramet, the French minerals and alloy business. He

is Deputy Chairman and Audit Committee Chairman of Assystem SA, the French

engineering and innovation consultancy. He was Chairman of ST Microelectronics

NV, one of the world's largest semiconductor companies, from 2007 to 2009, and

stepped down as Vice Chairman in 2011.

Mr Lehmann is currently Chairman of the Company's Audit Committee

and a member of the Remuneration and Nomination Committees.

Enrico Testa, 62, Italian

Independent non-executive Director

Appointed to the Board on 1 October 2011, Mr Testa has a long and

varied background in the energy market. He was Chairman of the Board of ACEA

(the Rome electricity and water utility company) from 1996 to 2002. He was

Chairman of the Board of Enel S.p.A, the major Italian electricity supplier,

during its privatisation. From 2005 to 2009 he was Chairman of Roma

Metropolitane, the Rome council-owned company constructing new underground

lines. He was also Chairman of the Organising Committee for the 20th World

Energy Congress held in Rome in November 2007, Senior Partner at the Franco

Bernabè Group which owns several investments in the IT sector and, from 2002

to 2005, he was member of the Advisory Board of Carlyle Europe and Chairman of

the Italian Nuclear Forum since 2010. In addition, between 2004 and August

2012 Mr Testa was Managing Director of Rothschild S.p.A.

He is currently Chairman of the AIM listed telecommunications

company Telit Communications Plc, Vice Chairman of Intecs S.p.A and Chairman

of E.VA - Energie Valsabbia S.p.A. - a company developing hydropower and solar

generating plants.

Mr Testa is Chairman of the Company's Remuneration Committee and a

member of the Audit and Nomination Committees.

Directors

The Directors in office during the year and at the date of this report are as

shown below:

Non-executive Directors Executive Directors

Zev Furst (Chairman) Bertrand des Pallieres

Gilbert Lehmann Adelmo Schenato

Enrico Testa

Directors' re-election

The Board has decided previously that all Directors must be subject

to annual election by shareholders, in accordance with the best practice

guidance for FTSE 350 companies contained in the UK Corporate Governance Code

that was issued in 2012 by the Financial Reporting Council(the 'Code').

As such, all of the Directors will be seeking re-election at the

Annual General Meeting to be held on 26 June 2014.

The biographies of the Directors in office at the date of this

report are shown above.

Appointment and replacement of Directors

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 may

hold office only until the next annual general meeting of the Company

whereupon his or her election will be proposed to the shareholders.

The Company's Articles of Association prescribe that there shall be

no fewer than three Directors and no more than fifteen.

Directors' interests in shares

The beneficial interests of the Directors in office as at

31 December 2013 and their connected persons in the Ordinary shares of the

Company at 31 December 2013 are set out below.

Shares as at December 31 2013 2012

Z Furst - -

B des Pallieres 200,000 200,000

G Lehmann - -

E Testa - -

A Schenato - -

Directors' indemnities and insurance

The Company continues to maintain Directors' and Officers'

Liability Insurance. The Company's Articles of Association provide, subject to

the provisions of the Companies Act 2006, an indemnity for Directors in

respect of any liability incurred in connection with their duties, powers or

office. Save for such indemnity provisions, there are no qualifying third

party indemnity provisions.

Powers of Directors

The Directors are responsible for the management of the business

and may exercise all powers of the Company (including powers to issue or buy

back the Company's shares), subject to UK legislation, any directions given by

special resolution and the Articles of Association. The authority to buy back

shares, granted at the 2013 Annual General Meeting, remains unused.

Dividends

The Directors do not recommend payment of a dividend for the year to

31 December 2013 (2012: $nil).

Principal Activity and Status

The Company is registered as a public limited company (registration

number 05718406) in England and Wales. Its principal activity is ***oil*** and gas

exploration, development and production.

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 2013 was 231,091,734 Ordinary

shares of 3 pence each with a nominal value of £6,932,752. 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, there were 66 residual Ordinary shares which were transferred to

treasury. No dividends may be paid on shares whilst held in treasury and no

voting rights attach to shares held in treasury.

Rights and obligations of Ordinary shares

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 and paid out of profits available for such purposes.

On a return of capital on a winding up, holders of Ordinary shares are

entitled to participate in such a return.

Exercise of rights of shares in employee share schemes

None of the share awards under the Company's incentive arrangements

are held in trust on behalf of the beneficiaries.

Agreements between shareholders

The Board is unaware of any agreements between shareholders which

may restrict the transfer of securities or voting rights.

Restrictions on voting deadlines

The notice of any general meeting of the Company shall specify the

deadline for exercising voting rights and appointing a proxy or proxies to

vote at a general meeting. 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.

Substantial shareholdings

As at 31 December 2013 and 28 April 2014, the Company had been

notified of the following voting rights attached to the Company's shares:

31 December 2013 28 April 2014

% of total % of total

Number of voting Number of voting

Major shareholder shares held rights shares held rights

SPQR Capital Holdings SA 67,298,498 29.12 67,298,498 29.12

Mr Pierre Salik 40,550,000 17.55 40,550,000 17.55

Mr Michel Meeus 26,000,000 11.25 26,000,000 11.25

J Benaim 21,660,582 9.37 21,660,582 9.37

Credit Agricole Indosuez (Suisse) SA 12,050,000 5.21 12,050,000 5.21

Credit Suisse Private Banking 7,477,091 3.24 7,477,091 3.24

Amendment of the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution of shareholders.

Disclosure of information to auditors

As required by section 416 of the Companies Act 2006, each of the

Directors as at 28 April 2014 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.

This confirmation is given and should be interpreted in accordance with

section 416 of the Companies Act 2006.

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(b) to the Consolidated Financial

Statements.

Change of control - significant agreements

The Company has no significant agreements containing provisions

which allow a counterparty to alter and amend the terms of the agreement

following a change of control of the Company.

Should a change in control occur then certain 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.

Global greenhouse gas emissions

This section contains information on greenhouse gas ("GHG")

emissions required by the Companies Act 2006 (Strategic Report and Directors'

Report) Regulations 2013 ("the Regulations").

Reporting year

The reporting year coincides with the Company's fiscal year, which

is 1 January 2013 to 31 December 2013. This is the first year in which GHG

reporting has been conducted by the Company, and it will be used as the

baseline year for comparison in future years.

Methodology

The principal methodology used to calculate the emissions is drawn

from the 'Environmental Reporting Guidelines: including mandatory greenhouse

gas emissions reporting guidance (June 2013)', issued by the Department for

Environment, Food and Rural Affairs ("DEFRA"). Additionally, 'Petroleum

Industry Guidelines for Reporting Greenhouse Gas Emissions (2nd edition, May

2011)' were used to cover issues specific for the petroleum industry. DEFRA

GHG conversion factors for company reporting were utilised to calculate the

CO2 equivalent of emissions from various sources. In certain limited cases,

where information was available only for a part of the reporting period, the

total emissions were extrapolated by extending the available information to

cover the full reporting period. This occurred where it was not possible to

retrieve information on the amount of heating supplied to one of the Company's

office buildings, due to an office move.

The Company has reported on all of the emission sources required

under the Regulations.

The Company does not have responsibility for any emission sources

that are not included in our consolidated statement.

Consolidation approach and organisation boundary

An operational control approach was used to define the Company's

organisational boundary and responsibility for GHG emissions. All material

emission sources within this boundary have been reported upon, in line with

the requirements of the Regulations.

Scope of reported emissions

Emissions data from the sources within Scope 1 and Scope 2 of the

Company's operational boundaries is detailed below. This includes direct

emissions from assets that fall within the Company's organisational boundaries

(Scope 1 emissions), as well as indirect emissions from energy consumption,

such as purchased electricity and heating (Scope 2 emissions).

Intensity ratio

In order to express the GHG emissions in relation to a quantifiable

factor associated with the Company's activities, wellhead production of crude

***oil***, condensates and natural gas has been chosen as the normalisation factor

for calculation of the intensity ratio. This will allow comparison of the

Company's performance over time, as well as with other companies in the

Company's peer group.

Total greenhouse gas emissions data for the period from 1 January

2013 to 31 December 2013

Greenhouse gas emissions source Tonnes of CO2 equivalent

Scope 1

Direct emissions, including combustion of

fuel and operation of facilities 1,313

Scope 2

Indirect emissions from energy consumption,

including electricity and heating purchased

for own use 705

Total (Scope 1 & 2) 2,018

Annual General Meeting

A notice for the Annual General Meeting (the `AGM') to be held at

10.30 am on 26 June 2014 at Chandos House, 2 Queen Anne Street, London W1G 9LQ

is set out below. The following notes provide an explanation of

all of the Resolutions to be put to the AGM. Resolutions 1 to 12 will be

proposed as ordinary resolutions requiring the approval of more than 50 per

cent. of the votes cast at the meeting and Resolutions 13 to 15 will be

proposed as special resolutions requiring the approval of at least 75 per cent

of the votes cast at the meeting. The Board considers that the resolutions to

be put to the meeting are in the best interests of the Company and the

shareholders as a whole. Accordingly, the Directors unanimously recommend that

you vote in favour of the proposed resolutions at the AGM, as they intend to

do in respect of their own beneficial holdings.

Annual Financial Report (Resolution 1)

Shareholders are being asked to receive the Annual Financial Report

of the Company for the financial year ended 31 December 2013. The Annual

Financial Report comprises the Annual Accounts of the Group together with the

Directors' Report, Annual Report on Remuneration and the auditor's report on

those Accounts and the auditable part of the Annual Report on Remuneration.

Approval of Annual Report on Remuneration (Resolution 2)

Shareholders are being asked to approve the Annual Report on

Remuneration for the financial year ended 31 December 2013, as set out on

pages 38 to 43.

Approval of Directors' Remuneration Policy (Resolution 3)

A new directors' remuneration reporting regime came into effect on

1 October 2013. Shareholders will now have an annual advisory vote on the

report on Directors' remuneration and a binding vote, to be held every three

years, on the remuneration policy of the Directors. Accordingly, shareholders

are being requested to vote on the receipt and approval of the Annual Report

on Remuneration 2013 as set out below and on the Directors' Remuneration Policy

below.

Election and re-election of Directors (Resolutions 4 to 9)

Under Article 118 of the Company's Articles of Association, every

Director must seek re-election by members at least once every three years.

However, it is now the Board's practice for every Director to seek re-election

by shareholders every year as recommended by the Code. Accordingly,

resolutions 4 to 8 deal with the re-election of each of the Company's

Directors.

Biographies of each of the Directors seeking re-election are set

out above. All of the Directors proposed for re-election have wide

ranging business knowledge and bring valuable skills and experience to the

Board and the Board considers that each of the Directors continues to make an

effective and valuable contribution and demonstrates commitment to the role.

Accordingly, the Board recommends the re-election of each of these Directors.

Resolution 9 deals with the election of Mr Michel Meeus to the Board of

Directors of the Company. Given Mr Meeus' more than three decades' experience

spanning both the financial and the energy sectors, sectors of vital

importance to the Company at the present time, the Board believes that Mr

Meeus will make a valuable and effective contribution to the Company and

therefore recommends that shareholders vote in favour of his election.

Auditor (Resolutions 10 and 11)

Deloitte LLP have indicated that they are willing to continue in

office as the Company's auditor. Resolution 10 seeks shareholders' approval to

reappoint Deloitte LLP as auditor of the Company to hold office until the

conclusion of the next general meeting at which the Annual Financial Report is

laid before the shareholders. Resolution 11 seeks shareholders' authorisation

for the Directors to determine the auditor's remuneration.

Authority to Allot Shares (Resolution 12)

The Directors may allot or grant rights over Ordinary shares only

if authorised to do so by a resolution of shareholders. Resolution 12 seeks a

new authority under section 551 of the Companies Act 2006 to authorise the

Directors to allot shares or grant rights to subscribe for, or convert any

security into, shares in the Company. It will expire at the conclusion of next

year's AGM or, if earlier, on 30 June 2015. Resolution 12 follows

institutional investor guidelines regarding the authority to allot shares.

Paragraph (a) of resolution 12 would give the Directors authority

to allot shares or grant rights to subscribe for, or convert any security

into, shares (`Rights') up to a maximum nominal amount of £2,310,917,

representing approximately one third of the Company's existing issued share

capital. This maximum is reduced by the nominal amount of shares allotted or

Rights granted pursuant to paragraph (b) of resolution 12 in excess of

£2,310,917. Paragraph (b) of resolution 12 gives the Directors authority to

allot shares or grant Rights in connection with a rights issue only up to a

maximum nominal amount of £4,621,834 representing approximately two-thirds of

the Company's existing issued share capital. This maximum is reduced by the

nominal amount of shares allotted or Rights granted pursuant to paragraph (a)

of resolution 12.

Therefore, the maximum nominal amount of shares allotted or Rights

granted under resolution 12 is £4,621,834, representing approximately

two-thirds of the Company's existing issued share capital.

As at close of business on 28 April 2014, the Company did not hold

any treasury shares.

The Directors do not currently intend to use this authority.

However, if they do use it, then they intend to follow best practice

(including as regards standing for re-election in certain cases), as

recommended by institutional investor guidelines.

Disapplication of Pre-Emption Rights (Resolution 13)

If the Directors wish to allot any shares or grant rights over

shares or sell treasury shares for cash (other than under an employee share

scheme) they are required by the Companies Act 2006 to offer them to existing

shareholders pro rata. In certain circumstances, it may be in the interests of

the Company to raise capital without such a pre-emptive offer. Resolution 13

therefore seeks a waiver of shareholders' pre-emptive rights and (aside from

rights issues or other pro rata offers), the authority will be limited to the

issue of securities for cash up to a maximum aggregate nominal value of

£346,637 - approximately five per cent of the Company's issued Ordinary share

capital as at 23 April 2014 (being the latest practicable date prior to the

date of the Notice of AGM).

The Directors confirm their intention to adhere to the provisions

in the Pre Emption Group Statement of Principles regarding cumulative usage of

authorities over more than 7.5 per cent of the Company's issued Ordinary share

capital in any three-year period.

This resolution also seeks a disapplication of the pre-emption

rights on a rights issue to permit such arrangements as may be appropriate to

resolve legal or practical problems which, for example, might arise with

overseas shareholders. The authority will expire at the conclusion of next

year's AGM or, if earlier, on 30 June 2015.

Directors' Authority to Purchase Shares (Resolution 14)

The Company may wish to purchase its own shares and resolution 14

seeks authority to do so. If passed, the Company would be authorised to make

market purchases up to a total of 23,109,173 shares - just under ten per cent

of the Company's issued Ordinary share capital as at 28 April 2014. The

Directors will generally only exercise this power when the effect of such

purchases is expected to increase earnings per share and will be in the best

interests of shareholders generally. Shares purchased may be cancelled and the

number in issue will be reduced accordingly. The Company may hold in treasury

any of its own shares that it purchases in this manner.

The Company does not have any outstanding share options.

Notice of General Meetings (Resolution 15)

The purpose of resolution 15 is to allow the Company to continue to

call general meetings (other than AGMs) on 14 clear days' notice. The

Directors do not expect to use this power unless urgent action is required on

the part of the shareholders. If resolution 15 is passed, the approval will be

effective until the Company's next AGM when it is expected that a similar

resolution will be proposed.

It should be noted that, in order to be able to call a general

meeting on less than 21 clear days' notice, the Company must make a means of

electronic voting available to all shareholders for that meeting.

This Directors' Report has been approved by the Board and signed on its behalf by:

Laurence Sudwarts

Company Secretary

28 April 2014

The Board of the Company is committed to the highest standards of

corporate governance and bases its actions on the principles set out in the

Code issued by the Financial Reporting Council ('FRC') in September 2012 (the

'Code'). The Code can be found on the FRC's website at [*http://www.frc.org.uk*](http://www.frc.org.uk)

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 subject to less stringent

corporate governance requirements, 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

Code's provisions with the following exceptions:

- Code provision A.4.2 - During the year, the Chairman did not hold

meetings with the non-executive Directors without the executives present

- Code provision E.1.1 - The Senior Independent Director has not

attended meetings with major shareholders

The reasons for these two areas of non-compliance are as follows:

- Although the Chairman did not hold formal meetings of the

non-executive Directors during the year, regular discussions took place by

telephone and email.

- The Senior Independent Director, Mr Lehmann, did not attend meetings with

major shareholders as this responsibility was undertaken by the

Chairman and the Executive Directors. Mr Lehmann is available to shareholders

who have concerns that they feel would be inappropriate to raise via the

Chairman or Executive Directors.

Board

The Board provides leadership and oversight. The Board comprises a

non-executive Chairman, Chief Executive Officer, Chief Operating Officer and

two independent non-executive Directors. The membership of the Board and

biographical details for each of the Directors are incorporated into this

report by reference and appear above.

As at the date of this report, the Chairman had no significant

commitments that might affect his ability to allocate sufficient time to the

Company to discharge his responsibilities effectively.

Under the Company's Articles of Association, all Directors must

seek re-election by members at least once every three years. However, the

Board has agreed that all Directors will be subject to annual election by

shareholders, as recommended by the Code in respect of FTSE 350 companies.

Accordingly, all members of the Board will be standing for re-election at the

Annual General Meeting to be held on 26 June 2014.

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. Five Board meetings

took place during 2013.

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:

Audit Nomination Remuneration

Board Committee Committee Committee

No. Held 5 3 1 1

No. Attended:

Z Furst 4 n/a 0 0

B des Pallieres 5 n/a 0 n/a

G Lehmann 5 3 1 1

E Testa 4 3 1 1

A Schenato 5 n/a n/a n/a

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 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. The three non-executive Directors, Messrs

Furst, Lehmann and Testa, are considered by the Board, in accordance with the

Code, to be independent. 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 Notice of Meeting below.

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,

[*http://www.cadoganpetroleum.com*](http://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 provided below.

Board performance evaluation

Principle B.6 of the Code recommends that boards undertake a formal

and rigorous annual evaluation of its own performance and that of its

committees and individual directors. The Board is mindful that it needs to

continually monitor and identify ways in which it might improve its

performance and recognises that board evaluation is a useful tool for

enhancing a board's effectiveness. For the year ended 31 December 2013, the

Board opted to undertake self-evaluation by way of a questionnaire designed

specifically to assess the strengths of the Board and identify any areas for

development.

The process was led by Mr Furst as Chairman and the evaluation of

the Chairman's performance was led by Mr Lehmann as the Senior Independent

Director. The Board discussed the evaluation questionnaire findings, which

were also used by the Nomination Committee in its annual assessment of the

Board's composition. The Directors are committed to ensuring that the Board

continues to represent a broad balance of skills, experience, independence and

knowledge and that there is sufficient diversity within the composition of the

Board. All appointments are made on merit against objective criteria - which

include gender and diversity generally - in the context of the requirements of

the business and the overall balance of skills and backgrounds that the Board

needs to maintain in order to remain effective.

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 2013 and up to the date of signing the accounts are documented in the

Group's Corporate Governance Policy Manual and Finance Manual. These manuals

have been circulated throughout the Group. In addition, the Company's joint

venture entities adopted policies that mirror the Company's own, except WGI,

where ENI's policies are adopted.

Day-to-day responsibility for the management and operations of the

business has been delegated to the Chief Executive Officer and senior

management.

Certain specific administrative functions are controlled centrally.

Taxation, 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 General Counsel who reports to the Board and also

attends all Board meetings. The Health and Safety and Environment functions

report to the Chief Operating Officer. An overview of the Group's Treasury

policy is set out above.

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 annually.

The Board has 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 deemed 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 is reported to the Board and discussed in detail. Mr Lehmann, as

the Senior Independent Director, is available to shareholders who have

concerns that they feel would be inappropriate to raise via the Chairman or

Executive Directors.

The Annual General Meeting is used as an opportunity to communicate

with all shareholders. In addition, financial results are posted on the

Company's website,   [*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com), as soon as they are announced.

The Notice of the Annual General Meeting is contained in this report below.

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,

[*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com).

Audit Committee Report

The Audit Committee is appointed by the Board, on the

recommendation of the Nomination Committee, from the non-executive Directors

of the Group. The Audit Committee's terms of reference include all matters

indicated by the Code. They are reviewed annually by the Audit Committee and

any changes are then referred to the Board for approval. The terms of

reference of the Committee are published on the Company's website,

[*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com), and are also available from the Company Secretary at

the Registered Office. Two members constitute a quorum.

Responsibilities

- To monitor the integrity of the annual and interim financial

statements, the accompanying reports to shareholders, and announcements

regarding the Group's results.

- To review and monitor the effectiveness and integrity of the

Group's financial reporting and internal financial controls.

- To review the effectiveness of the process for identifying,

assessing and reporting all significant business risks and the management of

those risks by the Group.

- To oversee the Group's relations with the external auditor and to

make recommendations to the Board, for approval by shareholders, on the

appointment and removal of the external auditor.

- To consider whether an internal audit function is appropriate to

enable the Audit Committee to meet its objectives.

- To review the Group's arrangements by which staff of the Group

may, in confidence, raise concerns about possible improprieties in matters of

financial reporting or other matters.

Governance

Mr Testa and Mr Lehmann, who are both independent non-executive

Directors under provision B.1.1 of the Code, are the members of the Audit

Committee. The Audit Committee is chaired by Mr Lehmann who has recent and

relevant financial experience as a former finance director of major European

companies as well as holding several non-executive roles in major

international entities.

At the invitation of the Audit Committee, the Group Director of

Finance and external auditor regularly attend. The Company Secretary attends

all meetings of the Audit Committee.

The Audit Committee also meets the external auditor without

management being present.

Activities of the Audit Committee

During the year, the Audit Committee discharged its

responsibilities as follows:

Financial statements

The Audit Committee examined the Group's consolidated and Company's

financial statements and, prior to recommending them to the Board, considered

the appropriateness of accounting policies adopted and whether the financial

statements represented a true and fair view.

Internal controls and risk management

The Audit 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 Audit Committee is responsible for recommending to the Board,

for approval by the shareholders, the appointment of the external auditor.

The Audit Committee considers the scope and materiality for the audit work,

approves the audit fee, and reviews the results of the external auditor's

work. Following the conclusion of each year's audit, it considers the

effectiveness of the external auditor during the process. An assessment of the

effectiveness of the audit process was made, giving consideration to reports

from the auditors on their internal quality procedures. The Committee reviewed

and approved the terms and scope of the audit engagement, the audit plan and

the results of the audit with the external auditors, including the scope of

services associated with audit-related regulatory reporting services.

Additionally, auditor independence and objectivity were assessed, giving

consideration to the auditors' confirmation that their independence is not

impaired, the overall extent of non-audit services provided by the external

auditors and the past service of the auditors who were first appointed.

We have also taken account of the latest recommendations of the Code in

relation to the regular tendering of the external audit appointment.

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, the Audit Committee 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 Audit Committee. All other

non-audit work either requires Audit Committee approval or forms part of a

list of prohibited services, where it is felt the external auditor's

independence or objectivity may be compromised.

A breakdown of the non-audit fees is disclosed in note 10 to the

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 $105,000 (2012: $119,000). 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 is not

impaired by the reason of such non-audit work.

Internal audit

The Audit Committee considers annually the need for an internal

audit function and believes that, due to the size of the Group and its current

stage of development, an internal audit function will be of little benefit to

the Group.

The Group's whistleblowing policy encourages employees to report

suspected wrongdoing and sets out the procedures employees must follow when

raising concerns. The policy, which was implemented during 2008, was refreshed

in 2013 and recirculated to staff as part of a manual that includes the

Company's policies on anti-bribery, the acceptance of gifts and hospitality,

and business conduct and ethics.

Political and economic uncertainty in Ukraine

Recent political turmoil in Ukraine has made it necessary for management to

assess the extent of its impact on the Group's operations and assets.

The Committee reviewed reports from management which considered whether

adjustments are required to the carrying values of assets and the

appropriateness of the going concern assumption. As a result management have

concluded that there were no significant adverse consequences in relation to

the Group's operations, cash flows and assets that impact the 2013 financial

statements, apart from continuous uncertainty related to key assumptions used

by management in assessment of the recoverable amount of production assets

including the gas price and the discount factor in particular. Any further

escalations of the political crisis may impact the Group's normal business

activities, and increase the risks relating to its business operations,

financial status and maintenance of its Ukrainian production licences.

In discussion with the external auditors, the Committee

acknowledged the inherent difficulty in making any assessment as to the

eventual outcome of the present political situation and, as a consequence, the

difficulty of making a reliable judgement as to the future impact, if any, on

the Group's business. The Committee concurs with conclusions reached by

management summarized in Note 4 to the financial statements.

Other significant issues related to 2013 financial statements

For the year ended 31 December 2013 the Audit Committee identified

the significant issues that should be considered in relation to the financial

statements, being areas which may be subject to heightened risk of material

misstatement.

The Group estimates of ***oil*** and gas reserves have a significant

impact on the financial statements, in particular in relation to depletion,

depreciation and decommissioning ("DD&A") and impairment. ***Oil*** and gas

reserves, as discussed in the Statement of Reserves and Resources, are based

on the Independent Reserves and Resources Evaluation performed by Gaffney

Cline and Associates as at 31 December 2009, adjusted for subsequent actual

production and expert review and studies performed with external firm in Kiev

and in house.

Following discussions with management and the auditors, including

discussing the range of sensitivities, the Committee is satisfied with results

of the assessment of recoverable amount of production assets. However,

reserves estimates are inherently uncertain, especially in the early stages of

a field's life, and are routinely revised over the producing lives of ***oil*** and

gas fields as new information becomes available and as economic conditions

evolve. The Audit Committee acknowledges that such revisions may impact the

Group's future financial position and results, in particular, in relation to

DD&A and impairment testing of ***oil*** and gas property, plant and equipment.

The Audit Committee considered the Group's intangible exploration

and evaluation assets and interests in exploration and evaluation assets held

through joint ventures individually for any indicators of impairment including

those indicators set out in IFRS 6 Exploration for and Evaluation of Mineral

resources. The Audit Committee has not found any evidence for the existence of

any such indicators of impairment. The Audit Committee has discussed the

Group's exploration and evaluation assets with both management and the

auditor's and concur with the treatment adopted.

Overview

As a result of its work during the year, the Audit Committee has

concluded that it has acted in accordance with its terms of reference and has

ensured the independence and objectivity of the external auditor. A formal

review of the Audit Committee's performance was undertaken after the year end

and concluded that the Committee is effective in its scrutiny of the accounts

and financial reporting process, its oversight of risk management systems and

its monitoring of internal control testing.

The Chairman of the Audit Committee will be available at the Annual

General Meeting to answer any questions about the work of the Audit Committee.

Health, Safety and Environment Committee Report

The Health, Safety and Environment Committee (the `HSE Committee')

is appointed by the Board, on the recommendation of the Nomination Committee.

The HSE Committee's terms of reference are reviewed annually by the HSE

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,

[*http://www.cadoganpetroleum.com*](http://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 any fatalities and serious accidents within the Group and actions

taken by management as a result of such fatalities or serious accidents.

- Evaluate and oversee, on behalf of the Board, the quality and

integrity of any reporting to external stakeholders concerning health, safety,

environmental and community relations issues.

- 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 HSE Committee was in place throughout 2013. Members of the HSE

Committee as of April 2014 are Mr Adelmo Schenato (Chief Operating Officer and

HSE Committee Chairman), Mr Oleg Sybira (HSE Manager), Mr Luciano Kovacic

(Exploration Manager). The Company Secretary attends meetings of the HSE

Committee. The HSE Committee meets monthly to monitor continuously progress by

management.

Activities of the Health, Safety and Environment Committee

During the year the HSE Committee discharged its responsibilities

as follows:

- The ongoing review of existing HSE policies and procedures, as

well as development of new ones, was regularly discussed at the Committee

meetings in relation to the current activities.

- Compliance with HSE regulatory requirements was ensured through

discussion of any inspections, both internal ones and those carried out by the

Authorities.

- HSE statistics were a standing item on the agenda, allowing the

HSE Committee to assess the Company's performance by analysing any lost-time

incidents (of which there were none during 2013), near misses, HSE training

and other indicators.

- Interaction with contractors, Authorities, local communities and

other stakeholders was discussed among other HSE activities.

Overview

As a result of its work during the year, the HSE Committee has

concluded that it has acted in accordance with its terms of reference.

Nomination Committee Report

The Nomination Committee is appointed by the Board predominantly

from the non-executive Directors of the Group. The Nomination Committee's

terms of reference include all matters indicated by the Code. They are

reviewed annually by the Nomination Committee and any changes are then

referred to the Board for approval. The terms of reference of the Nomination

Committee are published on the Company's website,   [*http://www.cadoganpetroleum.com*](http://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, experience and diversity 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 Nomination Committee shall

use open advertising or the services of external advisers to facilitate the

search and consider candidates from a wide range of backgrounds on merit,

taking care that appointees have enough time available to devote to the

position.

The Nomination Committee shall also make recommendations to the

Board concerning:

- Formulating plans for succession for both executive and

non-executive Directors and in particular for the key roles of Chairman and

Chief Executive Officer.

- Membership of the Audit and Remuneration Committees, in

consultation with the Chairmen of those committees.

- The reappointment of any non-executive Director at the conclusion

of their specified term of office, having given due regard to their

performance and ability to continue to contribute to the Board in the light of

the knowledge, skills and experience required.

- The re-election by shareholders of any Director having due regard

to their performance and ability to continue to contribute to the Board in the

light of the knowledge, skills and experience required.

Any matters relating to the continuation in office of any Director

at any time including the suspension or termination of service of an executive

Director as an employee of the Company subject to the provisions of the law

and their service contract.

Governance

Mr Zev Furst (Board and Nomination Committee Chairman), Mr Bertrand

des Pallieres (Chief Executive Officer), and Messrs Gilbert Lehmann and Enrico

Testa (independent non-executive Directors) are the members of the Nomination

Committee. The Company Secretary attends all meetings of the Nomination

Committee.

Activities of the Nomination Committee

The Nomination Committee carried out a review of the size,

structure and composition of the Board after the year end and concluded that

it had the appropriate balance of skills, knowledge, independence and

experience.

Overview

As a result of its work during the year, the Nomination Committee

has concluded that it has acted in accordance with its terms of reference. The

Chairman of the Nomination Committee will be available at the Annual General

Meeting to answer any questions about the work of the Nomination Committee.

This report has been prepared in accordance with Schedule 8 of the

Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations

Amendment 2013 and an Ordinary resolution will be submitted to the

shareholders seeking their approval of the report at the Annual General

Meeting of the Company.

Statement from the Chairman

I am pleased to present the Annual Report on Remuneration for the

year ended 31 December 2013.

Shareholders may be aware that new rules for the reporting of

directors' remuneration came into effect on 1 October 2013. These now require

companies to ask shareholders to approve the annual remuneration paid to

directors every year and to formally approve the Directors' Remuneration

Policy on a three-yearly basis. Any change to the Directors' Remuneration

Policy will require shareholder approval. The vote on the Annual Report on

Remuneration is, as previously, an advisory vote, whilst the Directors'

Remuneration Policy is subject to a binding vote. Accordingly, Ordinary

Resolutions will be put to Shareholders at the forthcoming Annual General

Meeting to be held on 26 June 2014, to receive and approve the Annual Report

on Remuneration and to receive and approve the Directors' Remuneration Policy.

Given the challenging political situation present in Ukraine over

the past months, the company's aim to develop a revised, long-term and

balanced Remuneration Policy aligned to strategy and performance and linked to

shareholder preferences has of necessity taken second precedence to other

pressing matters. In the circumstances, the Company proposes to maintain its

current approach to remuneration, already long-term, balanced and aligned to

strategy and performance, until the situation in the country has settled. At

that point, the Company will bring its revised Remuneration Policy to

shareholders for consideration.

Enrico Testa

Chairman of the Remuneration Committee

28 April 2014

Information not subject to audit: Remuneration Committee

The Remuneration 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

Remuneration Committee considers fully the principles and provisions of the

Code. In designing performance-related remuneration schemes for executive

Directors, the Remuneration Committee has considered and applied Schedule A of

the Code.

Remuneration Committee Report

Responsibilities

In summary, the Remuneration Committee's responsibilities, as set

out in its terms of reference, are as follows:

- To determine and agree with the Board the policy for the

remuneration of the executive Directors, the Company Secretary and other

members of executive management as appropriate.

- To consider the design, award levels, performance measures and

targets for any annual or long-term incentives and approve any payments made

and awards vesting under such schemes.

- Within the terms of the agreed remuneration policy, to determine

the total individual remuneration package of each executive Director and other

senior executives including bonuses, incentive payments and share options or

other share awards.

- To ensure that contractual terms on termination, and any payments

made, are fair to the individual and the Company, that failure is not rewarded

and that the duty to mitigate loss is fully recognised.

Governance

The Remuneration Committee consists of Mr Enrico Testa , Mr Zev Furst and

Mr Gilbert Lehmann. At the discretion of the Remuneration Committee,

the Chief Executive Officer is invited to attend meetings when appropriate,

but is not present when his own remuneration is being discussed. The

Remuneration Committee is also supported by the Company Secretary.

Activities of the Remuneration Committee

During the year, the Remuneration Committee:

- Approved the outline structure of a Long-Term Incentive Plan

(as recommended by PricewaterhouseCoopers, the Group's appointed external advisers)

and directed management to develop a detailed proposal for the Remuneration Committee's

consideration.

- Reviewed and confirmed the Company's remuneration policy, as set

out in this Annual Report on Remuneration 2013.

No awards or payments were made under incentive schemes during

2013. No new incentive schemes were introduced during the period.

Overview

As a result of its work during the year, the Remuneration Committee

has concluded that it has acted in accordance with its terms of reference. The

chairman of the Remuneration Committee will be available at the Annual General

Meeting to answer any questions about the work of the Committee.

The Remuneration Committee unanimously recommends that shareholders

vote to approve the Annual Report on Remuneration and the Directors'

Remuneration Policy at the 2014 Annual General Meeting.

Your Company's performance

A graph may be found in the Comapny's full Annual Report and Accounts

and appears on the Company's website   [*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com) which 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.

The Chairman and Executive Directors of the Company have a regular

dialogue with analysts and substantial shareholders, which includes the

subject of Directors' Remuneration. The outcome of these discussions are

reported to the Board and discussed in detail both there and during meetings

of the Remuneration Committee. Mr Lehmann, as the Senior Independent Director,

is available to shareholders who have concerns that they feel would be

inappropriate to raise via the Chairman or Executive Directors.

The Annual General Meeting is used as an opportunity to communicate

with all shareholders. In addition, financial results, including details of

Directors' remuneration, are posted on the Company's website,

[*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com), as soon as they are announced. 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,   [*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com).

Arrangements for past Directors

Mr Ian Baron resigned as a Director on 15 June 2012 and received

compensation of £80,000 for termination of his consultancy agreement without

notice. Whilst a Director, Mr Baron was entitled to a payment of 10 per cent

of his base salary into a suitable pension arrangement as long as he could

demonstrate that he had 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 2013 and 2014.

Arrangements for existing Directors

During 2013, Mr Bertrand des Pallieres continued as Chief Executive

Officer. Mr des Pallieres' salary is £246,000 ($384,941) per annum, comprising

£216,000 ($337,997) per annum under a consultancy agreement (the terms of

which are reviewed by the Remuneration Committee annually) and £30,000

($46,944) per annum under a services agreement. Any bonus to be awarded to

Mr des Pallieres is at the discretion of the Board. In addition, Mr des Pallieres

is entitled to participate in an incentive scheme, the performance conditions

for which are set by the Remuneration Committee.

Adelmo Schenato continued as Chief Operating Officer of the Company

throughout 2013. Mr Schenato's basic salary is £212,093 ($331,728) comprising

(EURO)225,000 per annum under a consultancy agreement and £21,000 under a services

agreement. Any bonus to be awarded to Mr Schenato is at the discretion of the

Board. In addition, Mr Schenato is entitled to participate in an incentive

scheme, the performance conditions for which are set by the Remuneration

Committee.

Information subject to audit:

2013 Directors' emoluments

Director $ $ $ $ $ $ $ $

Salary/fees Pension Loss of Total Salary/fees Pension Loss of office Total

office in 2013 in 2012

Z Furst 133,008 - - 133,008 131,714 - - 131,714

B des Pallieres 384,941 - - 384,941 389,935 - - 389,935

A Schenato 331,728 - - 331,728 308,849 - - 308,849

G Lehmann 70,416 - - 70,416 71,330 - - 71,330

E Testa 54,768 - - 54,768 55,479 - - 55,479

I Baron (resigned 15 - - - - 121,524 31,966 126,808 280,298

June 2012)

TOTAL 974,861 - - 974,861 1,078,831 31,966 126,808 1,237,605

The remuneration of the highest paid Director, Mr des Pallieres, was $384,941 (2012: $389,935).

There were no performance payments or benefits in kind paid in 2013 (2012: $nil).

Mr des Pallieres is a non-executive Director of Versatile Systems

Inc. and Equus Total Returns Inc. Any fees paid are retained by Mr des

Pallieres.

Share Incentive Arrangements

The Company currently operates the following incentive plans:

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).

No options have been exercised under any Option Scheme and thus no

gain on exercise has been realised.

There are no options outstanding at 31 December 2013.

Non-Executive Directors

In May 2011 the Board agreed that the Chairman's fee be set at

£85,000 ($131,714) and that the fee for acting as an independent non-executive

Director be set at £35,000 ($55,479) with an additional £10,000 ($15,851) for

acting as Chairman of the Audit Committee. There has been no increase in

non-executive Directors' fees since that time.

Directors' Remuneration Policy

The Company adheres to the recommendation of the Code, that levels

of remuneration should be sufficient to attract, retain and motivate directors

of the quality required to run the Company successfully. The Company, however,

will not pay more than is necessary to achieve these objectives.

Those aspects of executive directors' remuneration which relate to

performance will be testing in nature, and designed to promote the long-term

success of the Company. At present, however, there are no plans to increase

the level of fees paid to directors. In addition, views expressed by

shareholders on the fees paid to directors, will be taken into consideration

by the Board, when reviewing the Directors' Remuneration Policy and in the

annual review of directors' fees. The Company's policy when determining the

duration of notice periods, and the extent of termination payments, will be

based on prevailing best practice. The Directors' Remuneration Policy will be

put to a shareholders' vote, at least once every three years.

An Ordinary Resolution, for the approval of the Directors'

Remuneration Policy, will be put to shareholders at the forthcoming Annual

General Meeting. The Directors' Remuneration Policy will be effective

immediately, if and when the Ordinary Resolution is passed by shareholders.

The Remuneration Committee is appointed by the Board from the

non-executive Directors of the Group. The Remuneration Committee's terms of

reference include all matters indicated by the Code. They are reviewed

annually by the Remuneration Committee and any changes are then referred to

the Board for approval. The terms of reference of the Remuneration Committee

are published on the Company's website,   [*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com), and are also

available from the Company Secretary at the Registered Office. Two members

constitute a quorum.

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 Notice period

B des Pallieres 1 August 2011 Six months

A Schenato 25 January 2012 Six months

Remuneration policy and package for executive Directors

The Remuneration Committee's philosophy is that remuneration

arrangements should be appropriately positioned to support the Group's

business strategy over the longer term and 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. Targets should relate to the Group's performance in

terms of overall revenue and profit and the executive's own performance.

Individual targets should reflect the role of the executive in question but

might relate, for example, to the generation of new revenue streams protection

of the Company's existing tangible and intangible assets and the promotion of

the Company's business interests. Exceptional rewards should only be delivered

if there are exceptional returns.

Share Incentive Arrangements

The Company currently operates the following incentive plans:

- 2008 Performance Share Plan; and

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

The Company made no awards in 2013 under the 2008 Share Option

Plan. There were no outstanding options as at 31 December 2013.

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.

Directors' interests in shares

The beneficial interests of the Directors in office as at 31 December 2013

and their connected persons in the Ordinary shares of the

Company at 31 December 2013 are set out below.

Shares as at December 31 2013 2012

Z Furst - -

B des Pallieres 200,000 200,000

G Lehmann - -

E Testa - -

A Schenato - -

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).

No options have been exercised under any Option Scheme and thus no

gain on exercise has been realised.

There are no options outstanding at 31 December 2013.

Remuneration policy for 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.

In May 2011 the Board agreed that the Chairman's fee be set at

£85,000 ($131,714) and that the fee for acting as an independent non-executive

Director be set at £35,000 ($55,479) with an additional £10,000 ($15,851) for

acting as Chairman of the Audit Committee. There has been no increase in

non-executive Directors' fees since that time.

The non-executive Directors' fees are non-pensionable. The

non-executive Directors have not to date been eligible to participate in any

incentive plans; however, the Board considers that it may be appropriate in

the future to enable such participation, subject to suitably stretching

performance thresholds. All non-executive Directors have a letter of

appointment that appoints them to the Board for an initial three year period.

Under the Company's Articles of Association, 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.

The Board has agreed, however, that all Directors should stand for annual

re-election by the shareholders. Appointments can be terminated by the Company

on three months' notice or immediately due to a breach.

Other non-executive Directors

The dates of the non-executive Directors' original appointment and

expiry of current term in accordance with their letters of appointment are:

Date of Expiry of

Non-executive appointment current term

Director

Z Furst 2 August 2011 1 August 2014

E Testa 1 October 2011 1 October 2014

G Lehmann 18 November 2011 18 November 2014

Approval

The Annual Report on Remuneration 2013 was approved by the Board on

28 April 2014 and signed on its behalf by:

Zev Furst

Chairman

28 April 2014

Statement of Directors' Responsibilities in respect of the Annual

Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and

the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements

for each financial year. The Directors are required 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. 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 Group and of the profit or loss for that period. In preparing the

Company and Group's financial statements, International Accounting Standards

('IAS') Regulation 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 entity's

financial position and financial performance; and

- make an assessment of the Company's and 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 and Group's

transactions and disclose with reasonable accuracy at any time the financial

position of the Company and Group and enable them to ensure that the financial

statements comply with the Companies Act 2006. They are also responsible for

safeguarding the assets of the company and hence for taking reasonable steps

for the prevention and detectiln of fraud and other irregularities.

Under applicable law and regulations, the Directors are also

responsible for preparing a Directors' Report (including Business Review),

Annual Report on Remuneration, Directors' Remuneration Policy and Corporate

Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of

the corporate and financial information included on the Company's website,

[*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com). Legislation in the United Kingdom governing the

preparation and dissemination of the financial statements may differ from

legislation in other jurisdictions.

Responsibility Statement of the Directors in respect of the Annual

Report

We confirm to the best of our knowledge:

(1) the financial statements, prepared in accordance with

International Financial Reporting Standards as adopted by the European Union,

give a true and fair view of the assets, liabilities, financial position and

profit or loss of the Company and the undertakings included in the

consolidation as a whole; and

(2) the management report, which is incorporated into the

Directors' Report along with the Strategic Report, includes a fair review of

the development and performance of the business and the position of the

Company and the undertakings included in the consolidation taken as a whole,

together with a description of the principal risks and uncertainties that they

face; and

(3) the annual report and the financial statements, taken as a

whole, are fair, balanced and understandable and provide the information

necessary for the shareholders to assess the Group's performance, business

model and strategy.

On behalf of the Board

Zev Furst

Chairman

28 April 2014

The Auditors have reported on the accounts for 2013; their report was

(i) unqualified, (ii) did not include a reference to any matters to

which the Auditors drew attention by way of emphasis without qualifying

their report and (iii) did not contain a statement under Section 498

(2) or (3) of the Companies Act 2006. The text of the Auditor's report

can be found in the Company's full Annual Report and Accounts on the

Company's website   [*http://www.cadoganpetroleum.com*](http://www.cadoganpetroleum.com)

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

Restated

2013 2012

Notes $'000 $'000

CONTINUING OPERATIONS

Revenue 5 3,772 3,761

Cost of sales (3,019) (2,616)

Gross profit 753 1,145

Administrative expenses:

Other administrative expenses (8,919) (7,456)

Impairment of ***oil*** and gas assets 8 - (25,717)

Reversal of impairment of other assets 8 234 669

(8,685) (32,504)

Share of losses in joint ventures 19 (6,630) (58,277)

Other operating expenses, net 6 (266) (2,926)

Operating loss (14,828) (92,562)

Investment revenue 12 434 118

Finance (costs)/income 13 (6) 34

Loss before tax (14,400) (92,410)

Tax charge 14 (289) (251)

Loss for the year 9 (14,689) (92,661)

Attributable to:

Owners of the Company (14,660) (92,631)

Non-controlling interest (29) (30)

(14,689) (92,661)

Loss per Ordinary share cents cents

Basic and diluted 15 (6.3) (40.1)

COMSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

Restated

2013 2012

$'000 $'000

Loss for the year (14,689) (92,661)

Items that may be reclassified subsequently

to profit or loss:

Unrealised currency translation differences (3,551) 4,384

Total comprehensive loss for the year (18,240) (88,277)

Attributable to:

Owners of the Company (18,211) (88,247)

Non-controlling interest (29) (30)

(18,240) (88,277)

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

Restated Restated

2013 2012 2011

Notes $'000 $'000 $'000

ASSETS

Non-current assets

Intangible exploration and evaluation assets 16 5,958 3,017 2,207

Property, plant and equipment 17 43,886 46,378 47,985

Investments in joint ventures 19 65,965 67,908 106,286

115,809 117,303 156,478

Current assets

Inventories 20 2,951 3,482 4,007

Trade and other receivables 21 6,879 39,621 63,647

Cash and cash equivalents 21 56,484 40,477 64,301

66,314 83,580 131,955

Total assets 182,123 200,883 288,433

LIABILITIES

Non-current liabilities

Deferred tax liabilities 22 (675) (586) (458)

Long-term provisions 24 (195) (219) (395)

(870) (805) (853)

Current liabilities

Trade and other payables 23 (3,442) (4,087) (3,625)

Current provisions 24 (513) (453) (140)

(3,955) (4,540) (3,765)

Total liabilities (4,825) (5,345) (4,618)

NET ASSETS 177,298 195,538 283,815

EQUITY

Share capital 25 13,337 13,337 13,337

Retained earnings 282,871 297,438 388,407

Cumulative translation reserves (120,838) (117,287) (121,671)

Other reserves 1,589 1,682 3,344

Equity attributable to owners of the Company 176,959 195,170 283,417

Non-controlling interest 339 368 398

TOTAL EQUITY 177,298 195,538 283,815

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 28 April 2014. They were signed on its

behalf by:

Bertrand Des Pallieres

Chief Executive Officer

28 April 2014

The notes below form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For year ended 31 December 2013

Restated

2013 2012

Note $'000 $'000

Net cash inflow/(outflow) from operating 23,994 (525)

activities 26

Investing activities

Investments in joint ventures (4,687) (22,478)

Purchases of property, plant and equipment (783) (1,083)

Purchases of intangible exploration and evaluation (3,069) (87)

assets

Proceeds from sale of property, plant and 127 227

equipment

Interest received 434 118

Net cash used in investing activities (7,978) (23,303)

Net increase/(decrease) in cash and cash 16,016 (23,828)

equivalents

Effect of foreign exchange rate changes (9) 4

Cash and cash equivalents at beginning of year 40,477 64,301

Cash and cash equivalents at end of year 56,484 40,477

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Other reserves

Cumulative Non-

Share Retained translation Share-based Reorgani- controlling

capital earnings reserves payment sation interest Total

$'000 $'000 $'000 $'000 $'000 $'000 $'000

As at 1 January 2012 13,337 389,734 (123,784) 1,755 1,589 398 283,029

Adoption of new standard - (1,327) 2,113 - - - 786

As at 1 January 2012 (as

restated) 13,337 388,407 (121,671) 1,755 1,589 398 283,815

Net loss for the year - (93,106) - - - (30) (93,136)

Exchange translation

differences on foreign

operations - - 4,384 - - - 4,384

Total comprehensive loss

for the year - (93,106) 4,384 - - (30) (88,752)

Share-based payments - 1,662 - (1,662) - - -

Adoption of new standard - 475 - - - - 475

As at 1 January 2013 (as

restated) 13,337 297,438 (117,287) 93 1,589 368 195,538

Net loss for the year - (14,660) - - - (29) (14,689)

Exchange translation

differences on foreign

operations - - (3,551) - - - (3,551)

Total comprehensive loss (3,551) -

for the year - (14,660) - (29) (18,240)

Share-based payments - 93 - (93) - - -

As at 31 December 2013 13,337 282,871 (120,838) - 1,589 339 177,298

Notes to the Company Financial Statements

For year ended 31 December 2013

1. General information

Cadogan Petroleum plc (the `Company', together with its

subsidiaries the `Group'), is registered in England and Wales under the

Companies Act. The address of the registered office is 1st Floor, 40 Dukes Place, London, EC3A 7NH.

The nature of the Group's operations and its principal activities are set out in the Operations

Review above and the Financial Review also above.

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) Business Combinations

IFRS 13 Fair Value Management

IAS 24(amended) Related Party Disclosures

IAS 32(amended) Classification of Rights Issues

IFRIC 19 Extinguishing Financial Liabilities with Equity

Instruments

IFRIC 14(amended) Prepayments of a Minimum Funding Requirement

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 9 Financial Instruments (effective 1 January 2015)

IFRS 10, IFRS 12, Investment entities (effective 1 January 2014)

IAS 27 (amended)

IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities

(effective 1 January 2014)

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.

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.

2. Adoption of new and revised Standards

The following accounting amendments, standards and interpretations

were not yet effective in the current reporting period but were early adopted:

IFRS 10 Consolidated Financial Statements

IAS 27 Separate Financial Statements

IFRS 11 Joint Arrangements

IAS 28 Investment in Associates and Joint Ventures

IFRS 12 Disclosure of Interests in Other Entities

The Group has not early adopted any other amendment, standard or

interpretation that has been issued but is not yet effective. It is expected

that where applicable, these standards and amendments will be adopted on each

respective effective date. A number of other amendments to accounting

standards issued by the International Accounting Standards Board also apply

for the first time in 2013. These do not have a significant impact on the

accounting policies, methods of computation or presentation applied by the

Group.

The nature and the impact of each new amendment, standard or

interpretation are described below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 replaces the parts of the previously existing IAS 27 that

dealt with consolidated financial statements. The new standard changes the

definition of control such that an investor controls an investee when it is

exposed, or has rights, to variable returns from its involvement with the

investee and has the ability to control those returns through its power over

the investee. The adoption of IFRS 10 has had no impact on the consolidation

of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13

Jointly-controlled Entities - Non-monetary Contributions by Venturers and

changes the classifications for joint arrangements. Under IFRS 11, investments

in joint arrangements are classified as either joint ventures or joint

operations based on the rights and obligations of the parties to the

arrangement. When a joint arrangement has been structured through a separate

vehicle, consideration is given to the legal form of the separate vehicle, the

terms of the contractual arrangement and, when relevant, other facts and

circumstances. When the activities of an arrangement are primarily designed

for the provision of output to the parties and the parties are substantially

the only source of cash flows contributing to the continuity of the operations

of the arrangement, this indicates the parties to the arrangement have rights

to the assets and obligations for the liabilities. The Group has considered

these facts and circumstances, among others, in assessing whether the

arrangement is a joint operation or a joint venture. The standard removes the

option to account for joint ventures using proportionate consolidation and

instead joint arrangements that meet the definition of a joint venture under

IFRS 11 must be accounted for using the equity method.

The application of this standard has resulted in the existing joint

ventures LLC Astroinvest-energy, LLC Gazvydobuvannya and LLC Westgasinvest

being accounted for under the equity method where previously they were

proportionately consolidated. No other material joint arrangements within the

Group were affected. The Group has applied IFRS 11 retrospectively in

accordance with the transitional provisions and the 2012 results have been

restated accordingly. Further detail of the impact on the Group financial

statements for the year ended 31 December 2013 and the year ended 31 December 2012

is set out in note 30.

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, accounting for the WGI

transaction, 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) 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 above. The financial position of the Group, its

cash flow and liquidity position are described in the Financial Review above.

The Group's cash balance at 31 December 2013 was $56.5 million

(2012: $40.5 million) excluding $0.2 million (2012: $0.7 million) of Cadogan's

share of cash and cash equivalents in joint ventures with no external debt

(2012: $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 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. In making its statement the

Directors have considered the recent political and economic uncertainty in

Ukraine, as described further in the note 4 (f).

(c) Basis of consolidation

The consolidated financial statements incorporate the financial

statements of the Company and entities controlled by the Company (its

subsidiaries) made up to 31 December each year. IFRS 10 defines control to be

investor control over an investee when it is exposed, or has rights, to

variable returns from its involvement with the investee and has the ability to

control those returns through its power over the investee.

The results of subsidiaries acquired of 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.

(c) Basis of consolidation

Non-controlling interests in subsidiaries are identified separately

from the Group's equity therein. Those interests of non-controlling

shareholders that are present ownership interests entitling their holders to a

proportionate share of net assets upon liquidation may be initially measured

at fair value or at the non-controlling interests' proportionate share of the

fair value of the acquiree's identifiable net assets. The choice of

measurement is made on an acquisition-by-acquisition basis. Other

non-controlling interests are initially measured at fair value.

Subsequent to acquisition, the carrying amount of non-controlling

interests is the amount of those interests at initial recognition plus the

non-controlling interests' share of subsequent changes in equity. Total

comprehensive income is attributed to non-controlling interests even if this

results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result

in a loss of control are accounted for as equity transactions. The carrying

amount of the Group's interests and the non-controlling interests are adjusted

to reflect the changes in their relative interests in the subsidiaries. Any

difference between the amount by which the non-controlling interests are

adjusted and the fair value of the consideration paid or received is

recognised directly in equity and attributed to the owners of the Company.

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.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the

acquisition method. The cost of the acquisition is measured at the aggregate

of the fair values, at the date of exchange, of assets given, liabilities

incurred or assumed, and equity instruments issued in exchange for control of

the acquiree. Acquisition-related costs are recognised in profit or loss as

incurred. The acquiree's identifiable assets, liabilities and contingent

liabilities that meet the conditions for recognition under IFRS 3 Business

Combinations are recognised at their fair value at the acquisition date,

except for non-current assets (or disposal groups) that are classified as held

for resale in accordance with IFRS 5 Non-Current Assets held for sale and

Discontinued Operations, which are recognised and measured at fair value less

costs to sell.

(e) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint

control of the arrangement have rights to the net assets of the arrangement. A

joint venturer recognises its interest in a joint venture as an investment and

shall account for that investment using the equity method in accordance with

IAS 28 Investments in Associates and Joint Ventures.

(f) 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.

(g) 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.

The relevant exchange rates used were as follows:

Year ended 31 December 2013

GBP/USD USD/UAH

Closing rate 1.6491 8.3920

Average rate 1.5648 8.2545

(h) Taxation

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

deferred tax.

The tax currently payable is based on taxable profit for the year.

Taxable profit differs from net profit as reported in the 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 taxable profit nor the accounting profit. Deferred tax

liabilities are recognised for taxable ***temporary*** differences arising on

investments in subsidiaries and associates, and interests in joint ventures,

except where the Group is able to control the reversal of the ***temporary***

difference and it is probable that the ***temporary*** difference will not reverse

in the foreseeable future.

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.

(i) Property, plant and equipment

Property, plant and equipment ('PP&E') are carried at cost less

accumulated depreciation and any recognised impairment loss.

Depreciation and amortisation is charged so as to write off the

cost or valuation of assets, other than land, over their estimated useful

lives, using the straight-line method, on the following bases:

Buildings 4%

Fixtures and equipment 10% to 30%

The gain or loss arising on the disposal or retirement of an asset

is determined as the difference between the sales proceeds and the carrying

amount of the asset and is recognised in income.

(j) Impairment of Property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts

of its PP&E to determine whether there is any indication that those assets

have suffered an impairment loss. If any such indication exists, the

recoverable amount of the asset is estimated in order to determine the extent

of the impairment loss (if any). Where the asset does not generate cash flows

that are independent from other assets, the Group estimates the recoverable

amount of the cash-generating unit to which the asset belongs. The recoverable

amount is the higher of fair value less costs to sell and value in use. In

assessing value in use, the estimated future cash flows are discounted to

their present value using a pre-tax discount rate that reflects current market

assessments of the time value of money and the risks specific to the asset for

which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is

estimated to be less than its carrying amount, the carrying amount of the

asset (cash-generating unit) is reduced to its recoverable amount. An

impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount

of the asset (cash-generating unit) is increased to the revised estimate of

its recoverable amount, but so that the increased carrying amount does not

exceed the carrying amount that would have been determined had no impairment

loss been recognised for the asset (cash-generating unit) in prior years. A

reversal of an impairment loss is recognised as income immediately.

(k) Intangible exploration and evaluation assets

The Group applies the modified 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 modified full

cost method of accounting, expenditure made on exploring for and evaluating

***oil*** and gas properties is accumulated and initially capitalised as an

intangible asset, by reference to appropriate cost centres being the

appropriate ***oil*** or gas property. E&E assets are then assessed for impairment

on a 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.

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. Upon approval of a

development program, the carrying value, after any impairment loss, of the

relevant E&E assets is reclassified to the development and production assets

within PP&E.

Intangible E&E assets that relate to E&E activities that are

determined not to have resulted in the discovery of commercial Reserves remain

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.

(l) 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.

(l) Development and production assets

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.

(m) Inventories

Raw materials and ***oil*** stock are stated at the lower of cost and net

realisable value. Costs comprise direct materials and, where applicable,

direct labour costs and those overheads that have been incurred in bringing

the inventories to their present location and condition. Cost is allocated

using the weighted average method. Net realisable value represents the

estimated selling price less all estimated costs of completion and costs to be

incurred in marketing, selling and distribution.

(n) Financial instruments

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 28.

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.

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 28.

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.

(o) Provisions

Provisions are recognised when the Group has a present obligation

(legal or constructive) as a result of a past event, it is probable that the

Group will be required to settle that obligation and a reliable estimate can

be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the

consideration required to settle the present obligation at the balance sheet

date, taking into account the risks and uncertainties surrounding the

obligation. When a provision is measured using the cash flows estimated to

settle the present obligation, its carrying amount is the present value of

those cash flows.

(p) Decommissioning

A provision for decommissioning is recognised in full when the

related facilities are installed. The decommissioning provision is calculated

as the net present value of the Group's share of the expenditure expected to

be incurred at the end of the producing life of each field in the removal and

decommissioning of the production, storage and transportation facilities

currently in place. The cost of recognising the decommissioning provision is

included as part of the cost of the relevant asset and is thus charged to the

income statement on a unit of production basis in accordance with the Group's

policy for depletion and depreciation of tangible non-current assets. Period

charges for changes in the net present value of the decommissioning provision

arising from discounting are included within finance costs.

(q) 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.

(r) Share-based payments

The Group issued 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 issued 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.

(r) Share-based payments

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) Impairment of E&E and PP&E

IAS 36 Impairment of Assets and IFRS 6 Exploration for and

Evaluation of Mineral Resources require that a review for impairment be

carried out if events or changes in circumstances indicate that the carrying

amount of an asset may not be recoverable.

For PP&E assets the aggregate carrying value of each cash

generating unit ('CGU') was compared against the expected recoverable amount

of the related asset, by reference to the net present value of the future cash

flows expected to be derived from the production of commercial Reserves

(2P Reserves) of that unit.

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. 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. In 2013, the Group has

performed significant volume of work which it continues in 2014, including the

extension of the Pokrovskoe license exploration for a shallow stratigraphic

levels, re-interpretation of the existing 3D seismic, in order to evaluate the

remaining potential of the full Pokrovskoe license.

Management assessed whether any impairment triggers were present at

31 December 2013 and concluded that the following impairment indicators

existed for the Pirkovska license area:

- High uncertainty about the impact of political and economic

turmoil in Ukraine on Group operations;

- Significant market capitalization discount to the carrying amount

of the net assets of the entity; and

- Lack of production at Pirkovska license area since 2009

Management determined the recoverable amount of the Pirkovska

license as its fair value less cost to sell (FVLCS). The key assumptions for

the FVLCS calculations are those regarding the production flow rates, discount

rates, relevant elements of Ukraine fiscal regime for petroleum operators, and

expected selling prices and direct costs. These assumptions reflect

management's best estimates. Management estimates discount rates that reflect

the current market assessments of the time value of money and the risks

specific to the CGUs. Changes in selling prices and direct costs are based on

past practices and expectations of future changes in the market.

- The key assumptions used to forecast cash flows from Ukraine operations are

as follows: pre-tax discount rate of 17.86% (post-tax of 15%); Due to the

recent events in Ukraine, there is an increased level of risk associated with

operating in Ukraine, and consequently a revision of discount rate might be

required if the escalation of political turmoil results in significant downgrading

of country risk, or company' own risk, or both;

- expected future selling prices based on current and anticipated market

conditions for ***oil***, condensate and gas. The regulated gas price for the

industrial users in Ukraine was set at about 10% lower than during 2013.

However, it has been announced by Gazprom that the price for Ukraine, which is

the reference price for the Regulator setting the maximum price for the

industrial consumers, from 1 April 2014 onwards will not include any discounts

and will be in line with the original Gazprom and Naftogaz contract.

Nevertheless, there continues to be a level of uncertainty in forecasting the

Ukraine gas price due to the current events. The estimate used in the

calculation uses the gas price referenced to Gazprom and Naftogaz contract

(conservatively including $100/mcm discount as the result of Kharkiv

agreements of 2010), there is however declarations by Gazprom that this

discount will no longer apply;

- cash flows projected up to 2034 depending on the field to which they relate

and an assumption has been made that the relevant licenses will be extended.

The assumption has been made based on the most recent analysis of political

turmoil impacts. Further escalations of the political crisis may impact the

Group's normal business activities, including maintenance of its Ukrainian

production licences;

- production flow rates confirmed by experienced in-house geologists and

engineers, supported by report produced in 2009 by an independent reservoir

engineer, Gaffney, Cline & Associates Ltd;

- costs based on best estimates with consideration to previous experience and

inflation; and

- inclusion of relevant elements of Ukraine fiscal regime for petroleum

operators (such as production and royalty tax relevant to each license;

(c) 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.

(d) 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. Due to the budgetary

problems of Ukraine, the recovery of VAT has been an issue for most companies

operating in Ukraine. In the past the Group has taken a conservative view in

relation to VAT and has impaired all outstanding balances due to the

uncertainty of the recovery of these balances in cash from the State Budget of

Ukraine and uncertainty of future production, VAT on which would be offset

against the VAT recoverable amounts the Group has.

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 cumulative provision of $9.5 million (2012: $10.1 million)

against Ukrainian VAT receivable has thus been recognised as at

31 December 2013, excluding VAT recoverable balances in the JV which are reported

under the equity method in these financial statements.

(e) Accounting for the WGI transaction

As a consequence of the WGI transaction, outlined in note 19, two

areas of significant judgement were identified by the Group, being the

accounting treatment of the WGI transaction and the valuation of the Group's

contribution of the two licenses to WGI. After considering the requirements

per IAS 31 Interest In Joint Ventures, the Directors have deemed the criteria

under this standard to have been met, and have therefore accounted for WGI as

a joint venture.

In accounting for the contribution of the licenses, the Group have

applied IAS 31 and SIC Interpretation 13 - Jointly Controlled Entities -

Non-Monetary Contributions by Venturers, which states that any profit or loss

arising on the contribution of non-monetary assets in exchange for an equity

interest should be recognised to the extent they are attributable to the

equity interests of the other venturers. Whilst the licenses contributed had a

nil NBV in the books of the Group at the date of contribution, the associated

fair value of the licenses contributed in return for the 15.0% interest in WGI

has been estimated at $6.4 million. The resultant profit recognised in the

income statement is $5.4 million which represents the un-eliminated 84.9%

share of the gain on contribution of these licenses. The Group has accordingly

recognised an intangible asset of $5.4 million as its share of the licenses.

As at 31 December 2012 the Group has adopted IFRS 11, according to

which joint ventures have been recognized in the financial statements of the Group

using the equity method (see note 19).

(f) Assessment of political and economic turmoil in Ukraine impact on Group

operations

Since November 2013, Ukraine has been in a political and economic

turmoil. The Ukrainian Hryvnia devalued against major world currencies and

significant external financing is required to maintain stability of the

economy. In February 2014, Ukraine's sovereign rating has been downgraded to

CCC with a negative outlook. The Government however is expecting significant

funding from the international creditors in 2014, with International Monetary

Fund ("IMF") being the largest.

In February 2014, the Parliament of Ukraine voted for reinstatement

of the 2004 Constitution and dismissal of the incumbent President. New

presidential elections are scheduled for May 2014 and a transitional

government has been formed. In March 2014, Crimea, an autonomous republic of

Ukraine, was effectively annexed by the Russian Federation. The further

political developments are currently unpredictable and may adversely affect

the Ukrainian economy.

Management is monitoring how the political and economic situation is affecting

the Group operations, and has considered whether adjustments are required to

the carrying values of assets and the appropriateness of the going concern

assumption. As a result management have concluded that there were no

significant adverse consequences in relation to the Group's operations, cash

flows and assets that impact the 2013 financial statements, apart from

continuous uncertainty related to key assumptions used by management in

assessment of the recoverable amount of production assets as described above.

Any further escalations of the political crisis may impact the Group's normal

business activities, and increase the risks relating to its business

operations, financial status and maintenance of its Ukrainian production

licences.

5. Revenue

2013 2012

$'000 $'000

Sale of hydrocarbons 2,619 2,999

Other revenues 1,153 762

3,772 3,761

Other revenues represent revenues from services provided to third parties of

$1.2 million (2012: $0.8 million).

Information about major customers

Included in revenues for the year ended 31 December 2013 are revenues of

$1.2 million (2012 - $2.4 million) which arose from sales to the Group's

largest customer.

6. Other operating expenses, net

2013 2012

$'000 $'000

Out of court settlements 65 597

Transactions with JV partner (60) 88

Net foreign exchange losses (271) (3,611)

(266) (2,926)

Net foreign exchange loss of $0.3 million mainly relates to the

revaluation of the USD-denominated monetary assets of the Group's UK entities

which have GBP as a functional currency.

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 assets and only one

geographical segment, being Ukraine.

8. Impairment

2013 2012

$'000 $'000

Impairment of ***oil*** and gas assets - (25,717)

Inventories (note 20) 97 (323)

VAT recoverable (note 4(d)) 137 992

Impairment of other assets 234 669

The carrying value of inventory as at 31 December 2013 and 2012 has

been impaired to reduce it to net realisable value (see note 20). During 2013

the Group gross sales of inventory to third parties comprised $0.4 million

(2012: $1.6 million) and some sales were for the higher amounts than the book

value of inventories, therefore $0.1 million of the inventory impairment

provision previously recognised has been released.

During the year a net release of impairment $0.1 million (2012: $0.9 million)

in respect of Ukrainian VAT as the result of VAT recovery of

historical balances through offset of VAT liabilities arising on sales.

Total impairment for 2012 of ***oil*** and gas assets of $25.7 million

includes $24.7 million ($35.0 million undiscounted) impairment of the bonus to

be received from Eni on obtaining the production licence on Zagoryanska

licence which formed part of the consideration on disposal of 60% in the

Zagoryanska licence to Eni in 2011.

9. Loss for the year

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

Restated

2013 2012

$'000 $'000

Depreciation of property, plant and equipment (1,201) (1,352)

Loss on disposal of property, plant and equipment (227) (285)

Reversal of impairment of other assets (note 8) 234 669

Impairment of ***oil*** and gas assets (note 8) - (25,717)

Staff costs (4,790) (4,753)

Net foreign exchange losses (271) (3,611)

In addition to the depreciation of PP&E of $1.2 million (2012: $1.4 million)

in the year ended 31 December 2013, depreciation of $0.2 million

(2012: $0.4 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:

Restated

2013 2012

$'000 $'000

Audit fees

Fees payable to the Company's auditor and their associates for 201 232

the audit of the Company's annual accounts

Fees payable to the Company's auditor and their associates for

other services to the Group:

- The audit of the Company's subsidiaries 13 27

Total audit fees 214 259

Non-audit fees

- Audit-related assurance services 20 21

- Taxation compliance services 45 98

- Other taxation advisory services 40 -

Non-audit fees 105 119

11. Staff costs

The average monthly number of employees (including Executive

Directors) was:

2013 2012

Number Number

Executive Directors 2 2

Other employees 116 124

118 126

Total number of employees at 31 December 118 126

$'000 $'000

Their aggregate remuneration comprised:

Wages and salaries 5,102 5,191

Other pension costs - 36

Social security costs 725 748

5,827 5,975

Within wages and salaries $0.7 million (2012: $0.7 million) relates

to amounts accrued and paid to executive Directors for services rendered.

Included within wages and salaries, is $0.3 million (2012: $0.2 million)

capitalised to intangible E&E assets and $0.1 million (2012: $0.2 million)

capitalised to development and production assets.

12. Investment revenue

2013 2012

$'000 $'000

Interest on bank deposits 283 118

Interest on loans issued 151 -

434 118

13. Finance (costs)/income

2013 2012

$'000 $'000

Unwinding of discount on decommissioning provision (note 24) (6) 34

14. Tax

2013 2012

$'000 $'000

Current tax 169 121

Deferred tax (note 22) 120 130

289 251

The Group's operations are conducted primarily outside the UK. The

most appropriate tax rate for the Group is therefore considered to be

19 per cent (2012: 21 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 charge for the year can be reconciled to the loss per

the income statement as follows:

2013 2013 2012 2012

$'000 % $'000 %

Loss before tax (14,400) 100 (92,410) 100

Tax credit at Ukraine corporation tax rate of (2,736) (19,406)

19% (2012: 21%) 19 21

Permanent differences 3,004 -21.0 17,776 -19.2

Foreign exchange on operating activities (552) 3.8 730 -0.8

Tax losses generated in the year not yet 857 1,041

recognised -6.0 -1.1

Other ***temporary*** differences - 0.0 446 -0.5

Effect of different tax rates (284) 2.0 (336) 0.4

Tax credit and effective tax rate for the year 289 -2.1 251 -0.2

15. Loss per Ordinary share

Basic loss per Ordinary share is calculated by dividing the net

loss for the year attributable to owners of the Company by the weighted

average number of Ordinary shares outstanding during the year. The calculation

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

2013 2012

Loss attributable to owners of the Company $'000 $'000

Loss for the purposes of basic loss per share being net loss (14,660) (92,631)

attributable to owners of the Company

2013 2012

Number Number

Number of shares `000 `000

Weighted average number of Ordinary shares for the purposes of 231,092 231,092

basic profit per share

Effect of dilutive potential ordinary shares:

Options and warrants outstanding - 93

Weighted average number of Ordinary shares for the purposes of 231,092 231,185

diluted profit per share

2013 2012

Cent Cent

Loss per Ordinary share

Basic (6.3) (40.1)

Diluted (6.3) (40.1)

Diluted loss per Ordinary share equals basic loss per Ordinary

share as there is no dilutive effect from the outstanding share warrants.

16. Intangible exploration and evaluation assets

Cost $'000

At 1 January 2012 (as restated) 31,951

Additions 973

Change in estimate of decommissioning assets (note 24) (89)

Transfer to property, plant and equipment (note 17) (31)

Disposals 30

Exchange differences 215

At 1 January 2013 (as restated) 33,049

Additions 3,276

Change in estimate of decommissioning assets (note 24) 16

Transfer from property, plant and equipment (note 17) 34

Disposals (118)

Exchange differences (1,362)

At 31 December 2013 34,895

Impairment

At 1 January 2012 (as restated) 29,941

Exchange differences 91

At 1 January 2013 (as restated) 30,032

Exchange differences (1,095)

At 31 December 2013 28,937

Carrying amount

At 31 December 2013 5,958

At 31 December 2012 (as restated) 3,017

Additions during the year include $0.2 million (2012: $0.3 million)

of capitalised depreciation of development and production assets used in

exploration and evaluation activities.

17. Property, plant and equipment

Development

and

production

Other assets Total

Cost $'000 $'000 $'000

At 1 January 2012 (as restated) 2,846 59,712 62,558

Additions 293 783 1,076

Transfer from intangible exploration and evaluation 28 3 31

assets

Change in estimate of decommissioning assets (note - 263 263

24)

Disposals (156) (1,381) (1,537)

Exchange differences 43 493 536

At 1 January 2013 (as restated) 3,054 59,873 62,927

Additions 217 585 802

Transfer to intangible exploration and evaluation - (34) (34)

assets

Transfer to other assets 80 (80) -

Change in estimate of decommissioning assets (note - 42 42

24)

Disposals (138) (416) (554)

Exchange differences (112) (2,479) (2,591)

At 31 December 2013 3,101 57,491 60,592

Accumulated depreciation and impairment

At 1 January 2012 (as restated) 1,448 13,182 14,630

Impairment - 1,036 1,036

Charge for the year 397 1,315 1,712

Disposals (59) (985) (1,044)

Exchange differences 33 182 215

At 1 January 2013 (as restated) 1,819 14,730 16,549

Charge for the year 326 1,062 1,388

Disposals (82) (360) (442)

Exchange differences (65) (724) (789)

At 31 December 2013 1,998 14,708 16,706

Carrying amount

At 31 December 2013 1,103 42,783 43,886

At 31 December 2012 (as restated) 1,235 45,143 46,378

18. Subsidiaries

The Company had investments in the following subsidiary

undertakings as at 31 December 2013, which principally affected the profits

and net assets of the Group:

Country of Proportion

incorporation of voting

and operation interest % Activity

Directly held

Cadogan Petroleum Holdings Ltd UK 100 Holding company

Ramet Holdings Ltd Cyprus 100 Holding company

Indirectly held

Rentoul Ltd Isle of Man 100 Holding company

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

Momentum Enterprise (Europe) Ltd Cyprus 100 Holding company

Cadogan Ukraine Holdings Limited Cyprus 100 Holding company

Cadogan Momentum Holdings Inc Canada 100 Holding company

USENCO International Inc. USA 100 Holding company

Radley Investments Ltd UK 100 Holding company

Cadogan Petroleum Trading SAGL Switzerland 100 Trading company

LLC AstroInvest -Ukraine Ukraine 100 Exploration

LLC Astro Gas Ukraine 100 Exploration

DP USENCO Ukraine Ukraine 100 Exploration

LLC USENCO Nadra Ukraine 95 Exploration

JV Delta Ukraine 100 Exploration

LLC WestGasInvest Ukraine 100 Exploration

LLC Astro-Service Ukraine 100 Service Company

OJSC AgroNaftoGasTechService Ukraine 79.9 Construction services

LLC Cadogan Ukraine Ukraine 100 Corporate services

During the year ended 31 December 2013, the Group structure

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.

19. Joint ventures

Details of each Group's joint ventures at the end of the 2013 and

2012 reporting periods are as follows:

Company name Licenses held Country of Ownership Activity

incorporation share %

and operation

LLC Zagoryanska exploration Ukraine 40 Exploration

Astroinvest-Energy license

LLC Industrial Pokrovska exploration Ukraine 70 Exploration

Company license

Gazvydobuvannya

LLC Westgasinvest Reklynetska, Ukraine 15 Exploration

Zhuzhelianska,

Cheremkhivsko-Strupkivska,

Baulinska, Filimonivska,

Kurinna, Sandugeyivska,

Yakovlivska, and

Debeslavetska Exploration,

Debeslavetska Production

license

All of the above joint ventures are accounted for using the equity

method in these consolidated financial statements. According to the

shareholders' agreements, which regulate the activities of the jointly

controlled entities, all key decisions require unanimous approval from the

shareholders, therefore these entities are jointly controlled.

Summarised financial information in respect of each of the Group's

material joint ventures is set out below. The summarised financial information

below represents amounts shown in the joint venture's financial statements

prepared in accordance with IFRSs.

LLC Astroinvest-Energy

2013 2012

$'000 $'000

Non-current assets 34 392

Current assets 3,001 6,941

Non-current liabilities (1,194) (2,228)

Current liabilities (4,288) (12,369)

Revenue - 4,711

Loss for the period (6,997) (155,124)

Other comprehensive income/(loss) 111 (174)

Total comprehensive loss (6,886) (155,298)

Net deficit of the joint venture (2,447) (7,264)

LLC Industrial Company Gazvydobuvannya

2013 2012

$'000 $'000

Non-current assets 101,041 101,556

Current assets 1,041 2,224

Non-current liabilities (8,484) (8,126)

Current liabilities (2,617) (2,231)

Revenue - -

Loss for the period (4,899) (2,349)

Other comprehensive income/(loss) 71 (40)

Total comprehensive loss (4,828) (2,389)

Net assets of the joint venture 90,981 93,423

2012 transactions: LLC Westgasinvest

In February 2012, the Group set up a joint venture LLC

Westgasinvest ("WGI") with a Ukrainian state-owned company, NAK Nadra Ukrainy.

As part of the transaction the Group contributed two unconventional licenses,

the Debeslavetske production license and the Debeslavetske exploration license

to WGI, while keeping all the economic benefit from the existing conventional

activities on these licenses.

Whilst the licenses contributed had a nil NBV in the books of the

Group at the date of contribution, the associated fair value of the licenses

contributed in return for the 15% interest in WGI has been estimated at

$6.4 million. The resultant profit recognised in the income statement is

$5.4 million which represents the un-eliminated 85% share of the gain on

contribution of these licenses. The Group accordingly recognised an intangible

asset of $5.4 million.

The Group's resultant equity holding, post this transaction was

15.01%, with Nadra owning the remaining 84.99%.

On 3 October 2012, 50.01% of ownership in WGI was sold by Nadra and

Cadogan to ENI completing the current ownership structure of WGI.

LLC Westgasinvest

2013 2012

$'000 $'000

Non-current assets 164 25

Current assets 662 20

Non-current liabilities - -

Current liabilities (2,672) (102)

Revenue - -

Loss for the period (3,364) (93)

Other comprehensive income 55 -

Total comprehensive loss (3,309) -

Net assets of the joint venture (1,846) 57

The carrying amounts of the Group's interest in joint ventures

recognized in the financial statements of the Group using the equity method

are set out in the tables below:

LLC LLC Industrial LLC Total

Astroinvest-Energy company Westgasinvest

Gazvydo-buvannya

$'000 $'000 $'000 $'000

(Deficit)/ net assets (2,906) 65,396 5,418 67,908

recognized as at 31 December

2012

Investments during the year 4,420 267 - 4,687

Loss for the year (2,754) (3,380) (496) (6,630)

Carrying amount of Group's (1,240) 62,283 4,922 65,965

interest as at 31 December

2013

The Group is committed together with ENI to fund LLC Astroinvest-Energy

subsequently to year end with the necessary amount of $1.2 million in order to

close current liabilities of the joint venture.

20. Inventories

Restated

2013 2012

$'000 $'000

Cost 3,846 4,596

Impairment provision for ***obsolete*** inventory (895) (1,114)

Carrying amount 2,951 3,482

The impairment provision as at 31 December 2013 and 2012 is made so

as to reduce the carrying value of the ***obsolete*** inventories to net realisable

value.

21. Other financial assets

Trade and other receivables

Restated

2013 2012

$'000 $'000

Other receivables 591 31,796

Receivable from joint venture 4,077 6,907

Loans issued 1,559 -

VAT recoverable 251 81

Prepayments 401 837

6,879 39,621

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

debtors.

Out of $31.8 million of other receivables $30.0 million as at

31 December 2012 represent receivables from the settlement agreement with GPS

which has been repaid in April 2013.

Receivable from joint ventures comprise $1.6 million from

Astroinvest-energy LLC (2012: $5.2 million) and $2.5 million from

Gazvydobuvannya LLC (2012: $1.7 million).

Loans issued of $1.6 million as at 31 December 2013 represents a loan

issued in June 2013 to ***Oil*** and Gas Management Services Group Limited ("OAGSG")

as part of a $3 million Loan Facility on a fully secured basis against

receivables due to OAGSG with the term of loan of 24 months and annual

interest of 15%.

Cash and cash equivalents

Cash and cash equivalents as at 31 December 2013 of $56.5 million

(2012: $40.5 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.

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 2012 (as restated) 458

Deferred tax expense 130

Exchange differences (2)

Liability as at 1 January 2013 (as restated) 586

Deferred tax expense 120

Exchange differences (31)

Liability as at 31 December 2013 675

At 31 December 2013, ***temporary*** differences of $6.0 million (2012: $6.3 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 2013, the Group had the following unused tax losses

available for offset against future taxable profits:

Restated

2013 2012

$'000 $'000

UK 13,623 9,486

Netherlands 938 -

Ukraine 46,719 46,906

61,280 56,392

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 $13.6 million (2012: $9.5 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 $46.7 million,

(2012: $46.9 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 the restriction to recognition of accumulated losses at 1 April

2011. Starting 1 January 2012 only 25% of accumulated losses as at this date

are allowed to be utilised each year for the period from 2012 till 2015 in the

calculation of taxable income of the company. Tax losses accumulated after 1

January 2012 have no restrictions. There are further ***temporary*** differences

arising on intangible exploration and evaluation assets and property, plant

and equipment assets in Ukraine for which deferred tax assets of $5.2 million

(2012: $4.6 million) have not been recognised due to the uncertainty of future

recovery.

23. Other financial liabilities

Trade and other payables

Restated

2013 2012

$'000 $'000

Trade creditors 1,125 1,122

Payables to joint ventures 801 423

Other taxes and social security 21 31

Other creditors and payables 347 166

Accruals 1,148 2,345

3,442 4,087

Trade creditors and accruals principally comprise amounts

outstanding for capital work program purchases and ongoing costs. The average

credit period taken for trade purchases is 70 days (2012: 55 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 Total

$'000 $'000

At 1 January 2012 (as restated) 528 528

Change in estimate (note 16 and 17) 174 174

Unwinding of discount on decommissioning (34) (34)

provision (note 13)

Exchange differences 3 3

At 1 January 2013 (as restated) 671 671

Change in estimate (note 16 and 17) 58 58

Unwinding of discount on decommissioning

provision (note 13) 6 6

Exchange differences (27) (27)

At 31 December 2013 708 708

At 1 January 2012 (as restated) 528 528

Included in long-term provisions 219 219

Included in current provisions 453 453

At 1 January 2013 (as restated) 672 672

Included in long-term provisions 195 195

Included in current provisions 513 513

At 31 December 2013 708 708

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 (2012: $0.5 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 the 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 seventeen years).

25. Share capital

Authorised and issued equity share capital

2013 2012

Number Number

'000 $'000 '000 $'000

Authorised

Ordinary shares of £0.03 each 1,000,000 57,713 1,000,000 57,713

Issued

Ordinary shares of £0.03 each 231,092 13,337 231,092 13,337

Authorised but unissued share capital of £30 million has been

translated into US dollars at the historic exchange rate of the issued share

capital.

The Company has one class of Ordinary shares which carry no right

to fixed income.

Issued equity share capital

Ordinary

shares

of £0.03

Number

At 31 December 2012 and 2013 231,091,734

26. Notes to the cash flow statement

Restated

2013 2012

$'000 $'000

Operating loss ( 14,828) (92,562)

Adjustments for:

Depreciation of property, plant and equipment 1,201 1,352

Share of losses in joint ventures 6,630 63,987

Reversal of impairment of inventories (note 8) (97) (787)

Reversal of impairment of VAT recoverable (note 8) (137) (994)

Loss on disposal of property, plant and equipment 103 285

Effect of foreign exchange rate changes (1,571) 4,536

Operating cash flows before movements in working capital (8,699) (24,183)

Decrease in inventories 628 1,429

Decrease in receivables 32,879 23,759

Decrease in payables and provisions (645) (1,409)

Cash from/(used in) operations 24,163 (404)

Income taxes paid (169) (121)

Net cash inflow/(outflow) from operating activities 23,994 (525)

27. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group

will be able to continue as a going concern, while maximising the return to

shareholders.

The capital resources of the Group 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.

Categories of financial instruments

Restated

2013 2012

$'000 $'000

Financial assets - loans and receivables (includes cash and cash

equivalents)

Cash and cash equivalents 56,484 40,477

Receivable from joint venture 4,077 6,907

Loans issued 1,559 -

Other receivables (current and non-current) 590 31,796

62,710 79,180

Financial liabilities - measured at amortised cost

Trade creditors 1,259 1,545

Payables to joint ventures 801 423

Other taxes and social security 21 31

Other creditors and payables 347 166

Accruals 1,148 2,345

3,576 4,510

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.

The Audit Committee of the Board reviews and monitors risks faced

by the Group through meetings held throughout the year.

27. Financial instruments

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

2013 2012 2013 2012

$'000 $'000 $'000 $'000

US dollars ('$') 106 51 53,277 66,388

Foreign currency sensitivity analysis

The Group is exposed primarily to movements in currencies against

the US dollar as this is the presentation 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 the entities of the Group which have significant monetary 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 ten per cent change in

foreign currency rates.

A number below indicates a decrease in profit where US dollar

strengthens 10 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 or loss, and the balances would be

negative.

The Group is not exposed to significant foreign currency risk in

other currencies.

Inflation risk management

The following table details the Group's sensitivity to a 10 per

cent decrease in the US dollar against the GBP.

2013 2012

$'000 $'000

Income statement (4,587) (5,912)

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 to the US dollar, to enable the

Group to manage the risk of inflation.

Credit risk management

Credit risk refers to the risk that counterparty will default on its

contractual obligations resulting in financial loss to the Group. The Group

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 following tables set out details of the expected contractual

maturity of financial liabilities.

Within 3 months More than Total

3 months to 1 year 1 year

$'000 $'000 $'000 $'000

At 31 December 2013 1,326 2,250 - 3,576

Trade and other payables 1,326 2,250 - 3,576

At 31 December 2012 4,115 395 - 4,510

Trade and other payables 4,115 395 - 4,510

28. Commitments and contingencies

Joint activity agreements

The Group has working 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 required future financing of exploration and development work

on fields under the licence obligations are as follow:

Restated

2013 2012

$'000 $'000

Within one year 1,258 18,506

Between two and five years 1,863 20,315

3,121 38,821

The Group has revised its minimum working programs and resubmitted the required

documentation to the government authorities; updated commitments has decreased

for all licenses from $38.8 million to $3.1 million. License obligations of the

joint ventures as at 31 December 2013 amounted to $0.4 million (2012: $0.5 million)

of obligations within one year and $0.1 million (2012: $10.5 million) of obligations

between two and five years.

29. Related party transactions

All transactions between the Company and its subsidiaries, which

are related parties, have been eliminated on consolidation and are not

disclosed in this note. The application of IFRS 11 has resulted in the

existing joint ventures LLC Astroinvest-energy, LLC Gazvydobuvannya and LLC

Westgasinvest being accounted for under the equity method and disclosed as

related parties.

During the period, Group companies entered into the following

transactions with joint ventures who are considered as related parties of the

Group:

2013 2012

$'000 $'000

Revenues from services provided and sales of 1,892 4,487

goods

Purchases of goods 22 51

Amounts owed by related parties 4,077 6,907

Amounts owed to related parties 801 423

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 Annual Report on Remuneration above.

Purchase of services Amounts owing

2013 2012 2013 2012

$'000 $'000 $'000 $'000

Short-term employee benefits 911 1,048 69 973

Share-based payments - (695) - -

911 353 69 973

The total remuneration of the highest paid Director was $0.3 million in the year (2012: $0.4 million).

The amounts outstanding are unsecured and will be settled in cash.

No guarantees have been given or received and no provisions have been made for

doubtful debts in respect of the amounts owed by related parties.

30. Accounting policy changes - adoption of IFRS 11

As discussed in note 2, the Group has restated the financial

performance and position of the Group for the year ended 31 December 2012 to

reflect the adoption of IFRS 11. The quantitative impact of adopting these

standards on the prior year consolidated financial statements is set out in

the tables below:

Adjustments to the Consolidated Income Statements

Year ended 31 December 2012

as IFRS 11 restated

previously

reported

$'000 $'000 $'000

CONTINUING OPERATIONS

Revenue 5,653 ( 1,892) 3,761

Cost of sales (4,158) 1,542 (2,616)

Gross profit 1,495 (350) 1,145

Administrative expenses:

Other administrative expenses (10,783) 3,327 (7,456)

Impairment of ***oil*** and gas assets (83,584) 57,867 (25,717)

(Impairment)/reversal of impairment of other (2,684) 3,353 669

assets

(97,051) 64,547 (32,504)

Other losses 5,417 (63,694) (58,277)

Other operating income/(expenses) (2,940) 14 (2,926)

Operating loss (93,079) 517 (92,562)

Investment revenue 128 (10) 118

Finance costs 67 (33) 34

Loss before tax (92,884) 474 (92,410)

Tax (252) 1 ( 251)

Loss for the period/year (93,136) 475 (92,661)

30. Accounting policy changes - adoption of IFRS 11

Adjustments to the Consolidated Balance Sheets

as at 1 January 2012 as at 31 December 2012

as IFRS 11 as

previously adjust- previously adjust-

reported ments restated reported ments restated

$'000 $'000 $'000 $'000 $'000 $'000

ASSETS

Non-current assets

Intangible exploration 65,972 (63,765) 2,207 78,231 (75,214) 3,017

and evaluation assets

Property, plant and 99,373 (51,388) 47,985 46,627 (249) 46,378

equipment

Investments in joint - 106,286 106,286 - 67,908 67,908

ventures

165,345 (8,867) 156,478 124,858 (7,555) 117,303

Current assets

Inventories 6,556 (2,549) 4,007 5,177 (1,695) 3,482

Trade and other 66,251 (2,604) 63,647 35,537 4,084 39,621

receivables

Cash and cash 65,039 (738) 64,301 42,404 (1,927) 40,477

equivalents

137,846 (5,891) 131,955 83,118 462 83,580

Total assets 303,191 (14,758) 288,433 207,976 (7,093) 200,883

LIABILITIES

Non-current liabilities

Deferred tax (11,538) 11,080 (458) (4,553) 3,967 (586)

liabilities

Long-term provisions (548) 153 (395) (414) 195 (219)

(12,086) 11,233 (853) (4,967) 4,162 (805)

Current liabilities

Trade and other (7,552) 3,927 (3,625) (7,793) 3,706 (4,087)

payables

Current provisions (524) 384 (140) (939) 486 (453)

(8,076) 4,311 (3,765) (8,732) 4,192 (4,540)

Total liabilities (20,162) 15,544 (4,618) (13,699) 8,354 (5,345)

Net assets 283,029 786 283,815 194,277 1,261 195,538

EQUITY

Share capital 13,337 - 13,337 13,337 - 13,337

Retained earnings 389,734 (1,327) 388,407 298,290 (852) 297,438

Cumulative translation (123,784) 2,113 (121,671) (119,400) 2,113 (117,287)

reserves

Other reserves 3,344 - 3,344 1,682 - 1,682

Equity attributable to 282,631 786 283,417 193,909 1,261 195,170

equity holders of the

parent

Non-controlling 398 - 398 368 - 368

interest

Total equity 283,029 786 283,815 194,277 1,261 195,538

30. Accounting policy changes - adoption of IFRS 11

Adjustments to the Consolidated Cash Flow Statements

Year ended 31 December 2012

as

previously adjust-

reported ments restated

$'000 $'000 $'000

Net cash (outflow)/inflow from operating activities (5,609) 5,084 (525)

Investing activities

Disposal of subsidiaries 4,142 (4,142) -

Investments in joint ventures - (22,478) (22,478)

Purchases of property, plant and equipment (15,749) 14,666 (1,083)

Purchases of intangible exploration and evaluation (6,239) 6,152 (87)

assets

Proceeds from sale of property, plant and equipment 688 (461) 227

Interest received 128 (10) 118

Net cash used in investing activities (17,030) (6,273) (23,303)

Financing activities

Proceeds from short-term borrowings - - -

Net cash used in financing activities - - -

Net increase/(decrease) in cash and cash equivalents (22,639) (1,189) (23,828)

Effect of foreign exchange rate changes 4 - 4

Cash and cash equivalents at beginning of 65,039 (738) 64,301

period/year

Cash and cash equivalents at end of period/year 42,404 (1,927) 40,477

30. Accounting policy changes - adoption of IFRS 11

Adjustments to Notes to the condensed cash flow statements

Year ended 31 December 2012

as

previously IFRS 11

reported adjust-ments restated

$'000 $'000 $'000

Operating loss (93,079) 517 (92,562)

Adjustments for:

Depreciation of property, plant and equipment 1,967 (615) 1,352

Impairment of ***oil*** and gas assets 83,584 (83,584) -

Gain on acquisition of jointly controlled entity/ (5,454) 5,454 -

disposal of subsidiaries

Loss from investments into joint ventures - 63,987 63,987

Reversal of impairment of inventories 291 (1,078) (787)

(Reversal of impairment)/Impairment of VAT 2,394 3,388) (994)

recoverable

(Gain)/loss on disposal of property, plant and 52 233 285

equipment

Effect of foreign exchange rate changes 4,014 522 4,536

Operating cash flows before movements in working (6,231) (17,952) (24,183)

capital

Decrease in inventories 1,269 160 1,429

Decrease/(increase) in receivables (766) 24,525 23,759

(Decrease)/Increase in payables and provisions 241 (1,650) (1,409)

Cash (used in)/from operations (5,487) 5,083 (404)

Income taxes paid (122) 1 (121)

Net cash inflow/(outflow) from operating activities (5,609) 5,084 (525)

31. Events after the balance sheet date

Political and economic turmoil in Ukraine

We are monitoring the current political situation in Ukraine

carefully and there have been no disruptions to the Company's operations in

either of our operating locations.

As a result of the recent political and economic turmoil in

Ukraine, there has been a significant devaluation of the Ukrainian Hryvnia

against the US Dollar which is likely to affect the carrying value of the

Group's assets in the future. Since 1 January 2014, the Ukrainian Hryvnia has

devalued against the US Dollar by approximately 35%.

We have reassessed the key judgements and critical accounting

estimates as at the date of this report and, based on the current status of

operations, no adjustments have been made.

COMPANY BALANCE SHEET

As at 31 December 2013

2013 2012

Notes $'000 $'000

ASSETS

Non-current assets

Investments 34 - -

Receivables from subsidiaries 35 77,506 97,289

77,506 97,289

Current assets

Trade and other receivables 35 1,763 102

Cash and cash equivalents 35 50,280 32,092

52,043 32,194

Total assets 129,549 129,483

LIABILITIES

Current liabilities

Trade and other payables 36 (1,211) (1,290)

(1,211) (1,290)

Total liabilities (1,211) (1,290)

Net assets 128,338 128,193

EQUITY

Share capital 37 13,337 13,337

Retained earnings 210,297 212,497

Cumulative translation reserves 38 (95,296) (97,734)

Share-based payment reserve - 93

Total equity 128,338 128,193

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 28 April 2014.

They were signed on its behalf by:

Bertrand Des Pallieres

Chief Executive Officer

28 April 2014

The notes form part of these financial statements.

COMPANY CASH FLOW STATEMENT

For the year ended 31 December 2013

2013 2012

Note $'000 $'000

Net cash outflow from operating activities 39 ( 4,034) (1,007)

Investing activities

Interest received 258 13

Settlement received - 1,070

Repayment of loans to subsidiary companies 19,783 (1,037)

Net cash from investing activities 20,041 46

Net increase/(decrease) in cash and cash 16,007 (961)

equivalents

Effect of foreign exchange rate changes 2,181 2,197

Cash and cash equivalents at beginning of year 32,092 30,856

Cash and cash equivalents at end of year 50,280 32,092

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Share Cumulative Share-based

capital Retained translation payment

capital earnings reserves reserve Total

$'000 $'000 $'000 $'000 $'000

As at 1 January 2012 13,337 212,428 (102,176) 1,755 125,344

Share-based payment - 1,662 - (1,662) -

Net loss for the year - 1,593) - - (1,593)

Exchange translation differences - - 4,442 - 4,442

As at 1 January 2013 13,337 212,497 (97,734) 93 128,193

Share-based payment - 93 (93) -

Net loss for the year - (2,293) - - (2,293)

Exchange translation differences - - 2,438 - 2,438

As at 31 December 2013 13,337 210,297 (95,296) - 128,338

32. 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 2013 of $2.3 million

(2012: $1.6 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.

33. Auditor's remuneration

The auditor's remuneration for audit and other services is

disclosed in note 10 to the Consolidated Financial Statements.

34. 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.

35. Financial assets

Receivables from subsidiaries

At the balance sheet date gross amounts receivable from the fellow

Group companies were $348.5 million (2012: $363.0 million). No impairment was

recognised in 2012 or 2013. The carrying value of the receivables from the

fellow Group companies as at 31 December 2013 was $77.5 million

(2012: $97.3 million). There are no past due receivables.

Trade and other receivables

2013 2012

$'000 $'000

Loans issued 1,559 -

VAT recoverable 138 -

Prepayments 51 71

Other receivables 15 31

1,763 102

35. Financial assets

The Company's principal financial assets are bank balances and cash

and cash equivalents and receivables from related parties none of which are

past due. The Directors consider that the carrying amount of receivables from

related parties approximates to their fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Company and

short-term bank deposits with an original maturity of three months or less.

The carrying value of these assets approximates to their fair value.

36. Financial liabilities

Trade and other payables

2013 2012

$'000 $'000

Trade creditors 317 321

Other creditors and payables 238 969

Accruals 656 -

1,211 1,290

Trade payables principally comprise amounts outstanding for trade

purchases and ongoing costs. The average credit period taken for trade

purchases is 45 days (2012: 42 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.

37. Share capital

The Company's share capital is disclosed in note 25 to the

Consolidated Financial Statements.

38. 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.

39. Notes to the cash flow statement

2013 2012

$'000 $'000

Operating loss from continuing operations (2,293) (1,593)

Operating cash flows before movements in working capital (2,293) (1,593)

(Increase) in receivables (1,662) (38)

(Decrease) in payables (79) 624

Cash used in operations (4,034) (1,007)

Income taxes paid - -

Net cash outflow from continuing operations (4,034) (1,007)

40. Financial instruments

The Company manages its capital to ensure that it is able to

continue as a going concern while maximising the return to shareholders. Refer

to note 27 for the Group's overall strategy and financial risk management

objectives.

The capital resources of the Group consists of cash and cash

equivalents arising from equity, comprising issued capital, reserves and

retained earnings.

Categories of financial instruments

2013 2012

$'000 $'000

Financial assets - loans and receivables (includes cash and

cash equivalents)

Cash and cash equivalents 50,280 32,092

Amounts due from subsidiaries 77,506 97,289

127,786 129,381

Financial liabilities - measured at amortised cost

Trade creditors (317) (321)

(317) (321)

Interest rate risk

All financial liabilities held by the Company are non-interest

bearing. As the Company has no committed borrowings, the Company is not

exposed to any significant risks associated with fluctuations in interest

rates.

Credit risk

Credit risk refers to the risk that a 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.

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 27 to the

Consolidated Financial Statements.

41. 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:

2013 2012

$'000 $'000

Cadogan Petroleum Holdings Limited 77,506 97,289

77,506 97,289

Refer to note 35 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 Annual Report on Remuneration 2013 above.

Remuneration Amounts owing

2013 2012 2013 2012

$'000 $'000 $'000 $'000

Short-term employee benefits 326 296 - 476

326 296 - 476

The total remuneration of the highest paid Director was $0.3 million in the year (2012: $0.4 million).

42. Events after the balance sheet date

Events after the balance sheet date are disclosed in note 31 to the

Consolidated Financial Statements.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company held at 10.30am on Thursday 26 June 2014 at Chandos House, 2 Queen Anne Street, London W1G 9LQ.

NATIONAL STORAGE MECHANISM

A copy of the Annual Report and Financial Statements will be submitted shortly to the National Storage Mechanism ("NSM")

and will be available for inspection at the NSM, which is situated at:   [*http://www.morningstar.co.uk/uk/nsm*](http://www.morningstar.co.uk/uk/nsm)

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on this announcement (or any other website) is incorporated into, or forms part of, this announcement.

Investor relations

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