



CADOGAN
PETROLEUM PLC

2015

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COMPANIES HOUSE

Our business is divided into three main segments: Upstream, Midstream and Downstream. Upstream is responsible for the exploration and production of oil and gas. Midstream is responsible for the transportation and storage of oil and gas. Downstream is responsible for the refining and marketing of oil and gas. The company's operations are spread across several countries, including the United Kingdom, Norway, and the United States.

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Summary of 2015

Key highlights of 2015:

- > LTI/TRI¹: 0/0 (2014: 0/0)
- > Greenhouse gases emissions: 1,295 tonnes CO2 equiv. (2014: 1,620)
- > Production: 39,680 boe (2014: 39,834 boe)
- > Realised price at year end: 35.7\$/boe (2014: 60.5\$/boe)
- > Gross revenues²: \$75.4 million (2014: \$32.6 million)
- > Gross profit: \$5.9 million (2014 : \$2.8 million)
- > Loss for the year: \$23.3 million (2014: \$59.3 million)
- > Cash and cash equivalent at 31 December 2015 increased by \$0.5 million to \$49.4 million (2014: decreased by \$7.6 million to \$48.9 million)
- > Net cash, which included cash and cash equivalents less short-term borrowings, increased to \$36.5 million at 31 December 2015 compared to \$31.6 million at 31 December 2014.

¹ LTI Lost Time Incidents, TRI Total Recordable Incidents

² Gross revenues of \$75.4 million (2014: \$32.6 million) included \$73.3 million (2014: \$29.4 million) from trading of natural gas, \$1.8 million (2014: \$2.4 million) from exploration and production and \$0.4 million (2014: \$0.8 million) from service

³ Excluding \$0.9 million (2014: \$0.5 million) of Cadogan's share of cash and cash equivalents in joint ventures

Group Overview



- Ukraine gas network Input
- Ukraine gas network output
- Gas pipeline

The Group has continued to maintain exploration and production assets in Ukraine, to conduct trading operations, which include the importing of gas from Slovakia and Poland and local purchasing and sales with physical delivery of natural gas, and to operate a service business which includes work-over, civil works services, assistance in obtaining legal permits and other services provided to E&P companies

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

The Group commissioned to an independent third party the assessment of the Reserves and Resources as of 31 December 2015. The evaluation was performed according to the SPE "Guidelines for Application of the Petroleum Resources Management System" (PRMS)

The summary of the Group's Reserves and Resources in the nine licences is reported in the table in page 15

Borynya and Bitlyanska 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 Borynya, Bitlyanska and Vovchenska structures. It holds Probable and Possible reserves, as well as Contingent and Prospective resources

Borynya 3 well was re-entered and tested Krosno 1 interval with promising results in 2013. The well is monitored, routinely bled-off, fluid samples extracted, measured and kept on hold for an eventual fracturing job and possible re-entry to the deeper intervals

Monastyretska field

The Monastyretska licence covers an area of 25.9 square kilometres, located in the Carpathian fold belt (Skuba unit) in Western Ukraine. It includes three structures, one of which is regularly producing oil. It holds Proved, Probable and Possible reserves, as well as Contingent and Prospective resources

Pokrovskoe field

The Pokrovska licence area covers 49.5 square kilometres and is located in the Dnieper-Donets basin. It holds contingent resources in the Visean and prospective resources in the Permian. Facilities in the Pokrovska area are approximately 10 kilometres away from the UkrTransGas system. The licence will expire on 10 August 2016. The work programme obligation for the licence has been fulfilled

Zagoryanska field

The Zagoryanska licence expired on 24 April 2014, and covered an area of 49.6 square kilometres located in the Dnieper-Donets basin, with gas being discovered in the Visean and Turnesian reservoirs

Cadogan alone, as Eni had no interest in entering into the production phase, has requested a 20-year production licence covering an area of 34 square kilometres via one of its subsidiaries. All assets on the Group's Balance Sheet related to this licence were impaired in full in 2013

Pirkovskoe field

The Pirkovska licence expired on 19 October 2015, and covered an area of 71.6 square kilometres, adjacent to the Group's Zagoryanska licence

It holds contingent resources in the Turnesian and in the Visean, and prospective resources in the Permian

Cadogan owns the Krasnozayarska gas treatment plant in the Pirkovska licence area which is connected to the UkrTransGas system. The plant is presently under conservation. Cadogan has requested a 20-year production licence. All E&E assets on the Group's Balance Sheet related to this licence have been impaired in full

Minor fields

Cadogan owns three exploration, development and production licences either directly or through subsidiaries and joint ventures in other minor fields, two of which are currently in commercial production (Debeslavetska and Cheremkhivska) and one of which (Slobodo-Rungurska) has no ongoing activity

Shale gas

In addition to the 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

Strategic Report

The Strategic Report has been prepared in accordance with Section 414A of the Companies Act 2006 (the "Act") and presented on pages 4 to 17. 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 business model

We aim to increase value through:

- › Sourcing additional E&P assets to diversify Cadogan's portfolio both geographically and operationally, we will pursue exploration and/or near term development assets with significant upside as well as producing assets to cover G&A and provide free cash flow for exploration activities,
- › Pursuing farm-out to contain investments in Ukraine, and
- › Maintaining sufficient capital base, complementing E&P cash flow with revenues from gas trading and oil services businesses

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 and gas trading.

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

Though the events of the Euromaidan Revolution are now more than two years behind us, the full extent of the political and economic repercussions have yet to be felt. Ukraine has still not entered a period of real stability and its political leadership is struggling to utilise the broad mandate it was granted to implement the types of changes and reforms most of the citizens expect.

Within the context of corruption-related scandals and a high-profile cabinet member resignation, implementation of the reform programme put forth by the European Community, the United States and financial institutions such as the International Monetary Fund and the European Bank for Reconstruction and Development has been delayed. These delays, coupled with the unresolved tensions with Russia surrounding the annexation of Crimea and ongoing confrontations in eastern Ukraine, have only served to add to the short-term uncertainty plaguing the country.

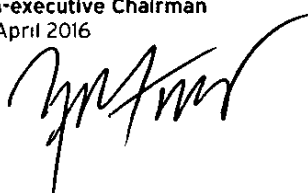
This unstable environment has led to a further devaluation of the local currency. In the oil and gas sector, delays in the renewal and approval process for licences as well as the extension of the "temporary" punitive 70% subsoil use tax regime for the remainder of the year, have created additional challenges. For Cadogan, this has translated into a severe cash drain from the E&P gross revenues derived from gas, a reduction of the USD value of its non-current assets accounted in local currency, and the impairment of the Pirkovska licence's book value as a result of delayed responses to the company's application to convert its exploration licence into a 20-year production licence.

On a more positive note, some reforms have in fact been initiated and the unwinding of the post-Soviet regulatory system is well on its way. The country has started the adoption of the Third European Energy Package, while its implementation is currently in progress, some delays might be expected due to ongoing discussions on the unbundling model for Naftogaz. Significant progress has also been made in diversifying the supply of imported gas thanks to the implementation of reverse flow from Europe.

Despite the challenging business climate, Cadogan has performed well. Production has been maintained at similar levels to the previous year, CO₂ emissions have been reduced, traded volumes of gas have been significantly increased and efforts to streamline and contain costs have turned the company into a cash neutral position, or actually, slightly cash positive. This is a remarkable achievement given the combination of adverse factors - including the reduction of the oil and gas prices - which have created havoc for many of Cadogan's peers.

Notwithstanding the positive results achieved by Cadogan and its management, there remains a compelling need to diversify its portfolio geographically. This drive to diversify is one of the cornerstones of the new strategy that was approved by the Board in the second half of the year. Management is pursuing opportunities to diversify while building a more robust production base. With its solid balance sheet, low cost operations, proven resilience to a low price environment and the international experience of its leadership team, Cadogan is poised to leverage its strengths and take advantage of the very real opportunities that lie ahead.

Zev Furst
Non-executive Chairman
25 April 2016



Strategic Report continued

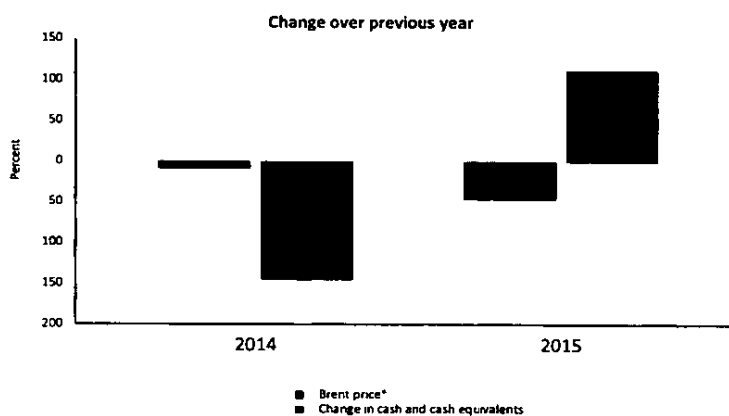
Chief Executive's Review

2015 has been another challenging year for the oil and gas industry and for Ukraine. Cadogan has weathered the storm by continuing with its cost reduction initiatives, by applying strict discipline to all spending and by reducing the working capital. The result is that cash has been preserved and is available to be used to capture the opportunities that will materialise in a distressed market.

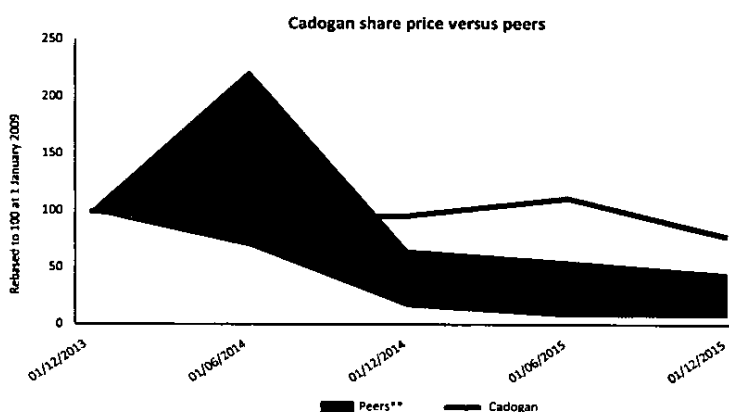
Key developments during the year

- > G&A expenses have been further reduced by decreasing the headcount, replacing expatriates with Ukrainian nationals and moving the Kiev office to smaller, cheaper premises still located in the city centre. Consequently, current G&A on an annualised basis is 13% lower than in 2014,
- > Work-over on gas wells and production optimisation on the oil well allowed Cadogan to meet the production budget despite a four month delay in the renewal of the Monastyrtska licence,
- > Applications have been filed to convert Pirkovska from an exploration licence into a 20-year production licence,
- > Volumes of traded gas have more than tripled over the previous year as a result of broadening both the supplier and the client base,
- > Gross profits, before G&A and taxes, have more than doubled, from \$2.8 million in 2014 to \$5.9 million this year, and
- > Cash and cash equivalents¹ at year-end total \$49.4 million (2014: \$48.9 million), excluding \$0.9 million (2014: \$0.5 million) of Cadogan's share of cash and cash equivalents in joint ventures. Net cash, which included cash and cash equivalents mostly denominated in USD net of short-term borrowings denominated in UAH, increased to \$36.5 million at 31 December 2015 compared to \$31.6 million at 31 December 2014.

¹ \$12.9 million of the credit line was outstanding as at 31 December 2015 (2014: \$17.3 million)



* Source: eia



** Peers included JKK, Regal Petroleum, Misen Energy, Cub energy

Throughout 2015 Cadogan has protected shareholder value, increased its resilience to a low price environment and has made a step towards becoming more integrated along the business chain by further developing the gas trading business. Its low cost basis combined with the revenues generated by the trading and service businesses have helped preserve the cash that will be used to fuel a strategy of growth and geographic diversification.

I consider this as a positive result given the unfavourable circumstances in which Cadogan has operated.

2015 has not been a turning point for either Ukraine or the oil industry. Whilst military confrontation in the East of the country has receded, the country has remained embroiled in a political and economic crisis. Furthermore, the subsoil use tax has continued to be enforced at a punitive 70% rate throughout the year, despite the expectation that it would be revoked. Oil and gas prices have continued to fall and this has posed an unprecedented level of strain on all key players, sometimes challenging the very business model on which the oil and industry has prospered over the last decade.¹

In such difficult market conditions, Cadogan has focused on protecting shareholder value by pursuing cash neutrality, acting on three levers: cost-efficient production of its proved reserves, relentless pursuit of all possible cost-saving initiatives combined with strict discipline in spending, and gas trading.

All these initiatives successfully brought Cadogan to be slightly cash generative, they have also made Cadogan stronger than most of its peers and well equipped to pursue its strategy of growth and asset diversification in the current challenging environment

Core Operations

Core operations have concentrated on safely and cost-efficiently managing the producing assets while taking all necessary actions to preserve the portfolio of licences. Applications for the conversion of the Zagoryanska and Pirkovska exploration licences into 20-year production licences have been filed and the outcome of the applications is expected in the first half of 2016. As the award of Pirkovska licence was not received at the time of issuing this report, respective E&E assets were impaired.

A third party was requested to update the previous evaluation of reserves and resources in light of the recent developments, including the internal prospect generation work of the previous year. Its results are encouraging as they have identified volumes of 3P reserves and 2C resources larger than anticipated.

Work-overs on Debeslavetska and production optimisation on the Monastyretska fields have allowed Cadogan to meet the production budget, despite a four-month delay in the award of the licence. This remarkable achievement has been somewhat downplayed by the subsoil use tax, which has been maintained at 70% throughout the year, higher taxes and lower prices have prevented Cadogan from meeting its production revenue budget.

Opportunities to grow and diversify the portfolio have been pursued in the second part of the year, but none have been concluded, primarily because of a value gap between market and sellers' expectations, additionally, many potentially interesting opportunities are with companies with heavy debt burdens.

Last but not the least, all activities have been conducted with the utmost attention to safety and environmental protection. No accidents or spills have occurred during 2015 and LTI stands at a remarkable zero since 23 July 2011 (over 2.2 million worked hours). All Cadogan staff and management deserve to be commended for this outstanding achievement.

Non-E&P Operations

The service business has been penalised by the oil and gas industry crisis in Ukraine, with companies cancelling or deferring the execution of works. While this has negatively impacted 2015 revenues, there are reasonable expectations that some of the work deferred will be executed in 2016.

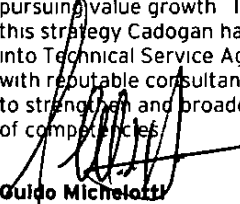
In 2015 the trading business segment generated \$73.3 million of revenues and \$4.6 million of gross profit. Trading margins have remained healthy through the year, but are expected to be eroded by new legislation, which requires sellers to store 50% of the gas sold to final consumers and to provide financial guarantees for 20% of the traded volumes, as well as by increased competition, with more traders interested in entering the Ukrainian market. We intend to balance this erosion of margins by broadening our client base and leveraging the competitive advantage of being one of the first companies to have used the reverse flow opportunity to import gas in Ukraine.

Outlook

The management team is of the firm opinion that Cadogan is well positioned to succeed in the current challenging context as it has

- > a strong balance sheet, with nearly \$50 million of cash, including \$20 million of restricted cash, pledged for credit line used for trading¹,
- > a low cost operation model which can be replicated both in and outside Ukraine, and
- > non E&P activities whose net revenues nearly balance the G&A, thus allowing Cadogan to manage this transitional period without burning cash.

While Ukraine remains the country where Cadogan is rooted, a geographic diversification of the portfolio will be an objective while pursuing value growth. In support of this strategy Cadogan has entered into Technical Service Agreements with reputable consultancy firms to strengthen and broaden its pool of competencies.


Guido Michelotti
Chief Executive Officer
25 April 2016

¹ \$12.9 million of the credit line was outstanding as at 31 December 2015 (2014 \$17.3 million).

Strategic Report continued

Operations Review

In 2015 the Group held working interests in nine conventional (2014: 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 Zagoryanska and Pirkovska licences expired and the process to have the licences re-awarded is ongoing.

Summary of the Group's licences (as at 31 December 2015)

Working interest (%)	Licence	Expiry	Licence type ^{a)}
Major licences			
40.0	Zagoryanska	Expired ⁽³⁾⁽⁴⁾	E&D
70.0	Pokrovskia	August 2016	E&D
100.0	Pirkovska	Expired ⁽³⁾	E&D
99.8	Bitlyanska	December 2019	E&D
Minor licences			
99.2	Debeslavetska ⁽²⁾	November 2026	Production
99.2	Debeslavetska ⁽²⁾	September 2016	E&D
54.2	Cheremkhivska ⁽²⁾	May 2018	Production
100.0	Slobodo-Rungurska	April 2016 ⁽⁵⁾	E&D
99.2	Monastyretska	November 2019	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 the Debeslavetska and Cheremkhivska licences respectively through Joint Activity Agreements (JAA).

(3) The application for the award of a 20-year production licence has been filed. Though the Group has fulfilled the legal obligations and requirements and applied for the licence before the expiration date, delays are expected because of recently introduced changes to the awarding process.

(4) The application for the award of a 20-year production licence has been filed by a wholly-owned Cadogan subsidiary as Eni was not interested.

(5) The licence expired on 11 April 2016.

In addition to the above licences the Group has a 15 per cent interest in Westgasinvest LLC ("WGI"), which holds the Reklynetska, Zhuzhelianska, Cheremkhivska, Debeslavetska Exploration, Debeslavetska Production, Baulinska, Filimonivska, Kurinna, Sandugeyivska and Yakovlivska licences for unconventional activities.

Late in the year Cadogan engaged Brend-Vik, one of the major Ukrainian G&G consultants, to update its reserves and resources in light of the developments that have occurred since the last evaluation of 2009. Brend-Vik has recently completed its evaluation and the results are presented on page 15.

In general, 3P reserves and 2C resources increased compared to the in-house evaluation, while the prospective resources decreased. In particular, the Permian and Upper Carboniferous intervals in Pokrovskoe and Pirkovskoe, well identifiable by seismic analysis, were not considered adequately correlated with existing log and wells' data, supplementary data collection is required from future wells' re-entry and drilling in order to move these potential volumes back to the prospective status.

Bitlyanska licence area

The Group holds a 99.8 per cent working interest in the Bitlyanska exploration and development licence. The Bitlyanska licence covers an area of 390 square kilometres. Bitlyanska, Borynya and Vovchenska are three hydrocarbon discoveries in this licence area.

Borynya 3 well, during monitoring and routine bleed-off, always flows gas with high methane content.

Monastyretska licence area

The Group holds a 99.2 per cent working interest in Monastyretska licence. A new exploration and development period was granted up to November 2019. The licence has been regularly producing oil at a rate of 48 boepd. Evaluation of a re-entry and stimulation of two existing wells is ongoing.

Pokrovska licence

The Group holds a 70 per cent working interest in the Pokrovska exploration and development licence. The Pokrovska licence area covers 49.5 square kilometres.

The licence will expire on 10 August 2016 and Cadogan is preparing to eventually file an application for the award of a new licence.

Zagoryanska licence (expired)

The Zagoryanska licence expired in April 2014. Cadogan, via its subsidiary LLC Zagvydobuvannya, requested the awarding of a 20-year production licence for a licence area covering 34 square kilometres. The Ministry of Ecology issued the approval and the process reached the level of the regional authorities, before the anticipated final approval. However, the process has been delayed because of the recent introduction of a new law which reallocates the authority amongst the state entities involved. The plug and abandonment of wells has started with the activity conducted by one of Cadogan's subsidiaries (Astro-Service LLC) and jointly funded by the former licencees (Eni and Cadogan) in proportion to their participating interests.

Pirkovska licence (expired)

The Pirkovska licence expired on 19 October 2015 and Cadogan has requested the award of a 20-year production licence. The licence covers an area of 88 square kilometres. As with the Zagoryanska licence, the approval process has been delayed by changes introduced by a new law.

Minor fields

These fields are contained in licences located in Western Ukraine, and include the following:

› Debeslavetska Production licence area

The field is currently producing 60 boepd (2014: 65 boepd). A work-over activity is ongoing to mitigate the production decline.

› Debeslavetska Exploration licence area

In the exploration licence, surrounding the Debeslavetska Production area, two prospects have been identified. The licence holds prospective resources and will expire on 7 September 2016. Cadogan is evaluating whether to apply for a new E&P period after the expiry of the current licence terms.

› Cheremkhivska Production licence area

This licence is currently producing 15.7 boepd (2014: 17.4 boepd), and

› Slobodo-Rungurska exploration and development licence area

The licence expired on 11 April 2016. Cadogan is evaluating whether to apply for a new E&P period after the expiry of the current licence terms.

Strategic Report continued

Financial Review

Overview

Together with completion of E&P programme, in 2015 the Group continued to approach cash neutrality through a number of cost reduction initiatives, and developing service activities and energy trading businesses

Revenue has increased from \$32.6 million in 2014 to \$75.4 million in 2015 due to gas trading operations, which represent \$73.3 million (2014: \$29.4 million) of total revenues, revenues from production have slightly declined to \$1.8 million (2014: \$2.4 million) owing to a lower realised price

Revenue from the service business, which includes drilling and civil works services, decreased to \$0.4 million (2014: \$0.8 million), mainly due to the postponement of service contracts by clients as a result of the situation in Ukraine

The cash position of \$49.4 million at 31 December 2015, including restricted cash of \$20 million used as a pledge for credit line, has increased from \$48.9 million at 31 December 2014. Net cash, which included cash and cash equivalents mostly denominated in USD net of short-term borrowings denominated in UAH, increased to \$36.5 million at 31 December 2015 compared to \$31.6 million at 31 December 2014

Income statement

Loss before tax was \$22.2 million (2014: \$59.1 million), of which \$10.5 million (2014: \$5.1 million) is impairment of oil and gas assets and \$12.8 million (2014: \$54.7 million) is a share of losses in joint ventures. Cadogan's share of losses in joint ventures mainly include the impairment of oil and gas assets in joint ventures and losses arising on translation of Balance Sheet items from UAH to the presentation currency of the Group USD

Revenues of \$75.4 million (2014: \$32.6 million) comprise \$73.3 million (2014: \$29.4 million) in gas and diesel sales of trading reportable segment, \$1.8 million (2014: \$2.4 million) gas sales of E&P reportable segment and \$0.4 million (2014: \$0.8 million) sales of service reportable segment. Cost of sales represents \$67.4 million (2014: \$26.8 million) of purchases of gas for the trading operating segment, \$2.2 million (2014: \$2.9 million) of production royalties and taxes, depreciation and depletion of producing wells and direct staff costs for exploration and development and the service segment. Gross profit has increased to \$5.9 million (2014: \$2.8 million)

- > Administrative expenses of \$6.1 million (2014: \$7.0 million) comprise staff costs, professional fees, Directors' remuneration and depreciation charges on non-producing property, plant and equipment
- > Reversal of impairment of other assets of \$1.3 million (2014: \$0.9 million) comprised \$0.1 million provision for inventory (2014: \$0.3 million) and a \$1.4 million release in relation to an impairment of Ukrainian VAT (2014: \$1.1 million)
- > Share of losses in joint ventures of \$12.8 million (2014: \$54.7 million) comprised losses of:
 - i) \$8.8 million in relation to non-cash impairment of non-current assets of Pokrovska licence, \$2.6 million (2014: \$12.7 million) of translation loss which arose mainly on translation of non-current assets of Gazvydobuvannya LLC (Pokrovska licence) from UAH to USD, being the presentation currency of the Group, \$0.9 million loss from operations,
 - ii) \$0.2 million in relation to the Zagoryanska licence, and
 - iii) loss of \$0.3 million (2014: \$0.7 million) from operations of Westgasinvest LLC

- > Net foreign exchange gain of \$2.5 million (2014: \$3.0 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
- > Finance costs of \$2.6 million (2014: \$0.5 million) represent \$2.4 million (2014: \$0.4 million) of interest on the credit line used for trading and \$0.2 million (2014: \$nil) of interest on tax provision

Cash flow statement

The Consolidated Cash Flow Statement on page 46 shows operating cash outflow before movements in working capital of \$11 million (2014: \$3.9 million). In addition, the Group has incurred capital expenditure of \$0.3 million (2014: \$0.5 million) on intangible Exploration and Evaluation ("E&E") assets and \$0.2 million (2014: \$1.6 million) on Property, Plant and Equipment ("PP&E"). In 2015, the Group contributed \$0.7 million (2014: \$3.0 million) into joint ventures to repay its current liabilities

In 2015 the Group financed its trading operations with short-term borrowings (note 24) with proceeds of \$13.2 million and repayments of \$12.2 million (2014: proceeds of \$17.3 million)

Balance sheet

The cash position of \$49.4 million at 31 December 2015, including restricted cash of \$20 million used as a pledge for the credit line, has increased from \$48.9 million at 31 December 2014. Net cash, which included cash and cash equivalents mostly denominated in USD net of short-term borrowings denominated in UAH, increased to \$36.5 million at 31 December 2015 compared to \$31.6 million at 31 December 2014.

Intangible E&E assets of \$2.7 million (2014: \$18.3 million) represent the carrying value of the Group's investment in E&E assets as at 31 December 2015. The PP&E balance was \$1.7 million at 31 December 2015 (2014: \$3.8 million).

Investments in joint ventures of \$2.2 million (2014: \$14.3 million) primarily represent the carrying value of the Group's investments into Pokrovska licences and Westgasinvest LLC (costs related to Zagoryanska licence have been fully impaired – note 19).

Trade and other receivables of \$14.4 million (2014: \$17.9 million) include \$11.7 million (2014: \$13.6 million) trading prepayments and receivables, \$1.8 million receivable from joint ventures in respect of management charges (2014: \$1.9 million).

The \$12.9 million outstanding short-term borrowings as of 31 December 2015 (2014: \$17.3 million) represents UAH 313.2 million borrowed in UAH to purchase natural gas and diesel (2014: UAH 278.9 million). Borrowings are represented by a credit line drawn in UAH at a Ukrainian bank, which is a 100% subsidiary of a UK bank. The credit line is secured by \$20 million of cash placed at the UK bank. Borrowings are taken in UAH in order to preserve the USD amount of the company's own cash and mitigate a risk related to currency fluctuations in Ukraine. A short-term credit line provides easy access to quick financing to support the Group's trading operations.

The \$3.7 million of trade and other payables as of 31 December 2015 (2014: \$5.1 million) represent \$0.9 million (2014: \$0.3 million) worth of trading payables for supplies of natural gas, \$0.9 million of VAT payable for supplies of natural gas, \$0.2 million (2014: \$0.2 million) of interest accrued and \$1.7 million (2014: \$2.1 million) of other creditors and accruals.

Provisions include \$0.7 million of long-term provision for decommissioning costs (2014: \$0.1 million of long-term provision) and \$0.6 million of current provision) and \$1.5 million provision for corporate tax for the dispute on the treatment of taxable income and expenses.

Key performance indicators

The Group monitors its performance with reference to clear targets set out through three 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 decrease administrative expenses,
- > to increase the Group's basic earnings per share, and
- > to maintain no lost time incidents

The Group's performance in 2015 against these targets is set out in the table below, together with the prior year performance data.

	Unit	2015	2014
Financial KPIs			
Average production (working interest basis) ⁽¹⁾	boepd	109	109
Administrative expenses	\$ million	61	70
Basic loss per share ⁽²⁾	cents	(101)	(25.6)
Non-financial KPIs			
Lost time incidents ⁽³⁾	incidents	0	0

- (1) Average production is calculated as the average daily production during the year.
- (2) Basic loss per Ordinary share is calculated by dividing the net loss for the year attributable to equity holders of the parent company by the weighted average number of Ordinary shares during the year.
- (3) Lost time incidents in million working hours relate to injuries where an employee/contractor is injured and has time off work (IOGP classification).

Related party transactions

Related party transactions are set out in note 30 to the Consolidated Financial Statements.

Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash and cash equivalent balances mainly in US dollars ("USD") held primarily in the UK. Production revenues from the sale of hydrocarbons are received in the local currency in Ukraine, however the hydrocarbon prices are linked to the USD denominated gas and oil prices. To date, funds from such revenues have been held in Ukraine for further use in operations rather than being remitted to the UK.

Strategic Report continued

Risks and Uncertainties

There are a number of potential risks and uncertainties that could have a material impact on the Group's long-term performance and could cause the results to differ materially from expected and historical results. Executive management review the potential risks and then classify

them as having a high impact (above \$5 million), medium impact (above \$1 million but below \$5 million) and low impact (below \$1 million). They also assess the likelihood of these risks occurring. Risk mitigation factors are reviewed and documented based on the level and

likelihood of occurrence. The Audit Committee reviews the risk register and monitors the implementation of improved risk mitigation procedures via Executive management.

The Group has analysed the following categories as key risks

Operational risks

Risk	Mitigation
Health, Safety and Environment ("HSE") The oil and gas industry by its nature conducts activities which can cause health, safety and environmental incidents. Serious incidents can have not only a financial impact but can also damage the Group's reputation and the opportunity to undertake further projects.	The Group maintains a HSE management system and demands that management, staff and contractors adhere to it. The system ensures that the Group meets Ukraine legislative standards in full and achieves international standards to the maximum extent possible.
Drilling and Work-Over operations The technical difficulty of drilling or re-entering wells in the Group's locations and equipment limitations can result in the unsuccessful completion of the well.	The incorporation of detailed sub-surface analysis into a robustly engineered well design and work programme, with appropriate procurement procedures and competent on-site management, aims to minimise risk.
Production and maintenance There is a risk that production or transportation facilities can fail due to non-adequate maintenance, control or poor performance of the Group's suppliers.	All plants are operated and maintained at standards above Ukraine's minimum legal requirements. Operative staff are experienced and receive supplemental training to ensure that facilities are properly operated and maintained. When not in use the facilities are properly conserved and routinely monitored. Service providers are rigorously reviewed at the tender stage and monitored during the contract period.
Sub-surface risks The success of the business relies on accurate and detailed analysis of the sub-surface. This can be impacted by poor quality data, either historic or recently gathered, and limited coverage. Certain information provided by external sources may not be accurate.	All externally provided and historic data is rigorously examined and discarded when appropriate. New data acquisition is considered and appropriate programmes implemented, but historic data can be reviewed and reprocessed to improve the overall knowledge base. Agreements with qualified local and international G&G contractors have been entered into to supplement and broaden the pool of expertise available to the Company.
Some local contractors may not acquire data accurately, and there is frequently limited choice of locally available equipment or contractors of a desirable standard.	Local contractors are closely supervised by Cadogan management. Plans are discussed well in advance with both local and international contractors in an effort to ensure that appropriate equipment is available.
Data can be misinterpreted leading to the construction of inaccurate models and subsequent plans.	All analytical outcomes are challenged internally and peer reviewed. Analysis is performed using modern geological software.
Area available for drilling operations is limited by logistics, infrastructure and moratorium. This increases the risk for setting optimum well coordinates.	If not covered by 3D seismic or fitting over 2D seismic lines, the eventual well's dislocation will not be accepted.
The Group may not be successful in achieving commercial production from an asset and consequently the carrying values of the Group's oil and gas assets may not be recovered through future revenues, because of reservoir performances below the expectations.	The Group performs a review of its oil and gas assets for impairment on annual basis, and considers whether to commission a review from a third party or a Competent Person's Report ("CPR") from an independent qualified contractor depending on the circumstances.

Financial risks

Risk	Mitigation
There is a risk that insufficient funds are available to meet development obligations to commercialise the Group's major licences	The Group manages the risk by maintaining adequate cash reserves and by closely monitoring forecasted and actual 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 maintain current cash balances and mitigate risk will continue through 2016.
The Group could be impacted by failing to meet regulatory reporting requirements in the UK, and statutory tax and filing requirements in both Ukraine and the UK	These risks are mitigated by employing suitably qualified professionals who, working with advisers when needed, are monitoring regulatory reporting requirements and ensuring that timely submissions are made.
The Group operates primarily in Ukraine, an emerging market, where certain inappropriate business practices may from time to time occur. This includes bribery, theft of Group property and fraud, all of which can lead to financial loss.	Clear authority levels and robust approval processes are in place, with stringent controls over cash management and tendering and procurement processes. Adequate office and site protection is in place to protect assets. Anti-bribery policies are also in place.
The Group is at risk from changes in the economic environment both in Ukraine and globally, which can cause foreign exchange movements, changes in the rate of inflation and interest rates and lead to credit risk in relation to the Group's key counterparties.	Revenues in Ukraine are received in UAH and expenditure is made in UAH, however the prices for hydrocarbons are implicitly linked to USD prices. The Group continues to hold most of its cash reserves in the UK, mostly in USD. Cash reserves are placed with leading financial institutions which are approved by the Audit Committee. The Group is predominantly a USD denominated business. Foreign exchange risk is considered a normal and acceptable business exposure and the Group does not hedge against this risk for its E&P operations. For trading operations, the Group matches the revenues and the source of financing. Refer to note 28 to the Consolidated Financial Statements for detail on financial risks.
The Group is at risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.	We monitor the credit quality of our counterparties and seek to reduce the risk of customer non-performance by limiting the title transfer to product until payment is received, prepaying only to known credible suppliers.
The Group is at risk that fluctuations in gas prices will have a negative result for the trading operations resulting in a financial loss to the Group.	The Group mostly enters into back-to-back transactions where the price is known at the time of committing to purchase and selling the product. Sometimes the Group accepts exposure to open inventory positions when justified by the market conditions in Ukraine.

Strategic Report continued

Risks and Uncertainties continued

Corporate risks

Risk	Mitigation
Should the Group fail to comply with licence obligations, there is a risk that its entitlement to the licence will be lost	The Group designs a work programme and budget to ensure that all licence obligations are met. The Group engages proactively with government to re-negotiate terms and ensure that they are not onerous
Legislative changes may bring unexpected risk and prove time-consuming for securing the licence obligations ¹	Accurate monitoring and frequent dialogue with the relevant authorities minimise this risk
Ukraine is an emerging market and, as such, the Group is exposed to greater regulatory, economic and political risks than in other jurisdictions. Emerging economies are generally subject to a volatile political environment that could adversely impact Cadogan's ability to operate in the market	The Group minimises this risk by maintaining funds in international banks outside Ukraine and by continuously maintaining a working dialogue with the regulatory authorities
The Group's success depends upon skilled management as well as technical and administrative staff. The loss of service of critical members from the Group's team could have an adverse effect on the business	The Group periodically reviews the compensation and contract terms of its staff

¹ New risk for 2015

Statement of Reserves and Resources

In December 2015, the Group commissioned a third party for the Reserves and Resources Evaluation of the Group's oil and gas assets in Ukraine. The evaluation was assigned to a qualified Ukrainian G&G consulting contractor which delivered its final report in March 2016. The evaluation was conducted in accordance with SPE Petroleum Resources Management System ('PRMS'). The summary of the Reserves and Resources as per the report issued in March 2016 (as at 31 December 2015) is presented below.

Summary of Reserves¹ at 31 December 2015

	mmboe
Proved, Probable and Possible Reserves at 1 January 2015	5.58
Production	(0.04)
Revisions	3.17
Proved, Probable and Possible Reserves at 31 December 2015²	8.71
Reserves for Zagoryanska and Pirkovska as at 31 December 2015³	14.30
Total Proved, Probable and Possible Reserves at 31 December 2015	23.01

¹ The study has been conducted by third-party Brend-Vik and since then Cadogan has entered into a Technical Service Agreement with Brend-Vik.

² Proved, Probable and Possible Reserves at 31 December includes 0.80 mmboe assigned to the Pirkovska licence in which the Group holds 70% at 31 December 2015.

³ Zagoryanska and Pirkovska licences expired as at 31 December 2015.

Reserves are assigned to the Bitlyanska, Monastyretska, Debeslavetska, Pokrovskoe fields. The reserves for Zagoryanska and Pirkovska fields were presented separately due to the fact that these licences were under renewal at 31 December 2015.

Brend-Vik also estimated resources in its evaluation. In particular 30.1 mmboe of contingent resources were assigned to the Bitlyanska, Monastyretska and Pokrovskoe licences, 8.8 mmboe were assigned to the Zagoryanska and Pirkovska licences, which were under renewal at 31 December 2015. In terms of Prospective Resources, 9.5 mmboe were assigned to the Bitlyanska, Monastyretska, Debeslavetska, Cheremkhivska, Pokrovskoe and Slobodo-Rungurska licences and 5.0 mmboe to the Pirkovska licence, which was under renewal at 31 December 2015.

Strategic Report continued

Corporate Responsibility

The Board recognises the requirement under Section 414C of the Companies Act 2006 (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 it has an obligation to protect the health and safety of its employees and communities as well as the environment it impacts, these 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, that operational management have incorporated them into daily operations and that 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. Management is regularly reporting to the Board on health, safety and environment and key safety and environmental issues, which are discussed by the Executive Management. The Health, Safety and Environment Committee Report is on page 30

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 are 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

Throughout 2015, a proactive approach to the prevention of incidents has been in place, which relies on an observation cards system and reliable near-miss reporting. Staff training in 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 in risk assessment, emergency response, incident prevention, reporting and investigation, as well as hazard and operational ("HAZOP") studies to ensure that international standards are maintained even if these 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 2015, the Group recorded close to 324,000 man hours worked. There were no Lost Time Incidents ("LTIs") recorded in 2015 and over two 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 2015, the Company had recorded almost ten million kilometres driven without a LTI

During 2015 the Company continued to monitor activity performance in terms of greenhouse gas emissions reporting, as well as company-wide collection of statistical data related to consumption of electricity and industrial water and fuel consumption by cars, plants and other work sites

Employees

Wellness and professional development is part of the Company's sustainable development policy and wherever possible local staff are recruited, procedures are in place to ensure that all recruitment is undertaken on a transparent and fair basis with no discrimination against 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

Prevailing E&P industry conditions forced the Group to reduce the level of staffing, the concerned personnel were duly informed and all the necessary procedures for a smooth solution were applied. Local qualified contractors are considered for supplementing the required expertise when necessary.

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 six male Directors throughout the year to 31 December 2015. The appointment of any new Director is made on the basis of merit. See pages 18 to 19 for more information on the composition of the Board. In 2015 the new nominated Company Secretary is female.

As at 31 December 2015, the Company comprised a total of 84 employees, as follows:

	Male	Female
Non-executive directors	4	-
Executive directors	3	-
Management other than Executive directors	7	3
Other employees	45	22
All employees	59	25

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 and partners wherever we do business.

Community

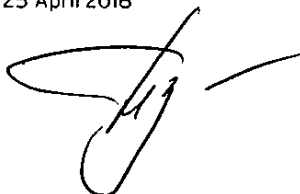
The Group's activities are carried out in rural areas of Ukraine and the Board is aware of its responsibilities to the local communities in which the Group operates and from which some of the employees are recruited. At current operational sites, management works with the local councils to ensure that 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 community 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 25 April 2016 and signed on its behalf by

Marta Halabala
Company Secretary
25 April 2016



Board of Directors

Zev Furst, 68, American
Independent Non-executive
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.

Guido Michelotti, 61, Swiss
Chief Executive Officer

Mr Michelotti was appointed to the Board of Directors as Chief Executive Officer on 25 June 2015. An Oil & Gas executive with over 30 years of international experience across the entire E&P cycle, he spent more than 10 years in senior executive roles with Eni, leading E&P companies as well as managing major capital projects.

Prior to joining Cadogan he was CEO of a Luxembourg-based private equity fund investing in E&P.

Mr Michelotti is a Senior Advisor to the Energy Practice of the Boston Consulting Group, a member of the Society of Petroleum Engineers (SPE) and a former member of SPE's Industry Advisory Council.

Bertrand des Pallieres, 49, French
Chief Trading 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. On 22 June 2015, Mr des Pallieres was appointed as Chief Trading Officer.

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 JP Morgan 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, 64, 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.

Mr Schenato is a member of the Health, Safety and Environment Committee.

Gilbert Lehmann, 70, 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 Framatome, the predecessor to Areva, and was CFO of Sogee, part of the Rothschild Group. Mr Lehmann is also Deputy Chairman and Chairman of the Audit Committee of Eramet, the French minerals and alloy business. He is Deputy Chairman and Audit Committee Chairman of Assystem SA, the French engineering and innovation consultancy. He was Chairman of ST Microelectronics NV, one of the world's largest semiconductor companies, from 2007 to 2009, and stepped down as Vice Chairman in 2011.

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

Michel Meeus, 63, Belgian

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

Enrico Testa, 64, 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 and 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 Bernabe Group, which owns several investments in the IT sector. From 2002 to 2005 he was member of the Advisory Board of Carlyle Europe and has been 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.V.A. - 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.

Report of the Directors

Directors

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

Non-executive Directors

Zev Furst (Chairman)
Gilbert Lehmann
Michel Meeus
Enrico Testa

Executive Directors

Guido Michelotti
Bertrand des Pallieres
Adelmo Schenato

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 September 2014 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 22 June 2016

The biographies of the Directors in office at the date of this report are shown on pages 18 and 19

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 2015 and their connected persons in the Ordinary shares of the Company at 31 December 2015 are set out below

Director	Number of Shares
Z Furst	-
G Michelotti	-
B des Pallieres	200,000
G Lehmann	-
M Meeus	26,000,000
A Schenato	-
E Testa	-

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 authorities to issue and buy back shares, granted at the 2015 Annual General Meeting, remain unused

Dividends

The Directors do not recommend payment of a dividend for the year to 31 December 2015 (2014: 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 2015 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 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. Total voting rights amount to 231,091,668

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 that 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 2015 and 25 April 2016, the Company had been notified of the following interests in voting rights attached to the Company's shares:

Major shareholder	31 December 2015		25 April 2016	
	Number of shares held	% of total voting rights	Number of shares held	% of total voting 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 Meeüs	26,000,000	11.25	26,000,000	11.25
Credit Agricole Indosuez (Suisse) SA	14,383,000	6.22	14,383,000	6.22
Kellet Overseas Inc	14,002,696	6.06	14,002,696	6.06
Credit Suisse Private Banking	9,629,091	4.17	9,062,091	3.92
Cynderella Trust	7,657,886	3.31	7,657,886	3.31

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 auditor

As required by section 418 of the Companies Act 2006, each of the Directors as at 25 April 2016 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 418 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 Executive directors are entitled to a payment of salary and benefits for a period of six months.

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 2015 to 31 December 2015.

Report of the Directors continued

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 to 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 its 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 calculating the intensity ratio. This will allow comparison of the Company's performance over time, as well as with other companies in the Company's peer group.

Total greenhouse gas emissions data for period from 1 January 2015 to 31 December 2015

Greenhouse gas emissions source	2015	2014
Scope 1		
Direct emissions, including combustion of fuel and operation of facilities (tonnes of CO ₂ equivalent)	554	842
Scope 2		
Indirect emissions from energy consumption, such as electricity and heating purchased for own use (tonnes of CO ₂ equivalent)	741	778
Total (Scope 1 & 2)	1,295	1,620
Normalisation factor		
Barrels of oil equivalent	42,493	41,363
Intensity ratio		
Emissions reported above normalised to tonnes of CO ₂ e per total wellhead production of crude oil, condensates and natural gas, in thousands of Barrel of Oil Equivalent	30.47	39.15

2016 Annual General Meeting

The 2016 Annual General Meeting ("AGM") of the Company will be an opportunity to communicate with shareholders and the Board welcomes their participation. Board members constantly strive to keep in touch with shareholder opinion and to discuss strategy and governance issues with them through direct contacts.

The Board looks forward to welcoming shareholders to the AGM and shareholder information will be enclosed as usual with the AGM notice to facilitate voting and feedback in the usual way.

The AGM notice will be issued to shareholders well in advance of the meeting with notes to provide an explanation of all of the resolutions to be put to the AGM. The Board considers that the resolutions to be put to the AGM are in the best interests of the Company and the shareholders as a whole. Accordingly, the Directors unanimously recommend that the shareholders vote in favour of the proposed resolutions at the AGM, as the Directors intend to do in respect of their own beneficial holdings.

Board and committee members will be available for shareholders' participation at the AGM. All relevant shareholder information including the annual report for 2015 and any other announcements will be published on our website - www.cadoganpetroleum.com

This Report of Directors comprising pages 20 to 23 has been approved by the Board and signed on its behalf by

Marta Halabala
Company Secretary
25 April 2016



Viability Statement

In accordance with provision C2.2 of the 2014 revision of the UK Corporate Governance Code, the Board has assessed the prospect of the Group over a longer period than the twelve months required by the 'Going Concern' provision. The Board selected a three-year period as appropriate for the assessment for the reason that the Group's strategy is aligned with a three-year view and that the current volatility in commodity markets makes confidence in a longer assessment of prospects highly challenging.

The Board has conducted a stress test in three scenarios as well as assessment of the principal risks facing the Group (as set out on pages 12 to 14), including those that would threaten its business model, future performance, solvency or liquidity. These scenarios include:

- > consideration of potential impact of political situation and renewal of the licences that will expire during following three years,
- > foreign exchange movements to which the Group is exposed as a result of its operations in Ukraine, and
- > downturn in the price and demand for hydrocarbon products most impacting Group's operations.

Based on the results of the related analysis and taking account of the Group's current position, particularly its cash availability, and the principal risks, and the effect of the licences that expired during the year, the Board has a reasonable expectation that the Group will be able to continue its operations and meet its liabilities as they fall due over the three-year period of the assessment.

Corporate Governance Statement

This Corporate Governance Statement forms part of the Directors' Report

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 2014 (the 'Code'). The Code can be found on the FRC's website at 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 Trading Officer, Chief Operating Officer, two independent Non-executive Directors and one Non-executive Director who is not deemed independent. The membership of the Board and biographical details for each of the Directors are incorporated into this report by reference and appear on pages 18 and 19.

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 2016 Annual General Meeting due to be held on 22 June 2016.

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

The 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 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. Eight Board meetings took place during 2015. The attendance of those Directors in place at the year end at Board and Committee meetings during the year was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
No. Held	8	3	1	4
No. Attended				
Z Furst	7	n/a	1	4
G Michelotti	3	n/a	n/a	n/a
B des Pallieres	6	n/a	1	n/a
G Lehmann	7	3	1	4
M Meeüs	7	n/a	n/a	n/a
A Schenato	7	n/a	n/a	n/a
E Testa	5	3	-	4

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 the 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.

Corporate Governance Statement continued

The non-executive Directors bring an independent view to the Board's discussions and the development of its strategy. Their range of experience ensures that management's performance in achieving the business goals is challenged appropriately. Two Non-executive Directors, Gilbert Lehmann and Enrico Testa, are considered by the Board in accordance with the Code, to be independent. Michel Meeüs, who is a significant shareholder, is not considered 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.

Responsibilities and membership of Board Committees

The Board has agreed written terms of reference for the Nomination Committee, Remuneration Committee and Audit Committee. The terms of reference for all three Board Committees are published on the Company's website, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. A review of the terms of reference, membership and activities of all Board Committees is provided on pages 27 to 32.

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 2015, 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 monitoring and 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 2015 and up to the date of signing the Financial Statements are documented in the Group's Corporate Governance Policy Manual and Finance Manual. These manuals have been circulated throughout the Group. In addition, the Company's joint venture entities adopted policies that mirror the Company's own, except Westgasinvest LLC ("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 Group Director of Finance who reports directly to the Chief Executive Officer. Trading business is managed by the Chief Trading Officer who reports directly to Chief Executive Officer. The legal function is managed by the General Counsel who reports to the Chief Executive Officer. The Health, Safety and Environment functions report to the Chief Operating Officer. An overview of the Group's treasury policy is set out on page 11.

The Group does not have an internal audit function. Due to the small scale of the Group's operations at present, the Board does 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 the Code. 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 questions that they feel would be inappropriate to raise via the Chairman or Executive Directors.

The Annual General Meeting is used as an opportunity to communicate with all shareholders. In addition, financial results are posted on the Company's website, www.cadoganpetroleum.com, as soon as they are announced. The Notice of the Annual General Meeting is also published on the Company's website, www.cadoganpetroleum.com. It is intended that the Chairmen of the Nomination, Audit and Remuneration Committees will be present at the Annual General Meeting. The results of all resolutions will be published on the Company's website, www.cadoganpetroleum.com.

Board Committee Reports

Audit Committee Report

The Audit Committee is appointed by the Board, on the recommendation of the Nomination Committee, from the Non-executive Directors of the Group. The Audit Committee's terms of reference 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, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office. Two members constitute a quorum.

Responsibilities

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

Assessment of the effectiveness of the external auditor

The Committee has assessed the effectiveness of the external audit process. They did this by

- > Reviewing the 2015 external audit plan,
- > Discussing the results of the audit including the auditor's views on material accounting issues and key judgements and estimates, and their audit report,
- > Considering the robustness of the audit process,
- > Reviewing the quality of the service and people provided to undertake the audit, and
- > Considering their independence and objectivity

Governance

Mr Testa and Mr Lehmann, who are both independent Non-executive Directors under provision B.11 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 the accounting policies adopted and reviewed critical judgements, estimates and underlying assumptions and whether the financial statements represented a true and fair view.

Board Committee Reports continued

Significant issues relating to the 2015 financial statements

For the year ended 31 December 2015 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

Impairment of E&E and D&P

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 uncertainties on the timing and outcome of the licence renewal and award process and the persistent difficult situation faced by Ukraine have suggested a prudent approach to the treatment of E&E assets. The Audit Committee agreed to the identified indicators of impairment and recognised impairment charge of oil and gas assets of \$10.1 million in the financial statements as at 31 December 2015. The Audit Committee has discussed the Group's exploration and evaluation assets with both management and the auditors and concurs with the treatment adopted.

Following discussions with management and the auditor, including discussing the range of sensitivities, the Committee is satisfied with results of the assessment of the recoverable amount of development and production assets. The recoverability assessment involves the use of significant judgment both in the review of impairment indicators and, in any subsequent impairment test, the consideration of estimates which are dependent on assumptions about the future.

Reserves

Oil and gas reserves, as discussed in the Statement of Reserves and Resources, are based on the Independent Reserves and Resources Evaluation conducted by Brend-Vik, referred to 31 December 2015 and concluded in March 2016.

However, reserves estimates are inherently uncertain, especially under present market volatility or 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 impairment testing of oil and gas property, plant and equipment.

Recoverability of investments in joint ventures

Recoverability of the Group's investments in joint ventures is based on assessment of exploration and evaluation assets impairment, which constitute most of the investments in joint ventures cost. As of 31 December 2015 impairment assessment of the joint ventures' exploration and evaluation assets was based on the value in use of the assets held by each individual joint venture company.

Going concern

After making enquiries and considering the uncertainties described above, the Committee has 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. For further detail refer to the detailed discussion of the assumptions outlined in note 3(b) to the Consolidated Financial Statements. The Committee also supports the Group's viability statement presented on page 24.

Political and economic situation in Ukraine

The recent political situation 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, other than the impacts derived from the subsoil use tax and the uncertainties on the timing of the approval process, there were no significant adverse consequences in relation to the Group's operations, cash flows and assets that impact the 2015 financial statements.

In discussion with management, 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 summarised in Note 4 and in Note 31 to the financial statements.

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 auditor on its internal quality procedures. The Committee reviewed and approved the terms and scope of the audit engagement, the audit plan and the results of the audit with the external auditor, including the scope of services associated with audit-related regulatory reporting services. Additionally, auditor independence and objectivity were assessed, giving consideration to the auditor's confirmation that its independence is not impaired, the overall extent of non-audit services provided by the external auditor and the past service of the auditor.

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 its 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 Consolidated Financial Statements. The Company's external auditor, Deloitte LLP, has provided non-audit services (excluding audit related services) which amounted to \$125,000 (2014: \$63,000). 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 are not impaired by the reason of such non-audit work.

The Company is aware that, as a result of the EU Audit Directive and Regulation, companies where the auditor was appointed between 17 June 2003 and 16 June 2006 will need to conduct a tender and either reappoint the existing auditor or appoint new auditors for the audit for the year end at 31 December 2017. Accordingly, the Company intends to conduct a tender following the Annual General Meeting to be held on 22 June 2016.

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.

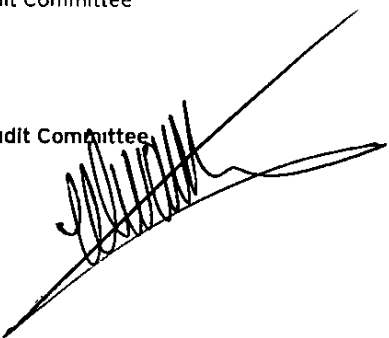
The Group's whistleblowing policy encourages employees to report suspected wrongdoing and sets out the procedures employees must follow when raising concerns. The policy, which was implemented during 2008, was refreshed in 2013 and recirculated to staff as part of a manual that includes the Company's policies on anti-bribery, the acceptance of gifts and hospitality, and business conduct and ethics.

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 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.

Gilbert Lehmann
Chairman of the Audit Committee
25 April 2016



Board Committee Reports continued

Health, Safety and Environment Committee Report

The Health, Safety and Environment Committee ("the HSE Committee") is appointed by the Board on the recommendation of the Nomination Committee. The HSE Committee's terms of reference are reviewed annually by the 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, 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 2015. Members of the HSE Committee are Mr Adelmo Schenato (Chief Operating Officer and HSE Committee Chairman), Ms Snizhana Buryak (HSE Manager), Mr Andriy Bilyi (Deputy Operations Manager). The Company Secretary attends meetings of the HSE Committee. The HSE Committee meets monthly to continuously monitor progress by management.

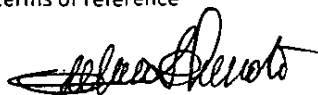
Activities of the Health, Safety and Environment Committee

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 Committee meetings in relation to the current activities
- › Compliance with HSE regulatory requirements was ensured through discussion of any inspections, both internal and those carried out by the authorities
- › HSE performance, key indicators and statistics were a standing item on the agenda, allowing the HSE Committee to assess the Company's activities performance by analysing any lost-time incidents (of which there were none during 2013, 2014 and 2015), 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.



Adelmo Schenato

Chairman of the Health, Safety and Environment Committee

25 April 2016

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, 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 any 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 Trading 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. The Nomination Committee recommends the re-election of each of the Directors at the AGM.

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.

Board Committee Reports continued

Remuneration Committee

Statement from the Chairman

I am pleased to present the Annual Report on Remuneration for the year ended 31 December 2015

During 2015 there were no substantial changes made to the Remuneration Policy, nor to the composition of directors' remuneration, and there was no increase to executive and non-executive directors' salary and fees in base currency. During 2015 there were no performance payments made.

In June 2015 Mr Guido Michelotti replaced Mr Bertrand des Pallieres as a Chief Executive Officer. Mr des Pallieres has been appointed as Chief Trading Officer.

The Remuneration Policy 2014 was presented for a binding shareholder vote and approved at the Annual General Meeting 2015 held on 25 June 2015. No major changes have been made to the Remuneration Policy, which can be found at our website. Shareholders at the Annual General Meeting will be asked to approve the Remuneration Policy every three years, unless there is a need to amend the Policy in the interim. The Annual Report on Remuneration 2015 will be presented for a shareholder vote at the Annual General Meeting 2016 to be held on 22 June 2016.

Given the challenging political situation in Ukraine, the Company's aim to develop a revised, long-term and balanced Remuneration Policy aligned to strategy and performance and linked to shareholder preferences took second precedence last year to other pressing matters. In my statement last year, I explained that the Company would maintain its current approach to remuneration, already long-term, balanced and aligned to strategy and performance.

Enrico Testa

Chairman of the Remuneration Committee

25 April 2016



Annual Report on Remuneration 2015

Remuneration Committee Report

The Remuneration Committee is committed to principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. 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.

Governance

The Remuneration Committee is appointed by the Board from the Non-executive Directors of the Company. 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, www.cadoganpetroleum.com, and are also available from the Company Secretary at the Registered Office.

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. None of the directors are involved in deciding their own remuneration. The Remuneration Committee is also supported by the Company Secretary.

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

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 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 Remuneration Committee unanimously recommends that shareholders vote to approve the Annual Report on Remuneration at the 2016 Annual General Meeting.

Remuneration consultants

The Remuneration Committee did not take any advice from external remuneration consultants.

Annual Report on Remuneration 2015

continued

Single total figure of remuneration for executive and non-executive directors (audited)

Executive Directors	\$ Salary and fees		\$ Taxable benefits		\$ Annual bonus		\$ Long-term incentives		\$ Pension		\$ Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
G Michelotti	242,902	-	15,987	-	-	-	-	-	-	-	-258,889	-
B des Pallieres	357,231	405,433	-	20,734	-	-	-	-	-	-	357,231	426,167
A Schenato	282,014	333,703	-	18,195	-	-	-	-	-	-	-282,014	351,898
Non-executive Directors												
Z Furst	129,957	140,089	-	-	-	-	-	-	-	-	-129,957	140,089
G Lehmann	68,801	74,165	-	-	-	-	-	-	-	-	-68,801	74,165
E Testa	53,512	57,684	-	-	-	-	-	-	-	-	-53,512	57,684
M Meeus	53,512	-	-	-	-	-	-	-	-	-	-53,512	-

In 2015 there was no increase in executive and non-executive directors' salary in base currency. The difference in pay represents the change in exchange rate between the base currency and USD as a reporting currency.

Notes to the table

In June 2015 Mr Guido Michelotti was appointed as Chief Executive Officer. Mr Michelotti's salary is €440,000 (\$488,708) per annum.

In June 2015, Mr Bertrand des Pallieres was appointed as Chief Trading Officer. Mr des Pallieres' salary is £221,400 (\$338,498) per annum, comprising £194,400 (\$297,218) per annum under a consultancy agreement (the terms of which are reviewed by the Remuneration Committee annually) and £27,000 (\$41,280) per annum under a services agreement.

Adelmo Schenato continued as Chief Operating Officer of the Company throughout 2015. Mr Schenato's basic salary is £184,393 (\$281,918) comprising £225,000 per annum under a consultancy agreement and £21,000 under a services agreement.

In 2015 none of the directors participated in an annual bonus and long-term incentives.

In May 2011 the Board agreed that the Chairman's fee be set at £85,000 (\$129,957) and that the fee for acting as an independent Non-executive Director be set at £35,000 (\$53,512) with an additional £10,000 (\$15,289) for acting as Chairman of the Audit Committee. There has been no increase in Non-executive Directors' fees since that time.

Benefits may be provided to the executive directors, in the form of private medical insurance and life assurance.

Scheme interests awarded during the financial year (audited)

There were no scheme interests awarded during the year.

Payments to past directors (audited)

In 2015 there were no payments to past directors.

Payments for loss of office (audited)

No payments were made to directors for loss of office in 2015.

Directors' interests in shares (audited)

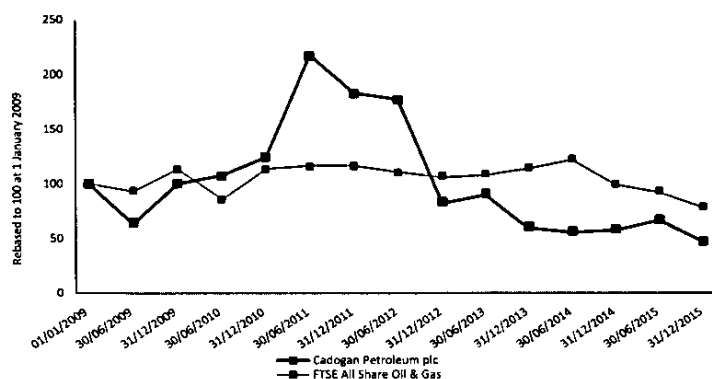
The beneficial interests of the Directors in office as at 31 December 2015 and their connected persons in the Ordinary shares of the Company at 31 December 2015 are set out below.

Shares as at 31 December	2015	2014
Z Furst	-	-
B des Pallieres	200,000	200,000
G Lehmann	-	-
M Meeus	26,000,000	26,000,000
A Schenato	-	-
E Testa	-	-

The Company does not currently operate formal shareholding guidelines.

The Company's performance

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



Historic Remuneration of Chief Executive

	Salary \$	Taxable benefits \$	Annual bonus \$	Long-term incentives \$	Pension \$	Loss of office \$	Total \$
2009	422,533	-	284,552	-	-	-	707,085
2010	547,067	-	-	-	-	-	547,067
2011	669,185	-	-	-	-	-	669,185
2012	511,459	-	-	-	31,966	126,808	670,233
2013	384,941	-	-	-	-	-	384,941
2014	405,433	20,734	-	-	-	-	426,167
2015	432,409	15,987	-	-	-	-	448,396

In 2015 none of the directors participated in an annual bonus and long-term incentives

Percentage change in the remuneration of the Chief Executive

The following table shows the percentage change in the remuneration of the Chief Executive in 2015 and 2014 compared to that of all employees within the Group

		2015 \$'000	2014 \$'000	Change %
Base salary	CEO	432	405	7
	All employees	3,121	4,467	(30)
Taxable benefits	CEO	16	20	(20)
	All employees	27	91	(70)
Total remuneration	CEO	448	426	5
	All employees	3,148	4,558	(31)

In 2015 none of the directors participated in an annual bonus and long-term incentives

In 2015 there was no increase in executive and non-executive directors' salary in base currency. The difference in pay represents the change in exchange rate between the base currency and USD as a reporting currency. The decrease in employee remuneration is due to a reduction in employees as at 31 December 2015 to 80 (2014: 100).

Loss of Office

In 2015 no loss of office payments were made to the directors

Annual Report on Remuneration 2015

continued

Relative importance of spend on pay

The table below compares shareholder distributions (ie dividends and share buybacks) and total employee pay expenditure of the Group for the financial years ended 31 December 2014 and 31 December 2015

	2015 \$'000	2014 \$'000	Year-on-year change, %
All-employee remuneration	3,596	4,984	(28)
Distributions to shareholders	-	-	N/A

Shareholder voting at the Annual General Meeting

The Directors' Remuneration Report for the year ended 31 December 2014 and the Directors' Remuneration Policy were approved by shareholders at the Annual General Meeting held on 25 June 2015. The Remuneration Policy can be found on the Group's website. The votes cast by proxy were as follows

Directors' Remuneration Report	Number of votes	% of votes cast
For	58,983,662	99.91
Against	56,000	0.09
Total votes cast	59,039,662	100.00
Number of votes withheld	0	

Directors' Remuneration Policy	Number of votes	% of votes cast
For	58,983,662	99.91
Against	56,000	0.09
Total votes cast	59,039,662	100.00
Number of votes withheld	0	

Implementation of Remuneration Policy in 2016

The Remuneration Committee proposes to continue to implement a Remuneration Policy approved by the shareholders at the 2015 AGM.

Approval

The Directors' Remuneration Report was approved by the Board on 25 April 2016 and signed on its behalf by

Zev Furst
Chairman
25 April 2016



Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by law to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the International Accounting Standards ("IAS") regulation and have also elected to prepare the Parent Company financial statements under IFRS as adopted by the European Union. Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing the Company and Group's financial statements, IAS Regulations require 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's and Group's financial position and financial performance, and
- > make an assessment of the Company's and Group's ability to continue as a going concern

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 detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Annual Report on Remuneration, Directors' Remuneration Policy and Corporate Governance Statement that comply with that law and those regulations.

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

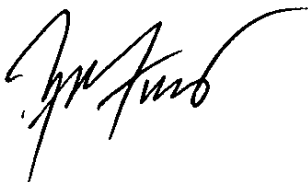
Responsibility Statement of the Directors in respect of the Annual Report

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 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 position, performance, business model and strategy

On behalf of the Board

Zev Furst
Chairman
25 April 2016



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

Opinion on financial statements of Cadogan Petroleum plc

In our opinion

- > the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's loss for the year then ended,
- > the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union,
- > the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

The financial statements comprise the Consolidated Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1 - 42

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to in relation to

- > the Directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity,
- > the disclosures on pages 12 to 14 that describe those risks and explain how they are being managed or mitigated,
- > the Directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in
- > preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements, and
- > the Directors' explanation on page 24 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team

Risk	How the scope of our audit responded to the risk
Political and economic turmoil in Ukraine Substantially all the Group's operating activities and assets are located in Ukraine. The potential future impact of the political and economic situation on the business operations is highly uncertain. Consideration is required whether the carrying values of non-current assets of the \$6.5m and receivables of the \$14.4m remain recoverable, whether assumptions including future gas prices, foreign currency exchange rates, discount factor and inflation assumptions used in impairment assessments are reasonable, whether the going concern assumption is appropriate and whether sufficiently detailed disclosures have been made. The Group has assessed its portfolio of the assets in the context of the political and economic situation in Ukraine, including the considerations mentioned above, and potential difficulties with the current and upcoming extension of licences. As a result management decided to impair the exploration and evaluation assets associated with the Pirkovska licence by \$10.1m down to \$0m due to a significant uncertainty in relation to the timing of the renewal of the Pirkovska licence that expired in October 2015. Details of the Group's assessment of the operating environment in Ukraine and uncertainties about key assumptions made by management in assessing the recoverable amount of oil and gas assets are disclosed in notes 4 and 35.	Using sensitivity analysis we have assessed the potential impact of ongoing political instability in Ukraine on the key assumptions used by management in the calculation of the recoverable amount of non-current assets and assessment of the going concern, including gas prices, inflation assumption, the discount factor and currency exchange rates. We also assessed the potential impact of the ongoing political instability on the going concern assumption by modelling the impact of various downside scenarios, including inflation caused by depreciation of the national currency, potential difficulties with the upcoming extension of licences and changes to oil and gas trading regulation in Ukraine. We considered the adequacy of the disclosures made in the financial statements and the annual report.

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

Risk	How the scope of our audit responded to the risk
Recoverability of non-current assets The carrying value of the Group's non-current assets, which includes intangible exploration and evaluation assets, property, plant and equipment and investments in joint ventures, amounted to \$6.5 million at 31 December 2015. Assessment of the carrying value of non-current assets requires significant judgement, including the Group's intention and ability to proceed with a future work programme for a prospect or licence, the likelihood of licence renewal or extension, and the expected or actual success of drilling and geological analysis. Recoverability of non-current assets is dependent on macro-economic assumptions and estimates about future oil and gas prices, inflation, discount and exchange rates as well as forecast assumptions related to future production levels, reserves and operating costs. The outcome of impairment assessments could vary significantly were different assumptions applied. The continued instability of the political and economic situation in Ukraine and devaluation of functional currency to which the Group is significantly exposed and the Group's reduction in production and exploration activities are factors which heighten the risk of impairment associated with the Group's non-current assets. In total, impairments of intangible exploration and evaluation assets, property plant and equipment and investments in joint ventures amounting to \$10.1 million, \$0.4 million and \$8.8 million, respectively were recognised in the year ended 31 December 2015. Refer to the Group's policies and key estimates and assumptions within note 1 and additional notes 16, 17 and 19.	We evaluated management's assessment of indicators of impairment and recoverability assessment for the Group's non-current assets, including potential difficulties with the upcoming extension of licences. We analysed the reasonableness of the estimates such as oil and gas resources and future production levels, future oil and gas prices, future costs and performed the benchmarking of inflation and discount rates to estimates used by the peer companies and Deloitte-developed discount rates. We also considered actual facts and circumstances of the operating environment of the Group. Our work included discussion of the latest status and future appraisal plans on each licence with operational staff and Group management. We gathered evidence such as budgets, field development plans, contracts for future drilling and geological and geophysical activities to verify that management intention to continue exploration efforts is supported by funding commitments. We have also obtained and reviewed documentary evidence, such as budgets, field working programmes, contracts for future geological and geophysical activities, and licence documents. We evaluated management's assessment of whether there were any indicators of impairment for the Group's interests in joint ventures, taking into consideration the impairment indicators outlined in IFRS 6 for the purpose of impairment assessment of exploration and evaluation assets within the joint ventures. We held discussions on the latest status and future appraisal plans on each licence with operational staff and Group management and compared these plans with approved budgets and considered Group's future funding responsibilities. We undertook a detailed analysis and challenge of the significant judgements and estimates used in management's impairment tests of exploration and evaluation assets held by the joint ventures of the Group. Our analysis included comparison of gas price assumptions to publicly available forecasts, benchmarking the discount rate applied by management to the Deloitte-developed discount rate, and the comparison of future cost estimates against actual historic cost levels and budgets.

Although separate impairment assessments have been undertaken and audited, we have aggregated our explanation of risks and the scope for the recoverability of intangible exploration and evaluation (E&E) assets, development of producing oil and gas properties within property, plant and equipment, recoverability of investments in joint ventures into the recoverability of non-current assets.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee and discussed on pages 28 and 29.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

When determining materiality, among other factors we considered the Group's pre-tax loss in the current period as well as in recent periods, the occurrence of any non-recurring or fluctuating gains and losses (such as exploration and evaluation assets impairments) and the level of consolidated shareholders' equity.

We determined our materiality based on the expected consolidated shareholders' equity as at 31 December 2015. Consistent with the prior year, we used consolidated shareholders' equity to determine materiality as the entity has a history of operating losses. Materiality was determined to be \$2,020,000, which was 3% of expected consolidated shareholders' equity. Subsequently, a non-current assets impairment of \$19.3 million was recognised which impacted consolidated shareholders' equity and thus the benchmark based on which we determined our materiality initially. We assessed whether the scope of the business had changed as a result of this impairment and determined that it had not. Therefore we consider it appropriate to retain our original materiality of \$2,020,000, which is now 3.7% of consolidated shareholders' equity (2014: \$2,700,000 which was 3% of consolidated shareholders' equity).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$40,000 (2014: \$54,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we have included in the group audit scope the full audit of all significant entities in Ukraine and in the UK. These businesses account for over 90% (2014: over 90%) of the Group's net assets, revenue and loss before tax. The group audit team was led by the Deloitte UK Senior Statutory Auditor and managers and included junior audit members and senior tax specialists from Deloitte Ukraine as all assets are located there and appropriate knowledge of local legislation and tax regulations is required.

The Senior Statutory Auditor and managers from the Deloitte UK visited Ukraine during the planning and fieldwork stages of the audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining balances not subject to audit or audit of specified account balances.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > we have not received all the information and explanations we require for our audit, or
- > adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- > the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made, or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

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

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is

- > materially inconsistent with the information in the audited financial statements, or
- > apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit, or
- > otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matters

Although not required to do so, the directors have voluntarily chosen to make a corporate governance statement detailing the extent of their compliance with the UK Corporate Governance Code. We reviewed the part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

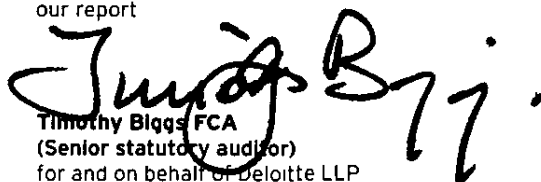
Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

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



Timothy Biggs FCA

(Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

25 April 2016

Consolidated Income Statement

For the year ended 31 December 2015

	Notes	2015 \$'000	2014 \$'000
CONTINUING OPERATIONS			
Revenue	6	75,440	32,623
Cost of sales		(69,562)	(29,813)
Gross profit		5,878	2,810
Administrative expenses		(6,115)	(7,002)
Impairment of oil and gas assets	8	(10,480)	(5,134)
Reversal of impairment of other assets	8	1,300	877
		(15,295)	(11,259)
Share of losses in joint ventures	19	(12,844)	(54,664)
Net foreign exchange gains		2,494	3,036
Other operating income, net	7	31	547
Operating loss		(19,736)	(59,530)
Investment income	12	118	852
Finance costs	13	(2,625)	(468)
Loss before tax		(22,243)	(59,146)
Tax credit/(charge)	14	(1,040)	(166)
Loss for the year	9	(23,283)	(59,312)
Attributable to			
Owners of the Company		(23,261)	(59,271)
Non-controlling interest		(22)	(41)
		(23,283)	(59,312)
Loss per Ordinary share			
		cents	cents
Basic	15	(10.1)	(25.6)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	2015 \$'000	2014 \$ 000
Loss for the year	(23,283)	(59,312)
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss		
Unrealised currency translation differences	(11,521)	(28,153)
Other comprehensive loss	(11,521)	(28,153)
Total comprehensive loss for the year	(34,804)	(87,465)
Attributable to		
Owners of the Company	(34,782)	(87,424)
Non-controlling interest	(22)	(41)
	(34,804)	(87,465)

Consolidated Balance Sheet

As at 31 December 2015

	Notes	2015 \$'000	2014 \$'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	16	2,700	18,289
Property, plant and equipment	17	1,661	3,846
Investments in joint ventures	19	2,181	14,325
		6,542	36,460
Current assets			
Inventories	20	3,503	9,940
Trade and other receivables	21	14,411	17,891
Cash and cash equivalents	22	49,407	48,927
		67,321	76,758
Total assets		73,863	113,218
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	23	-	(288)
Provisions	26	(726)	(55)
		(726)	(343)
Current liabilities			
Short-term borrowings	24	(12,903)	(17,327)
Trade and other payables	25	(3,682)	(5,068)
Provisions	26	(1,523)	(647)
		(18,108)	(23,042)
Total liabilities		(18,834)	(23,385)
NET ASSETS		55,029	89,833
EQUITY			
Share capital	27	13,337	13,337
Retained earnings		200,339	223,600
Cumulative translation reserves		(160,512)	(148,991)
Other reserves		1,589	1,589
Equity attributable to owners of the Company		54,753	89,535
Non-controlling interest		276	298
TOTAL EQUITY		55,029	89,833

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 25 April 2016. They were signed on its behalf by



Guido Michelotti
Chief Executive Officer
25 April 2016

Consolidated Cash Flow Statement

For the year ended 31 December 2015

	2015 \$'000	2014 \$'000
Operating loss	(19,736)	(59,530)
Adjustments for		
Depreciation of property, plant and equipment	434	938
Impairment of oil and gas assets	10,480	5,134
Share of losses in joint ventures	12,844	54,664
Charge of impairment of inventories (note 8)	90	253
Reversal of impairment of VAT recoverable (note 8)	(1,390)	(727)
Loss on disposal of property, plant and equipment	24	211
Effect of foreign exchange rate changes	(3,827)	(4,892)
Operating cash flows before movements in working capital	(1,081)	(3,949)
Decrease/(increase) in inventories	1,258	(7,242)
Decrease/(increase) in receivables	4,871	(10,285)
(Decrease)/increase in payables and provisions	(1,429)	1,424
Cash from/(used in) operations	3,619	(20,052)
Interest paid	(2,379)	(218)
Income taxes paid	-	(373)
Net cash inflow/(outflow) from operating activities	1,240	(20,643)
Investing activities		
Investments in joint ventures	(700)	(3,024)
Purchases of property, plant and equipment	(261)	(1,611)
Purchases of intangible exploration and evaluation assets	(281)	(468)
Proceeds from sale of property, plant and equipment	5	84
Interest received	118	852
Net cash used in investing activities	(1,119)	(4,167)
Financing activities		
Proceeds from short-term borrowings	13,187	17,327
Repayments of short-term borrowings	(12,225)	-
Net cash from financing activities	962	17,327
Net increase/(decrease) in cash and cash equivalents	1,083	(7,483)
Effect of foreign exchange rate changes	(603)	(74)
Cash and cash equivalents at beginning of year	48,927	56,484
Cash and cash equivalents at end of year	49,407	48,927

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Share capital \$ 000	Retained earnings \$ 000	Cumulative translation reserves \$'000	Reorganisation \$ 000	Equity attributable to owners of the Company \$ 000	Non-controlling interest \$'000	Total \$ 000
As at 1 January 2014	13,337	282,871	(120,838)	1,589	176,959	339	177,298
Net loss for the year	-	(59,271)	-	-	(59,271)	(41)	(59,312)
Other comprehensive loss	-	-	(28,153)	-	(28,153)	-	(28,153)
Total comprehensive loss for the year	-	(59,271)	(28,153)	-	(87,424)	(41)	(87,465)
As at 1 January 2015	13,337	223,600	(148,991)	1,589	89,535	298	89,833
Net loss for the year	-	(23,261)	-	-	(23,261)	(22)	(23,283)
Other comprehensive loss	-	-	(11,521)	-	(11,521)	-	(11,521)
Total comprehensive loss for the year	-	(23,261)	(11,521)	-	(34,782)	(22)	(34,804)
As at 31 December 2015	13,337	200,339	(160,512)	1,589	54,753	276	55,029

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. General information

Cadogan Petroleum plc (the "Company", together with its subsidiaries the "Group"), is registered in England and Wales under the Companies Act 2006. The address of the registered office is Unit 205, Clerkenwell Workshops, 31 Clerkenwell Close, London EC1R 0AT. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 8 to 9 and the Financial Review on pages 10 to 11.

2. Adoption of new and revised Standards

The accounting policies applied are consistent with those adopted and disclosed in the Group financial statements for the year ended 31 December 2014, except for changes arising from the adoption of the following new accounting pronouncements which became effective in the current reporting period:

- Amendments to IAS 19 Employee Benefits: Defined Benefit Plans-Employee Contributions
- Annual Improvements to IFRSs 2010-2012 cycle
- Annual Improvements to IFRSs 2011-2013 cycle

The adoption of these new accounting pronouncements has not had a significant impact on the accounting policies, methods of computation or presentation applied by the Group. 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.

New IFRS accounting standards, amendments and interpretations not yet adopted

The following new IFRS accounting standards in issue but not yet effective could have a significant impact on the Group:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 will replace IAS 18 Revenue and IAS 11 Construction Contracts and establishes a unified framework for determining the timing, measurement and recognition of revenue. The principle of the new standard is to recognise revenue as performance obligations are met rather than based on the transfer of risks and rewards.

The effective date of the standard has been deferred to 1 January 2018 to allow companies more time to deal with transitional issues of application.

The Group is currently reviewing the potential impact of adopting IFRS 15 with the primary focus being understanding those sales contracts where the timing and amount of revenue recognised could differ under IFRS 15, which may occur for example if contracts with customers incorporate performance obligations not currently recognised separately, or where such contracts incorporate variable consideration. As the Group's revenue is predominantly derived from arrangements in which the transfer of risks and rewards coincides with the fulfilment of performance obligations, the timing and amount of revenue recognised is unlikely to be materially affected for the majority of sales.

IFRS 15 also includes disclosure requirements including qualitative and quantitative information about contracts with customers to help users of the financial statements understand the nature, amount, timing and uncertainty of revenue.

In addition to the potential accounting implications outlined above, the implementation of IFRS 15 is expected to impact the Group's systems, processes and controls. The Group will start developing a transition plan to identify and implement the required changes during 2016.

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and addresses the following three key areas:

- Classification and measurement establishes a single, principles-based approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This is expected to have a number of presentational impacts on the Group financial statements including changes in the presentation of gains and losses on financial assets and liabilities carried at fair value on the balance sheet.
- Impairment introduces a new 'expected credit loss' impairment model, requiring expected credit losses to be recognised from when financial instruments are first recognised. The transition to this model is expected to result in changes in the systems and computational methods used by the Group to assess receivables and similar assets for impairment. However, given the profile of the Group's counterparty exposures, this is not expected to have a material impact on the amounts recorded in the financial statements.
- Hedge Accounting aligns the accounting treatment with risk management practices of an entity, including making a broader range of exposures eligible for hedge accounting and introducing a more principles-based approach to assessing hedge effectiveness. The adoption of IFRS 9 will not require changes to existing hedging arrangements but may provide scope to apply hedge accounting to a broader range of transactions in the future.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018

The Group's implementation activities to date have principally focused on gaining a high level understanding of the likely effects of IFRS 9 given the nature of financial instruments held by the Group. A more detailed impact analysis and transition activities will be undertaken during 2016

IFRS 16 Leases

IFRS 16 replaces the following standards and interpretations: IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The new standard provides a single lessee accounting model for the recognition, measurement, presentation and disclosure of leases. IFRS 16 applies to all leases including subleases and requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019. The Group will evaluate the potential impact of IFRS 16 on the financial statements and performance measures. This will include an assessment of whether any arrangements the Group enters into will be considered a lease under IFRS 16

Standards and Interpretations in issue but not effective

The following new amendments and interpretations in issue but not yet effective are not expected to have a significant impact on the Group

- > Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative provides guidance on the use of judgement in presenting financial statement information, including the application of materiality, order of notes, use of subtotals, accounting policy referencing and disaggregation of financial and non-financial information
- > Amendments to IAS 27 Equity Method in Separate Financial Statements will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates
- > Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Clarification of Acceptable Methods of Depreciation clarify that a revenue based method of depreciation or amortisation is generally not appropriate
- > Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture remove an inconsistency between the two standards on the accounting treatment for gains and losses arising on the sale or contribution of assets by an investor to its associate or joint venture. Following the amendment, such gains and losses may only be recognised to the extent of the unrelated investor's interest, except where the transaction involves assets that constitute a business
- > Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations and IAS 28 Investments in Associates and Joint Ventures clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business

Other issued standards and amendments that are not yet effective are not expected to have an impact on the financial statements

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 Strategic Report on pages 4 to 17. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 10 to 11

The Group's cash balance at 31 December 2015 was \$49.4 million (2014: \$48.9 million) excluding \$0.9 million (2014: \$0.5 million) of Cadogan's share of cash and cash equivalents in joint ventures. It includes \$20 million of restricted cash held in UK bank which represent security of borrowings (note 24). The Directors believe that the funds available at the date of the issue of these financial statements are sufficient for the Group to manage its business risks successfully

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

3. Significant accounting policies continued

(b) Going concern continued

The Group's forecasts and projections, taking into account reasonably possible changes in trading activities, operational performance, start dates and flow rates for commercial production and the price of hydrocarbons sold to Ukrainian customers, show that there are reasonable expectations that the Group will be able to operate on funds currently held and those generated internally, for the foreseeable future

The Group continues to pursue its farm-out campaign, which, if successful, will enable it to farm-out a portion of its interests in its oil and gas licences to spread the risks associated with further exploration and development

After making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and consider the going concern basis of accounting to be appropriate and, thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. In making its statement the Directors have considered the recent political and economic situation in Ukraine, as described further in the note 4 (e)

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. IFRS 10 defines control to be investor control over an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to control those returns through its power over the investee

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

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

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 (ie 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. These are recognised and measured at fair value less costs to sell

3. Significant accounting policies continued

(e) Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture firm recognises its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.

Under the equity method, the investment is carried on the balance sheet at cost plus changes in the Group's share of net assets of the entity, less distributions received and less any impairment in value of the investment. The Group Consolidated Income Statement reflects the Group's share of the results after tax of the equity-accounted entity, adjusted to account for depreciation, amortisation and any impairment of the equity accounted entity's assets. The Group Statement of Comprehensive Income includes the Group's share of the equity-accounted entity's other comprehensive income.

Financial statements of equity-accounted entities are prepared for the same reporting year as the Group. The Group assesses investments in equity-accounted entities for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs of disposal and value in use. If the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.

The Group ceases to use the equity method of accounting from the date on which it no longer has joint control over the joint venture or significant influence over the associate, or when the interest becomes classified as an asset held for sale.

(f) Revenue recognition

Revenue 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. Revenue from services is recognised in the accounting period in which services are rendered. The main types of services provided by the Group are drilling and civil works services.

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. Foreign exchange differences on cash and cash equivalents are recognised in operating profit or loss in the period in which they arise.

Exchange differences are 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. This forms part of the net investment in a foreign operation which is recognised in the foreign currency translation reserve and in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the results and financial position of each entity of the Group 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

3. Significant accounting policies continued

(g) Foreign currencies continued

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 2015		Year ended 31 December 2014	
	GBP/USD	USD/UAH	GBP/USD	USD/UAH
Closing rate	1.4805	24 2731	1 5534	16 0960
Average rate	1 5289	22 0584	1 6481	12 1705

(h) Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. This is accounted for using the balance sheet liability method. Deferred tax liabilities are generally 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) Other 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 development and production assets and other property, plant and equipment

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

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

3. Significant accounting policies continued

(j) Impairment of development and production assets and other property, plant and equipment continued

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 which complies with requirement 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 geographical cost pool basis.

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 an individual assets basis as set out below and any impairment loss is recognised in the income statement. Upon approval of a development programme, the carrying value, after any impairment loss, of the relevant E&E assets is reclassified to the development and production assets within PP&E.

Intangible E&E assets that relate to E&E activities that are determined not to have resulted in the discovery of commercial reserves remain 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.

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 assets fall into an area that does not have an established pool or if there are no producing assets to cover the unsuccessful exploration and evaluation costs, those assets would fail the impairment test and be written off to the income statement in full.

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

Reclassification from development and production assets back to exploration and evaluation

Where development efforts are unsuccessful in the target geological formation of the licence area but the Company sees a potential for oil and gas discoveries in other geological formations of the same licence area, reclassification of recoverable amount of assets from development and production assets back to exploration and evaluation is appropriate following the permanent assessment.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

3. Significant accounting policies continued

(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

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

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

(n) Financial instruments

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

Restricted cash balances represent components of cash and cash equivalents that are not available for use by the Group

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

3. Significant accounting policies continued

(n) Financial Instruments continued

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.

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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

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

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

The outcome of ongoing exploration, and therefore the recoverability of the carrying value of intangible exploration and evaluation assets, is inherently uncertain. Management makes the judgements necessary to implement the Group's policy with respect to exploration and evaluation assets and considers these assets for impairment at least annually with reference to indicators in IFRS 6.

(b) Impairment of development and production assets

IAS 36 Impairment of Assets requires 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.

Management assessed whether any impairment triggers were present at 31 December 2015 and concluded that there were no impairment indicators for the PP&E assets of the Group.

(c) Impairment of investments in joint ventures

The Group's investments in joint ventures are accounted for using the equity method. The carrying value of the Group's investments is reviewed at each balance sheet date. This review requires estimation of the future cash flows expected to be received by the Group mainly from the joint ventures' exploration and evaluation assets. As of 31 December 2015 exploration and evaluation assets of the joint venture entity LLC Industrial Company Gazvydobuvannya have been assessed for impairment through calculation of the recoverable amount as a fair value less cost to sell. As a result impairment has been recognised in the accounts of the joint venture and the Group's share was included in the consolidated financial statements as share of losses in joint ventures. Further details are provided in note 19.

(d) Assessment of political and economic situation in Ukraine impact on Group operations

In 2015, an armed conflict with separatists continued in certain parts of Luhansk and Donetsk regions, and a peaceful resolution of the conflict did not occur as it was foreseen by the Minsk agreements. In 2015, the Ukrainian economy was going through a recession, gross domestic product has contracted by 10% (2014: 7%), and the annual inflation rate reached 43% (2014: 25%). Unfavourable conditions in markets where Ukraine's primary commodities were traded influenced further devaluation of the Ukrainian hryvnia against major foreign currencies. Ukrainian companies and banks continued to suffer from lack of funding from domestic and international financial markets. The National Bank of Ukraine (the "NBU") extended its range of measures introduced in 2014 and aimed at limiting the outflow of foreign currency from the country, inter alia, a mandatory sale of foreign currency earnings, certain restrictions on purchases of foreign currencies on the interbank market and on usage of foreign currencies for settlement purposes, limitations on remittances abroad.

In early 2015, the Government of Ukraine agreed with the IMF a four-year programme for a USD 17.5 billion loan aimed at supporting the economic stabilisation of Ukraine. The programme defines economic reforms that must be undertaken by the Government of Ukraine to reinstate a sustainable economic growth in the mid-term perspective. In 2015, political and economic relationships between Ukraine and the Russian Federation remained strained, which led to a significant reduction in trade and economic cooperation. On 1 January 2016, a free-trade element of Ukraine's association agreement with the European Union is coming into force. In late 2015, the Russian Federation denounced the free trade zone agreement with Ukraine and further trade restrictions were announced by both countries.

Stabilisation of the economic and political situation depends, to a large extent, upon the ability of the Ukrainian Government to continue reforms and the efforts of the NBU to further stabilise the banking sector, as well as upon the ability of the Ukrainian economy in general to respond adequately to changing markets. Nevertheless, further economic and political developments, as well as the impact of the above factors on the Group, its customers, and contractors are currently difficult to predict.

Management is monitoring how the political and economic situation may affect 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 2015 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. Management noted that none of the Group's assets are located in areas of current conflict. Though not predictable and quite improbable, 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. Segment information

Segment information is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports provided to the Group's chief operating decision maker ("CODM"). The Group has identified its top management team as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

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

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

Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions. The Group's reportable segments under IFRS 8 are therefore as follows:

Exploration and Production

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

Service

- > Drilling services to exploration and production companies
- > Civil works services to exploration and production companies

Trading

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Sales between segments are carried out at market prices. The segment result represents operating profit under IFRS before unallocated corporate expenses. Unallocated corporate expenses include management remuneration, representative expenses and expenses incurred in respect of the maintenance of office premises. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

The Group does not present information on segment assets and liabilities as the CODM does not review such information for decision-making purposes.

As of 31 December 2015 and for the year then ended the Group's segmental information was as follows:

	Exploration and Production \$'000	Service \$'000	Trading \$'000	Consolidated \$'000
Sales of hydrocarbons	521	-	74,565	75,086
Other revenue	-	354	-	354
Sales between segments	1,314	-	(1,314)	-
Total revenue	1,835	354	73,251	75,440
Cost of sales	(1,932)	(250)	(67,380)	(69,562)
Administrative expenses	(548)	-	(641)	(1,189)
Interest on short-term borrowings (Note 13)	-	-	(2,411)	(2,411)
Segment results	(645)	104	2,819	2,278
Unallocated administrative expenses				(4,926)
Other income, net				1,235
Impairment ⁽¹⁾				(10,480)
Share of losses in joint ventures ⁽²⁾				(12,844)
Net foreign exchange gains				2,494
Loss before tax				(22,243)

(1) Impairment loss recognised in 2015 of \$10.3 million related to exploration and production segment.

(2) Share of losses in joint ventures includes \$9.1 million of impairment loss that relates to exploration and production segment.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

5. Segment information continued

As of 31 December 2014 and for the year then ended the Group's segmental information was as follows

	Exploration and Production \$ 000	Service \$ 000	Trading \$ 000	Consolidated \$ 000
Sales of hydrocarbons	1,291	-	30,253	31,544
Other revenue	-	846	233	1,079
Sales between segments	1,077	-	(1,077)	-
Total revenue	2,368	846	29,409	32,623
Cost of sales	(2,579)	(386)	(26,848)	(29,813)
Administrative expenses	(1,347)	-	(379)	(1,726)
Interest on short-term borrowings (Note 13)	-	-	(420)	(420)
Segment results	(1,558)	460	1,762	664
Unallocated administrative expenses				(5,276)
Other income, net				2,228
Impairment ⁽¹⁾				(5,134)
Share of losses in joint ventures				(54,664)
Net foreign exchange gains				3,036
Loss before tax				(59,146)

(1) Impairment loss recognised in 2014 of \$5.1 million related to exploration and production segment

6. Revenue

	2015 \$'000	2014 \$ 000
Sale of hydrocarbons	75,086	31,544
Other revenues	354	1,079
	75,440	32,623

Other revenues include revenues from services provided to third parties of \$0.4 million (2014 \$0.8 million)

Information about major customers

Included in revenues for the year ended 31 December 2015 are revenues of \$35.7 million (2014 \$25.3 million) which arose from sales to the Group's two largest customer. No other single customers contributed 10% or more to the Group revenue for both 2015 and 2014 years

7. Other operating income, net

	2015 \$'000	2014 \$ 000
Transactions with JV partner	-	510
Other income, net	31	37
	31	547

8. Impairment

	2015 \$'000	2014 \$ 000
Impairment of oil and gas assets (note 16, 17)	(10,480)	(5,134)
Inventories	(90)	(253)
VAT recoverable	1,390	1,130
Reversal of impairment of other assets	1,300	877

The carrying value of inventory as at 31 December 2015 and 2014 has been impaired to reduce it to net realisable value (see note 20). During 2015, the Group gross sales of inventory to third parties comprised \$0.1 million (2014 \$0.1 million)

During the year VAT impairment in the amount of \$1.3 million (2014 \$1.1 million) has been released, mainly as a result of VAT recovery of historical balances through offset of VAT liabilities arising on sales

9. Loss for the year

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

	2015 \$'000	2014 \$ 000
Depreciation of property, plant and equipment	(434)	(938)
Loss on disposal of property, plant and equipment	(24)	(211)
Reversal of impairment of other assets (note 8)	1,300	877
Impairment of oil and gas assets (note 17)	(10,480)	(5,134)
Staff costs	(2,996)	(4,039)
Net foreign exchange gain	2,494	3,036

In addition to the depreciation of PP&E of \$nil (2014 \$0.9 million) in the year ended 31 December 2015, depreciation of \$nil (2014 \$0.04 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

	2015 \$'000	2014 \$ 000
Audit fees		
Fees payable to the Company's auditor and their associates for the audit of the Company's annual accounts	180	194
Fees payable to the Company's auditor and their associates for other services to the Group		
- The audit of the Company's subsidiaries	35	30
Total audit fees	215	224
Non-audit fees		
- Audit-related assurance services	66	38
- Taxation compliance services	59	25
Non-audit fees	125	63

11. Staff costs

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

	2015 Number	2014 Number
Executive Directors	3	2
Other employees	77	98
	80	100
Total number of employees at 31 December	80	100
	\$'000	\$ 000
Their aggregate remuneration comprised		
Wages and salaries	2,895	4,012
Social security costs	226	455
	3,121	4,467

Within wages and salaries \$0.9 million (2014 \$0.8 million) relates to amounts accrued and paid to executive Directors for services rendered

Included within wages and salaries is \$0.1 million (2014 \$0.4 million) capitalised to intangible E&E assets and \$0.1 million (2014 \$nil) capitalised to development and production assets

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

12. Investment income

	2015 \$'000	2014 \$'000
Interest on bank deposits	118	27
Interest on loans issued	-	825
	118	852

13. Finance costs

	2015 \$'000	2014 \$'000
Interest on short-term borrowings	(2,411)	(420)
Interest on tax provision (note 26)	(201)	-
Unwinding of discount on decommissioning provision (note 26)	(13)	(48)
	(2,625)	(468)

14. Tax

	2015 \$'000	2014 \$'000
Current tax	11	11
Adjustment in relation to the current tax of prior years	1,317	362
Deferred tax (benefit)/charge (note 23)	(288)	(207)
	1,040	166

The Group's operations are conducted primarily outside the UK. The most appropriate tax rate for the Group is therefore considered to be 18 per cent (2014: 18 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.

As at 31 December 2015 the Group recognised short-term provision in respect of a possible corporate tax obligation in respect of a dispute on classification of taxable income and expenses (note 26).

The taxation charge for the year can be reconciled to the loss per the income statement as follows:

	2015 \$'000	2015 %	2014 \$'000	2014 %
Loss before tax	(22,243)	100.0	(59,146)	100.0
Tax credit at Ukraine corporation tax rate of 18% (2014: 18%)	(4,004)	18.0	(10,646)	18.0
Tax credit related to the joint venture losses	2,312	(10.4)	9,292	(15.7)
Permanent differences	1,511	(6.8)	1,543	(2.6)
Unrecognised tax losses utilised in the year	(107)	0.5	(839)	1.4
Effect of different tax rates	11	(0.1)	454	(0.8)
	(277)	1.3	(196)	0.3
Adjustments recognised in the current year in relation to the current tax of prior years	1,317	-	362	-
Income tax expense recognised in profit or loss	1,040	-	166	-

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 loss per share is based on the following data:

	2015 \$'000	2014 \$'000
Loss attributable to owners of the Company		
Loss for the purposes of basic loss per share being net loss attributable to owners of the Company	(23,261)	(59,271)
	2015 Number '000	2014 Number 000
Number of shares		
Weighted average number of Ordinary shares for the purposes of basic loss per share	231,092	231,092
	2015 Cent	2014 Cent
Loss per Ordinary share		
Basic	(10.1)	(25.6)

The Group has no potentially dilutive instruments in issue. Therefore no diluted loss per share is presented above.

16. Intangible exploration and evaluation assets

Cost	\$ 000
At 1 January 2014	34,895
Additions	468
Change in estimate of decommissioning assets (note 26)	95
Transfer from property, plant and equipment (note 17)	18,467
Disposals	(1)
Exchange differences	(16,743)
At 1 January 2015	37,181
Additions	281
Change in estimate of decommissioning assets (note 26)	183
Disposals	(2)
Exchange differences	(12,310)
At 31 December 2015	25,333
Impairment	
At 1 January 2014	28,937
Transfer from property, plant and equipment (note 17)	3,826
Exchange differences	(13,871)
At 1 January 2015	18,892
Impairment charge	10,105
Exchange differences	(6,364)
At 31 December 2015	22,633
Carrying amount	
At 31 December 2015	2,700
At 31 December 2014	18,289

During the year additions to the exploration and evaluation assets include \$nil (2014: \$0.1 million) of capitalised depreciation of development and production assets used in exploration and evaluation activities.

As at 31 December 2015, due to the expiration of the Pirkovska licence and uncertainty as to the timing for the licence re-awarding due to the change in the legislative process and respective delays in responses from the government authorities, the Group decided to impair E&E assets of Pirkovska licence in the amount of \$10.1 million.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

16. Intangible exploration and evaluation assets continued

The carrying amount of E&E assets as at 31 December 2015 of \$2.7 million (2014 \$3.6 million) mainly relates to the Bitlyanska licence. As of 31 December 2015 management of the Group carried out the assessment of the Bitlyanska licence's value in use and recognised no impairment as the recoverable amount was higher than the book value of the assets. Key assumptions used in the impairment assessment were as follows:

- › Future gas price was assumed to be flat \$210, real per m3,
- › The pre-tax discount rate used was 24%, real

17. Property, plant and equipment

Cost	Development and production assets \$ 000	Other \$ 000	Total \$ 000
At 1 January 2014	50,942	9,650	60,592
Additions	1,235	376	1,611
Transfer to intangible exploration and evaluation assets	(18,467)	-	(18,467)
Transfer between property, plant and equipment	(54)	54	-
Change in estimate of decommissioning assets (note 26)	201	-	201
Disposals	(587)	(89)	(676)
Exchange differences	(24,492)	(4,801)	(29,293)
At 1 January 2015	8,778	5,190	13,968
Additions	172	89	261
Change in estimate of decommissioning assets (note 26)	79	-	79
Disposals	(1)	(43)	(44)
Exchange differences	(2,934)	(2,063)	(4,997)
At 31 December 2015	6,094	3,173	9,267
Accumulated depreciation and impairment			
At 1 January 2014	13,489	3,217	16,706
Impairment	5,134	-	5,134
Charge for the year	614	359	973
Transfer to intangible exploration and evaluation assets	(3,826)	-	(3,826)
Disposals	(188)	(76)	(264)
Exchange differences	(6,787)	(1,814)	(8,601)
At 1 January 2015	8,436	1,686	10,122
Impairment	375	-	375
Charge for the year	82	352	434
Disposals	(1)	(16)	(17)
Exchange differences	(2,798)	(510)	(3,308)
At 31 December 2015	6,094	1,512	7,606
Carrying amount			
At 31 December 2015	-	1,661	1,661
At 31 December 2014	342	3,504	3,846

As of 31 December 2015 management of the Group carried out the assessment of the Debeslavetska and Cheremkhivska licences' value in use and recognised an impairment of these oil and gas assets of \$0.4 million. The recoverable amount was assessed at \$nil as at 31 December 2015.

Key assumptions used in the impairment assessment were as follows:

- › Future gas price was assumed to be flat \$210, real per m3,
- › The pre-tax discount rate used was 24%, real

During the year ended 31 December 2015 the depreciation charge of \$nil (2014 \$0.1 million) of development and production assets used in exploration and evaluation activities has been capitalised and accounted as additions to the exploration and evaluation assets (note 16).

18. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2015, which principally affected the profits and net assets of the Group

Name	Country of incorporation and operation	Proportion of voting interest %	Activity
<i>Directly held</i>			
Cadogan Petroleum Holdings Ltd	UK	100	Holding company
Ramet Holdings Ltd	Cyprus	100	Holding company
<i>Indirectly held</i>			
Rentoul Ltd	Isle of Man	100	Holding company
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
Cadogan Zagoryanske Production 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
Radley Investments Ltd	UK	100	Holding company
Cadogan Petroleum Trading SAGL	Switzerland	100	Trading company
Global Commodities NC	France	80	Trading company
LLC AstroInvest-Ukraine	Ukraine	100	Exploration
LLC Zagvydobuvannya	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

19. Joint ventures

Details of each Group's joint ventures at the end of the 2015 and 2014 reporting periods are as follows

Company name	Licenses held	Country of incorporation and operation	Ownership share %	Activity
LLC Astroinvest-Energy	Zagoryanska exploration licence	Ukraine	40	Exploration
LLC Industrial Company Gazvydobuvannya	Pokrovska exploration licence	Ukraine	70	Exploration
LLC Westgasinvest	Reklynetska, Zhuzhelianska, Cheremkhivsko-Strupkivska, Baulinska, Filimonivska, Kurinna, Sandugeyivska, Yakovlivska, and Debeslavetska Exploration, Debeslavetska Production licence	Ukraine	15	Exploration

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 IFRS.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

19. Joint ventures continued

LLC Astroinvest-Energy

	2015 \$'000	2014 \$'000
Non-current assets	4	886
Current assets	735	1,234
Non-current liabilities	-	(598)
Current liabilities	(6,986)	(4,742)
Revenue	-	-
Loss for the period	(6,107)	(3,058)
Other comprehensive (loss)/income	(3)	(73)
Total comprehensive loss	(6,110)	(3,131)
Net deficit of the joint venture	(6,247)	(3,220)

LLC Industrial Company Gazvydobuvannya

	2015 \$'000	2014 \$'000
Non-current assets	2,113	20,273
Current assets	2,164	2,106
Non-current liabilities	-	(312)
Current liabilities	(2,652)	(2,821)
Revenue	-	-
Loss for the period	(13,822)	(56,559)
Other comprehensive income/(loss)	(3,729)	(18,727)
Total comprehensive loss	(17,551)	(75,286)
Net assets of the joint venture	1,625	19,246

As of 31 December 2015 joint venture LLC Industrial Company Gazvydobuvannya conducted an impairment assessment of its exploration and evaluation assets. The impairment charge of \$12.6 million recognised as the result of exploration and evaluation assets' value recoverability assessment was included in the loss for the period.

Key assumptions used in the impairment assessment were as follows:

- > Future gas price was assumed to be flat \$210, real per m3,
- > The pre-tax discount rate used was 24%, real

LLC Westgasinvest

	2015 \$'000	2014 \$'000
Non-current assets	83	73
Current assets	562	123
Non-current liabilities	-	-
Current liabilities	(313)	(2,893)
Revenue	-	-
Loss for the period	(1,854)	(3,717)
Other comprehensive income	(322)	(1,024)
Total comprehensive loss	(2,176)	(4,741)
Net assets/(deficit) of the joint venture	332	(2,697)

19. Joint ventures continued

The carrying amounts of the Group's interest in joint ventures recognised in the financial statements of the Group using the equity method are set out in the tables below

	LLC Astroinvest Energy \$'000	LLC Industrial company Gazvydobuvannya \$ 000	LLC Westgasinvest \$ 000	Total \$'000
(Deficit)/net assets recognised as at 1 January 2014	(1,240)	62,283	4,922	65,965
Investments during the year	224	2,800	-	3,024
Loss for the year	(1,253)	(52,700)	(711)	(54,664)
(Deficit)/net assets recognised as at 1 January 2015	(2,269)	12,383	4,211	14,325
Investments during the year	-	700	-	700
Loss for the year	(228)	(12,286)	(330)	(12,844)
Carrying amount of Group's interest as at 31 December 2015	(2,497)	797	3,881	2,181

The Group is committed, together with Eni, to fund LLC Astroinvest-Energy subsequently to the year end with the necessary amount of \$2.5 million in order to close current liabilities of the joint venture. Most of the funds will be used to repay the costs charged by the partners.

20. Inventories

	2015 \$'000	2014 \$'000
Natural gas	2,525	8,124
Diesel	38	258
Other inventories	1,148	1,751
Impairment provision for obsolete inventory	(208)	(193)
Carrying amount	3,503	9,940

The impairment provision as at 31 December 2015 and 2014 is made so as to reduce the carrying value of the obsolete inventories to net realisable value. During 2015 an impairment charge of \$0.1 million (2014: \$0.4 million) has been recognised in respect of other inventories.

21. Trade and other receivables

	2015 \$'000	2014 \$ 000
Trading receivables	8,514	5,060
Trading prepayments	3,206	8,584
Receivable from joint venture	1,824	1,938
Prepayments	64	166
VAT recoverable	-	1,674
Other receivables	803	469
	14,411	17,891

Trading prepayments represent actual payments made by the Group to suppliers for the January 2016 gas supply.

Trading receivables represent current receivables from customers and are to be repaid within three months after the year end. As of 31 December 2015 there were no past due receivables and no related impairment provision. The Group considers that the carrying amount of receivables approximates their fair value.

VAT recoverable is presented net of the cumulative provision of \$1.1 million (2014: \$4.4 million) against Ukrainian VAT receivable has been recognised as at 31 December 2015.

Receivables from joint ventures comprise \$1.0 million from Astroinvest-Energy LLC (2014: \$1.2 million) and \$0.8 million from Gazvydobuvannya LLC (2014: \$0.7 million).

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For the year ended 31 December 2015

22. Cash and cash equivalents

Cash and cash equivalents as at 31 December 2015 of \$49.4 million (2014: \$48.9 million) comprise cash held by the Group. The Directors consider that the carrying amount of these assets approximates to their fair value.

As of 31 December 2015 part of the cash and cash equivalents in amount of \$20 million related to security of borrowings and held at the UK bank is considered to be restricted cash balance (note 24).

23. 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 2014	675
Deferred tax benefit	(207)
Exchange differences	(180)
Liability as at 1 January 2015	288
Deferred tax benefit	(287)
Exchange differences	(1)
Liability as at 31 December 2015	-

At 31 December 2015, the Group had the following unused tax losses available for offset against future taxable profits

	2015 \$'000	2014 \$'000
UK	9,054	10,274
Ukraine	78,859	69,010
	87,913	79,284

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 \$9.1 million (2014: \$10.3 million) relating to losses incurred in the UK are available to shelter future non-trading profits arising within the Company. These losses are not subject to a time restriction on expiry.

Unused tax losses incurred by Ukraine subsidiaries amount to \$78.9 million (2014: \$69.0 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 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.

24. Short-term borrowings

In October 2014 the Group started to use short-term borrowings as a financing facility for its trading activities. Borrowings are represented by a credit line drawn in short-term tranches in UAH at a Ukrainian bank, which is a 100% subsidiary of a UK bank. The credit line is secured by \$20 million of cash balance placed at the European bank in the UK.

The outstanding amount as at 31 December 2015 was \$12.9 million (2014: \$17.3 million) with an effective interest rate of 20% pa (2014: 16% pa). Interest is paid monthly and as at 31 December 2015 accrued interest amounted to \$0.2 million (2014: \$0.2 million).

25. Trade and other payables

	2015 \$'000	2014 \$'000
Trade creditors	921	723
Trading payables	907	312
VAT payable	899	-
Accruals	635	631
Payables to joint ventures	96	159
Taxes and social security	77	425
Payments received in advance	6	2,470
Other payables	141	348
	3,682	5,068

Prepayments received represent payments from the customers for the natural gas to be supplied in January 2016

Trading payables represent the liability to suppliers for the natural gas supply in December 2015

Trade creditors and accruals principally comprise amounts outstanding for capital work programme purchases and ongoing costs. The average credit period taken for trade purchases is 24 days (2014: 91 days). The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe.

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

26. Provisions

The provisions at 31 December 2015 comprise \$2.3 million of probable tax obligation and decommissioning provision.

As at 31 December 2015 the Group recognised short-term provision in respect of a possible corporate tax obligation in respect of a dispute on the classification of taxable income and expenses. The Group appealed to the Tribunal, however given the uncertainty around the final position the provision of \$1.3 million (£0.9 million) and up to \$0.2 million (£0.1 million) of interest was recognised in the financial statements.

Decommissioning

	\$'000
At 1 January 2014	708
Change in estimate (note 16 and 17)	296
Unwinding of discount on decommissioning provision (note 13)	48
Exchange differences	(350)
At 1 January 2015	702
Change in estimate (note 16 and 17)	262
Unwinding of discount on decommissioning provision (note 13)	13
Exchange differences	(245)
At 31 December 2015	732
At 1 January 2014	708
Non-current	55
Current	647
At 1 January 2015	702
Non-current	726
Current	6
At 31 December 2015	732

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 \$6 thousand (2014: \$0.6 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. In addition to that, there is a short-term provision for decommissioning costs at Zagoryanska licence of \$3.7 million and at Pokrovska licence of \$1.9 million in the account of joint ventures (note 19).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

26. Provisions continued

The long-term provision recognised in respect of decommissioning reflects management's estimate of the net present value of the Group's share of the expenditure expected to be incurred in this respect. This amount has been recognised as a provision at its net present value, using a discount rate that reflects the market assessment of time value of money at that date, and the unwinding of the discount on the provision has been charged to the income statement. These expenditures are expected to be incurred at the end of the producing life of each field in the removal and decommissioning of the facilities currently in place (currently estimated to be between 1 and 17 years).

27. Share capital

Authorised and issued equity share capital

	2015 Number		2014 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 2014 and 2015	231,091,734

28. 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.

Categories of financial instruments

	2015 \$'000	2014 \$'000
Financial assets - loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	49,407	48,927
Trading receivable	8,514	5,060
Receivable from joint venture	1,824	1,938
Other receivables	801	469
	60,546	56,394
Financial liabilities - measured at amortised cost		
Short-term borrowings	12,903	17,327
Trade creditors	921	723
Trading payables	907	312
Accruals	635	631
Other payables	141	348
Payables to joint ventures	96	159
	15,603	19,500

28. Financial Instruments continued**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.

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group is not exposed to interest rate risk because entities of the Group borrow funds at fixed interest rates.

Commodity price risk

The commodity price risk related to Ukrainian gas and condensate prices and, 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. In 2015 the price for Ukrainian gas was mainly based on the current price of the European gas imports. Management continues to expect that the Group's principal market for gas will be the Ukrainian domestic market.

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

Foreign exchange risk and foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Group 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	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Monetary balance denominated in USD where functional currency is GBP	157	105	48,860	46,484

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 10 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.

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

	2015 \$'000	2014 \$'000
Income statement	(4,572)	(4,473)

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

28. Financial Instruments continued

Inflation risk management

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

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit management process includes the assessment, monitoring and reporting of counterparty exposure on a regular basis. Credit risk with respect to receivables and advances is mitigated by active and continuous monitoring the credit quality of its counterparties through internal reviews and assessment. Trading receivables as at 31 December 2015 have been paid within four months after year end.

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 \$'000	3 months to 1 year \$'000	More than 1 year \$'000	Total \$'000
At 31 December 2015				
Short-term borrowings	12,903	-	-	12,903
Trade and other payables	3,019	657	-	3,676
At 31 December 2014				
Short-term borrowings	17,327	-	-	17,327
Trade and other payables	1,683	915	-	2,598

29. Commitments and contingencies

Joint activity agreements

The Group has working interests in nine licences to conduct its exploration and development activities in 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:

	2015 \$'000	2014 \$'000
Within one year	234	580
Between two and five years	1,135	520
	1,369	1,100

The Group has revised its minimum working programmes and resubmitted the required documentation to the government authorities; updated commitments have slightly increased for all licences from \$11 million to \$14 million. Licence obligations of the joint ventures as at 31 December 2015 amounted to \$0.1 million (2014: \$0.5 million) of obligations within one year and \$nil (2014: \$0.4 million) of obligations between two and five years.

In addition to licence commitments, the Group is committed together with ENI to fund LLC Astroninvest-Energy subsequently to year end with the necessary amount of \$2.2 million (2014: \$2.3 million) in order to close current liabilities of the joint venture.

29. Commitments and contingencies continued

Tax contingent liabilities

The Group assesses its liabilities and contingencies for all tax years open for audit by UK and Ukraine tax authorities based upon the latest information available. For those matters where it is probable that an adjustment will be made, the Group records its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to complexities of interpretation and changes in tax laws.

Whilst the Group believes it has adequately provided for the outcome of these matters, certain periods are under audit by the UK and Ukraine tax authorities, and therefore future results may include favourable or unfavourable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved. The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

30. 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.

	2015 \$'000	2014 \$ 000
Revenues from services provided and sales of goods	508	597
Purchases of goods	9	87
Amounts owed by related parties	1,824	1,938
Amounts owed to related parties	96	159

Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Annual Report on Remuneration 2015 on pages 33 and 36.

	Purchase of services		Amounts owing	
	2015 \$'000	2014 \$ 000	2015 \$'000	2014 \$ 000
Short-term employee benefits	1,282	1,148	169	137

The total remuneration of the highest paid Director was \$0.4 million in the year (2014: \$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.

31. Events after the balance sheet date

Starting 1 January 2016 the new regulations on the gas trading in Ukraine came into force implying the additional requirement of the covered bank guarantee for 20% of trading volumes that will effect cost of supply.

Subsequent to 31 December 2015, in April 2016 the Group has contributed, together with Eni, \$1 million to LLC Astroinvest-energy as part of commitment to fund its current liabilities.

Political and economic situation 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.

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.

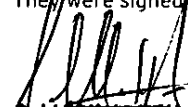
Company Balance Sheet

As at 31 December 2015

	Note	2015 \$'000	2014 \$ 000
ASSETS			
Non-current assets			
Investments	34	-	-
Receivables from subsidiaries	35	26,905	73,750
		26,905	73,750
Current assets			
Trade and other receivables	35	778	3,333
Cash and cash equivalents	35	44,882	46,634
		45,660	49,967
Total assets		72,565	123,717
LIABILITIES			
Current liabilities			
Trade and other payables	36	(380)	(370)
		(380)	(370)
Total liabilities		(380)	(370)
Net assets		72,185	123,347
EQUITY			
Share capital	37	13,337	13,337
Retained earnings		167,567	212,902
Cumulative translation reserves	38	(108,719)	(102,892)
Total equity		72,185	123,347

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 25 April 2016

They were signed on its behalf by


Guido Michelotti
 Chief Executive Officer
 25 April 2016

Company Cash Flow Statement

For the year ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
Net cash inflow from operating activities	39	3,655	(633)
Investing activities			
Interest received		79	827
Loans to subsidiary companies		(3,633)	-
Net cash used in investing activities		(3,554)	827
Net (decrease)/increase in cash and cash equivalents		101	194
Effect of foreign exchange rate changes		(1,853)	(3,840)
Cash and cash equivalents at beginning of year		46,634	50,280
Cash and cash equivalents at end of year		44,882	46,634

Company Statement of Changes in Equity

For the year ended 31 December 2015

	Share capital \$'000	Retained earnings \$'000	Cumulative translation reserves \$'000	Total \$'000
As at 1 January 2014	13,337	210,297	(95,296)	128,338
Net income for the year	-	2,605	-	2,605
Exchange translation differences	-	-	(7,596)	(7,596)
As at 1 January 2015	13,337	212,902	(102,892)	123,347
Net loss for the year	-	(45,335)	-	(45,335)
Exchange translation differences	-	-	(5,827)	(5,827)
As at 31 December 2015	13,337	167,567	(108,719)	72,185

Notes to the Company Financial Statements

For the year ended 31 December 2015

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 2015 of \$45.3 million (2014 \$2.6 million) of which \$46.5 million relates to the impairment of receivables from subsidiaries.

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 stated at cost less any provision for impairment.

35. Financial assets

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

Receivables from subsidiaries

At the balance sheet date gross amounts receivable from the fellow Group companies were \$316.7 million (2014 \$329.0 million). The Group recognised impairment of \$46.5 million in relation to receivables from subsidiaries in 2015 (2014 \$nil). The carrying value of the receivables from the fellow Group companies as at 31 December 2015 was \$26.9 million (2014 \$73.8 million). There are no past due receivables.

Trade and other receivables

	2015 \$'000	2014 \$'000
Prepayments	752	3,272
VAT recoverable	-	37
Other receivables	26	24
	778	3,333

In December 2015 the Company made a prepayment for the natural gas on behalf of its Ukrainian subsidiary due to difficulties of currency purchase in Ukraine. In 2016 this prepayment was settled in full to the Company.

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.

As of 31 December 2015 cash and cash equivalents in the amount of \$20 million, related to security of the loan provided to the Ukrainian subsidiary and held at UK bank, was restricted (note 24).

Notes to the Company

Financial Statements continued

For the year ended 31 December 2015

36. Financial liabilities

Trade and other payables

	2015 \$'000	2014 \$'000
Trade creditors	237	179
Accruals	143	191
	380	370

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 126 days (2014: 82 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 27 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 the results and financial position of the Company into US dollars.

39. Notes to the cash flow statement

	2015 \$'000	2014 \$'000
(Loss)/profit for the year	(45,335)	2,605
Adjustments for:		
Interest received	(79)	(827)
Impairment of receivables from subsidiaries	46,504	-
Operating cash flows before movements in working capital	1,090	1,778
Decrease/(increase) in receivables	2,555	(1,570)
Increase/(decrease) in payables	10	(841)
Cash from operations	3,655	(633)
Income taxes paid	-	-
Net cash inflow from continuing operations	3,655	(633)

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 28 for the Group's overall strategy and financial risk management objectives.

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

Categories of financial instruments

	2015 \$'000	2014 \$'000
Financial assets - loans and receivables (includes cash and cash equivalents)		
Cash and cash equivalents	44,882	46,634
Amounts due from subsidiaries	26,905	73,750
	71,787	120,384
Financial liabilities - measured at amortised cost		
Trade creditors	(237)	(179)
	(237)	(179)

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.

40. Financial instruments continued**Credit risk**

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

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

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

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 28 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.

	2015 \$'000	2014 \$'000
Cadogan Petroleum Holdings Limited	26,905	73,750
	26,905	73,750

Refer to note 35 for details on the Company's receivables due from subsidiaries.

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Annual Report on Remuneration 2015 on pages 33 to 36.

	Remuneration		Amounts owing	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Short-term employee benefits	603	334	28	54

The total remuneration of the highest paid Director was \$0.4 million in the year (2014: \$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.

Glossary

IPO	Initial public offering
IFRS	International Financial Reporting Standards
JAA	Joint activity agreement
UAH	Ukrainian hryvnia
GBP	Great Britain pounds
\$	United States dollars
bbl	Barrel
boe	Barrel of oil equivalent
mmboe	Million barrels of oil equivalent
mboe	Thousand barrels of oil equivalent
mboepd	Thousand barrels of oil equivalent per day
boepd	Barrels of oil equivalent per day
bcf	Billion cubic feet
mmcm	Million cubic metres
mcm	Thousand cubic metres
Reserves	Those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves include proved, probable and possible reserve categories
Proved Reserves	Those additional Reserves which analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from reservoirs and under defined economic conditions, operating methods and government regulations
Probable Reserves	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved Resources but more certain to be recovered than possible Reserves
Possible Reserves	Those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable Reserves
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
Prospective Resources	Those quantities of petroleum which are estimated as of a given date to be potentially recoverable from undiscovered accumulations
P1	Proved Reserves
P2	Probable Reserves
P3	Possible Reserves
1P	Proved Reserves
2P	Proved plus probable Reserves
3P	Proved plus probable plus possible Reserves
Carboniferous	A geological period 295 million to 354 million years before present
Devonian	A geological period between 417 million and 354 million years before present
Visean	Geological period within the early to middle Carboniferous
Spud	To commence drilling, once the cement cellar and conductor pipe at the well-head have been constructed
TD	Target depth
Workover	The process of performing major maintenance or remedial treatment of an existing oil or gas well
LWD	Logging while drilling

Shareholder Information

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

Telephone number UK 0871 664 0300 (calls cost 10p per minute plus network extras)
International +44 (0) 371 664 0300
Lines are open 9am - 5 30pm, Monday - Friday, excluding public holidays

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

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

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

Unsolicited mail

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

Financial calendar 2016/2017

Annual General Meeting	22 June 2016
Half yearly results announced	August 2016
Annual results announced	April 2017

Investor relations

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