

Sole Global Co-ordinator, Sponsor and Bookrunner

UBS Investment Bank

This document comprises a prospectus (the “**Prospectus**”) relating to Cadogan Petroleum plc (the “**Company**”) and has been prepared in accordance with the Prospectus Rules of the Financial Services Authority (the “**FSA**”) made under section 73A of the Financial Services and Markets Act 2000 (“**FSMA**”). This Prospectus will be filed with the FSA and will be made available to the public in accordance with the Prospectus Rules.

Application has been made to the UK Listing Authority (the “**UKLA**”) and the London Stock Exchange (the “**London Stock Exchange**”) for all of the ordinary shares of £0.03 each of the Company (the “**Ordinary Shares**”) issued and to be issued in connection with the Global Offer: (i) to be admitted to listing on the Official List of the FSA (the “**Official List**”); and (ii) to trading on the London Stock Exchange’s main market for listed securities (together, the “**Admission**”). Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00 a.m. (London time) on 18 June 2008. It is expected that Admission will be effective and that unconditional dealings in the Ordinary Shares will commence at 8.00 a.m. on 23 June 2008. **All dealings before the commencement of unconditional dealings will be on a “when issued” basis and will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.** No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or trading on any other stock exchange.

Prospective investors should read this document in its entirety and, in particular, Part II of this Prospectus when considering an investment in the Ordinary Shares of the Company.



Cadogan Petroleum plc

*(Incorporated in England and Wales under the Companies Act 1985
with registered number 5718406)*

Global Offer of 66,443,479 Ordinary Shares of £0.03 each at an Offer Price of £2.30 per Ordinary Share and Admission to the Official List and to trading on the London Stock Exchange

Sole Global Co-ordinator, Sponsor and Bookrunner

UBS Investment Bank

Co-lead Manager

Fox-Davies Capital Limited

The Company is offering 66,443,479 new Ordinary Shares (the “**New Ordinary Shares**”) under the Global Offer.

The New Ordinary Shares will, following Admission, rank *pari passu* in all respects with the other issued Ordinary Shares and will carry the right to receive all dividends and distributions declared, made or paid on or in respect of the issued Ordinary Shares after Admission.

EXPECTED ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION

<i>Authorised</i>		<i>Issued*</i>	
<i>Number</i>	<i>Nominal Value</i>	<i>Number</i>	<i>Nominal Value</i>
1,000,000,000	£30,000,000	231,091,734	£6,932,752

*Assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full.

The Global Offer being made pursuant to this Prospectus is being made in the United Kingdom by means of an institutional offer. This Prospectus does not constitute an offer to sell, or the solicitation of an offer to subscribe for or to buy, any Ordinary Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful and, in particular, is not for distribution in Australia or Japan. Subject to certain exceptions, the Ordinary Shares may not be offered or sold in Australia or Japan, or to, or for the benefit of, any national, resident or citizen of Australia or Japan.

The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), or under applicable securities laws of any state of the United States. The Ordinary Shares may not be offered or sold within the United States, except to persons reasonably believed to be Qualified Institutional Buyers (“**QIBs**”) (as defined in Rule 144A under the Securities Act (“**Rule 144A**”) through US licensed affiliates or agents of the Underwriters in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. Outside the United States, the Global Offer is being made to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. Prospective investors are hereby notified that the sellers of the Ordinary Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and on Regulation S. The Ordinary Shares cannot be offered, resold, pledged or otherwise transferred in the United States or to US Persons except in accordance with the restrictions and procedures described in Part XVI of this Prospectus.

Neither the United States Securities and Exchange Commission (the “SEC”) nor any state securities commission or other United States regulatory authority has approved or disapproved the Ordinary Securities or passed upon or endorsed the merits of the Global Offer or the adequacy or accuracy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Under Ukrainian law, the Ordinary Shares are securities of a foreign issuer. The Ordinary Shares are not eligible for initial offering and public distribution in Ukraine. Neither the issue of the Ordinary Shares nor this Prospectus has been, or is intended to be, registered with the State Commission for Securities and Stock Market of Ukraine. The information in this Prospectus is not an offer, or an invitation to solicit offers, to sell, exchange or otherwise transfer the Ordinary Shares in Ukraine.

The distribution of this Prospectus in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus come should inform themselves about and observe any such restrictions. Prospective investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the Ordinary Shares or possess or distribute this Prospectus and must obtain any consent, approval or permission required for purchase, offer or sale of the Ordinary Shares under the laws and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers or sales. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The offer and sale of Ordinary Shares and the distribution of this Prospectus are subject to the restrictions described in Part XVI of this Prospectus.

The content of this Prospectus is not be construed as legal, business or tax advice and each prospective investor is advised to consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial and tax advice.

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PART I

SUMMARY INFORMATION

The following summary information should be read as an introduction to this Prospectus. Any decision by a prospective investor to invest in Ordinary Shares should be based on consideration of this Prospectus as a whole and not solely on this summarised information. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each member state of the EEA, civil liability will attach to those persons who have responsibility for this summary in any such member state, including any translation hereof if, but only if, this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court, the claimant investor might, under the national legislation of any of the EEA states, be required to bear the costs of translating this Prospectus before legal proceedings are initiated. Prospective investors should carefully read the entire Prospectus, including the financial statements and related notes, before making an investment decision. In particular, prospective investors should consider carefully the factors set forth in Part II of this Prospectus.

1 Cadogan

Cadogan is an independent oil and gas exploration, development and production company with a diversified portfolio of onshore gas and condensate assets in Ukraine. The Group has built a portfolio of assets, at varying stages of development, through a series of acquisitions, the first of which was in December 2005. As at the date of this Prospectus, the Group has significant working interests in 11 licence areas covering 14 fields in Ukraine with a combined area of approximately 1,150 km².

The Group's assets are located in two of the three proven hydrocarbon basins in Ukraine: the Dnieper-Donets basin and the Carpathian basin. The Dnieper-Donets basin is the major hydrocarbon producing region of Ukraine, accounting for approximately 90 per cent. of Ukrainian production from over 120 oil and gas fields. The Carpathian basin is one of the largest hydrocarbon basins in Central Europe, extending into Romania and Poland as well as Ukraine.

The Group classifies its assets into Major Fields, being those assets containing greater than 40 million barrels of oil equivalent ("MMboe") of reserves, contingent resources or prospective resources, and Minor Fields, being those containing less than 40 MMboe of reserves, contingent resources or prospective resources. The Group is headquartered in Kiev and supported by operational offices in Eastern and Western Ukraine together with a representative office in London. As at 31 March 2008, the Group had approximately 357 employees, of which 355 were based in Ukraine and two in London.

2 Summary of Net Reserves and Resources

All estimates of reserves and resources presented in the Prospectus are from the Competent Person's Report ("CPR") of Gaffney, Cline & Associates Limited ("GCA"), an independent petroleum engineering consulting firm. GCA estimates that, as at 31 January 2008, the Group had:

- proved net reserves of 109 billion cubic feet ("Bcf") of gas, 7.6 million barrels ("MMbbl") of condensate and 0.16 MMbbl of oil;
- proved and probable net reserves of 320 Bcf of gas, 22 MMbbl of condensate and 0.77 MMbbl of oil; and
- proved and probable and possible net reserves of 588 Bcf of gas, 42 MMbbl of condensate and 1.6 MMbbl of oil.

GCA also estimates that, as at 31 January 2008, the Group had net best estimate contingent resources of 1,583 Bcf of gas, 48 MMbbl of condensate and 1.5 MMbbl of oil. In addition, GCA estimates that the Group has significant prospective resources.

For illustrative purposes, the Group has converted the net reserves and resources figures contained in the CPR into MMboe, using the conversion factor of one Bcf equals 0.18 MMboe. This conversion results in proved net reserves of approximately 27.4 MMboe, proved and probable net reserves of approximately 80.4 MMboe, proved and probable and possible net reserves of approximately 149.4 MMboe and net best estimate contingent resources of approximately 334.4 MMboe.

3 Key Strengths

- *Ukrainian gas import prices are expected to continue to increase towards Western European export netback parity in the near term*
- *The Group has significant growth potential from resources located in proven hydrocarbon basins with developed infrastructure*
- *The Group is targeting commercial production to begin from Major Fields in the near term*
- *Ukraine has an attractive fiscal regime and the Group focuses on efficient cost management and maximising operational efficiency*
- *Senior management team has extensive international and Ukrainian oil and gas experience*
- *The Group controls the marketing of its gas and condensate to industrial customers*
- *The Group has an established track record of growth and corporate development*

4 Strategy

The Group's principal strategy is to create shareholder value by monetising the value of its reserves and resources (both contingent and prospective) by drilling and production. The Group also expects to increase its reserves through the conversion of resources into reserves through appraisal drilling and targeted exploration drilling.

- *The Company will continue to focus on exploration and production opportunities in Ukraine*
- *The Group intends to maintain a balanced portfolio in terms of asset maturity*
- *The Group intends to capitalise on local knowledge and experience*
- *The Group's focus is to grow organically and, where appropriate, through acquisitions*

5 Summary of the Global Offer

Pursuant to the Global Offer, the Company is offering 66,443,479 New Ordinary Shares, (i) to certain institutional investors in the United Kingdom and elsewhere outside the United States and (ii) inside the United States, only to QIBs, pursuant to Rule 144A or another exemption from, or transaction not subject to, the registration requirements under the Securities Act. In addition, the Over-allotment Option Shareholders have granted the Stabilising Manager the Over-Allotment Option.

Admission is expected to take place and unconditional dealings in the Ordinary Shares to commence on the London Stock Exchange at 8.00 a.m. on 23 June 2008. Prior to Admission, it is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. on 18 June 2008.

The Global Offer will be underwritten by the Underwriters once the Offer Price is agreed and on the basis set forth in the Underwriting Agreement.

6 Lock-Up Arrangements

Each of the Company, the Locked-up Shareholders, the Directors and certain senior management have agreed to certain lock-up arrangements in respect of their holdings of or options to subscribe for Ordinary Shares held prior to the Global Offer, for the periods summarised in the table below:

<i>Categories of person</i>	<i>Lock-up period</i>
Company	180 days from Admission
Locked-up Shareholders	180 days from Admission together with orderly market obligations for a further 180 days following the end of the first 180 days
Non-executive Directors	12 months from Admission
Executive Directors and certain senior management	A staggered period of three years from Admission. One third of Ordinary Shares/options held will become free of lock-up at each of the following times: a) 12 months from Admission; b) following publication of preliminary results for the year ending 31 December 2009; and c) following publication of preliminary results for the year ending 31 December 2010.

7 Reasons for the Global Offer and Use of Proceeds

Initially, the Group intends to use the net proceeds of the Global Offer to pursue its field appraisal, exploration and drilling programme for its Major Fields and then to otherwise finance the Group until it can fund its future cash requirements from internally generated cash flow.

The key objectives of these appraisal, exploration and development activities are to bring the Major Fields into sustainable commercial production, to convert hydrocarbons currently classified as contingent resources and prospective resources into reserves, and to phase in additional investment in the Minor Fields when production from the Major Fields can support the required expenditures. The Directors plan to prioritise the Group's investment in its assets on the development of its identified 2P reserves on the Pirkovskoe field. The Group will consider farm-out proposals for the Minor Fields under which other industry participants would jointly exploit and develop these fields with the Group to spread the exploration and appraisal risk.

Pending use, the net proceeds of the Global Offer will be placed on deposit in cash or cash instruments.

The Directors believe that Admission will offer the Group a number of benefits including raising the profile of the business and greater financial flexibility. In addition, Admission will provide the existing investors, who have supported the Group's growth over recent years, with a market quotation for the Ordinary Shares and accordingly an opportunity to realise part or all of their investment.

8 Current Trading and Prospects

The Group expects to continue to focus on achieving increased production targets in the near term. In Eastern Ukraine, the Group is targeting commercial production to commence from the Pirkovskoe field during the second half of 2008, subject to, among other things, the successful outcome of production testing of two wells which are currently being drilled. The Group is targeting commercial production to commence from the Zagoryanska and Pokrovskoe fields in the first half of 2009, subject to, among other things, positive results from appraisal drilling and the completion of processing of

3D seismic surveys which the Group has conducted on the Pokrovskoe field. In Western Ukraine, drilling in the Borynya field is currently underway and following construction of a new gas treatment facility, the Group is targeting commercial production to commence in mid-2009, subject to, among other things, successful test drilling of two wells. In relation to the Bitlya field, the Group is targeting commercial production to commence in the second half of 2009, subject to, among other things, drilling and testing of the exploration well and completion of a pipeline linking Bitlya to the gas treatment facility planned for construction on Borynya.

9 Dividend Policy

The Directors intend for the Company to re-invest any net earnings to finance the development of its assets and accordingly it is not intended that the Company shall pay any dividends in the foreseeable future. However, the Directors intend to review the policy as the business develops and intend to commence the payment of a dividend as soon as is appropriate and practicable.

10 Risk Factors

Prospective investors should consider carefully the risks that relate to the Group's business, industry, Ukraine, the Group's structure and an investment in the Ordinary Shares. Risks and uncertainties not presently known, or as at the date of this Prospectus, deemed immaterial may also have a material adverse effect on the Group's business, financial condition or results of operations.

Risks relating to the Group's business

- Inability to achieve commercial production levels from Major Fields
- Substantial capital expenditure required for business plans
- Difficulties with acquiring, retaining, converting or renewing licences necessary for operations
- Inability to attract and retain capable management and skilled technical personnel
- Failure to establish necessary infrastructure on Major Fields
- Failure of transportation network or general transport infrastructure
- Inability to procure or retain drilling rigs and other third-party equipment
- Failure to manage the current growth in the Group's business and operations
- As the Group has grown by way of acquisitions, it may be subject to unforeseen liabilities and risks arising from its acquired businesses
- Certain of the Group's land lease agreements or servitude agreements could be invalidated
- The Group's insurance coverage may be insufficient to cover losses or it could be subject to uninsured liabilities which could materially affect the Group's business, results of operations or financial condition
- Failure to secure adequate financing for its future exploration, development, production, and acquisition plans
- Disruption from labour or other unplanned production disputes
- Impact of future potential litigation
- A reduction in energy demand from Ukraine
- Materially different standards used to measure the Group's reserves and resources

Risks relating to the industry in which the Group operates

- Gas price controlled by Ukrainian Government
- Volatility in oil and condensate prices
- Inaccurate estimates of reserve and resource data
- Delays in exploration, development or production
- Competition from current and new entries to the oil and gas market in Ukraine
- High compliance costs with health, safety and environmental regulation
- Disruption from accidents or environmental damage
- Impact of potential decommissioning costs

Risks relating to Ukraine

- Ukraine is an emerging market
- Official Ukrainian statistics may not be reliable
- Ukraine could suffer from economic, political or governmental instability
- Impact of global economic fluctuation on Ukrainian economy
- A lack of continued access to foreign trade and investment
- Limited history of free-market conditions in Ukraine
- The Ukrainian tax system is at an early stage in its development
- Social instability in Ukraine could increase support for renewed centralised authority, nationalism or violence
- Threat of crime, governmental or business corruption
- Uncertainty in the interpretation and enforcement of Ukrainian law and regulation
- Ukrainian judiciary perceived to lack independence and judgments are difficult to enforce
- Foreign exchange risks

Risks relating to the Group's structure

- The Group has a holding company structure
- The Company may be subject to prior claims by creditors in subsidiary's assets

Risks relating to investment in the Ordinary Shares

- No prior public trading market for the Ordinary Shares
- The price of the Ordinary Shares may fluctuate significantly
- The Company's potential status as a passive foreign investment company could result in adverse tax consequences to US Holders
- Senior management has broad discretion over the use of the net proceeds from the Global Offer
- The market price of Ordinary Shares could decline
- Pre-emption rights may be unavailable to US and other non-UK holders of Ordinary Shares

PART II

RISK FACTORS

Any investment in the Ordinary Shares is subject to a number of risks. Prospective investors should carefully consider the risk factors set out below as well as the other information contained in this Prospectus before making a decision whether to invest in the Ordinary Shares. The risks described below are not the only risks that the Group faces. Additional risks and uncertainties that the Directors are not aware of or that the Directors currently believe are immaterial may also impair the Group's operations. Any of these risks may have a material adverse effect on the Group's business, financial condition, results of operations or prospects. In that case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment. Investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in light of the information in this Prospectus and their personal circumstances.

1 Risks relating to the Group's business

1.1 The Group has a limited operating history, has not achieved commercial production levels from any of its Major Fields and a significant proportion of the Group's anticipated future production is expected to be produced from assets currently classified as contingent or prospective resources.

The Group has a limited operating history upon which to assess its future expected performance. Only one Major Field, Pirkovskoe, has achieved test production to date, none of the Major Fields has achieved commercial production to date and only insignificant commercial production has been achieved from four of the Minor Fields.

The Group's success will depend significantly upon converting assets located on its Major Fields that are currently classified as contingent or prospective resources, into reserves and commercial production. Contingent resources are 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 are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Exploration and development activities are inherently risky and there can be no assurance that any of the Group's estimated reserves, contingent resources or prospective resources will be converted into commercial production, or that the Group will meet its targeted production timelines. In the past, the Group has at times failed to meet targeted production timelines because, for example, its drilling to target depths was slowed by the use of older equipment.

If the Group is not successful in achieving commercial production from its Major Fields, or fails to meet its targeted production timelines, the Group's business, results of operations and financial condition would be materially adversely affected.

1.2 The Group's business plan requires substantial capital expenditures.

The Group's business plan to exploit and commercialise its Major Fields will require significant capital expenditures. Based on current plans, the Directors expect to incur capital expenditure of approximately £100.7 million in 2008, £85.3 million in 2009 and £65.5 million in 2010. There is no assurance that, after 12 months from the date of this Prospectus, the Group will be able to generate sufficient internal cash flow, or that the Group will have access to sufficient loans or other financing alternatives, to continue its exploration and development plans.

1.3 The Group may be unable to acquire, retain, convert or renew the licences, permits and contracts and other regulatory approvals necessary for its operations.

The ability of the Group to develop and exploit oil and gas reserves in Ukraine depends on the Group's continued compliance with the obligations of its current exploration and development

licences and the Group's ability to convert these licences into production licences. The continuing validity of the licences and their renewal depends on the steps taken by the Group or its joint activity partners to maintain their good standing. In addition, before commencing any drilling operations, the Group must be granted a site permit from the local municipality or Government agency and the respective gas or oil field has to be commissioned into exploration and development or production by the Government agency. The Group depends on a number of other approvals, permits, licences and contracts whose grant and renewal are subject to the discretion of the relevant governmental and local authorities in Ukraine. The continued good standing and, where appropriate, renewal of these approvals, permits and licences cannot be assured. In addition, exploration and development licences held by the Group may not be converted into production licences. In addition, the Group may be required to cease production at a field for a period of up to seventy days while an application for conversion is considered by governmental authorities.

Ukrainian legislation in relation to the issue of licences to explore and develop oil and gas reserves is in some cases unclear and subject to ambiguity. There can be no assurance that the regulators will not adopt a more stringent approach to granting, maintaining, renewing or converting licences than has been the case to date.

From time to time, the Group has failed, and may continue to fail, to meet the deadlines and other obligations set out in the work programmes attached to the licences it holds. Non-compliance with these obligations may give rise to enforcement action by the relevant authorities, who may agree to waivers and extensions or may require remedial action but who are also entitled to revoke the licences in such circumstances. If the Group is found to be in non-compliance with a licence obligation, there is no set cure period, and the appropriate governmental authority can revoke the defaulting licence at any time it is in default. If an exploration and development licence is revoked, then the Group would lose the right to first refusal on a production licence for this area, and there is a risk that the production licence would then be purchased by a competitor through an open auction process.

Although the Group currently does not sell for export, the ability to export oil and gas may depend on obtaining licences and quotas, the granting of which may be at the discretion of the relevant regulatory authorities. There may be delays in obtaining such export licences and quotas leading to the income receivable by the Group being adversely affected, and it is possible that from time to time export licences may be refused.

1.4 The Group's success depends upon its senior management and its skilled technical engineers.

The operations of the Group are largely dependent upon the continuing employment and provision of services of the senior management team, namely, Mark Tolley, Alex Sawka, Vasyl Vivcharyk, Peter Biddlestone, Vladimir Jovanovic and Vladimir Shlimak. The Group also relies significantly on its team of skilled technical engineers. The future results of the Group depend significantly upon the efforts and expertise of such individuals. The loss of service of any member of senior management or the departure of members from its team of technical engineers could have a material adverse effect on the business, results of operations or financial condition of the Group. With the exception of a policy covering the loss of Mr. Tolley, the Group does not currently have any key man insurance policies for its senior management. In addition, the Group may find it difficult to recruit new executives and employees. The business may suffer if the Group fails to attract, employ and retain the necessary skilled and experienced personnel.

1.5 The Group will need to establish additional infrastructure on its Major Fields as part of its asset development plan.

The construction and maintenance of field infrastructure, particularly gas and condensate treatment plants and pipeline connections to the Ukrainian State distribution pipelines, is needed to achieve the Group's anticipated production levels. Commercial trading in gas, oil or condensate cannot commence until the necessary infrastructure is in place on each field. The Group currently has only one operational gas treatment plant on the Major Fields, which is

located on the Pirkovskoe licence area. Gas production from Pirkovskoe is expected to rely initially on the existing gas treatment facility owned by the Group on Pirkovskoe and the Group has signed a letter of intent for the construction of a further gas treatment facility on Pirkovskoe to process anticipated production from Pirkovskoe and Zagoryanska. The Group has also entered into a letter of intent for the construction of a gas treatment facility on the Bitlyanska licence area (containing the Bitlya and Borynya Major Fields). There is no assurance that the Group will enter into definite agreements for the construction of these two gas treatment facilities or that the terms of any definite agreements will not be materially different from those contained in the letters of intent. The Group also plans to arrange for the construction of a gas treatment facility on the Pokrovskoe field, though the Group has not yet entered into any letter of intent or contracts. There is also a risk that these gas treatment plants and pipelines currently in the planning stage will be delayed due to, among other factors, the Group's failure to receive the relevant permits from governmental authorities. In addition, transferring treatment from the existing gas treatment facility at Pirkovskoe to the proposed new facility may result in delays or other issues. Pirkovskoe is also the only Major Field to have a dedicated gas pipeline already in place. The Group also trucks its current condensate production from the Pirkovskoe field to a refinery owned by a third party, located near to the licence area. If the Group fails to establish the necessary infrastructure in a timely fashion or if the costs of doing so exceed its current estimates, or if there is a shortage of capacity at condensate treatment facilities, the Group's business, results of operations and financial condition could be materially adversely affected.

1.6 Any adverse change affecting the transportation network or other operational infrastructure could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group's drilling and production activities may be impaired due to inadequate state infrastructure in Ukraine. The deterioration of the state gas and oil pipeline in Ukraine could disrupt the transportation of goods and supplies and interrupt business operations. In general, Ukraine's physical infrastructure, including power generation and transmission stations, communication systems and road network largely dates back to Soviet times and are relatively poor in comparison with other developed countries. The Ukrainian Government has been implementing plans to develop Ukraine's rail, electricity and telephone systems which may result in increased charges or tariffs while failing to generate sufficient funding to repair, maintain or improve these systems. The failure to maintain adequate transport services and networks or a disruption in transport services could cause transportation delays for the Group's products and impair the Group's ability to supply its customers. The Ukrainian gas and oil pipeline system is operated by a single State company, UkrTransGas. If UkrTransGas delays, fails or refuses to connect the Group's treatment facilities to the main state pipelines, or if its pipelines are subject to capacity constraints there will be an interruption of business operations. In particular, competitors of the Group have experienced capacity constraints before receiving permission to connect to the main trunklines in Ukraine, and there can be no assurance that this will not occur to the Group. In addition, as UkrTransGas is a monopoly, it may increase tariffs without warning to uneconomic levels. Going forward, the Group could face issues with customers if the existing terms of sale for gas or condensate were to change or the transport of gas or condensate was delayed.

Any of these or other problems or adverse changes affecting the transportation network or other operational infrastructure provided by third parties could have a material adverse effect on the Group's business, results of operations or financial condition.

1.7 The Group's activities depend on its ability to procure appropriate drilling rigs and other related equipment and third party services.

Oil and gas development and exploration activities are dependent on the availability of drilling rigs and related equipment and the provision of third party services in the particular areas where such activities will be conducted. The Group contracts or leases services and equipment from third party providers and suppliers. Such equipment and services can be in short supply and may not be readily available at the times and places required. In particular, as at the date of this Prospectus, the Group leases eight light Ukrainian drilling rigs. Due in part to Ukrainian drilling

rigs using older technology than modern heavy drilling rigs, the Group has had lengthy drilling times of between one to two years on its current wells. The Group does not currently hold long-term contracts for the continued use of these light drilling rigs, and there is a risk that contracts may not be renewed upon expiry, or may be renewed at commercially unfavourable terms. Demand for limited equipment such as drilling rigs may affect the availability of such equipment to the Group and may delay its development and exploration activities. In addition, there is significant demand and limited availability of modern heavy drilling rigs in Europe and Central Asia. While the Group currently anticipates leasing two heavy drilling rigs in the near future, no contracts have been signed with any provider and there can be no assurance that heavy drilling rigs will be available for contract according to Group plans. Failure by the Group to secure necessary equipment could adversely affect the Group's business, results of operations or financial condition. Even if the heavy drilling rigs are obtained, the significantly increased costs of operating them may not outweigh the anticipated shorter drilling times and expected higher flow rates. In addition, the costs of third party services and equipment have increased significantly over recent years and may continue to rise. The failure of a third party provider or supplier to perform its contractual obligations, or an inability to achieve a commercially viable contract with a third party provider or supplier would have a material adverse impact on the Group's business, the results of operations or financial condition.

1.8 The Group may be unable to manage the growth in its operations.

The Group has experienced significant growth and development in a relatively short period of time, primarily as a result of its acquisitions. Management of that growth requires, among other things: implementation and continued development of financial, management and other controls, including financial and other reporting procedures, and information technology systems; and hiring, training, motivating and retaining quality personnel. In addition, following the acquisition of its initial assets in Ukraine, the Group began operations with existing equipment and staff from the acquired assets. Although the Group has made progress in introducing international standards in its operations, the process is still ongoing. Failure to successfully manage the Group's business and expected growth and development could have a material adverse effect on the Group's business, results of operations or financial condition.

1.9 As the Group has grown by way of acquisitions, it may be subject to unforeseen liabilities and risks arising from its acquired businesses.

The Group has grown significantly by way of corporate and other acquisitions. Where appropriate, the Company undertook due diligence in relation to the entities and assets purchased. However, there can be no assurance that the entities and assets acquired are not subject to liabilities of which the Group is unaware. Whilst warranty and other protection was obtained by the Group where practical and appropriate, there is no certainty that the Group would be able to enforce its contractual or other rights against the relevant sellers.

The integration of acquired businesses requires significant time and effort of the Group's management. Integration of new businesses can be difficult, and potential problems may include, but would not be limited to, differences in the measurement of reserves and resources, integration of management, integration of common financial reporting procedures and accounting policies, issues with minority shareholders in acquired companies, the risk that indemnification agreements with or warranties given by sellers may be unenforceable or inadequate to cover potential liabilities and the assumption of disclosed or undisclosed liabilities, including in relation to tax and environmental matters relating to the acquired assets or businesses.

1.10 The Group's rights to underlying land plots may be challenged and the Group may not be able to renew its land lease agreements.

The Group leases from local authorities and individuals the land plots underlying nearly all of its exploration and production facilities.

Under Ukrainian legislation, land lease agreements (and any amendments) must be in writing and are subject to State registration in order to become effective. Land lease agreements must also contain all essential terms set forth in the Ukrainian legislation. The absence in a land lease agreement of one of these essential terms can result in a legal challenge to the agreement, a refusal by the State to permit registration or its legal invalidation. Some land lease agreements executed by the Group fail to indicate one or more essential terms, which may lead to the invalidation of such agreements.

Ukrainian courts and legislation are not in agreement as to whether land leases are required to be notarised. Since many land lease agreements of the Group have not been notarised, there is a risk that the validity of such agreements may be challenged.

The land rights to two of the wells on the Pirkovskoe licence area are governed by servitude agreements rather than land lease agreements, as required by Ukrainian law. Ukrainian law provides that such servitudes may be terminated by the court, as under Ukrainian law the lease of land for commercial purposes must be undertaken through a land lease agreement, not a servitude.

In addition, as land leases are for a fixed term, there can be no assurance that the leases will be renewed upon their expiry.

Any loss by the Group of its right to use the land plots under land lease agreements or under servitude agreements could have a material adverse effect on the Group's business, results of operations and financial condition.

1.11 The Group's insurance coverage may be insufficient to cover losses or it could be subject to uninsured liabilities which could materially affect the Group's business, results of operations or financial condition.

Ukrainian law requires companies in the upstream oil and gas industry to insure against certain risks. The Company carries these mandatory types of insurance and also considers it appropriate to maintain cover on certain other risks.

However, there may be circumstances where the Group's insurance will not cover or be adequate to cover the consequences of an event or where the Group may become liable for pollution or other operational hazards against which it either cannot insure or may have elected not to have insured (whether on account of high premium costs or otherwise). In particular, the Group does not carry business interruption insurance or directors and officers liability insurance to cover directors who are not of British nationality, or potentially cover any director in the event of a significant loss. Moreover, there can be no assurance that the Company will be able to maintain adequate insurance in the future at rates the Directors consider reasonable. Thus, the Group may become subject to liability for hazards which cannot be insured against or against which it may elect not to be insured (whether because of high premium costs or other commercial reasons). There can be no assurance that the Group will be able to obtain insurance at reasonable rates (or at all) or that any coverage it obtains will be adequate and available to cover any such claims.

The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could materially adversely affect the Group's business, results of operations or financial condition.

1.12 The Group may not be able to secure adequate financing for its future exploration, development, production and acquisition plans.

After 12 months from the date of this Prospectus, the Group may require external financing to pursue future exploration and development activities for its Major or Minor Fields, or to fund strategic acquisitions. Its ability to arrange such financing in the future will depend, in part, upon prevailing financial market conditions as well as its business performance. If the Group's reserves decline, its contingent or prospective resource estimates are lower than currently believed, or if

commercial production levels are not achieved according to plans, or at all, it may not, after 12 months from the date of this Prospectus, have the capital necessary to undertake or complete its current or future development programmes of its assets, or pursue strategic acquisitions. There can be no assurance that debt or equity financing or cash generated by operations will be available at satisfactory terms or sufficient to meet the Group's financing requirements or for other corporate purposes. If additional financing is raised by the issue of shares, the Group's shareholders may suffer dilution. Any inability to access sufficient sources of financing for its operations and development plans or for strategic acquisitions could have a material adverse effect on the Group's business, results of operations or financial condition.

1.13 The Group could be subject to labour or other unplanned production disruptions.

The Group has a significant number of staff belonging to certain trade unions which have a record of occasional industrial action. Third party contractors who provide services to the Group may also have staff belonging to these or other trade unions. The presence of trade unions may limit the Group's flexibility in dealing with its staff and third party contractors. If there is a material disagreement between the Group and its trade unions, the Group's operations could suffer an interruption or shutdown which could have a material adverse effect on the Group's business, results of operations or financial condition.

1.14 Future litigation could adversely affect the Group's business, results of operations or financial condition.

Damages claimed under any litigation are difficult to predict, and may be material. The outcome of such litigation may materially impact the Group's business, results of operations or financial condition. While the Group will assess the merits of each lawsuit and defend itself accordingly, it may be required to incur significant expenses or devote significant resources to defending itself against such litigation. In addition, adverse publicity surrounding such claims may have a material adverse effect on the Group's business, results of operations or financial condition.

1.15 A reduction in energy demand from Ukraine may cause the Group to search for alternative markets. Such markets may not be available or cost-effective to access.

Although Ukraine's economic outlook has stabilised significantly over recent years, there can be no assurance that anticipated levels of growth in its economy or its energy requirements will in fact materialise. Should its economy not grow then demand for energy and accordingly oil and gas may not continue to increase in accordance with projected growth rates or may decline. In such circumstances, the Group may need to find alternative markets for certain of its future oil and gas developments. Such markets may not be available or it may not be economical to access such alternative markets. Should any of these factors occur and if no alternative markets for the Group's anticipated production is then available, the productivity of the Group may decline. Even if such markets are available, the costs of accessing such alternative markets may be much higher. Any of these factors may have a material adverse effect on the Group's business, results of operations or financial condition.

1.16 The SPE/WPC/AAPG/SPEE standards differ in certain material respects from SEC standards and reserves and resources and the reserves and resources estimates may be incorrect.

The reserve and resource data set forth in the CPR and this Prospectus has been prepared in accordance with the standards established by the SPE/WPC/AAPG/SPEE. Such standards differ in certain material respects from the standards applied by the SEC. Reserves and resources that are calculated by different methods are not comparable. Prospective investors are cautioned not to assume that all or any part of "probable" or "possible" reserves or "contingent" or "prospective" resources will ever be converted into "proved" reserves.

2 Risks relating to the industry in which the Group operates

2.1 Ukrainian State price controls affect the price at which gas production is sold.

A significant portion of the Group's reserves and resources are natural gas. In Ukraine, the Cabinet of Ministers of Ukraine sets the price for sales of gas to industrial customers. This price effectively sets the domestic industrial market price for gas sales by private companies. As Ukraine relies to a significant extent on supplies of energy resources from, and deliveries of such resources through, Russia, the domestic industrial gas price exhibits a strong correlation with the Russian gas import price. This import price is determined based on negotiations between the governments of Ukraine and Russia. For 2008, the Cabinet of Ministers of Ukraine set the maximum price for domestic industrial users at UAH 1,121.64/Mcm (US\$231/Mcm) including VAT, but excluding other taxes, transportation costs and distribution costs of Naftogas. The price for residential customers, which is set by the National Electricity Regulation Commission of Ukraine ("NCRE"), is currently fixed at a range from UAH 315/Mcm to UAH 1,290/Mcm (US\$65/Mcm to US\$266/Mcm), depending on usage. Gas produced from fields operated under joint venture agreements with State-controlled companies in which the private company holds less than a 50 per cent. working interest must be sold to Naftogas at the lower price set by NCRE (UAH 319/Mcm including VAT for 2007) for further sale by Naftogas to residential customers at the rates described above. There can be no assurance that future commercial production will be sold at the higher industrial rate, nor that the state price controls will not set a lower price in the future.

The industrial gas price in Ukraine has risen in recent years and is anticipated to achieve net back parity with Western European prices in the near term, assuming industrial gas prices rise in line with import gas prices. Although in the view of Gas Strategies import gas prices could achieve netback parity with Western European prices as early as 2009, there can be no assurance that Ukrainian gas price increases will continue or that convergence with Western European gas prices will occur by 2009, or beyond.

Factors that could cause a decrease in future Ukrainian import prices, or delay achieving export netback parity with Western Europe, include:

- Ukraine extracting a fuller value for importing large volumes of gas for storage during the summer. Gazprom currently benefits from the fact that Ukraine stores gas in the summer for its own purposes, thus freeing up its transit network for Russian gas in the winter. Ukraine could demand a higher price for its storage, resulting in a lower import price from Russia;
- Gazprom potentially losing its export monopoly rights, allowing independent Russian gas producers to compete and, as a result, potentially lowering Ukraine's gas import price; and
- Western European buyers potentially succeeding in negotiating a rebasing of the level at which their gas prices are linked to oil in order to compensate them for the rise in oil prices in recent times. Gazprom's European revenues would likely then decline without a corresponding decline in the oil price, and there would likely be a consequential downward pressure on Ukraine's gas price.

Any such downturn in gas prices, or a failure of Ukrainian industrial prices to reach export netback parity with Western European prices, may make exploitation of the Group's assets uneconomic, and would have a material adverse effect on the Group's business, results of operation or financial condition.

2.2 Oil and condensate prices are volatile and a decline in oil and condensate prices would adversely affect the Group's cash flow, liquidity and profitability and limit the amount of oil and gas that the Group could economically produce.

Historically, the markets for oil and condensate have been volatile and are likely to continue to be volatile in the future. Prices for oil and condensate are subject to wide fluctuations in

response to relatively minor changes in the supply of and demand for oil and condensate, market uncertainty and a variety of additional factors that are beyond the control of the Group. These factors include political conditions in oil producing countries, the domestic and foreign supply of oil and condensate, the price of foreign imports, the level of consumer product demand, weather conditions, domestic and foreign government regulations, the price and availability of alternative fuels and overall economic conditions. In addition, various factors, including the availability and capacity of oil gathering systems and pipelines, the effect of applicable regulations on production, transportation and export, general economic conditions and changes in supply and demand, may adversely affect the Group's ability to market its oil and condensate production. Accordingly, it is impossible to predict future oil price movements with any certainty. Declines in oil and condensate prices, and in some cases the failure of such prices to increase, would adversely affect the Group's cash flow, liquidity and profitability, and limit the amount of oil and condensate that the Group could economically produce.

2.3 The oil and gas reserve and resource data in this Prospectus are only estimates, and the Group's production, revenue and expenditure with respect to its reserves may be materially different from such estimates.

There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and prospective and contingent resources and cash flows, including many factors beyond the control of the Group. The reserves, resources and cash flow information set forth in the CPR and this Prospectus represent estimates only. In general, estimates of economically recoverable reserves and the future net cash flow therefrom are based on a number of factors and assumptions made as of the date on which the reserves estimates were determined, such as geological and engineering estimates (which have inherent uncertainties), flow rate data, historical production from the properties, the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. Much of the available seismic data and survey data for the licence areas in which the Group operates mainly date back to the Soviet era or were created more recently using Soviet-era technology. Much of this historical data does not meet current international standards. As a consequence, significant further appraisal is needed for nearly all the Group's fields. In addition, the information on reserves and resources in the CPR and this Prospectus is based on economic and other assumptions that may prove to be incorrect. The Ukrainian economy is more unstable and subject to more significant and sudden changes than the economies of many other countries and, therefore, economic and other assumptions regarding Ukraine are subject to a high degree of uncertainty.

All estimates in this Prospectus are uncertain and classifications of reserves and resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable reserves attributable to any particular group of properties, the classification of such reserves and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The Group's actual production, revenues, taxes and development and operating expenditures with respect to the Group's reserves and resources will likely vary from such estimates, and such variances could be material. Prospective investors should not place undue reliance on the forward-looking statements in the CPR or elsewhere in this Prospectus, on the ability of the CPR to predict actual reserves or resources or on comparisons of similar reports concerning companies established in countries with more mature economic systems.

2.4 Exploration, development and production may be delayed or adversely affected by numerous factors and risks, including that the Group will encounter no commercially productive reserves or resources.

Exploration, development and production activities may be delayed or adversely affected by numerous factors. These include the performance of joint venture or farm-out partners on whom the Group may be or may become reliant, compliance with governmental requirements, shortages or delays in installing and commissioning plant and equipment or import or customs delays. Problems may also arise due to the quality or failure of locally obtained equipment or interruptions to services (such as power, water, fuel or transport or processing capacity) or

technical support which result in failure to achieve expected target dates for exploration or production, anticipated flow rates or result in a requirement for greater expenditure. Drilling may involve unprofitable efforts, not only with respect to dry holes but also to non-commercial wells, that is wells which, though yielding some gas or condensate, are not sufficiently productive to justify commercial development or cover operating and other costs. Some of the Group's licence areas have had commercial drilling operations active for more than 70 years, and there is limited geological diversity to the licence areas where the Group has a working interest. Soviet-era exploration has caused severe formational damage to some of the existing well-sites. Older wells may not be able to produce any product, and there is a risk that this is due to poor permeability, rather than antiquated drilling techniques. Considerable technical challenge is associated with drilling and stimulating wells at the depth to which some of the Group's wells are being drilled, even though the Group uses well-established technologies.

If modern heavy drilling rigs are brought into operation, the Group may face the additional expense of hiring experienced international crews, or risk relying on potentially untrained local employees. Heavy drilling rigs have not been used before by the Group, and despite the significantly higher cost, may not result in appreciably shorter drilling times or higher flow rates.

Substantial operational risks are involved in the drilling for, development of and production from gas and condensate fields, including blow-outs, cratering, explosions, pollution, seepage or leaks, fires, earthquake activity, unusual or unexpected geological conditions and other hazards which may delay, or ultimately prevent, the exploitation of such fields or may result in cost overruns or substantial losses to the Group due to environmental pollution or damage, personal injury or loss of life, clean up responsibilities, regulatory investigation and penalties or suspension of operations. Such hazards can also severely damage or destroy equipment, surrounding areas or property of third parties. Damage or loss occurring as a result of such risks may give rise to claims against the Group.

The Group will continue to gather data on its fields. Additional information could cause the Group to alter its work schedule or determine that a field should not be pursued, which may in turn cause the Group to incur unrecoverable expenditure, which could adversely affect the Group's business, results of operations or financial condition.

2.5 The Group operates in a competitive industry.

The oil and gas industry in Ukraine is a competitive industry. A number of other oil and gas companies operate, and are allowed to bid for exploration and production licences and other services, in Ukraine. The Group competes with a number of large oil and gas companies, including international oil and gas companies some of which have total assets and financial resources significantly greater than the Group's. Competition from foreign companies, or foreign direct investment in the Group's domestic Ukrainian competitors will further increase competition with the Group, and may lead to a material adverse effect on the Group's business, results of operations or financial condition.

2.6 The Group may incur material costs in its compliance with applicable health, safety and environment regulations and any failure by the Group to comply with such regulations may give rise to significant liabilities.

The Group's operations are subject to laws and regulations relating to the protection of human health and safety as well as the environment. The Group's health, safety and environment policy is to observe local legal requirements as well as to apply recognised international standards in its operations. Failure by the Group to comply with applicable legal requirements or recognised international standards may give rise to significant liabilities.

Significant liability could be imposed on the Group for damages, clean-up costs or penalties in the event of certain discharges into the environment, acts of sabotage or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on the Group's business, results of operations or financial condition. Moreover, the Company cannot

predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by the Group for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on the Group's business, results of operations or financial condition.

Extensive state and local environmental laws and regulations affect nearly all of the Group's operations. These laws and regulations set various standards regulating certain aspects of health, safety, security and environmental quality, provide for civil and criminal penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. There can be no assurance that the Group will not incur substantial financial obligations in connection with environmental compliance.

Health, safety and environment laws and regulations may over time become more complex and stringent, the subject of increasingly strict interpretation or enforcement or become more comprehensive. The terms of licences may include more stringent environmental and/or health and safety requirements. The obtaining of exploration, development or production licences and permits may become more difficult or be the subject of delay by reason of governmental, regional or local environmental consultation, approvals or other considerations or requirements.

The Group may not be able to satisfy any of its remediation, rehabilitation or other obligations under environmental laws and regulations which could result in financial or other penalties and/or the suspension or loss of the Group's licences. To the extent that these fines are material, the Group's cash flows may be insufficient to meet the Group's obligations. In addition, the Group may fail to complete on schedule programmes and projects intended to meet its environmental obligations. The occurrence of any of these risks could have a material adverse effect on the Group's business, results of operations or financial condition.

These factors may lead to delayed or reduced exploration, development or production activity as well as to increased operating costs.

2.7 A violation of health and safety requirements and the occurrence of any accidents could disrupt the Group's operations and increase operating costs.

A violation of health and safety laws or failure to comply with the instructions of the relevant health and safety authorities could lead to, among other things, a temporary shut down of all, or a portion of, the Group's facilities and the imposition of costly compliance procedures. If health and safety authorities shut down all, or a portion of, the Group's facilities or impose costly compliance measures, the Group's business, results of operations or financial condition would be materially and adversely affected.

The nature of the Group's operations creates a risk of accidents and fatalities among its workforce, and the Group may be required to pay compensation or suspend operations as a result of such accidents or fatalities, which could have a material adverse effect on the Group's business, results of operations or financial condition.

2.8 If the Group becomes responsible for decommissioning costs and such costs exceed the value of the long-term provision set-aside at that time, the Group may have to rely on funds from other sources. Such reliance on other funds could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group may become responsible for costs associated with abandoning and reclaiming exploration sites, facilities and pipelines which it may use for production of gas or condensate. Abandonment and reclamation of facilities and the costs associated therewith is often referred to as "decommissioning". Should decommissioning be required, the costs of decommissioning

may exceed the value of the long-term provision set aside to cover such decommissioning costs. The Group may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could have a material adverse effect on the Group's business, results of operations or financial condition.

3 Risks relating to Ukraine

3.1 Emerging markets such as Ukraine are subject to greater risks than more developed markets, including significant legal, economic and political risks.

All of the Group's operations are conducted in Ukraine. Accordingly, the Group is substantially dependent on the economic and political conditions prevailing in Ukraine.

Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the USSR to an independent sovereign democracy. In parallel with this transformation, Ukraine is progressively changing from a centrally planned economy to a market economy. In particular, Ukraine's achievements in market-oriented reforms have recently been recognised by the EU, which granted Ukraine market economy status at the end of 2005. The US granted Ukraine such status in February 2006. Substantial differences persist between Ukraine and western market economies. Specific risks include, among other things, local currency instability, changes in exchange controls, changes in energy price tariffs, taxes, royalty rates (including withholding taxes on distributions to foreign investors), anti-monopoly legislation, nationalisation or expropriation of property, political constraint of growth in market share and interruption or blockages of exports, including minerals, hydrocarbons and other strategic materials. The occurrence of any of these events could have a material adverse effect on the Group's business, results of operations or financial condition.

To a large extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad based social and economic reforms.

Emerging markets, such as Ukraine, are generally subject to greater risks, including legal, regulatory, economic and political risks, than more developed markets. Emerging economies, such as Ukraine's, are generally subject to rapid change and the information set out in this Prospectus may quickly become outdated. Accordingly, investors should exercise particular care in evaluating the risks involved and should consider whether, in light of these risks, investing in the shares of a company whose assets and operations are based in an emerging market is appropriate. Investment in a company whose assets and operations are based in an emerging market is generally suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Company.

Further details are given in Part VI of this Prospectus.

3.2 Official statistics and other data published by State authorities, including that relating to the oil and gas industry, may not be as complete or reliable as those of more developed countries.

Official statistics and other data published by State authorities, including those relating to the oil and gas industry, may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases than those used in more developed countries. The Company has not independently verified such official statistics and other data, and any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information.

3.3 Economic or political and governmental instability as well as any adverse changes in Ukraine's relationship with western governments and institutions could materially adversely affect the Group's business, results of operations or financial condition.

In recent years, the Ukrainian economy has continued to face a number of factors which could lead to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, instability of tax laws, widespread tax evasion and the presence of black and grey-market economies, a high level of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings, a high level of monopolisation and a poor competitive environment, a high level of corruption, significant capital flight, a real estate market which may be fully valued and rising but relatively low wages for a large portion of the Ukrainian population.

In addition, since independence in 1991, political and constitutional instability has been a feature of Ukraine. A lack of political consensus in the Ukrainian Parliament has made it consistently difficult for the Ukrainian Government to sustain a stable coalition of parliamentarians to secure the support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. The Ukrainian Government's policies are subject to rapid change, and the political leaders who formulate and implement them have often been unstable.

Any of these economic or political factors could lead to economic instability or political and governmental instability and thus have a material adverse effect on the Group's business, results of operations or financial condition.

There can be no assurance that Ukraine will continue to pursue closer relations with western governments and institutions as described in Part VI of this Prospectus. Any adverse changes in Ukraine's relations with western governments and institutions may have negative effects on the Ukrainian economy and thus have a material adverse effect on the Group's business, results of operations or financial condition.

Further details are given in Part VI of this Prospectus.

3.4 Fluctuations in the global economy may materially adversely affect the Ukrainian economy and the Group's business, results of operations or financial condition.

Ukraine's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In addition, as Ukraine is a major producer and exporter of metal and agricultural products, the Ukrainian economy is especially vulnerable to world commodity prices and/or the imposition of import tariffs by the US, the EU or by other major export markets. Any of such developments may have negative effects on the economy and thus on the business of the Group.

3.5 A lack of continued access to foreign trade and investment could have an adverse effect on the Ukrainian economy and the Group's business, results of operations or financial condition.

In 2005 and 2006, the Ukrainian economy experienced a record inflow of foreign direct investment, which was mainly due to the sale of the largest Ukrainian metallurgical plant OJSC "Kryvorizhstal" to Mittal Steel Germany GmbH for US\$4.8 billion (OJSC "Kryvorizhstal" is currently known as Acelor Mittal Kryviy Rih). Notwithstanding improvements in the Ukrainian economy in recent years, cumulative foreign direct investment remains low for a country the size of Ukraine. An increase in the perceived risks associated with investing in Ukraine could decrease foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will remain attractive to foreign trade and investment. Further, although the Ukrainian Government has repeatedly emphasised that plans announced in 2005 to review the privatisation of a number of major companies are no longer under consideration, any future attempts to nationalise private enterprises could adversely affect the climate for foreign direct investment. Any deterioration in the climate for foreign direct investment in Ukraine could have an adverse effect on the economy of Ukraine which in turn may adversely affect the Group's business, results of operations or financial condition.

3.6 Ukrainian enterprises have a limited history of operating in free-market conditions and face significant liquidity problems and a deterioration in the business environment in Ukraine could have a material adverse effect on the Group's business, results of operations or financial condition.

Ukrainian enterprises have a limited history of operating in free market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, with communications, banks and other financial infrastructure being less well developed and less well regulated than their counterparts in more developed jurisdictions. Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. A deterioration in the business environment in Ukraine could have a material adverse effect on the Group's business, results of operations or financial condition.

3.7 The taxation system in Ukraine is at an early stage of development and the interpretation and application of tax laws and regulations are evolving, which significantly increases the risks with respect to the Group's operations and investment in Ukraine.

The Group pays different types of tax in Ukraine, including general corporate tax, payroll taxes, VAT, extraction and production taxes, which are set at different rates for oil and gas products.

The tax regime in Ukraine is subject to frequent changes and a new tax code is expected to be passed by the Ukrainian Parliament by the end of 2008. For example, on 1 June 2008, the Ukrainian Government raised production taxes on oil and gas condensate by 40 per cent. Any further changes to Ukrainian tax regime could have a material adverse effect on the Company's prospects. Tax risks in Ukraine are substantially more significant than those typically found in countries with more developed tax systems, which significantly increases the risks with respect to the Group's operations and investment in Ukraine.

Further details are given in Part VI of this Prospectus.

3.8 Social instability in Ukraine could increase support for renewed centralised authority, nationalism or violence.

The failure of the Ukrainian Government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority or, on the contrary, for federalisation of the state, or increased nationalism with restrictions on foreign ownership in the economy of Ukraine. Any of these events could materially adversely affect the Group's ability to conduct its business effectively.

3.9 Crime and governmental or business corruption could significantly disrupt the Group's ability to conduct its business and could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group operates and does business in Ukraine. External analysts have identified governmental and business corruption, money laundering and other criminal activity as problems in Ukraine. The Group and its directors, officers or employees may in the future be the subject of press speculation, Government investigations and other accusations of corrupt practices and illegal activities, including improper payments to individuals of influence.

Although the Group's policies mandate strict compliance with internal policies and applicable laws which prohibit corrupt payments to Government officials or other businesses or persons, there is no assurance that such internal policies and procedures have been or will be adhered to by its employees. Findings against the Group, its directors, officers or employees, or their involvement in corruption or other illegal activity could result in criminal or civil penalties, including substantial monetary fines, against the Group, its directors, officers or employees. Any Government investigations or other allegations against the Group, its directors, officers or employees, or finding of involvement in corruption or other illegal activity by such persons, could significantly damage the Group's reputation and its ability to do business, and could have a material adverse effect on the Group's business, results of operations or financial condition.

3.10 Interpretation and application of the laws and regulations of Ukraine can be uncertain and could adversely affect the Group.

Ukraine and other jurisdictions in which the Group might operate in the future may have less developed legal systems than more established economies which could result in risks such as: (a) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (b) a higher degree of discretion on the part of the governmental authorities; (c) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (d) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; and (e) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, Government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to the Group's licences, permits and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, permits, licence and permit applications or other legal arrangements will not be adversely affected by the actions of Government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

3.11 The Ukrainian judiciary's perceived lack of independence and the difficulty of enforcing court decisions could prevent the Group or holders of Ordinary Shares from obtaining effective redress in a court proceeding.

Uncertainties relating to the Ukrainian judicial system, both in terms of its questionable independence and the difficulty of enforcement of court orders and judgments, could have a material adverse effect on the Group's business, results of operations or financial condition.

Further details are given in Part VI of this Prospectus.

3.12 The Group is subject to foreign exchange risks.

The Company reports its financial results in Sterling whilst the Group's sales of oil and gas are made in Hryvnia (UAH), which is currently pegged to the US dollar. The Group has been financed principally by the issue of equity in Sterling. The Group will also need to convert the proceeds of the Global Offer and its other cash and cash equivalents, from Sterling to Hryvnia over time in order to fund its operations and capital expenditure. As a result, the Company is potentially exposed to adverse fluctuations in the exchange rates between Sterling, US dollar and Hryvnia. The Group to date has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates. In particular, the US dollar and UAH have weakened against Sterling and may continue to do so.

Following Admission, the share price of the Company will be quoted on the London Stock Exchange in Sterling. As a consequence, Shareholders may experience fluctuations in the market price of the Ordinary Shares as a result, amongst other factors, of movements in the exchange rates between Sterling, US dollar and Hryvnia.

Historically, the UAH/US dollar exchange rate has fluctuated. The Hryvnia was revalued in 2005 when the UAH/US dollar exchange rate was set at UAH5.05 to US\$1.00, where it remained until

22 May 2008. On 22 May 2008, the National Bank of Ukraine adopted a resolution revaluing the Hryvnia and establishing the exchange rate of UAH4.85 to US\$1.00. Nevertheless, pursuant to the National Bank of Ukraine's monetary policy principles for 2008 it is expected that the UAH/US\$ exchange rate should be in the range of UAH4.95 and 5.25 to US\$1.00 in order to address the goal of reducing inflation. However, any future currency revaluations may have further adverse effects on Ukraine's economy, which may in turn have a material adverse effect on the Group's business, results of operations or financial condition.

4 Risks relating to the Group's Structure

4.1 The holding company structure means that the Company's ability to pay dividends is dependent on distributions received from its subsidiaries.

Since the Company is a holding company, its operating results and financial condition are entirely dependent on the performance of members of the Group. Although there is no current intention to pay dividends, the Company's ability to pay dividends in the future will depend on the level of distributions, if any, received from the Company's subsidiaries. The ability of the Company's subsidiaries to make distributions to the Company may, from time to time, be restricted as a result of several factors, including restrictive covenants in loan agreements, foreign exchange limitations, the requirements of applicable law and regulatory, fiscal or other restrictions.

4.2 Participation by the Company in a distribution of a subsidiary's assets will generally be subject to prior claims of creditors.

The Company holds all of its assets in its subsidiaries. The Company's rights to participate in a distribution of its subsidiaries' assets upon their liquidation, re-organisation or insolvency is generally subject to prior claims of the subsidiaries' creditors, including any trade creditors and preferred shareholders.

5 Risks relating to Investment in the Ordinary Shares

5.1 There has been no prior public trading market for the Ordinary Shares.

Prior to the Global Offer, there has been no public trading market for the Ordinary Shares. Although the Company has applied to the UKLA for admission to the Official List and has applied to the London Stock Exchange for admission to trading on its market for listed securities, the Company can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, can be sustained following the closing of the Global Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be materially and adversely affected.

5.2 The price of the Ordinary Shares may fluctuate significantly.

Following Admission, the market price of the Ordinary Shares could be subject to significant price and volume fluctuations that may be unrelated to the operating performance of the Group. The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares (or securities similar to them) or in response to various factors and events, some of which are beyond the Group's control, including, but not limited to, any regulatory changes affecting the Group's operations, variations in the Group's operating results and business developments of the Group or its competitors. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares.

5.3 The Company's potential status as a passive foreign investment company could result in adverse tax consequences to US Holders.

It is possible that the Company may be a passive foreign investment company, which could result in adverse tax consequences to US Holders.

Adverse US federal income tax rules apply to US Holders owning shares of a passive foreign investment company ("PFIC"). As discussed in greater detail in paragraph 16.4 of Part XVII of this Prospectus, the Company will be a PFIC for US federal income tax purposes in any taxable year in which either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the value of its assets is attributable to assets that produce, or are held for the production of, passive income. In determining whether a foreign corporation is a PFIC, a pro rata portion of the income and assets of each corporation in which it owns (directly or indirectly) at least a 25 per cent. interest (by value) is taken into account.

The Company believes that it will likely be a PFIC for the current year and may be a PFIC in future years. Because this determination is made annually at the end of each taxable year and is dependent upon a number of factors (including the value of the Company's assets and the amount and type of its income) there can be no assurance regarding whether the Company is or will be a PFIC for any taxable year.

PFIC characterisation could result in adverse US federal income tax consequences to certain taxable US Holders of Ordinary Shares. In particular, absent the elections described below, a US Holder would be subject to a possible interest charge in respect of tax imposed on gain derived from a disposition of Ordinary Shares and income derived from certain distributions by the Company. If the Company were a PFIC for any taxable year, and the Ordinary Shares are "regularly traded" on a "qualified exchange," a US Holder may be able to make an election to "mark-to-market" the Ordinary Shares each taxable year and recognise ordinary income pursuant to such election based upon increases in the value of the Ordinary Shares. Alternatively, provided the Company makes available to US Holders certain required information, a US Holder may elect to treat the Company as a "qualified electing fund" ("QEF") and include in income on a current basis its pro rata share of the ordinary income and net capital gains of the PFIC. If the Company is a PFIC, it intends to provide US Holders with sufficient information to enable them to make a QEF election.

For a more detailed discussion of the potential tax impact of the Company being classified as a PFIC, see paragraph 16.4 of Part XVII of this Prospectus.

5.4 Senior management has broad discretion over the use of the net proceeds received by it from the Global Offer and may not apply the net proceeds effectively or in ways with which you agree.

The Group's senior management has broad discretion over the use of net proceeds from the Global Offer. Initially, the Group intends to use the net proceeds of the Global Offer to pursue its field appraisal and development programme for its Major Fields and then to otherwise finance the Group until it can fund its future cash requirements from internally generated cash flow. The Group's senior management will have considerable discretion in allocating the net proceeds. You will not have an opportunity, as part of your investment decision, to assess whether the net proceeds received by the Group are being used appropriately. There can be no assurance that senior management will apply the net proceeds effectively or that the net proceeds will be invested to yield a favourable return.

5.5 The market price of Ordinary Shares could decline as a result of future sales of Ordinary Shares by Directors and others.

Future sales of the Ordinary Shares, or the perception that such sales will occur, could cause a decline in the market price of the Ordinary Shares. Upon completion of the Global Offer, 231,091,734 of the Ordinary Shares will be in issue, including 110,375,418 Ordinary Shares owned by the Locked-up Shareholders, the Directors and certain senior management, assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full. In connection with the Global Offer, each of the Company, the Locked-up Shareholders, the Directors and certain senior management have agreed to certain lock-up arrangements in respect of their holdings of, or options to subscribe for, Ordinary Shares held prior to the Global Offer for the periods summarised as set out in the table below (such arrangements being subject to certain adjustments noted in paragraph 12.9 of Part XVII of this Prospectus):

<i>Categories of person</i>	<i>Lock-up period</i>
Company	180 days from Admission
Locked-up Shareholders	180 days from Admission together with orderly market obligations for a further 180 days following the end of the first 180 days
Non-executive Directors	12 months from Admission
Executive Directors and certain senior management	A staggered period of three years from Admission. One third of Ordinary Shares/options held will become free of lock-up at each of the following times: a) 12 months from Admission; b) following publication of preliminary results for the year ending 31 December 2009; and c) following publication of preliminary results for the year ending 31 December 2010.

The Group cannot predict whether substantial numbers of the Ordinary Shares will be sold by such persons following the expiry of the lock-up period. In particular, there can be no assurance that after this period expires, the Locked-up Shareholders, the Directors or certain senior management will not reduce their holdings of the Ordinary Shares. Future sales of the Ordinary Shares could be made by the Company, the Locked-up Shareholders, the Directors or certain senior management or through a capital increase undertaken by the Group to fund an acquisition or for another purpose. A sale of a substantial number of the Ordinary Shares, or the perception that such sales could occur, could materially and adversely affect the market price of the Ordinary Shares and could also impede the Company's ability to raise capital through the issue of equity securities in the future.

5.6 Pre-emption rights may be unavailable to US and other non-UK holders of Ordinary Shares.

In the case of an increase in the share capital of the Company for cash, the existing Shareholders are generally entitled to pre-emption rights pursuant to the Act, unless such rights are waived by a special resolution of the Shareholders at a general meeting or in certain circumstances stated in the Articles. To the extent that pre-emptive rights are granted, US and other non-UK holders of the Ordinary Shares may not be able to exercise pre-emptive rights for their Ordinary Shares unless the Company decides to comply with applicable local laws and regulations and, in the case of US holders, unless a registration statement under the Securities Act is effective with respect to those rights, or an exemption from the registration requirements thereof is available. The Company intends to evaluate at the time of any offering the costs and potential liabilities associated with any such compliance or registration statement. At such time, the Company also intends to evaluate the benefits of enabling the exercise by US and other non-UK holder of the Ordinary Shares of the pre-emptive rights for their Ordinary Shares and any other factors the Company considers appropriate at the time. On the basis of this evaluation, the Company will make a decision as to how to proceed and whether to file a registration statement or otherwise and any other steps necessary to extend the offering into the other jurisdictions, including complying with local law requirements. No assurance can be given that any steps will be taken in any jurisdiction or that any registration statement will be filed to enable the exercise of such holders' pre-emptive rights.

PART III

DIRECTORS, SECRETARY AND ADVISERS

Directors	Simon Patrick Duffy (<i>Independent Non-executive Chairman</i>) Mark Clifton Tolley (<i>Chief Executive Officer</i>) Alexander Sawka (<i>Chief Financial Officer</i>) Peter Anthony Biddlestone (<i>Asset Development Director</i>) Vasyl Petrovych Vivcharyk (<i>Chief Operating Officer</i>) Philip John Dayer (<i>Senior Independent Non-executive Director</i>) Alan Jack Cole (<i>Independent Non-executive Director</i>) Nicholas Charles Corby (<i>Non-executive Director</i>) James Charles Donaldson (<i>Independent Non-executive Director</i>) Nicholas John Hooke (<i>Independent Non-executive Director</i>)
Company Secretary	Alexander Sawka
Registered Office of Cadogan Petroleum plc	Fifth Floor 4/5 Grosvenor Place London SW1X 7HJ
Telephone Number	+44 (0) 20 7245 0801
Sole Global Co-Ordinator, Sponsor and Bookrunner	UBS Investment Bank 1 Finsbury Avenue London EC2M 2PP
Co-Lead Manager	Fox-Davies Capital Limited Whitefriars House 6 Carmelite Street London EC4Y 0BS
Legal Advisers to the Company as to English Law	Denton Wilde Sapte LLP One Fleet Place London EC4M 7WS
Legal Advisers to the Company as to Ukrainian Law	Andriy Kravets & Partners 2-b Muzeyny Provulok 7th Floor Kiev 01001 Ukraine
Legal Advisers to the Company as to US Law	Hunton & Williams LLP 30 St Mary Axe London EC3A 8EP
Auditors and Reporting Accountants	Deloitte & Touche LLP 2 New Street Square London EC4A 3BZ
Legal Advisers to the Global Co-Ordinator, Sponsor and Bookrunner as to English and US Law	Herbert Smith LLP Exchange House Primrose Street London EC2A 2HS

**Legal Advisers to the Global
Co-Ordinator, Sponsor and
Bookrunner as to Ukrainian Law**

Sayenko Kharenko
10 Muzeyny Provulok
Kiev, 01001
Ukraine

**Legal Advisers to Fox-Davies as to
English Law**

Paul, Hastings, Janofsky & Walker (Europe) LLP
Ten Bishops Square
Eighth Floor
London E1 6EG

Independent Competent Person

Gaffney, Cline & Associates Limited
Bentley Hall
Blacknest
Alton
Hampshire GU34 4PU

Registrars

Capita Registrars Limited
Northern House
Noodsome Park
Fenay Bridge
Huddersfield
HD8 0GA

PART IV

EXPECTED TIMETABLE OF PRINCIPAL EVENTS AND GLOBAL OFFER STATISTICS

Expected Timetable of Principal Events

Publication of Prospectus, announcement of the Offer Price and allocation	7.00 a.m. on 18 June 2008
Commencement of conditional dealings in Ordinary Shares on the London Stock Exchange ⁽¹⁾	8.00 a.m. on 18 June 2008
Admission and commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 23 June 2008
Crediting of Ordinary Shares to CREST accounts ⁽²⁾	by 23 June 2008
Dispatch of definitive share certificates (where applicable) ⁽²⁾	by 23 June 2008

Notes

- (1) If Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.
- (2) Or as soon as practicable thereafter. No temporary documents of title will be issued.

Each of the times and dates in the above timetable is subject to change. All times are London times (unless stated otherwise).

Global Offer Statistics

Offer Price (per Ordinary Share)	£2.30
Number of New Ordinary Shares to be issued pursuant to the Global Offer ⁽¹⁾	66,443,479
Number of Existing Ordinary Shares subject to the Over-allotment Option ⁽²⁾	up to 9,966,514
Percentage of the enlarged issued share capital being offered in the Global Offer ⁽¹⁾	28.8%
Expected market capitalisation at the Offer Price ⁽¹⁾⁽³⁾	£531.5 million
Number of Ordinary Shares in issue following the Global Offer ⁽¹⁾	231,091,734
Expected net proceeds of the Global Offer receivable by the Company ⁽¹⁾⁽⁴⁾	£139.0 million

Notes

- (1) Assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed for in full.
- (2) The number of Existing Ordinary Shares subject to the Over-allotment Option is, 9,966,514, representing, in aggregate, a maximum of 15 per cent. of the total number of Ordinary Shares to be offered for sale in the Global Offer. For more details concerning the Over-allotment Option please refer to Part XVI of this Prospectus.
- (3) The market capitalisation of the Company at any given time will depend upon the market price of the Ordinary Shares at that time and the number of Ordinary Shares in issue. There can be no assurance that the market price of the Ordinary Shares will equal or exceed the Offer Price (and consequently no assurance that the market capitalisation of the Company at any given time will equal or exceed the expected market capitalisation of the Company following the Global Offer).
- (4) Net proceeds receivable by the Company are stated after deduction of the Global Offer expenses of approximately £11.0.

PART V

PRESENTATION OF INFORMATION AND FORWARD-LOOKING STATEMENTS

UBS Investment Bank ("**UBS**") and Fox-Davies Capital Limited ("**Fox-Davies**" and, together with UBS, the "**Underwriters**"), each of which is regulated and authorised in the United Kingdom by the FSA, are acting exclusively for the Company and no one else in connection with the Global Offer. Neither UBS nor Fox-Davies will regard any other person (whether or not a recipient of this Prospectus) as their client or be responsible to any other person for providing the protections afforded to their clients nor for providing advice in relation to the Global Offer, the contents of this Prospectus or any transaction or arrangement referred to herein.

Apart from the responsibilities and liabilities, if any, which may be imposed on UBS or Fox-Davies by FSMA or the regulatory regime established thereunder, UBS and Fox-Davies accept no responsibility whatsoever for the contents of this document or for any other statements made or purported to be made by them, or on their behalf, in connection with the Global Offer. UBS and Fox-Davies accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of such document or any such statement.

The Company, whose name and registered office appear on page 27 of this Prospectus and the Directors, whose names appear on page 27 of this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

Investors should only rely on the information in this Prospectus. No person has been authorised to give any information or make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Over-allotment Option Shareholders, the Directors, UBS or Fox-Davies. No representation or warranty, express or implied, is made by UBS or Fox-Davies as to the accuracy or completeness of such information. Without prejudice to any obligation of the Company to publish a supplementary prospectus, the publication of this Prospectus shall not, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date hereof or that the information herein is correct as of any time subsequent to the date hereof.

Presentation of Financial Information

Unless otherwise indicated, financial information in this Prospectus has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**"), including International Accounting Standards and Interpretations, adopted by the International Accounting Standards Board. The significant accounting policies applied in the financial information of the Company are applied consistently in the financial information in this Prospectus. In making an investment decision, prospective investors must rely on their own examination of the information regarding the Company, the terms of the Global Offer and the financial and other information in this Prospectus. The underlying financial information stated in local currency has been translated into Sterling on the basis set out in the paragraph entitled "Currencies" below.

The financial information contained in Part XI of this Prospectus has been reported on in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. None of the financial information used in this Prospectus has been audited in accordance with the auditing standards generally accepted in the United States (“**US GAAP**”) or auditing standards of the Public Company Accounting Oversight Board in the United States (the “**PCAOB**”). There could be differences between the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom and those required by US GAAP or the auditing standards of the PCAOB. Potential investors should consult their own professional advisers to gain an understanding of the information in Part XI and XII of this Prospectus and the implications of the differences between the auditing standards noted herein. All unaudited financial information in this Prospectus, including the financial information contained in Part X of this Prospectus, has been extracted without material adjustment from the Group’s accounting records.

Prospective investors should consult their own professional advisers for an understanding of the differences between IFRS and US GAAP.

The financial information included in this Prospectus is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification or exclusion of certain financial measures and the presentation of certain other information not included herein.

Roundings

Certain figures contained in this Prospectus, including financial, statistical and operating information have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

Currencies

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in Sterling. The reporting currency of the Group is in Sterling. Balance sheet items are translated into Sterling at period end exchange rates. Income statement and profit and loss items are translated into Sterling at the average of the exchange rate at the beginning of the accounting period and the exchange rate at period end. These translations should not be construed as representations that the relevant currency could be converted into Sterling at the rate indicated or at any other rate.

The basis of translation of foreign currency transactions and amounts in the financial information set out in Part XI of this Prospectus is described in Part X of this Prospectus.

The basis of translation of foreign currency transactions and amounts in the financial information set out in Part XIV of this Prospectus is described in Part X of this Prospectus.

The UAH/US dollar exchange rate used to show US dollar convenience conversions of Ukrainian domestic gas prices and certain domestic Ukrainian production taxes is UAH4.85 to US\$1.00.

Presentation of Reserves and Resources

This Prospectus contains information concerning the Group’s gas, condensate and oil reserves and resources extracted or derived from the CPR of Gaffney, Cline & Associates Limited, an independent petroleum engineering consulting firm, which is set out in Part XV of this Prospectus. This Prospectus and the CPR present information concerning reserves using the 2007 SPE/WPC/AAPG/SPEE Petroleum Resources Management System as the standard for classification and reporting. These standards differ in certain material respects from SEC standards. All reserves and resources information in this Prospectus is presented on the basis of SPE/WPC/AAPG/SPEE standards.

The SEC permits those oil and gas companies that make filings to the SEC to disclose in those filings only proved Reserves that the company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating

conditions. This Prospectus contains data, such as reserves and contingent and prospective resources presented in accordance with SPE/WPC/AAPG/SPEE standards, that the SEC's guidelines would not allow the Company to include in filings with the SEC. Further, the proved reserves estimated under SPE/WPC/AAPG/SPEE definitions may vary from those estimated using SEC criteria.

Contingent resources are 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 are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

The information on reserves and resources in this Prospectus and the CPR is based on economic and other assumptions that may prove to be incorrect. Prospective investors should not place undue reliance on the forward-looking statements in the CPR, or on the ability of the CPR to predict actual reserves or resources.

Market, Economic and Industry Data

Certain information in this Prospectus has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in Ukraine. The following sources have been used:

- Oxford Institute for Energy Studies, Ukraine's Gas Sector, dated June 2007 (the "**Oxford Study**")
- International Energy Agency, Ukraine Energy Policy Review 2006, dated July 2006 (the "**International Energy Agency Report**")
- Cabinet of Ministers in Ukraine "Energy Strategy to 2030", dated March 2006 (the "**Ukraine Energy Strategy Report**")
- O&G World Oil and Gas Review 2006 (the "**World Oil and Gas Review**")
- Gas Strategies Report, dated May 2008 (the "**Gas Strategies Report**")

The information described above has been accurately reproduced and, as far as the Company is aware and has been able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this Prospectus, the source of such information has been identified.

The Gas Strategies Report has been commissioned by the Company. For the purposes of Prospectus Rule 5.5.3R(2)(f) Gas Strategies accepts responsibility for materials included in this Prospectus that is derived or extracted from the Gas Strategies Report and or any statement of belief, expectation, forecast or opinion attributed to Gas Strategies and included in this Prospectus. Gas Strategies hereby declares that it has taken all reasonable care to ensure that the information beliefs, expectations, forecasts and opinions derived or extracted from the Gas Strategies Report and included in this Prospectus, and any belief attributed to Gas Strategies and included in this section, are, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect their import. This declaration is included in the document in compliance with Article I item 1.2 of the Prospectus Directive Regulation.

Investors should be aware that certain statistical information and other data contained in this Prospectus have been extracted from international and Ukrainian official and governmental sources and have not been prepared in connection with the preparation of this Prospectus. The Company and the Directors only accept responsibility for the correct extraction and reproduction of such information.

NOTICE TO RESIDENTS OF THE STATE OF NEW HAMPSHIRE, USA ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES (RSA 421 B) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Available information for investors in the United States

Neither the Company nor any of its subsidiaries currently files reports under Section 13 or Section 15(d) of the US Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). The Company has agreed that for so long as the Ordinary Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which the Company is neither subject to Section 13 or Section 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, provide to any holder or beneficial owner of the Ordinary Shares or to any prospective purchaser of the Ordinary Shares designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

Service of process and enforcement of civil liabilities

The Company has been incorporated under English law and a substantial portion of the Group’s assets is located in Ukraine through the Company’s Ukrainian subsidiaries. Service of process upon the Company’s Ukrainian subsidiaries or the Directors and officers of the Company, the majority of whom reside outside of the United States, may be difficult to obtain. Furthermore, since most directly owned assets of the Company are outside the United States, any judgment obtained in the United States may not be collectable within the United States. There is doubt as to the enforceability of certain civil liabilities under US federal securities laws in original actions in English courts, and, subject to certain exceptions and time limitations, English courts will treat a final and conclusive judgment of a US court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts.

Forward-looking statements

This Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding the Group’s intentions, beliefs or current expectations concerning, among other things, the Group’s results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this Prospectus. In addition, even if the development of the markets and the industry in which the

Group operates are consistent with the forward-looking statements contained in this Prospectus, those developments may not be indicative of developments in subsequent periods. Factors that could cause developments to differ materially from those expressed or implied by the forward-looking statements include general economic and business, competitive, market and regulatory conditions as well as, but not limited to:

- the Group's ability to achieve targeted commercial production dates for its Major Fields;
- the Group's ability to achieve commercial production from assets currently classified as contingent or prospective resources;
- Ukrainian gas prices not converging on an export netback parity basis with those in Western Europe in the near term, or at all;
- the Group's capital expenditures and production growth plans requiring significant additional financing;
- the Group's ability to acquire, retain or convert the licences, permits and contracts and other regulatory approvals necessary for its operations; and
- the Group's ability to complete the necessary infrastructure and procure appropriate drilling rigs and other related equipment or third party services.

These factors and others discussed in Part II, Part VIII and Part X of this Prospectus are not exhaustive.

Any forward-looking statements in this Prospectus reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations and growth strategy (including theoretical production targets, conversion of resources to reserves, dates for commencement of commercial operations and projected capital expenditure). Investors should specifically consider the factors identified in this Prospectus which could cause results to differ before making an investment decision. Except as required by law or regulation, the Group undertakes no obligation publicly to release the result of any revisions to any forward-looking statements in this Prospectus that may occur due to any change in the Company's expectations or to reflect events or circumstances after the date of this Prospectus. Investors should note that the contents of these paragraphs relating to forward-looking statements are not intended to qualify the statements made as to sufficiency of working capital on page 355 of this Prospectus.

These forward-looking statements speak only as at the date of this Prospectus. Subject to any obligations under the Prospectus Rules, the disclosure and transparency rules made by the FSA under Part VI of FSMA (the "**Disclosure and Transparency Rules**") and the Listing Rules and save as required by law, the Company undertakes no obligations to update, review or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, or to disseminate any information regarding any change in events, conditions or circumstances on which any such statement is based. All subsequent written and oral forward-looking statement attributable to the Company or individuals acting on behalf of the Company are expressly qualified in their entirety by this section. Prospective investors should specifically consider the factors identified in this Prospectus that could cause actual results to differ from those indicated in or suggested by the forward-looking statements in this Prospectus before making an investment decision.

Stabilisation and the over-allotment option

In connection with the Global Offer, the Stabilising Manager or any of its agents may (but will be under no obligation to) over-allot or effect transactions with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail. Such transactions may be effected on the London Stock Exchange, in over-the-counter markets or otherwise and may be undertaken at any time during the period commencing on the date of publication of the Offer Price and ending 30 days thereafter. However, there is no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and no assurance that stabilising transactions will be undertaken. Such transactions, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price.

In connection with the Global Offer, the Stabilising Manager, pursuant to the Over-allotment Option, may, at any time during the period commencing on the date of publication of the Offer Price and ending 30 days thereafter, purchase, or procure purchasers for, in aggregate up to 9,966,514 Existing Ordinary Shares from the Over-allotment Option Shareholders representing not more than 15 per cent. of the Ordinary Shares available pursuant to the Global Offer and in each case at the Offer Price. Ordinary Shares acquired pursuant to the Over-allotment Options shall be acquired for the purposes, amongst other things, of meeting over-allotments, if any, in connection with the Global Offer and to cover short positions resulting from stabilisation transactions.

Save as required by any legal or regulatory obligations, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any stabilisation transactions under the Global Offer.

In connection with the Global Offer, UBS and any of its respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase Ordinary Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in Ordinary Shares, any other securities of the Company or other related investments in connection with the Global Offer or otherwise. Accordingly, references in this Prospectus to the Ordinary Shares being issued, offered, subscribed, sold, purchased or otherwise dealt with should be read as including any issue, offer or sale to, or subscription, purchase or dealing by, UBS and any of its affiliates acting as an investor for its or their own account(s). UBS and any of its respective affiliates do not intend to disclose the extent of any such investment or transactions, otherwise than in accordance with any legal or regulatory obligation to do so.

Certain terms used in this Prospectus are defined, and certain technical and other terms used in this Prospectus are explained, in "Definitions" and "Glossary of Terms" in Part XVIII and Part XIX of this Prospectus.

PART VI

INFORMATION ON UKRAINE

1 Introduction

Ukraine is situated in eastern Europe, bordering the Black Sea and Sea of Azov, between Poland, Belarus, Romania, Moldova, Hungary, Slovakia and Russia. Ukraine is a country rich in natural resources, including iron ore, coal, manganese, natural gas, oil, salt, sulphur, graphite, titanium, magnesium, kaolin, nickel, mercury and timber.

After Russia, the former Ukrainian Soviet Socialist Republic was the most important economic component of the former USSR, producing about four times the output of the next-ranking republic. It generated more than a quarter of the USSR's agricultural output, and its farms provided substantial quantities of meat, milk, grain, and vegetables to other republics. Its diversified heavy industry supplied the equipment and raw materials to industrial and mining sites in other regions of the USSR.

Ukraine is subdivided into 24 oblasts (or regions). Two Ukrainian cities – Kiev, the capital of Ukraine, and Sevastopol, currently the site of a major naval base of the Russian Federation – are granted special status under the Ukrainian Constitution in respect of certain administrative, budgetary and other matters. The Crimean Peninsula constitutes an autonomous republic.

Based on figures from the State Committee on Statistics on Ukraine, the population of Ukraine was approximately 46.4 million as at 1 January 2008. According to the 2001 Ukrainian census, Ukraine's population was approximately 78 per cent. ethnic Ukrainians and 17 per cent. were ethnic Russians. Other groups, including Belorussians, Moldovians, Bulgarians, Crimean Tatars, Hungarians, Romanians, Greeks and Poles, accounted for approximately five per cent. of the population. The official language is Ukrainian, although the majority of the population is bilingual, speaking both Ukrainian and Russian fluently.

Between 1980 and 1990, the population grew by 0.3 per cent. annually, but this trend has reversed since 1991, reflecting the worsening economic and social conditions associated with the significant post-independence recession. As a result, the population of Ukraine has declined by approximately five million people since 1992. It is estimated that the population is currently decreasing at a rate of 0.7 per cent. per year.

Although living standards have fallen since independence in 1991, it should be noted that the growth in the shadow economy and non-wage incomes, both difficult to measure, indicate that real incomes have fallen by less than officially recorded real income. Furthermore, income distribution appears to have remained relatively stable since 1992. In addition, the Government has succeeded in maintaining high literacy rates in Ukraine of approximately 98 per cent.

Recent Political and Constitutional Developments

Since independence in 1991, governmental instability has been a feature of the Ukrainian political scene and, as a result, Ukraine has experienced 16 changes of Prime Ministers during this period, with various actions and decisions being taken based primarily on political considerations. Historically, a lack of political consensus in the Parliament has made it consistently difficult for the Ukrainian Government to secure the support necessary to implement a series of policies intended to foster liberalisation, privatisation and financial stability. The Ukrainian Government's policies and the political leaders who formulate and implement them are subject to rapid change.

Following the second round of presidential elections in November 2004, demonstrations and strikes took place throughout Ukraine to protest against the election process and results. However, tensions in Ukraine appear to have subsided following the invalidation of the November 2004 election results by the Supreme Court of Ukraine and the revote of the presidential runoff held on 26 December 2004 resulting in the victory of Viktor Yushchenko.

On 25 May 2006, the constitutional reform limiting the powers of the President and transferring certain powers of the President to the Parliament and Prime Minister became effective (with certain provisions already in effect since 1 January 2006). The reform introduced, in particular, the requirement to create a majority coalition in Parliament, the right of such coalition to submit nominations for the roles of the Prime Minister and other members of the Cabinet of Ministers, new rights of the President to dissolve Parliament, and the extension, from four years to five years, of the length of terms of both the Parliament and local councils. The reform was intended to provide for a greater degree of stability and ensure more responsible Government policies, although there can be no assurance that it will achieve these results.

On 2 April 2007, President Yuschenko signed a decree dissolving the Parliament of Ukraine. The President claimed that the process of forming a majority coalition in the Parliament that had evolved during the recent months had breached the procedure set out in the Constitution of Ukraine.

On 4 May 2007, President Yuschenko and Prime Minister Yanukovych reached an agreement on holding early parliamentary elections and established a working group, comprising the representatives of the President, the parliamentary coalition and the opposition, for negotiating the details for holding the elections. Further to recommendations of the working group on 27 May 2007, President Yuschenko, Prime Minister Yanukovych and Speaker of the Parliament Moroz reached an agreement to hold early parliamentary elections on 30 September 2007.

Based on official results of the elections, announced on 27 October 2007 by the Central Election Commission, the Party of Regions led by Viktor Yanukovych obtained 34.37 per cent. of the votes (175 seats out of 450 total seats), while the Yuliya Tymoshenko Block obtained 30.71 per cent. (156 seats), the pro-presidential Our Ukraine – People's Self-Defence Block obtained 14.15 per cent. (72 seats), the Communist Party of Ukraine obtained 5.39 per cent. (27 seats) and the moderate centrist block headed by the former Parliament Speaker Volodymyr Lytvyn had 3.96 per cent. (20 seats). All other parties and blocks failed to reach the three per cent. mark of the total vote necessary for proportional representation in the Parliament.

On 29 November 2007, the Yuliya Tymoshenko Block and the pro-presidential Our Ukraine – People's Self-Defence Block signed an official coalition agreement to form a majority coalition in the newly elected Parliament, which allowed them to appoint the Government. According to this agreement, the Yuliya Tymoshenko Block receives control over economical sectors (including tax and custom state bodies) and fuel and energy complex in the Government. The Our Ukraine – People's Self-Defence Block controls humanitarian and military/interior blocks of Government and obtained the right to propose a candidate for the position of the Speaker of the new Ukrainian Parliament. On 4 December 2007, the Parliament elected Arseniy Yatseniuk as a new Speaker of the Parliament. On 18 December 2007, the new Ukrainian Parliament appointed Yuliya Tymoshenko as Prime Minister, as was envisaged by the coalition agreement, and endorsed a new Government.

Viktor Yanukovych, whose Party of Regions no longer has a majority in the newly elected Parliament, declared that his party was moving into the opposition and did not participate in the formation of a new Government.

2 The Ukrainian Economy

In recent years, the Ukrainian economy has continued to face a number of factors which could lead to economic instability, including a relatively weak banking system providing limited liquidity to Ukrainian enterprises, instability of tax laws, widespread tax evasion and the presence of black and grey-market economy, a high level of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings, a high level of monopolisation and a poor competitive environment, a high level of corruption, significant capital flight, a real estate market which may be fully valued and rising but relatively low wages for a large portion of the Ukrainian population.

Although the Ukrainian Government has generally been committed to economic reform, the implementation of reform has consistently been impeded by lack of political consensus, controversies over privatisation (including the privatisation of land in the agricultural sector and of large industrial

enterprises), the restructuring of the energy sector, the removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors, and the limited extent of cooperation with international financial institutions.

While the Ukrainian economy has improved in a number of areas since 1999, there has historically been no clear consensus between the Government and the Parliament as to the scope, pace and content of economic and political reform. Although most political analysts believe the new Government of Yuliya Tymoshenko will continue the initiated reforms, no assurance can be given that current reform policies favouring privatisation, industrial restructuring, administrative and tax reform will continue to be implemented and, even if implemented, that those policies will be successful, or that the economy in Ukraine will improve.

While Ukraine has made significant progress in increasing GDP, decreasing inflation, stabilising its currency, increasing real wages and improving its trade balance, the political instability in the fourth quarter of 2004 and in the second and third quarters of 2007 negatively impacted on the main economic indicators at that time. However, Ukraine's economy has in the main withstood the 2004 and the 2007 political upheavals.

According to the State Statistics Committee of Ukraine, the rate of inflation in 2007 was 16.6 per cent., compared to 11.6 per cent. in 2006 and 10.3 per cent. in 2005. Ukraine's GDP growth rate in 2007 and 2006 amounted to 7.3 per cent. and 2.7 per cent. in 2005. Industrial output growth in 2007 amounted to 10.2 per cent., compared to 6.2 per cent. growth in 2006 and 3.1 per cent. in 2005. In August 2007, the Government approved its forecast for Ukraine's economic and social development for 2008 which was amended in November 2007. This forecast estimated Ukraine's GDP growth rate and the rate of inflation to be 6.8 per cent. and 9.6 per cent., respectively, in 2008. Ukraine has taken concrete steps towards liberalising prices to remove misallocation of resources. Starting in 1993, administered prices for energy, agricultural products and communal services were raised gradually towards full cost recovery and global market prices. The vast majority of distortionary practices were eliminated in the mid-1990s. Currently, the only goods that remain subject to national price regulation are gas, electricity (regulated by an independent body, the NCRE), certain telecommunications services, central heating, water and sewage. In addition, local authorities may regulate prices of bread, crops, sugar, oil and meat products.

Household electricity tariffs remained unchanged until late 2006, when household electricity tariffs were increased by nearly 50 per cent. In August 2005 the Cabinet of Ministers adopted a resolution recommending that the NCRE adopt, effective from 1 September 2005, a unified tariff for all consumers with the exception of electricity supplied to the population, cities, towns and villages, or to exterior lighting. Monthly increases in the unified tariff should not exceed five per cent. of the tariff for the previous month. Decisions regarding price changes are made at the local governmental level and overseen by the central Government, taking into account the current economic situation.

3 Ukraine's Relationship with Western Governments and Institutions

Ukraine has established diplomatic relations with 172 countries, is a member of more than 90 international organisations and attaches significant importance to developing relations with international organisations. Ukraine is a member of the United Nations (the "UN"), is a member of several UN bodies and special agencies and participates in the organisation's activities in the areas of security, human rights, economic cooperation and environmental protection. Ukraine has signed and ratified the Non-Proliferation Treaty and other conventions banning weapons of mass destruction. Ukraine is a member of the International Monetary Fund, the World Bank and a number of other international organisations, and it cooperates closely with the Organisation for Economic Cooperation and Development (the "OECD").

Ukraine continues to pursue the objectives of a closer relationship with the North Atlantic Treaty Organisation. In 2005, the EU granted Ukraine market economy status and in 2007, the EU and Ukraine began negotiations on a new enhanced agreement providing for, inter alia, a free trade area between the parties.

EU relations with Ukraine since 1998 have been based on a Partnership and Co-operation Agreement together with a number of specific agreements in areas such as trade, science and technology and nuclear energy. Ukraine is also considered a priority partner country within the European Neighbourhood Policy. A joint EU-Ukraine Action Plan was endorsed by the EU-Ukraine Cooperation Council in 2005 and its implementation has since been reviewed at EU-Ukraine summits.

Ukraine was part of the coalition that dispatched troops to Iraq in support of the military campaign there. Although, in late 2004, the Ukrainian Parliament decided to withdraw Ukrainian troops from Iraq, which was confirmed by the adoption of a presidential decree in April 2005, this did not adversely affect Ukraine's relationship with the United States.

Various steps have been taken since 2005 by the US Government to liberalise trade with Ukraine and in February 2006 the US granted Ukraine market economy status.

Ukraine also adopted a number of laws drafted in preparation for the WTO accession. In July 2007 the Working Party on the Accession of Ukraine confirmed that Ukrainian legislation corresponds to WTO requirements. In addition, Ukraine and the WTO have reached agreement on mechanisms for and the volume of state support to the agricultural sector.

Ukraine signed the Protocol of Accession to the WTO on 5 February 2008 and ratified the Protocol on 10 April 2008. Accordingly, Ukraine became a full member of the WTO in May 2008.

4 Ukraine's Relationship with Russia

Ukraine relies to a significant extent on supplies of energy resources from, and deliveries of such resources through, Russia. Since 2005 exports of oil and gas from Russia to Ukraine have been subject to a zero per cent. VAT instead of the previous rate of 18 per cent., which was generally perceived as an incentive offered to Ukraine to develop a closer economic integration with Russia. However, the outcome of the 2004 Ukrainian presidential elections has negatively affected relations between Ukraine and Russia.

Gas prices in Ukraine rose after disagreements in 2005, early 2006 and October 2007 between the Russian state-owned oil and gas company Gazprom and its Ukrainian counterpart Naftogas, over the prices and methods of payment for gas delivered by Gazprom to, or for transportation through, Ukraine. Until December 2005, Ukraine had been receiving natural gas from Russia at a price of US\$50/Mcm. However, on 1 January 2006, Gazprom temporarily stopped supplies of natural gas to Naftogas in connection with a dispute over the introduction of market-based prices in Ukraine. On 4 January 2006, Gazprom, Naftogas and RosUkrEnergo AG ("**RosUkrEnergo**"), a gas trading company incorporated in Switzerland, entered into a series of new agreements for the supply of natural gas to Ukraine by RosUkrEnergo, and supplies resumed. The parties agreed upon an increased price for natural gas of US\$95/Mcm and on the transit fee for Russian natural gas through the territory of Ukraine at a rate of US\$1.60/Mcm for each 100 km (compared to the previous fee of US\$1.09/Mcm for each 100km). While the parties fixed the transit fee for the period until January 2011, it was agreed that the price of US\$95/Mcm (as well as the transit fee and national gas prices after 1 January 2011) may be changed periodically upon the parties' mutual agreement.

In February 2008, Gazprom again threatened to cut supplies to Ukraine if they failed to agree terms to settle debts of \$1.5 billion to Gazprom by 3 March 2008 related to Russian gas taken by Ukraine to make up for a shortfall of gas supplies from Central Asia. On 3 March 2008, Gazprom cut supplies to Ukraine by 25 per cent, and applied a second 25 per cent. cut the following day. On 5 March 2008, Gazprom announced that it had concluded a deal with Naftogas to resume supplies of gas to Ukraine. This concerned payment for gas supplied in January and February 2008 and the creation of a contractual basis for supplies in later months.

In 2006, 2007 and in the beginning of 2008, natural gas was sold to industrial customers in Ukraine directly by CJSC Ukgaz-Energo ("**Ukgaz-Energo**"), a 50/50 joint venture of RosUkrEnergo and Naftogas. Ukgaz-Energo was supplied with gas under a contract with RosUkrEnergo. RosUkrEnergo currently meets most of Ukraine's import demand, sourcing gas from Central Asia. During 2007,

RosUkrEnergo supplied natural gas to Ukgaz-Energo at a price of US\$130/Mcm. The total volume of gas supplied by RosUkrEnergo to Ukraine for domestic consumption in 2007 has been agreed at no less than 55 billion cubic metres. According to the agreement with Gazprom dated 4 December 2007, the imported gas price for Ukraine in 2008 increased to US\$179.50/Mcm, which is 38 per cent. higher than the price in 2007. At the same time, Ukraine increased the fee it will charge Gazprom for transporting its gas to Europe through Ukraine in 2008 to US\$1.70/Mcm per 100 km. Following agreement between Naftogas and Gazprom in the first quarter of 2008, natural gas is currently sold to industrial customers in Ukraine by: (a) Naftogas which receives the gas under the contract with RosUkrEnergo at a price of US\$179.50/Mcm and (b) Limited Liability Company "Gazprom Sbut Ukraina", a newly established subsidiary of Gazprom, which has been granted a licence by NCRE for the supply of 7.5 billion cubic metres of gas in 2008 which it purchases from Naftogas.

Ukraine and Russia agreed in principle in March 2008 on the elimination of the intermediary RosUkrEnergo while keeping the current price of US\$179.50/Mcm unchanged for the rest of the year. Under the terms of the agreement, Ukraine will maintain the current price, as it will consume mainly Central Asian gas. If the Central Asian supplies fail, Gazprom will make up the shortfall but at an increased price, equivalent to that paid in the EU. Once RosUkrEnergo is removed, Gazprom and Naftogas will form a 50/50 joint venture.

Since 2005, Russia has repeatedly increased its oil export duty. Russian oil export duty rose from US\$101/tonne as at 1 December 2004 to US\$237.50/tonne as at 1 October 2006. Following the decreases in world oil prices, Russian oil export duty decreased to US\$180.70/tonne from 1 December 2006, and to US\$156.40/tonne from 1 April 2007, in line with the general decrease in export duties for various oil products. However, the Russian oil export duty was increased to US\$250.30/tonne from 1 October 2007 and further increased to US\$340.10/tonne from 1 April 2008.

The gas price increases have given rise to pressure for reforms in the energy sector and industrial modernisation through the implementation of energy-efficient technologies and modernisation of production facilities.

Relations between Ukraine and Russia have also been affected, from time to time, by controversy over the stationing of the Russian Chernomorskiy Flot (The Black Sea Fleet) in Ukrainian territory, including the amount payable to Ukraine for such stationing, the return of certain navigational facilities to Ukraine and compliance with Ukrainian environmental legislation by the Black Sea Fleet. Further, in January 2006, Russia banned imports of Ukrainian livestock and dairy products on the basis of the alleged violation of veterinary and sanitary standards by Ukrainian producers. Following inspections of Ukrainian exporters of such products by the Russian authorities, the ban was lifted in relation to a number of Ukrainian companies.

More than 21 per cent. of Ukrainian exports of goods currently go to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. The considerable dependence of the Ukrainian economy on Russian exports of energy resources, accompanied by the increase of the price for natural gas by Russia, may adversely affect the pace of economic growth of Ukraine and, consequently, the business of the Group.

5 Ukrainian Judiciary and Enforcement of Court Decisions

The judicial system of Ukraine remains subject to a certain degree of political influence. Although the Constitutional Court of Ukraine is the only body authorised to exercise constitutional jurisdiction and has mostly demonstrated the impartiality of its judgments, the system of constitutional jurisdiction itself is often too complicated to ensure the smooth and effective removal of discrepancies between the Constitution of Ukraine on the one hand and among various laws of Ukraine on the other hand.

The system of general and specialised courts is under-staffed and under-funded. Judicial precedents under Ukrainian law generally have no binding effect on subsequent decisions. Moreover, courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which results in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes. Not all Ukrainian legislation is readily available to the public or organised in

a manner that facilitates understanding. Presently, only a limited number of judicial decisions are publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is limited. However, according to a new law "*On Access to Court Decisions*" which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, commercial, administrative and criminal matters issued after 1 June 2006 (and, in case of local courts of general jurisdiction, after 1 January 2007) have now become publicly available through the Unified State Register of Court Decisions.

The Ukrainian judicial system has become more complicated and hierarchical as a result of the recently introduced judicial reforms. The generally perceived result of the judicial reforms is that the Ukrainian judicial system has become even slower than before. All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used to further political aims. The Group may be subject to such claims and may not be able to receive a fair hearing.

The enforcement of court orders and judgments can, in practice, be very difficult in Ukraine. The State Enforcement Service, a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds or property, the complexity of auction procedures for the sale of the defendant's property or the defendant undergoing bankruptcy proceedings. In addition, the State Enforcement Service has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant. Moreover, in practice, the procedures employed by the State Enforcement Service often have to comply with ambiguous or imprecise legal requirements, resulting in delays or failures in the enforcement of court orders and judgments.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and in certain cases, the courts may not enforce these rights. In the event courts take a consistent approach in protecting rights of investors granted under applicable Ukrainian legislation, the legislature of Ukraine may attempt legislatively to overrule any such court decisions by backdating such legislative changes to a previous date.

Ukrainian courts will not recognise and/or enforce any judgment obtained in a court established in a country other than Ukraine unless such recognition and/or enforcement is envisaged by an international treaty ratified by the Ukrainian Parliament between such country and Ukraine providing for recognition and/or enforcement of such judgments on a reciprocal basis and only in accordance with the terms of such treaty. A foreign judgment may also be recognised and/or enforced in Ukraine based on an "ad hoc" arrangement between Ukraine and the relevant country. There is no such treaty or "ad hoc" arrangement in effect between Ukraine and the United Kingdom.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, a foreign arbitral award obtained in a state which is party to that convention, such as the United Kingdom, should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention).

6 Ukrainian Tax System

Introduction

Ukraine currently has a number of laws relating to various taxes imposed by both central and local authorities. Applicable taxes include hydrocarbon production taxes, Value Added Tax, corporate income tax (profits tax), customs duties, personal income tax, payroll (social) taxes and other taxes.

These tax laws have not been in force for significant periods of time as compared to more developed market economies and can result in ambiguous interpretations. Moreover, tax laws in Ukraine are subject to frequent changes and amendments. For example, with effect from 1 January 2004, personal income tax has been reformed by the introduction of a new flat tax rate of 13 per cent. (increased to 15 per cent. from 1 January 2007) for almost all levels of income. In addition, with effect from 1 January 2004, the rate of corporate income tax was reduced from 30 per cent. to 25 per cent.

The amendments to the 2005 State Budget Law effective 31 March 2005 abolished different tax preferences, including, inter alia, those for domestic and foreign investors.

A new tax code may be passed by the Ukrainian Parliament towards the end of 2008, which would incorporate the principal tax rules in one document and may result in a number of changes to the existing tax rules in Ukraine. Differing opinions regarding legal interpretation often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict.

Tax declarations and returns, and other compliance documentation (such as that in relation to customs and currency control matters), are subject to review and investigation by a number of different authorities, which are authorised by law to impose severe fines, penalties and interest charges. In Ukraine the risk of non-compliance is significantly higher than that found in countries with more developed tax and regulatory systems. Generally, the Ukrainian tax authorities may reassess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax declaration or return. However, this statute of limitation period may be extended if a tax return was not submitted for a certain period or a criminal investigation is initiated against a taxpayer. Moreover, the fact that a period has been reviewed does not exempt that period, or any tax declaration/return applicable to that period, from further review.

The Ukraine tax regime principally impacts the Group's trading operations as follows.

Production Taxes

Three production taxes are currently payable in Ukraine on the production of hydrocarbons:

- rent payments (royalty);
- subsoil tax; and
- geological tax.

All production taxes are payable based on the amount of the hydrocarbons produced. There are different rates for royalty payments according to the production horizon depth.

Taxation of hydrocarbons production is currently regulated according to the Law of Ukraine "On State Budget of Ukraine for 2008 and Amendments to Certain Legislative Acts" dated 28 December 2007, as amended by the Law of Ukraine "On introducing changes in several legislative acts" dated 3 June 2008. This law regulates the fiscal regime for the 2008 year only, until adoption of either the Tax Code of Ukraine or a new law regulating the fiscal regime in the forthcoming periods.

Below is the summary of the production taxes effective from 1 June 2008:

	UAH	US\$
Royalty for natural gas produced to be sold to industrial consumers:		
per Mcm (horizons < 5,000m)	200	41.2
per Mcm (horizons > 5,000m)	100	20.6
Royalty for natural gas produced to be sold to Naftogas:		
per Mcm (horizons < 5,000m)	50	10.3
per Mcm (horizons > 5,000m)	40	8.2
Royalty for oil and gas condensate produced:		
per tonne (horizons < 5,000m)	1,529.9	315.44(K)
per tonne (horizons > 5,000m)	566.10(K)	116.72(K)
K = an adjusting coefficient set at the ratio of the price of Urals crude divided by US\$100/bbl of oil		
Subsoil Tax:		
Oil/condensate, per tonne	50	10.3
Natural gas with condensate, per Mcm	3.67	0.8
Geological Tax:		
Crude oil/condensate with no gas, per tonne	46.54	9.6
Dry natural gas, per Mcm	22.59	4.7
Natural gas with condensate/oil (20 per cent. mark-up for by-product), per Mcm	27.10	5.6

Corporate Income Tax

According to the Law of Ukraine No. 334/94 *"On Taxation of Profits of Enterprises"*, dated December 28, 1994 (the **"CPT Law"**) corporate income tax (**"CPT"**) is calculated at a flat rate of 25 per cent. of taxable profit. The taxable profit is defined as adjusted gross income less deductible expenses and depreciation charges.

Adjusted gross income

Adjusted gross income is defined as gross income, less certain items specifically exempt. Gross income includes income from all types of activity received in the reporting period such as cash, tangible or intangible assets. VAT charged to the customers is excluded from gross income.

Taxable income is normally recognised on the basis of the cash-or-accrual method (i.e. the so-called *"first event rule"*). According to this method, income is recognised in the period in which the accrual is made (such as goods, or services delivered) or when payment is received, whichever occurs earlier. Similar to taxable income, deductible expenses are normally recognised on the basis of the cash-or-accrual method (i.e. the so called *"first event rule"*). Deductible expenses are recognised in the period in which the accrual is made (such as goods or services received) or when payment is made, whichever occurs earlier. This rule, however, does not apply to purchases of goods or services from non-CPT payers (including non-residents) as such expenses are only recognised based on the accruals method.

Repayable financial aid (**"RFA"**), being interest-free loans, provided by a non-resident or other person who is not a CPT payer, is also included in income if not repaid by the end of the reporting period in which received. The amount is only tax-deductible in the reporting period in which it is repaid. RFA provided by a CPT payer is not included in the recipient's income. However, the RFA recipient has to increase its income for the amount of deemed interest. Deemed interest is accrued at the interest rate set by the National Bank of Ukraine for the actual period the RFA is in place.

Deductible expenses

The CPT Law generally allows all reasonable business expenses such as acquisition of business-related goods, work and services, payroll-related payments, taxes (with some exceptions), interest, and lease expenses as deductions, with the exception of those explicitly disallowed or restricted by law.

Production taxes are deductible. Fixed asset repairs and maintenance costs are deductible in an amount not exceeding 10 per cent. of the total book (residual) value of the fixed assets as of the beginning of the reporting period.

Tax depreciation

Non-Oil and Gas fixed assets

Under Ukrainian legislation, fixed assets are divided into four groups for tax depreciation purposes. Depreciation rates for each group of fixed assets are summarised in the table below. For the purposes of calculation of tax depreciation, the declining balance method is used.

Group Fixed Assets	Quarterly Rate for assets purchased after 1 January 2004 (per cent.)	Quarterly Rate for assets purchased prior to 1 January 2004 (per cent.)
Buildings and capital improvements	2	1.25
Motor vehicles, furniture, telephones, other office equipment	10	6.25
Computers, equipment and information systems	15	15
Tangible fixed assets not in groups above	6	3.75

Oil and Gas assets

Tax depreciation of costs relating to exploration and production of mineral resources (wells) is calculated using the depreciation rates below. Tax depreciation is only available once the well has been brought into use.

Well in use, year	Annual Rate (per cent.)
1	10
2	18
3	14
4	12
5	9
6-9	7
10	6
11	3

Intangible assets

Intangible assets are depreciated separately from tangible fixed assets on a straight-line basis. Taxpayers may determine the depreciation period for intangible assets. However, such a period may not exceed 10 years. For the purposes of tax accounting exploration and development licences are recognised at cost, being the cost paid to the State for the licence.

Losses Carry Forward/Carry Back

The CPT Law allows the utilisation of brought forward losses indefinitely. However, since 2002 the Ukrainian Parliament has imposed temporary restrictions on this general rule, to restrict the use of old losses. For instance, during 2007 taxpayers were only allowed to utilise losses incurred after 1 January 2006, while losses incurred prior to 1 January 2006 were temporarily suspended for utilisation for tax purposes. A similar provision applied during each of the years prior to 2007. However, for 2008 the tax legislation does not provide for restrictions similar to those described above. Therefore, it is currently unclear whether tax payers may utilise losses incurred prior to 2007 against profits arising in 2008 and/or later years.

It is possible that taxpayers may be allowed to use these losses in the future. However, given the existing practice, it is not possible to predict when or if these restrictions will be lifted. However, carry forward losses may be used in the next period.

The CPT Law does not envisage the carry back of tax losses.

Value Added Tax

According to the Law of Ukraine *"On Value Added Tax"*, dated April 3, 1997, the amount of VAT to be paid or to be refunded from the budget equals tax liabilities less tax credits.

The domestic supply of goods and services; import of goods; provision of ancillary services in Ukraine; and the supply of services where the place of supply is in the customs territory of Ukraine by non-residents are subject to VAT at the standard rate of 20 per cent. The export of goods and ancillary services is taxed at a rate of 0 per cent. Ancillary services are services the value of which is included in the customs value of goods (including such items as transport and shipping insurance).

Credit is available in respect of VAT incurred on the purchase of goods and services intended to be used in taxable transactions within the framework of business activity of such a taxpayer.

If the VAT credit exceeds the VAT liability in a reporting month, the outstanding amount is carried forward to be offset against VAT liabilities for the following month. If a VAT credit exceeds VAT liability in the second consecutive month, the taxpayer may claim a cash VAT refund for the amount of VAT actually paid to suppliers of such goods and services in the previous tax period. However in practice, producers are unlikely to receive a significant cash refund as a result of VAT credits. The remaining input VAT is carried forward to be offset against VAT liabilities of future reporting periods.

7 Ukrainian antimonopoly legislation

Under Ukrainian law, a "concentration" may require approval by the Ukrainian Antimonopoly Committee (the **"AMC"**) when one or more undertaking(s) directly or indirectly purchase(s) or otherwise acquire(s) such number of shares (or other equity interest) in ownership or management that allows the acquirer to reach or exceed, when combined with all of the acquirer's existing shareholdings, a 25 or 50 per cent. threshold of votes in the target undertaking's top company. AMC approval may also be required for a merger, the creation of new companies, and for the acquisition of control over an undertaking, (for example by appointing as chairman or deputy of the supervisory board, board or other supervisory or executive body, a person who already holds a similar position with another undertaking, or if when over half the members of the supervisory board, board or other supervisory or executive body in two undertakings are the same individuals). The notion of "undertaking" encompasses not only a legal entity or individual (for example an individual entrepreneur), but also a group of legal entities and individuals if one or more of them exercise(s) control over the other(s).

AMC approval is required for any concentration, including any acquisition or creation of a company, if all of the following jurisdictional thresholds are exceeded:

- (i) the aggregate worldwide asset value or sales turnover for all parties to the concentration, including related entities, exceeds EUR 12 million;
- (ii) the aggregate worldwide asset value or sales turnover for at least two of the parties to the concentration, including related entities, exceeds EUR 1 million; and
- (iii) the asset value or sales turnover in Ukraine of at least one party to the concentration, including related entities, exceeds EUR 1 million.

Under Ukrainian competition law, regardless of whether or not the parties meet the financial thresholds discussed above, AMC approval is also required for any concentration if the combined market share of the parties to the transaction exceeds 35 per cent. of the relevant market, which includes related upstream or downstream markets.

Therefore, the acquisition of 25 per cent. or more of the issued shares of the Company by any one investor, including its related entities, may require approval of the AMC. A failure to obtain such

approval may result in the imposition of fines by the AMC in an amount of up to 5 per cent. of the annual turnover of the Company including its related entities.

The acquisition of shares in an undertaking by a person whose main activities are financial or securities transactions for the purpose of reselling such shares within one year is exempt from the AMC approval requirement, provided that such person does not participate in the management of the undertaking (for example does not vote the shares). However, a simplified notification to the AMC after the fact is still necessary.

PART VII

UKRAINIAN OIL AND GAS OVERVIEW

Cadogan's oil and gas activities are located exclusively in Ukraine, a country which is characterised by its high demand for energy and in particular for natural gas. Approximately 20 Bcm of Ukraine's energy needs are produced domestically, with 55 Bcm imported from abroad. Approximately 75 to 78 per cent. of Ukraine's energy needs are currently met by imported oil and gas from Russia and Turkmenistan with 22 to 25 per cent. met by Ukraine's domestic production. (Source: International Energy Agency Report). Ukraine has significant hydrocarbon resources estimated at circa 39tcf of gas and 395MMbbl of oil (Source: O&G World Oil and Gas Review), many of which have yet to be exploited. The price at which Russian gas is sold to Ukraine has more than tripled since 2005. As such, the economics of developing domestic resources has improved significantly and the Ukrainian Government has also established a policy of encouraging domestic production and encouraging foreign investment in this area in order to reduce the country's dependence on imports.

Ukraine Gas Supply and Demand

Natural gas is the largest component of Ukraine's primary energy supply (Source: the Oxford Study). Ukraine currently sources all its imported oil and gas at the Russian border and therefore is highly dependent on Gazprom for providing gas. Historically, political tension between Russia and Ukraine has threatened the security of Ukraine's gas supply, notably in early January 2006, when Russia cut off the gas supply to Ukraine when Ukraine rejected Gazprom's proposal to increase the rates for Ukraine to the same level at which Gazprom was selling gas in Western Europe. Further evidence of the threat to Ukrainian gas supplies from Russia came in March 2008 when Russia again interrupted part of the gas supply to Ukraine.

The current Ukrainian Government is seeking to encourage domestic production to satisfy the country's internal demand and improve the country's security of supply and consequently reduce reliance on foreign imports, particularly from Russia.

According to Ukrainian Government projections, Ukraine will continue to rely on gas imports from Russia and Central Asia in the short and medium term. In March 2006, the Cabinet of Ministers in Ukraine approved the Ukraine Energy Strategy Report – a document outlining the country's energy strategy and containing official forecasts of energy supply and demand. Natural gas supply and demand data are summarised below:

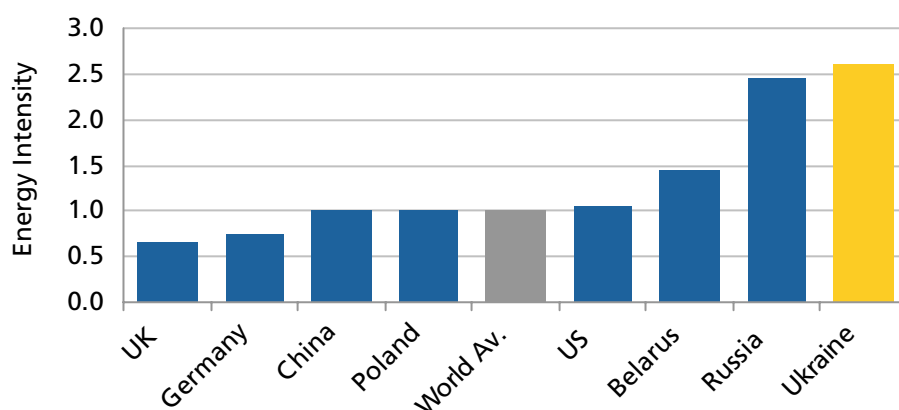
(all units in Bcm)	2005	2010	2015	2020	2030	CAGR (per cent.)
Production	20.5	25.5	31.1	32.9	40.1	2.7
Consumption:	76.4	67.6	62.4	53.7	49.5	-1.7
Losses in transportation network	9.0	8.3	7.2	6.5	5.9	-1.7
Household consumption	18.0	16.5	16.0	14.0	13.0	-1.3
Industry consumption.....	48.9	41.4	36.9	29.8	25.1	-2.6
Conversion to LPG	0.5	1.4	2.3	3.4	5.5	10.1
Imports	55.9	42.1	31.3	20.8	9.4	-6.9

Source: the Ukraine Energy Strategy Report

Ukraine Energy Efficiency

The oil and gas industry is important to Ukraine due to its centrality in the economic development of the country. Ukraine inherited an energy intensive and inefficient economy from the former Soviet Union and has to date made only limited efficiency improvements.

Relative Energy Intensity Index



Source: the Oxford Study

Note: Energy consumption divided by GDP (in \$)

The Ukrainian Government projects a significant improvement to the country's energy efficiency. However, given the strong forecasts for economic growth in Ukraine, even assuming a 96 per cent. increase in domestic production by 2030 and a targeted 50 per cent. improvement in energy efficiency by 2030, as estimated by the International Energy Agency, Ukraine is expected to remain heavily reliant on energy imports to satisfy domestic demand throughout the period to 2030. As a result, Ukrainian gas prices (other than those which are capped through regulation) are expected to remain set on an import parity basis.

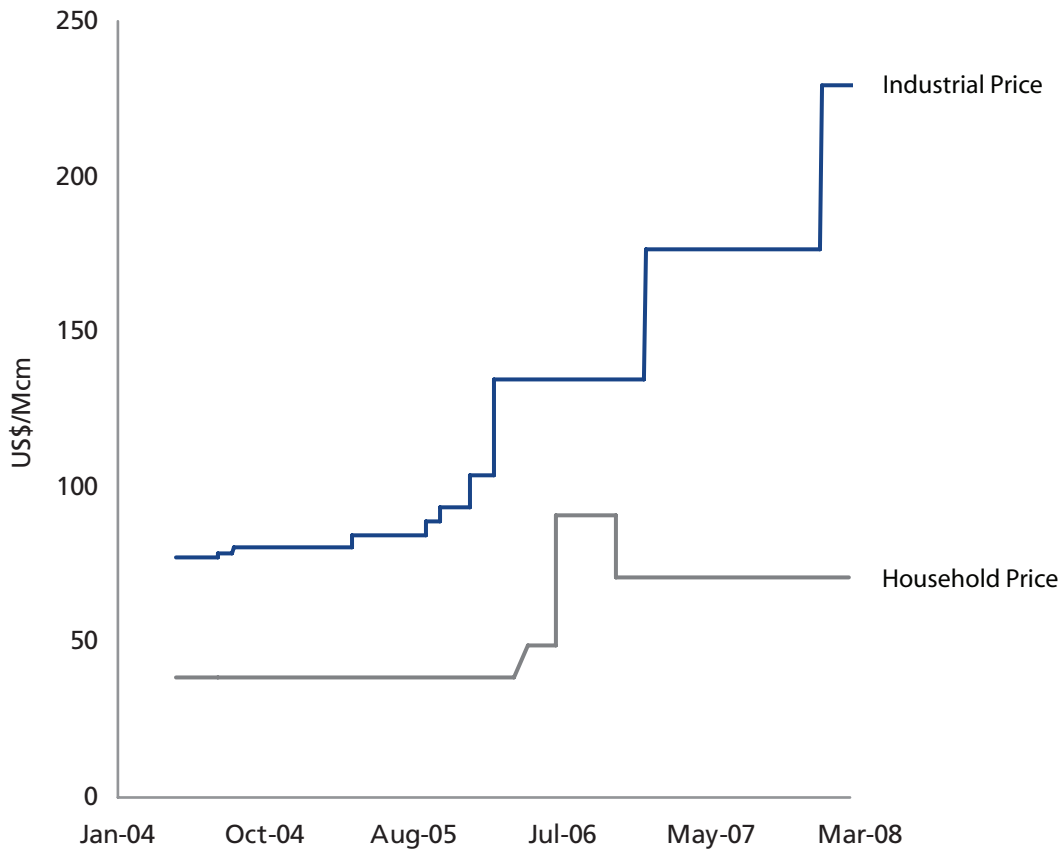
Ukrainian Gas Pricing

As a result of high levels of regulation in the domestic energy sector as well as historically low import prices, Ukrainian gas prices have historically been set significantly below international levels. For 2008, NCRE and the Cabinet of Ministers of Ukraine set the maximum price for domestic industrial users at UAH 1,121.64/Mcm (US\$231/Mcm) including VAT, but excluding other taxes, transportation costs and distribution costs of Naftogas, and the price for residential customers at a range from UAH 315/Mcm to UAH 1,290/Mcm (US\$65/Mcm to US\$266/Mcm), depending on usage. Prices in Ukraine have traditionally been lower than in Western Europe due to the ready availability of gas imports in Russia and Central Asia but recently prices have been held at these levels through direct regulatory intervention.

Import prices of gas sold by Gazprom, 2006-2007 (\$/Mcm)	2006	2007	Increase 2006– 2007 (per cent.)
West European average.....	257	293	14.0
Germany	290	320	10.3
Poland	230	240	4.4
Estonia	191	260	36.1
Latvia	142	220	54.9
Moldova.....	160	170	6.3
Georgia.....	110	235	113.6
Belarus	47	100	112.8
Ukraine	95	130	36.8

Source: the Oxford Study

Historical Ukrainian Industrial⁽¹⁾ and Household⁽²⁾ Gas Prices



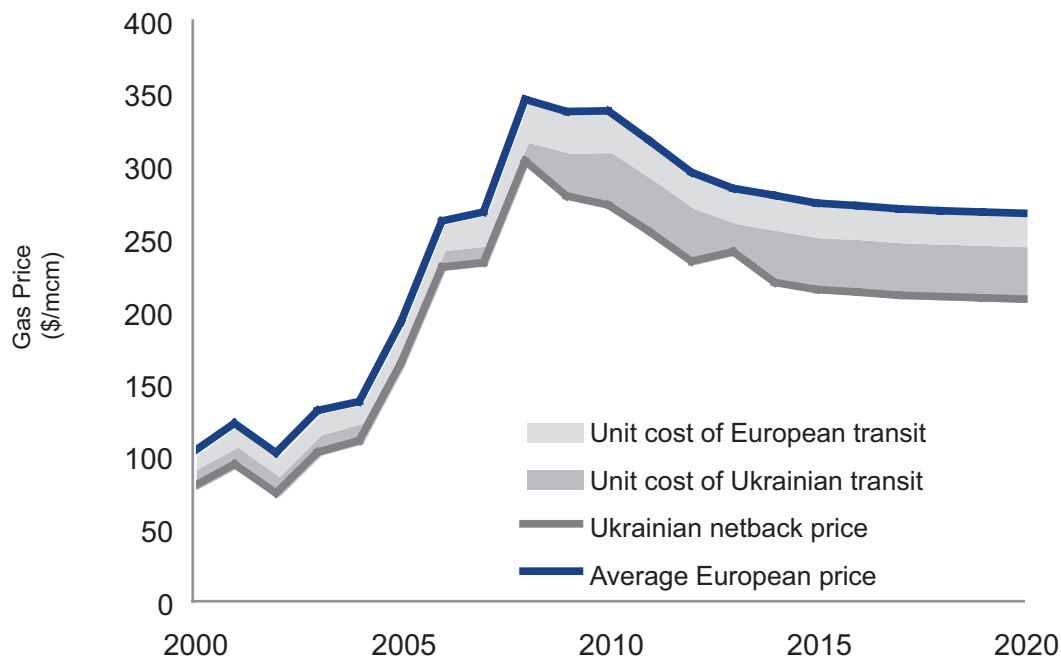
Source: Ukrainian legislation

- (1) Including VAT, excluding other taxes, transportation costs and distribution costs of Naftogas.
- (2) Those households which use approximately up to 2.5 Mcm/year of gas.

The price at which gas is sold at the Russian-Ukraine border was historically artificially low by world standards. Only recently has the model of export netback parity with Western European pricing been brought into negotiations for the border price and consequently for market prices in Ukraine.

In late 2007, Gazprom and Ukraine agreed that Ukraine would start paying Western European prices from 2011, netted back for the transport differential to the Russian-Ukraine border (known as export netback parity).

Notwithstanding this, Gas Strategies concludes in its report that Ukraine's import price for gas should reach export netback parity in 2009, primarily because Russia has agreed with Turkmenistan that the price of gas will be determined by 'market conditions' – that is, that Turkmenistan is expected to insist on export netback parity for its gas sales by 2009. As a result, Gas Strategies concludes that Russia will be unlikely to sell gas to Ukraine on terms worse than it has contracted to acquire gas from Turkmenistan. Gas Strategies' forecast for Ukrainian gas import prices is based on an underlying crude oil price forecast contained in the CPR and is set out in the chart below:



Source: Gas Strategies Report

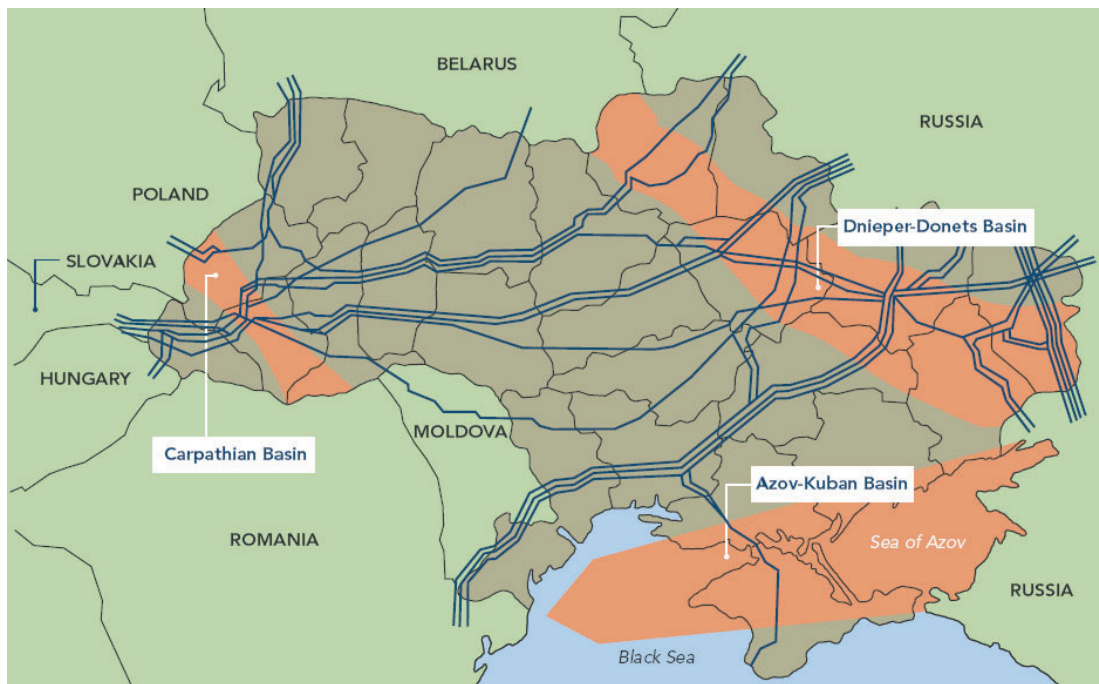
High Quality Hydrocarbon Basins

Ukraine is home to three main hydrocarbon basins:

- the onshore Dnieper-Donets basin, containing the most undiscovered resource potential. It is believed to mostly hold oil in its northwest part and gas in its southeast part;
- the onshore Carpathian basin in Western Ukraine; and
- the Black Sea/Azov-Kuban basin, which is likely to have gas fields onshore in Crimea and offshore in the Azov sea.

Source: The Oxford Study

Hydrocarbon Basins and Transport Infrastructure of Ukraine



Oil production began in Ukraine in the 1880s. The hydrocarbon basins remain only partially explored due to Ukraine's historical reliance on imports as well as relatively high costs for developing indigenous production due to the physical depth of the gas reserves. Investment into geological exploration and prospecting over the last 15 years has been limited, resulting in a consistent decline in the reserves' addition rate from 1990-1997. Since then, drilling has increased slightly and today stands at approximately 200,000-220,000 metres per year. In the Ukraine Energy Strategy Report, the Ukrainian Government notes that it expects to increase exploration drilling activities by over two times the current level to 415,000 metres per year by 2030. According to the Government's estimates, this would add between 670 and 1,023 Bcm to Ukrainian gas reserves by 2030 (Source: the International Energy Agency Report). Given the substantial investment that exploration activities require, in order to achieve these targets, significant foreign investment in the country is likely to be required as Naftogas, the largest State-owned gas company, lacks sufficient financial resources.

The majority of Ukrainian hydrocarbon reserves is located in the Dnieper-Donets basin, an elongated basin of northwest to southeast orientation that is comparable in size and geology to the North Sea central rift. The Dnieper-Donets basin covers an area of at least 31,000 km² (Source: the Oxford Study) and the basin is subdivided into a deeper axial zone flanked by a faulted southern and a northern transition zone. It is a continuation of the Devonian rift trend of the Pripyat basin of Belarus and is a major producing region of Ukraine accounting for 90 per cent. of Ukrainian production from over 120 oil and gas fields. The basin is oil productive in the north-western part, while the southeast is dominated by natural gas production. It is well explored with the whole of the Carboniferous to Lower Permian formations being productive and gas reserves concentrated below the Lower Permian salt seal in the Devonian traps.

The Carpathian basin extends throughout Western Ukraine and into Poland and is one of the largest petroleum producing regions in Central Europe. It is also one of the oldest petroleum producing regions in the world with production dating back to the 19th century. Despite this long history, potential remains today for discoveries in the deeper horizons of the basin – the advent of modern 3D seismic techniques also offers opportunities for additional discoveries in this structurally complex area. Menilite black shales in the Oligocene are a source of hydrocarbons and these range from immature in western Poland to over mature in parts of Ukraine. A secondary source rock may occur in the Cretaceous.

Competition

The Ukrainian oil and gas industry is currently dominated by state-owned companies, however, private and foreign investors are increasingly seeking opportunities in the country and are being actively encouraged to do so by the Government as a result of its energy strategy aimed at substantially increasing domestic hydrocarbon production.

Naftogas is the largest State-owned energy company and dominates the exploration and production, as well as main oil and gas pipelines, gas processing, the import and transit of gas, and gas distribution in Ukraine. However, Naftogas has lacked resources to invest fully in exploration and production and therefore has entered into JAAs with foreign funded companies, such as the Group. Partnerships between Naftogas and foreign companies has meant that the latter have found it easier to apply for and to maintain exploration and production licences, which had previously been problematic.

While the Group believes that consumers may consider various factors such as price, reliability and convenience when purchasing hydrocarbon products, the Group believes that it competes primarily on price as the Group's hydrocarbon products are commodity products that can be easily substituted with other hydrocarbon products of similar nature.

Licensing and Regulatory Regime in Ukraine

The regulation of hydrocarbons in Ukraine is administered by a number of governmental bodies including the Ministry of Fuel and Energy of Ukraine, which is responsible for matters including energy strategy and regulation, and the Ministry of Environment and the State Geology Service, which are responsible for the award of exploration and development licences and production licences.

All licences are generally awarded by way of an auction. However, there are certain exceptions to this outlined in specific legislation of Ukraine. For example, an auction does not need to be undertaken to apply for a production licence in circumstances where the applicant has undertaken the geological exploration at its own expense and proved the deposits to the State Commission on Deposits of Natural Resources.

Exploration and development licences for on-land deposits are generally granted for a period of five years. Such licences can generally be renewed once (subject to the terms and requirements of the initial licence having been complied with). Such renewal would generally be for a period of five years but without an auction process having to be undertaken.

Before any kind of exploration or development can begin, the licence holder must be granted a site permit from the local municipality or the Ministry of Labour and Social Policy of Ukraine and the respective gas or oil field has to be commissioned into exploration and development by the Ministry of Fuel and Energy of Ukraine.

Exploration and development licences and the associated agreements contain minimum work obligations in respect of matters such as:

- undertaking seismic surveys;
- exploration drilling;
- well workovers;
- reserves estimation and other studies; and
- environmental impact assessments.

The Ministry of Environment of Ukraine can prescribe the special conditions for natural resources utilisation which are usually provided in the respective licence and licensing agreement.

The Group intends to meet its work obligations from the net proceeds of the Global Offer and internally generated cash flows.

If a licence holder fails to meet its obligations under the licence, licensing agreement or the respective work programme, then it is considered to be in default and must either cure the default or risk losing the licence. There is no set cure period, although the licensee has the option of appealing in court. Ukrainian legislation further provides for the suspension, annulment or re-registration of a licence.

If the work obligations of an exploration and development licence are met, and the licence holder has made a discovery and provided the results to the State Commission on Deposits of Natural Resources, then the licence holder can apply to the Ministry of Environment for a production licence without having to participate in an auction. The application requires, amongst other things, independently verified reserves estimates, evidence of having fulfilled the work programme obligations via adequate capital expenditure and other benchmarks and a field development plan.

The Directors estimate that the Ministry of Environment of Ukraine usually takes between six to nine months to grant a production licence by way of an auction. During the transition between exploration and production licences (which can take up to 70 days) test production must cease. Production licences are generally granted for a period of 20 years, subject to reserves volumes and the holder of the exploration and development licence for the area has a right of first refusal to the production licence so long as all current obligations are being met. Before the commencement of the production the respective gas or oil fields have to be commissioned into production by the Ministry of Fuel and Energy of Ukraine.

Health, safety and the environment

The principal legislation relating to health and safety is the Labour Code of Ukraine which establishes the main responsibilities and rights of employees with respect to occupational health and safety. The State Committee of Ukraine for Industrial Security, Labour Protection and Mountain Supervision is the governmental authority which monitors occupational health and safety.

The framework for environmental protection activities in Ukraine is set by the Law of the Ukraine *On Environmental Protection* in 1991. This law establishes general principles of environmental protection, rights and responsibilities with the Ministry of Environment of Ukraine being the governmental authority responsible for environmental protection. The State Ecology Inspection of the Ministry of Environment of Ukraine is the principal governmental body responsible for monitoring compliance with the environmental legislation.

The legislation requires that project design proposals for all new developmental projects in Ukraine that are characterised as having a high potential adverse impact on the environment must contain an assessment on the environmental impact of the project and provide for certain public involvement.

Compared to international standards, Ukrainian environmental legislation can be characterised as having reasonably stringent standards but has historically suffered from relatively weak enforcement.

Environmental standards

The Law of Ukraine *On Environmental Protection* differentiates between environmental standards and environmental guidelines. While environmental standards provide for mandatory requirements as to the use and preservation of natural resources, control for the environment and prevention of pollution, environmental guidelines set out maximum permissible discharge of pollutants into the environment. There are numerous environmental standards and guidelines currently in force in Ukraine which regulate in detail the use of free air, water resources, land, flora, fauna, forests and subsoil, as well as waste management, operations with dangerous substances and other activities that have substantial influence on the environment.

PART VIII

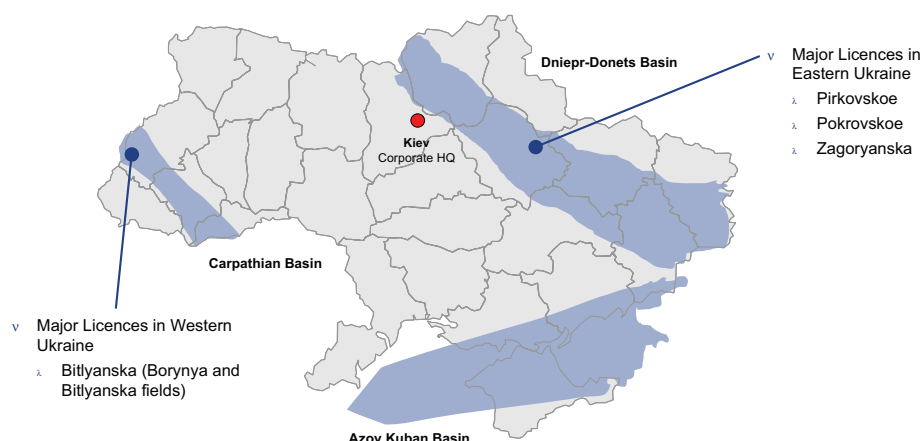
INFORMATION ON THE GROUP

1 Overview

1.1 Introduction

Cadogan is an independent oil and gas exploration, development and production company with a diversified portfolio of onshore gas and condensate assets in Ukraine. The Group has built a portfolio of assets, at varying stages of development, through a series of acquisitions, the first of which was in December 2005. As at the date of this Prospectus, the Group has significant working interests in 11 licence areas covering 14 fields in Ukraine with a combined area of approximately 1,150 km².

The Group's assets are located in two of the three proven hydrocarbon basins in Ukraine: the Dnieper-Donets basin and the Carpathian basin. The Dnieper-Donets basin is the major hydrocarbon producing region of Ukraine accounting for approximately 90 per cent. of Ukrainian production from over 120 oil and gas fields. The Carpathian basin is one of the largest hydrocarbon basins in Central Europe, extending into Romania and Poland, as well as Ukraine. The Group is headquartered in Kiev and supported by operational offices in Eastern and Western Ukraine together with a representative office in London. As at 31 March 2008, the Group had approximately 357 employees, of which 355 were based in Ukraine and two in London.



1.2 Summary of Reserves, Resources and Production

All estimates of reserves and resources presented in the Prospectus are from the CPR of GCA, an independent petroleum engineering consulting firm. GCA estimates that, as at 31 January 2008, the Group had:

- proved net reserves of 109 Bcf of gas, 7.6 MMbbl of condensate and 0.16 MMbbl of oil;
- proved and probable net reserves of 320 Bcf of gas, 22 MMbbl of condensate and 0.77 MMbbl of oil; and
- proved and probable and possible net reserves of 588 Bcf of gas, 42 MMbbl of condensate and 1.6 MMbbl of oil.

GCA also estimates that, as at 31 January 2008, the Group had net best estimate contingent resources of 1,583 Bcf of gas, 48 MMbbl of condensate and 1.5 MMbbl of oil. In addition, GCA

estimates that the Group has significant prospective resources, as set forth in the CPR in Part XV of this Prospectus.

For illustrative purposes, the Group has converted the net reserves and resources figures contained in the CPR into MMboe, using the conversion factor of one Bcf equals 0.18 MMboe. This conversion results in proved net reserves of approximately 27.4 MMboe, proved and probable net reserves of approximately 80.4 MMboe, proved and probable and possible net reserves of approximately 149.4 MMboe and net best estimate contingent resources of approximately 334.4 MMboe.

The Group classifies its assets into Major Fields, being those assets containing greater than 40 MMboe of reserves, contingent resources or prospective resources, and Minor Fields, being those containing less than 40 MMboe of reserves, contingent resources or prospective resources.

The Major Fields are Pirkovskoe, Pokrovskoe and Zagoryanska (in Eastern Ukraine) and Borynya and Bitlya (in Western Ukraine). The remainder of the Group's fields are Minor Fields. In both Eastern and Western Ukraine, the Group's Major Fields are located within between 20 to 40 kilometres of each other (Pirkovskoe and Zagoryanska being directly adjacent).

In the first quarter of 2008, the Group produced 365 metric tonnes of oil, 171 metric tonnes of condensate and 4.6 Mcm of gas.

Further details of the Group's reserves, resources and production are set out in the CPR in Part XV of this Prospectus and in paragraph 5 of this Part VIII below.

1.3 Business Environment

Ukraine is a net importer of energy, particularly natural gas. According to the Oxford Study, energy imports fulfil 61 per cent. of the country's primary energy demand. It further reports that the consumption of energy in Ukraine is coupled with limited energy efficiency. International Energy Agency calculations in 2006 showed that approximately 20 Bcm of gas is produced within the country and 55 Bcm is imported annually either directly from Russia or from Central Asia transiting through Russia. Recent political tensions with Russia and difficult commercial relations with Gazprom have led to temporary reductions and suspensions of gas supply to Ukraine over the last two years.

The Directors believe that this supply and demand environment coupled with the dynamics of the Ukrainian economy will lead to Ukraine being significantly dependent on inward investment for the development and production of indigenous sources of oil and gas for the foreseeable future. The Directors also believe that the Group will benefit from the expected rise in industrial gas prices in Ukraine as they converge with higher Western European prices.

Further details of the oil and gas market in Ukraine are set out in Part VII of this Prospectus.

1.4 Business Opportunity

In order to take advantage of the opportunities presented by the energy market in Ukraine, the Group's strategy, since commencing operations in late 2005, has been to acquire appraisal, exploration, development and producing assets in the oil and gas regions of Eastern and Western Ukraine. The Group has undertaken an active programme of drilling, workover and development of the assets acquired.

2 History and Structure of the Group

Cadogan Holdings was incorporated in October 2004 following which initial funding was raised from equity investors with a view to financing the appraisal of upstream oil and gas opportunities in the CIS and elsewhere. The search for hydrocarbon opportunities by Mark Tolley, Cadogan's Chief Executive Officer, and other members of senior management resulted in the acquisition of entities

holding interests in the Pirkovskoe and Pokrovskoe hydrocarbon licences in Eastern Ukraine in December 2005. The Company was formed in February 2006 to become the holding company of the Group.

In September 2006, after the first of several subsequent rounds of equity fundraising, the Group acquired its first interests in Western Ukraine, followed in May 2007 by its first two production licences. In June 2007 licence interests in the Blazhivskoe and Monastyretske fields were acquired. In November 2007, Cadogan acquired its interest in the Zagoryanska licence area and in December 2007, the Group acquired interests in the Malynovetske and Mizhrichenska licence areas and certain oil and gas related assets including an operations base at Kolomiya, Western Ukraine.

Further details of these acquisitions, fundraisings and the corporate structure are set out below under “Timeline of key events and corporate structure” in paragraph 10 of this Part VIII below.

3 Key strengths

Ukrainian gas import prices are expected to continue to increase towards Western European export netback parity in the near term.

The major Western European gas markets, particularly Germany and France, are currently, and are forecast to remain, heavily dependent on Russia for their supply of natural gas. While European demand for gas continues to grow, with the exception of Norway, indigenous sources of gas supply in Western Europe are generally declining and are insufficient to meet aggregate European demand. Given this high level of dependence, Russia has a significant influence on Western European gas prices which continue to be set based on formulae which link the price of gas indirectly to the price of crude oil. This linkage to the oil price has resulted in the German border price rising from approximately US\$130/Mcm in 2004 to approximately US\$350/Mcm in 2008. Ukraine currently imports 75 per cent. to 78 per cent. of its total demand for gas from Russia and Turkmenistan via Russia. Historically Russia had supplied gas to Ukraine, its western neighbour, at prices approximately 60 per cent. lower than those achieved on sales to Germany, even accounting for the lower transportation costs to Ukraine. However, since 2005, Russia has increased the price at which it sells gas to Ukraine by approximately 250 per cent. from US\$50/Mcm to US\$179.50/Mcm in 2008. Given Ukraine’s dependence on imports, prices for sales by the Government to domestic industrial gas customers are set by the Cabinet of Ministers of Ukraine on an “import parity” basis and have consequently risen to UAH1,121.64/Mcm (US\$231/Mcm) in 2008 including VAT, but excluding other taxes, transportation costs and distribution costs of Naftogas.

Despite the rapid rise in the price of gas sold to Ukraine, the price achieved by Gazprom on sales to Ukraine today is still approximately 56 per cent. below the price currently achieved on sales to Germany, even adjusting for the lower transportation costs to Ukraine. At the same time, Russian domestic gas demand is rising rapidly in line with economic growth such that the prices achieved for Russian gas producers for gas sold in Russia are expected to be equivalent to the price achieved for Western European gas sales (adjusted for transportation), known as export netback parity, in the near term. In addition, Russia has agreed with Turkmenistan that the price of gas imported from Turkmenistan to Russia will be determined by ‘market conditions’ – that is, that Turkmenistan is expected to insist on export netback parity for its sales by 2009. As a result, Gas Strategies forecasts that Russian sales of gas to Ukraine should also move to a Western European export netback parity basis by as early as 2009. Gas Strategies forecasts that this will result in a 55 per cent. increase in the border price for gas in Ukraine or an increase of US\$100/Mcm from US\$179.50/Mcm in 2008 to US\$279.50/Mcm in 2009.

The Directors believe that the above price dynamic should create an environment in which the unregulated industrial gas prices in Ukraine will rise commensurately and the Group will benefit from positive gas price development as well as a continuation of the current relatively attractive fiscal regime. The Directors believe that this will support the economic viability of its reserves as well as the price achieved from its sale to domestic industrial customers as it develops its Ukrainian gas and condensate assets.

Significant growth potential from resources located in proven hydrocarbon basins with developed infrastructure

The Group's licences and fields are located onshore in two of the three known hydrocarbon basins in Ukraine – the Dnieper-Donets basin in Eastern Ukraine and the Carpathian basin in Western Ukraine. Oil and gas production has taken place in these basins for over 70 years. However, due to the deep horizons within which the main gas reservoirs are located and the previously low price at which imported Russian gas could be obtained, it has not until recently become economic to develop much of the known resource base. Historic wells have previously been drilled on each of the Group's Major Fields where contingent or prospective resources have been identified and 2D seismic surveys are also available, although these wells were mostly drilled using outdated Soviet drilling and completion techniques. The Group's business plan is therefore focused on the exploitation and commercialisation of these resources of gas and condensate including through the workover of existing wells, using more advanced Western drilling and completion techniques as well as reservoir stimulation and the acquisition of 3D seismic surveys on certain assets.

The Group's licence areas, which are all in easily accessible onshore locations, also enjoy access to developed infrastructure including a reliable high voltage electricity grid as well as gas and condensate distribution pipelines which run through or are close to the Major Fields. Ukraine has an established gas transmission and storage network that consists, according to the International Energy Agency, of more than 35,000 kilometres of pipelines and 33 Bcm storage capacity operated by UkrTransGas connecting the gas producing regions to population and industrial centres. Ukrainian law provides for access rights to the UkrTransGas network and the Group therefore has accessible routes to market for its gas production. The Group owns and operates a gas treatment facility in Eastern Ukraine and anticipates constructing two further gas treatment facilities, one in the Pirkovskoe licence area, for which the Group has signed a letter of intent, to process the volumes of gas which the Group expects to produce under its asset development plan for the Pirkovskoe and Zagoryanska fields and a second gas treatment facility on Pokrovskoe. The Group currently trucks its condensate production from the Pirkovskoe field to the Kremenchug refinery, and it plans to link into Kremenchug's existing pipeline system when the Group has achieved sufficient production.

In Western Ukraine, the Group has signed a letter of intent for the construction of a gas treatment facility on the Borynya fields which will be connected to the UkrTransGas system. The Directors intend this combined facility to service all wells on both Bitlya and Borynya due to the geographic proximity of the two fields.

The Group is targeting commercial production to begin from the Major Fields in the near term

The Group is focused on converting its resource base into reserves and on achieving commercial production from its Major Fields in the near term. In Eastern Ukraine, the Group is targeting commercial production to commence from the Pirkovskoe field during the second half of 2008, subject to the successful outcome of production testing of two wells which are currently being drilled. The Group is targeting commercial production to commence from the Zagoryanska and Pokrovskoe fields in the first half of 2009, subject to positive results from appraisal drilling and the completion of processing of 3D seismic surveys which the Group has conducted on the Pokrovskoe field.

In Western Ukraine, drilling in the Borynya field is currently underway and following construction of the proposed new gas treatment facility, the Group is targeting commercial production to commence in mid-2009, subject to successful test drilling of two wells. In relation to the Bitlya field, the Group is targeting commercial production to commence in the second half of 2009, following successful drilling and testing of the exploration well and completion of a pipeline linking Bitlya to the gas treatment facility planned for construction on Borynya.

Attractive fiscal regime and efficient cost structure and operations

The fiscal regime which applies to the hydrocarbon extraction sector in Ukraine is a tax and royalty regime which is competitive by international standards, having 20-25 per cent. tax-deductible royalty, production taxes based on sub-surface petroleum taxes and geological taxes and a corporate tax rate of 25 per cent. The combination of these taxes results in an overall tax level of approximately 43 per

cent. which is materially lower than many jurisdictions in the region, including in particular the current fiscal regime in the Russian hydrocarbon extraction sector.

The Ukrainian Government is also focused on reducing its dependence on imported gas and has therefore implemented a number of measures to stimulate the exploitation of domestic hydrocarbon assets as well as seeking to reduce gas wastage which had resulted from the very low historical price of gas in Ukraine. Examples of the Ukrainian Government's policies to encourage domestic production include the introduction of regulations permitting private companies, such as the Group, to sell their production at the higher prices which can be realised from industrial customers compared to the price for consumer gas as well as providing access to Ukraine's hydrocarbon transport network.

The Group's senior management team is focused on maximising operational efficiency, with a particular focus on capital allocation and spending. The Directors believe (based on publicly available information) that the Group has had significantly lower asset development and operating costs than its international peers.

Cadogan has successfully applied the combination of international expertise and local know-how in the development of the Group's assets. Operations to date have utilised lower cost Ukrainian drilling rigs and crews supplemented with internationally experienced drilling managers and supported by Ukrainian operational personnel with significant oil and gas experience. The Group has introduced drilling rig upgrades to its Ukrainian drilling rigs, along with modern mud systems, and modern drill bits and sought to apply international standards in drilling and completion techniques to its Ukrainian operations. Ukrainian drilling rigs have day rates which are up to five times lower than western drilling equipment, but they also require significantly longer time periods to reach the main target horizons in the lower Carboniferous (Visean and Tournaisian) at depths of around 4,900 to 5,400 metres.

The rate of penetration of the Ukrainian drilling rigs is particularly an issue at depths below 4,500 metres, and the Group is therefore currently conducting an international tender to import two heavy drilling rigs from Romania, Poland or Croatia, the first during the second half of 2008 and the second in the first half of 2009. As compared to its local Ukrainian light drilling rigs, the Directors estimate that heavy drilling rigs should reduce drilling times by at least one third, though the daily operating costs would be significantly higher. The Directors intend to evaluate the time-cost benefits of the two heavy drilling rigs and, depending upon the results, the Group may seek to import two or more additional heavy drilling rigs in 2010, subject to availability, to be deployed in both the Eastern and Western Ukraine fields.

Senior management team with extensive international and Ukrainian oil and gas experience

The Group's senior management are mostly fluent Russian and Ukrainian speakers and have on average 25 years' international project management experience as well as extensive experience of operating both in Ukraine and throughout the CIS. Collectively, they have built up extensive technical knowledge and extensive experience of operating in the Ukrainian regulatory environment. Members of the Group's senior management team have worked in the oil and gas industry in Ukraine for more than 15 years, including the COO who was formerly the Deputy Director of Naftogas, Ukraine. The Group has experience and developed strong working relationships with governmental agencies at national, regional and local levels. The Group contributes significantly to the economic and social welfare of the municipalities in which it operates. In addition to providing local employment, the Group has improved roads and other infrastructure and provided benefits such as health and leisure facilities.

The Directors believe that this combination of skills, broad international oil and gas experience as well as long-standing experience of the local market distinguishes the Group from many of its international competitors currently operating in Ukraine.

The Executive Directors and senior management team are highly motivated and their interests are aligned with those of investors through their equity participation in the Group.

The Group controls the marketing of its gas and condensate to industrial customers

During 2007, the Group restructured its interests in its key licences held in partnership with NAK Nadra to reduce NAK Nadra's working interest to below 50 per cent. This restructuring increased the working interests of the Group in its licences, reduced the production taxes payable and enabled the Group to sell the substantial majority of its gas at unregulated domestic industrial market prices rather than being subject to the domestic industrial price cap which applies to licences where the Ukrainian Government owns a majority interest.

The Group is currently marketing its limited production volumes of oil, condensate and gas production to local customers. The Group is paid for its supplies of anticipated gas and condensate on a cash-advance basis. The Group has also developed plans to market the production from its Major Fields in both Eastern and Western Ukraine, which it anticipates will be on a similar cash-advance basis. The Group owns a gas processing facility located on the Pirkovskoe field, which is currently capable of handling up to 300 Mcm/d of gas and 150 tonnes/d of condensate, and is connected to the UkrTransgas system. In addition, the Group has signed a letter of intent for the construction of a further gas treatment facility on Pirkovskoe. The Group will retain control of its own gas marketing activities and has already entered into discussions with a number of industrial customers. Gas sales currently are and are planned to continue to be on the basis of spot market prices and short-term contracts. Similarly, Cadogan currently sells condensate from its Pirkovskoe field to industrial buyers and trucks its condensate from its Pirkovskoe field to the nearby UkrTatnafta operated Kremenchug refinery. When condensate production reaches significant levels, the Group plans to transport its condensate via pipeline. Although the Kremenchug refinery has a capacity of 16 million tonnes/year, the refinery has only been operating at approximately seven million tonnes/year in the recent past due to constraints on its supply of crude. The Directors therefore believe that there will be sufficient treatment capacity for the Group's expected condensate production.

Established track record of growth and corporate development

The Group has successfully grown the levels of its net proved and probable reserves to the current level of approximately 80 MMboe and net best estimate contingent resources to approximately 334 MMboe. This has predominantly been achieved through a series of acquisitions, most notably the acquisition of the interests in Pirkovskoe and Pokrovskoe fields in December 2005. These core assets were acquired through the acquisition of Gazvyboduvannya and Astroinvest-Ukraine at a time when domestic gas prices meant that the economic viability of these assets was marginal. Since that time, the Group has drilled approximately 21,500 metres of wells on Pirkovskoe and Pokrovskoe and has increased its estimated net proved and probable reserves to the current level of 80.4 MMboe which consist of 320 Bcf of gas, 22 MMbbl of condensate and 0.77 MMbbl of oil.

4 Strategy

The Group's principal strategy is to create shareholder value by monetising the value of its reserves and resources (both contingent and prospective) by drilling and production. The Group also expects to increase its reserves through the conversion of resources into reserves through appraisal drilling and targeted exploration drilling.

Continued focus on exploration and production opportunities in Ukraine

The Directors believe that one of the Group's key strengths is its single focus on the Ukrainian market where, for the reasons set out above, the Directors believe that there will be significant demand for domestically produced gas over the medium term as well as a continuing trend of increasing gas prices. The Directors believe that this strategic focus on a single market should generate significant strategic benefits, including the ability to respond rapidly to changes in the local operating and economic environment, the opportunity to capitalise on knowledge acquired from the Group's existing appraisal and development assets and the capacity to build on its existing relationships in Ukraine.

Maintain a balanced portfolio in terms of asset maturity

The Group intends to maintain a balance in its portfolio of upstream assets from exploration through appraisal to production. Its operational objectives include:

- to prioritise achieving commercial production on the Pirkovskoe field;
- to convert those hydrocarbons that are currently classified as contingent or prospective resources within the Major Fields into reserves through exploration and appraisal drilling and commence production; and
- to phase in expenditure on the Minor Fields when such expenditure can be funded internally from revenues generated from the Major Fields.

Capitalising on local knowledge and experience

The Group intends to continue to apply the knowledge and experience gained from the appraisal and development of its assets in a cost efficient manner in order to convert its resources into reserves in a technically and economically efficient manner and achieve targeted production volumes.

Specifically Cadogan intends to continue to introduce more advanced industry practices to increase its reserve and resource base and to develop its assets. Such techniques include 3D seismic (which the Group has already acquired on the Pokrovskoe licence and is planning to acquire on the Pirkovskoe licences) as well as modern drilling and completion techniques to avoid the mixed quality of well data collection which resulted from techniques applied before the Group acquired these licences. The Group also intends to employ the use of reservoir stimulation through fracturing to improve flow rates from the Group's wells.

Senior management will continue to foster its relationships with local and national governmental agencies, State-owned oil and gas companies and its independent peers operating in Ukraine.

In addition, the Group has an in-house sales team who market its existing condensate and gas production volumes and plans to use their experience to market its targeted production from Pirkovskoe and the other Major Fields directly rather than involving a third party marketer.

Growth organically and, where appropriate, through acquisitions

The Group's primary focus is to continue to pursue growth organically by increasing its proved and probable reserves and achieving commercial production from its Major Fields. In addition, the Group will continue selectively to consider acquisitions that the Directors believe will deliver attractive positions in high quality assets within Ukraine which possess value growth potential and which fit the profile of the Group.

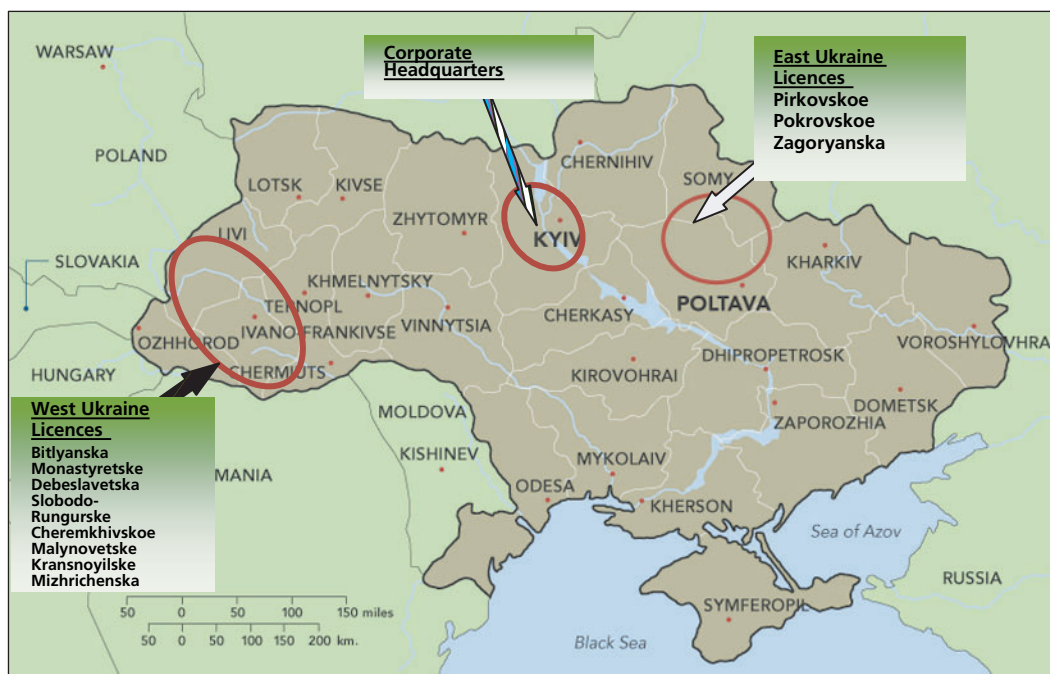
5 The Group's Operations

The Group's operations are focused on the exploration, development and production of onshore assets located in Eastern Ukraine (the Dnieper-Donets basin) and Western Ukraine (the Carpathian basin).

5.1 Overview of Group Licences

The Group currently has acquired interests in 11 licence areas which cover 14 fields in Ukraine. The Group holds its working interests in these licences either directly or through joint venture companies with NAK Nadra. The licences were acquired in a series of transactions beginning in December 2005.

The Group's licences in Ukraine

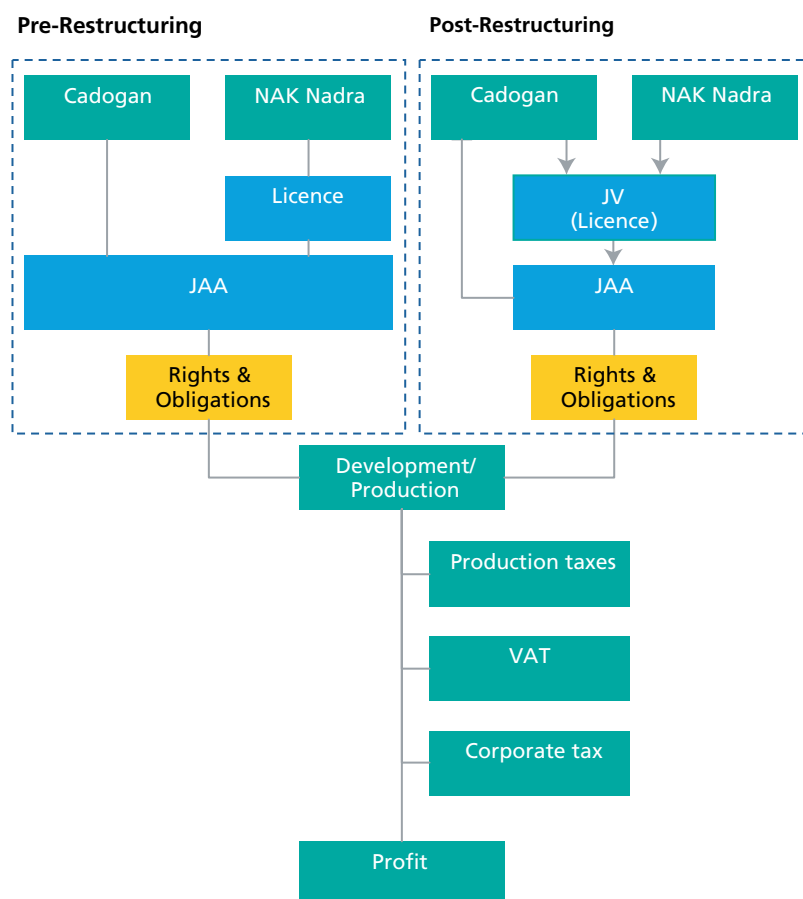


In late 2007, the Company undertook a restructuring of the Group's interests in the Pirkovskoe, Bitlyanska, Zagoryanska, Krasnoyilske and Monastyretske licences. Prior to the restructuring, the State-owned oil and gas company NAK Nadra (or its subsidiaries) held these licences, while the Group's working interests were held through JAAs. A JAA is the main operational agreement that describes the working interest of each party in respect of the asset, the mechanism for profit sharing, capital contributions, net profit and production sharing, as well as specifying the roles and responsibilities of each party to the JAA. A working interest, depending on the type of the licence used under the JAA, provides its owner the right to explore, drill and produce oil and gas from a tract of property. Working interest owners are obligated to pay a corresponding percentage of the cost of leasing, drilling, producing and operating a well or unit. After royalties are paid, the working interest also entitles its owner to share in production revenues with other working interest owners, based on the percentage of working interest owned.

The legislation enacting the Ukrainian budget for 2007 provided that, in the case of gas produced from developments managed under JAAs between Ukrainian state-controlled companies and private investors, the gas must be sold to Naftogas at the price set by NCRE (UAH 319/Mcm including VAT for 2007) for further sale by Naftogas to residential customers at residential customer prices, which range from UAH 315/Mcm to UAH 1,290/Mcm (US\$65/Mcm to US\$266/Mcm), depending on usage.

As part of the restructuring, the Group and NAK Nadra subsidiaries established joint venture companies, to which the licences were re-registered. The joint venture companies are owned 90 per cent. by the Group and 10 per cent. by NAK Nadra subsidiaries in order to reflect their respective intended future funding obligations. The Group and NAK Nadra subsidiaries each have obligations to fund the development programmes as set out in the JAAs. If for any reason NAK Nadra does not fully fund its obligations under the JAAs, the Group expects to fund that share and will receive a commensurate share of the returns on these fields until the funding obligation is covered. Clearance for the required transactions was obtained from the AMC and the restructuring was completed in December 2007.

As a result of the restructuring and changes in legislation, the Group is permitted to sell gas produced from the restructured assets at the higher domestic industrial gas market rate rather than at the lower capped rate to Naftogas. The restructuring also increased the Group's working interests in these fields, which it now holds directly through the JAAs and indirectly through its controlling interests in the joint venture companies. The boards of the joint venture companies comprise mostly directors nominated by the Group. A summary chart of the restructuring is set out below:



The Group currently has at least a 90 per cent. working interest in Pirkovskoe, Bitlyanska, Zagoryanska and the other restructured assets. The Group owns the licence and has a 100 per cent. working interest in the Pokrovskoe field, which did not require restructuring.

The Cheremkhivskoe and Mizhrichenska licences are held by ZUG, and in the case of these two licences, Cadogan's working interest is through the JAAs. In the case of the Cheremkhivskoe field, ZUG's share of gas production is sold to Naftogas at the price set by NCRE (UAH 319/Mcm including VAT for 2007) for further sale by Naftogas to residential customers.

The Group inherited variable working interests in respect of the Bitlyanska, Krasnoyilske and Monastretske licences from the previous owners. Under the terms of the applicable JAAs for the Bitlyanska licence, the working interest attributable to the investor party vary according to three factors. First, the working interest decreases in five year steps, and the working interest of the State party increases until the tenth year of production. The working interests of each field on the licence also vary by reference to expected production rates on a well by well basis (which for years after the sixth year of production are yet to be determined). Finally, the working interests vary depending on whether capital expenditure is incurred by the investor party on a new well or working over an existing well. However the effect of the restructuring in respect of the licence in 2007 mentioned above has been to reduce the degree of variation in the Group's working interest significantly.

The Group's exploration and development licences do not impose a cap on the level of production which is permitted from these licence areas. In respect of the Major Fields, the Group intends to submit full field development plans and seek approval for the conversion of the licences to 20 year production licences well before the expiry of the current licence terms.

5.1.1 Details of the Group's licences and fields:

Licence Area	Licence Type	Product	Start Date	End Date	Working Interest of the Group
Pirkovskoe	Exploration & Development	Gas/Condensate	19 Oct 2007	19 Oct 2010	97 per cent.
Pokrovskoe	Exploration & Development	Gas/Condensate	10 Aug 2001	10 Aug 2011	100 per cent.
Zagoryanska	Exploration & Development	Gas/Condensate	19 Oct 2007	19 Oct 2009	90 per cent.
Bitlyanska*	Exploration & Development		19 Oct 2007	23 Dec 2009	
Bitlya		Gas/Condensate			97.1 per cent.
Borynya		Gas Condensate			96.5 per cent.
Vovchenska		Oil			96.8 per cent.
Monastyretske*	Exploration & Development		19 Oct 2007	23 Dec 2009	
Monastyretske		Oil			95 per cent.
Blazhivskoe		Oil			95 per cent.
Krasnoyilske*	Exploration & Development	Gas/Condensate	19 Oct 2007	23 Dec 2009	98.5 per cent.
Debeslavetska	Exploration & Development	Gas/Condensate	7 Sept 2001	7 Sept 2011	98.3 per cent.
Debeslavetska	Production	Gas/Condensate	4 Oct 2006	4 Oct 2026	98.3 per cent.
Slobodo-Rungurske	Exploration & Development	Oil	11 Apr 2001	11 Apr 2011	100 per cent.
Cheremkhivskoe	Production	Gas/Condensate	14 May 2002	14 May 2018	49.8 per cent.
Malynovetska	Exploration & Development	Oil	11 Jan 2002	11 Jan 2012	79.9 per cent.
Mizhrichenska	Exploration & Development	Oil	7 June 2006	7 June 2011	40.0 per cent.

* Variable working interests

The licence and regulatory regime in Ukraine is set out in Part VII of this Prospectus.

5.2 Reserves, Resources and Production

The following tables summarise the estimated net reserves and resources of the Group as at 31 January 31, 2008. Further details of the Group's net reserves and resources are set out in the CPR contained in Part XV of this Prospectus.

Net Reserves	1P	2P	3P
Natural Gas (Bcf).....	109	320	588
Gas Condensate (MMbbl).....	7.6	22	42
Oil (MMbbl).....	0.16	0.77	1.6

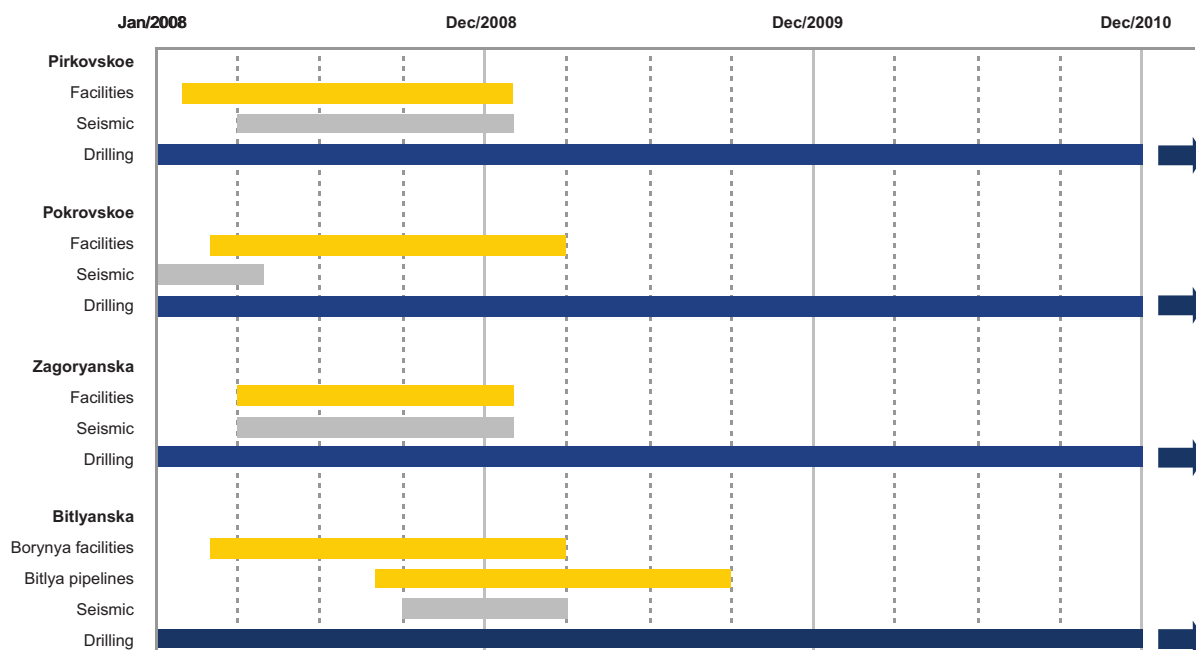
Net Resources	2C Contingent Resources
Natural Gas (Bcf).....	1,583
Gas Condensate (MMbbl).....	48.0
Oil (MMbbl).....	1.5

A description of each category of reserves and contingent resources are set out in the Glossary in Part XIX of this Prospectus.

In the first quarter of 2008, the Group produced 365 metric tonnes of oil, 171 metric tonnes of condensate and 4.6 Mcm of gas.

5.3 Overview of Major Field Development Strategy and Projected Capital Expenditure

An overview of the Group's exploration, appraisal and development programme for the period 2008 to 2010 is set out below. The schedule of field development is subject to risks and uncertainties and the information presented in the table below is subject to material change as the planning and results of analysis become available.



Source: Company information

The Group's projected total capital expenditure for 2008, 2009 and 2010 are summarised below. The Group plans to fund projected capital expenditure using the net proceeds of the Global Offer and anticipated future projected cash flows from anticipated future production and sale of hydrocarbon products from its Major Fields. The table below presents the Directors' current estimates of capital expenditure, assuming successful completion of the field development schedule shown above.

Projected Capital Expenditure	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Pirkovskoe.....	38,530	39,020	24,435
Borynya.....	29,304	19,370	8,071
Bitlya.....	558	10,073	9,264
Debeslavetska	932	578	–
Pokrovskoe	23,019	8,713	13,938
Zagoryanska.....	7,122	6,338	8,625
G&G services.....	1,200	1,200	1,200
Total	100,665	85,292	65,533

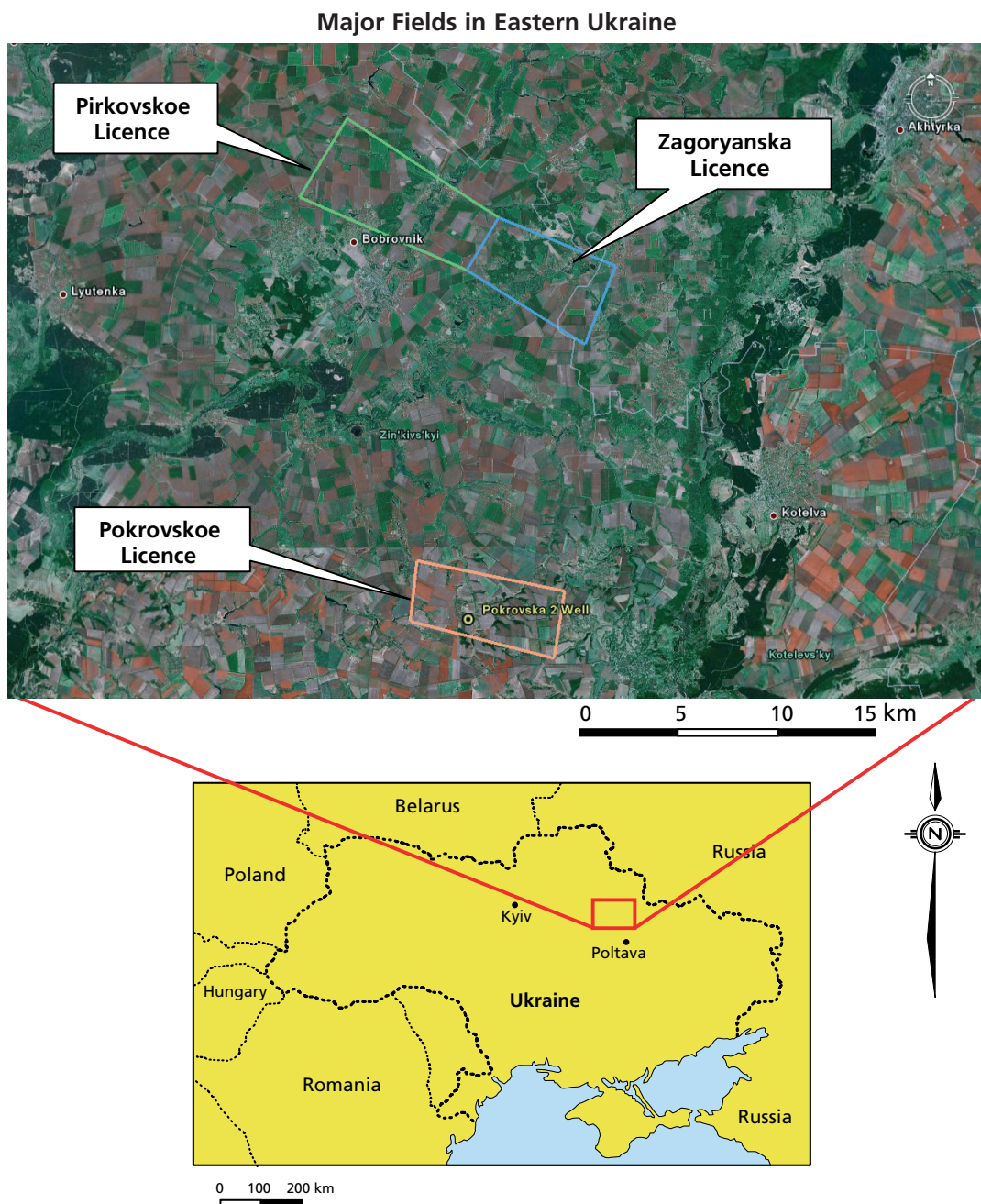
The Group currently expects that the primary focus of its capital expenditure in 2008, 2009 and 2010 will be the development of the Pirkovskoe field and the continuing exploration and development of the Pokrovskoe, Borynya and Bitlya fields with a view to increasing the Group's 2P reserves and to increase production of gas and condensate to generate additional cash flow from operations. The exploration and development of the Zagoryanska field will also require capital expenditure to convert the potential of this field into reserves for commercial exploitation. Some capital expenditure is expected to be required on the Debeslavetska field.

In addition, certain of the Group's capital expenditure from 2008 to 2010 will be spent to meet its respective work programme obligations on all fields, according to the terms of their respective licences.

Subject to its work programme obligations, the Group has the flexibility and discretion to modify its projected capital expenditure and there may be circumstances where, for sound business reasons, a reallocation of funds or strategic priorities may be considered necessary. For example, this may be necessary if the results of exploration, development or appraisal activities are unsatisfactory or the results are not commercially viable. The Group intends to meet these obligations from the net proceeds of the Global Offer and internally generated cash flows. Further details of the Group's work programme obligations are set out in Part VII of this Prospectus and paragraph 4.2.2 of Part X of this Prospectus.

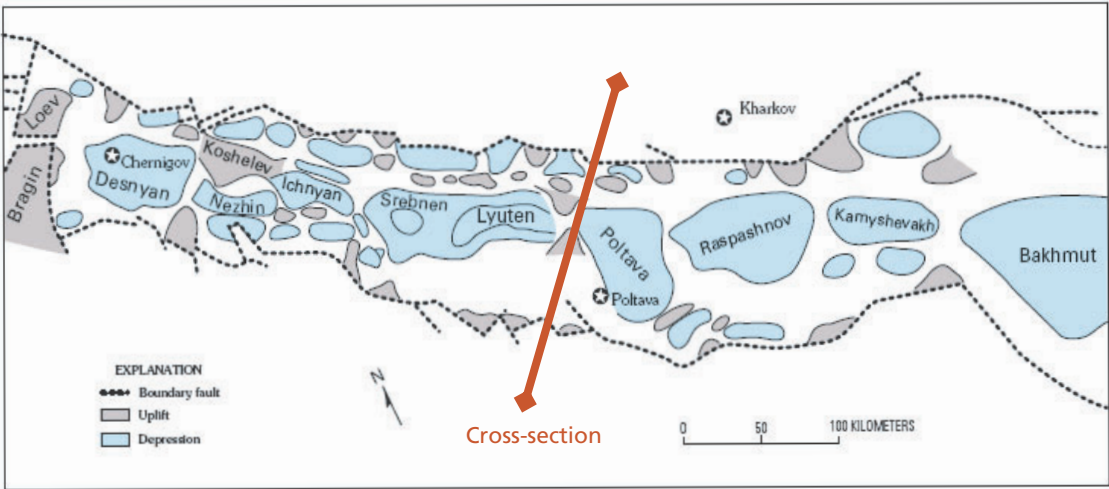
5.4 Major Fields in Eastern Ukraine

The licences and fields in Eastern Ukraine consist of Pirkovskoe, Pokrovskoe and Zagoryanska, which are located in the Zinkov district to the north of Poltava. These fields lie within 20 kilometres of each other.



The licences lie in the Dnieper-Donets basin. The basin is a northwest to southwest oriented paleo-rift graben some 500 kilometres long by 65 kilometres to 150 kilometres wide. It accounts for 90 per cent. of Ukraine's current oil and gas production. The Dnieper-Donets region has been producing oil, gas and condensate for over 30 years from more than 100 fields and there is a well developed infrastructure including tie-in points to the national gas grid and condensate sales depots. The graben is a Devonian-aged rift consisting of clastics, salt and widespread shallow marine carbonates, with rift-like build-ups deposited during the lower Carboniferous. Black shales and carbonates in the lower Visean and Devonian are the hydrocarbon sources rocks. Most of the traps are caused by extensional faulting down into the graben. There are deep seated salt domes in the graben which also generated structural traps. The primary reservoirs are in the middle Mississippian-aged Upper Visean clastics and Lower Visean carbonates, with secondary reservoirs in the lower Mississippian Tournaisian. There may be further reservoirs in the deeper Devonian-aged rocks.

Dnieper-Donets Basin Cross-Section



5.4.1 Pirkovskoe Licence

The following table summarises the features of the Pirkovskoe licence:

Licence Type	Exploration and Development
Group Working Interest	97 per cent.
Hydrocarbon Classification	Reserves, contingent and prospective resources
Product	Gas, condensate and oil
Estimated Volumetrics	2P gas reserves – 317.2 Bcf 2P condensate reserves – 22 MMbbl 2P oil reserves – 0.6 MMbbl 2C gas contingent resources – 42 Bcf 2C condensate contingent resources – 2.8 MMbbl P50 gas prospective resources, see CPR
Reservoir	Lower Carboniferous – Visean and Tournaisian
Target Depth	5,400-5,600 metres

Pirkovskoe is located in the faulted transgression zone that forms the northern shoulder of the Dnieper-Donets Graben. Based on 2D seismic data, six structurally linked fault blocks have been identified within the licence area and potentially contain gas, condensate and oil in sandstone and carbonate levels of Visean and Tournaisian age, at a depth of around 5,000 metres. Although drilling has taken place in four of the six fault blocks, reserves are only attributed to two fault blocks and to part of the Upper Visean formation in a third. This attribution stems from production tests at acceptable gas rates from two existing wells and the recent results from Pirkovskoe well number 1. Contingent or prospective resources are attributed to the lower horizons in the third block and to the remaining three blocks.

Four wells were drilled on the licence in the 1980s and 1990s. Successful production tests were carried out on three zones in well number 408 with a total gas flow rate across all the zones of 72 Mcm (2.5 MMcf/d) and two zones in well number 460 with a total gas flow rate across the zones of 201 Mcm (7.1 MMcf/d).

Cadogan's current licence for Pirkovskoe is an exploration and development licence expiring in October 2010. The Company intends to apply for the conversion of this licence into a production licence, which are typically issued for a period of 20 years, before the expiry of the exploration and development licence.

Geology overview

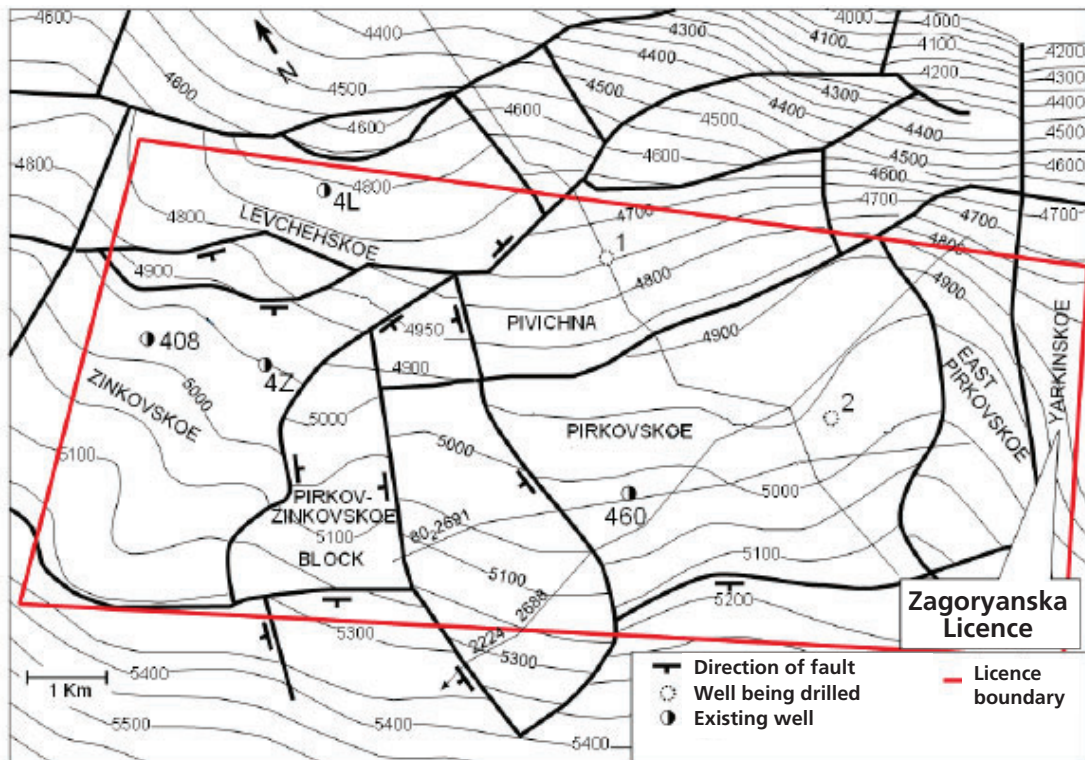
There are three reservoir types in the Pirkovskoe licence area.

The Upper Viséan consists of interbedded sandstones, siltstones and shales. The individual sands are thin ranging from 5 to 10 metres. The depositional environment is a coastal plain with inter-distributary overbank deposits consisting of coals, shales, silt and minor sandy channels. Most of the Upper Viséan sand units are lobate-shaped sandy mouth-bar complexes related to repeated stages of delta advancements. In this type of environment, the reservoirs are locally continuous but discontinuous over larger areas due to the rapid change of depositional conditions because of the influence of tides and flooding among other factors. The Upper Viséan lies unconformable over the Lower Viséan. Porosity in hydrocarbon bearing rocks ranges from 6 per cent. to 14 per cent. with an average of approximately 10 per cent.

The Lower Viséan consists of mainly carbonate rocks alternating with minor interbedded sandstone, siltstone and shales. It lies directly under the Upper Viséan clastics at a major syn-depositional unconformity. The depositional environment is sediment starved coastal plain. The rocks in this environment tend to be laterally discontinuous. The porosity in hydrocarbon bearing zones ranges from 8 per cent. to 16 per cent. with an average of approximately 12 per cent. There is support from core and analogue data that the Lower Viséan (and deeper Tournaisian) has been locally leached resulting in very high porosities and permeabilities. It is believed that vuggy porosity plays an important role in both the Lower Viséan and Tournaisian targets. The importance of fracturing in the Lower Viséan carbonate reservoirs is unknown.

The Tournaisian lies unconformably below the Lower Viséan and is described as a sandy carbonate. It is the same depositional environment as the Lower Viséan and is considered as a secondary target in these leases. These reservoirs also tend to be laterally discontinuous and show signs of leaching that results in vuggy porosity development. Porosities range up to 16 per cent. The importance of fracturing in the Tournaisian carbonate reservoirs is unknown.

Pirkovskoe Licence



Current appraisal activities

The Company is currently drilling two new wells in the field (Pirkovskoe well number 1 and Pirkovskoe well number 2) and has worked over Pirkovskoe well number 460. All of these appraisal and workover wells are being carried out by the Group using modern drilling and completion practices with refitted Ukrainian light drilling rigs. As a result of these better drilling practices, the Directors expect to continue to see significantly improved reliability of well-log testing results.

Pirkovskoe well number 1 was spudded in January 2007 and drilling of the intermediate section to 4,800 metres was completed in August 2007. After casing and logging, the V16-17 was perforated and tested, producing 46.7°API oil at up to 49 Cm/d (310 bbl/d). Between October 2007 and January 2008, it produced 673 cm (4,233 bbl) during testing at different choke sizes. Build-up tests have also been performed over a period of approximately 10 days and have indicated a drainage radius of approximately one kilometre. From the same tests, permeability has been found at about 3 mD, based on 5.6 metres of net pay. After testing of the Upper Visian section, Pirkovskoe well number 1 is planned to be deepened to a target depth of 5,600 metres in the Tournaisian.

Pirkovskoe well number 2 is a re-entry well which was previously drilled to approximately 3,000 metres in 1993 by the prior operator and at that time was suspended due to the financial constraints of the previous owner, has been re-entered by the Group and is planned to be deepened to a depth of 5,600 metres in the Tournaisian.

As described above, the Pirkovskoe well number 460 was drilled by its previous owners commencing in 1988 and reaching target depth by 1992. The well encountered gas and condensate during testing from various zones. However, in August 2004, a drill pipe broke whilst drilling a cement plug and 53 metres of drill pipes and a junk bit were left in the well with the top of the lost pipe at 5,240 metres. Since its ownership, the Group performed a workover and by the end of 2007 the junk was removed and well testing has now begun. Commercial production is targeted to begin from this well in the second half of 2008.

The Group further anticipates drilling wells Pirkovskoe well numbers 3, 4 and 6 to target depths of 5,400 metres. The Directors plan for wells 3 and 6 to be drilled with a heavy drilling rig for which tenders are currently outstanding. Well number 4 is planned to be drilled with a currently contracted Ukrainian light drilling rig.

Field development plan

The Group has developed a full field development plan for Pirkovskoe, which will be refined as a result of testing from the wells that are currently drilling, and the Group is targeting commercial production to commence from some wells in the second half of 2008. It is intended that a full field development plan be filed with the relevant authorities prior to the expiry of the Group's exploration and development licence. Prior to receiving a production licence, the Group is still permitted to produce hydrocarbons from Pirkovskoe with no volume limit under its exploration and development licence.

Gas and condensate marketing

The Group owns the Kraznozayarska gas treatment facility, located on the Pirkovskoe licence area, which is connected to the UkrTransGas system. Its capacity was upgraded in July 2007 to 300 Mcm/d of gas and 150 tonnes/d of condensate. Gas from the Pirkovskoe field will initially be processed by this facility. The Group has signed a letter of intent for the construction of a further gas treatment facility on Pirkovskoe. The Group currently trucks its condensate production from the Pirkovskoe field to the Kremenchug refinery, and it plans to link into Kremenchug's existing pipeline system when the Group has sufficient condensate production to make this economic.

5.4.2 Pokrovskoe Licence

The following table summarises the features of the Pokrovskoe licence:

Licence Type	Exploration and Development
Group Working Interest	100 per cent.
Hydrocarbon Classification	Prospective resources
Product	Gas and Condensate
Estimated Volumetrics	P50 gas prospective resources, see CPR P50 condensate prospective resources, see CPR
Reservoir	Lower Carboniferous – Viséan and Tournaisian
Target Depth	5400 metres

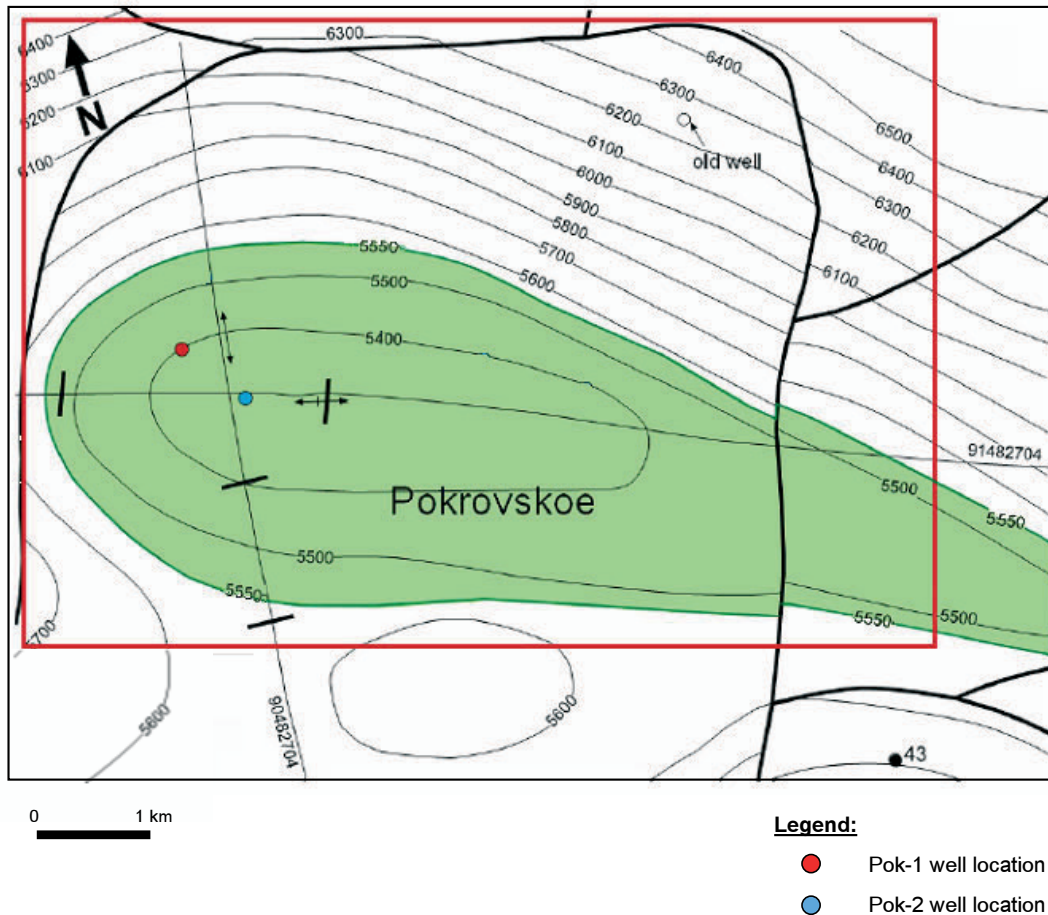
The Pokrovskoe licence area covers 49.5km² and is for a period of 10 years ending in August 2011.

The Group has a field development programme in place and is targeting commercial production from Pokrovskoe in the first half of 2009. There are currently two leased light Ukrainian rigs on the field.

Pokrovskoe well number 2 was spudded in October 2006 and has been drilled to a depth of 4,950 metres with a target depth of 5,400 metres. The well encountered gas shows in the upper horizons and is currently in production testing.

The Pokrovskoe well number 1 was spudded in February 2008, has been drilled to 2,500 metres and is drilling towards a target depth of 5,400 metres.

Pokrovskoe Licence



5.4.3 Zagoryanska Licence

The following table summarises the features of the Zagoryanska licence:

Licence Type	Exploration and Development
Group Working Interest	90 per cent.
Hydrocarbon Classification	Contingent and prospective resources
Product	Gas and condensate
Estimated Volumetrics	2C gas contingent resources – 95.0 Bcf 2C condensate contingent resources – 1.4 MMbbl P50 gas prospective resources, see CPR P50 condensate prospective resources, see CPR
Reservoir	Lower Carboniferous – Visean and Tournaisian
Target Depth	4,500 – 5,500 metres

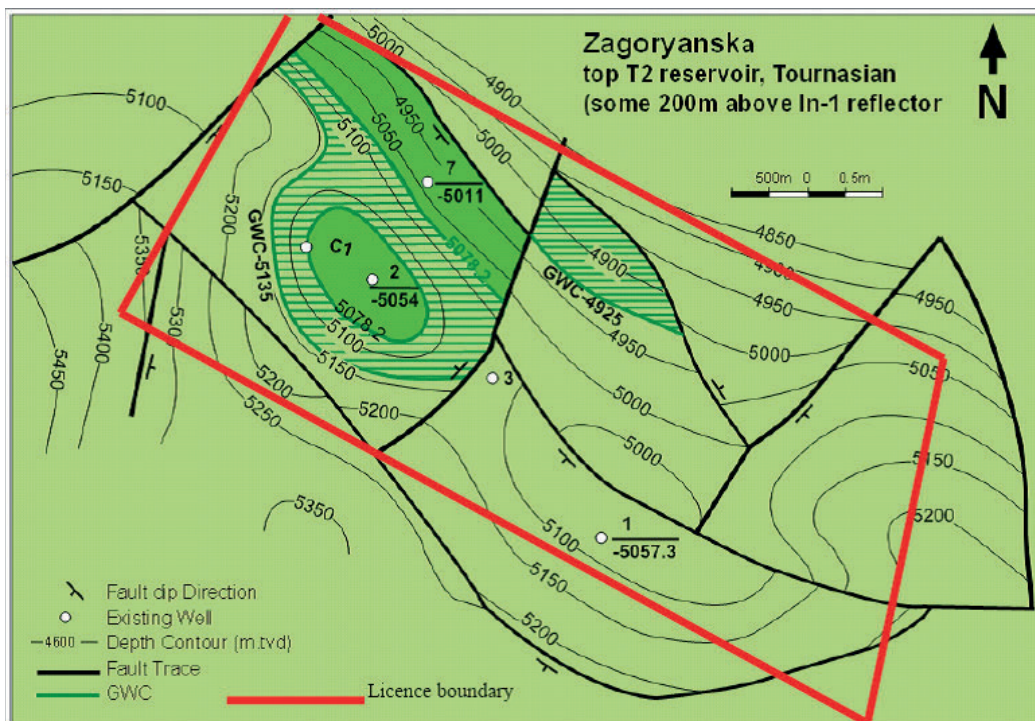
The Zagoryanska field lies to the east and adjacent to the Pirkovskoe licence. The exploration and development licence expires in October 2009.

The Group has a field workover, appraisal and development programme in place and commercial production is targeted to begin in the first half of 2009.

Four wells have been drilled to date in the field (numbers 1, 2, 7 and 8). A fifth well (number 3) is currently drilling and has reached a depth of 5,040 metres. Drilling is being performed by a Ukrainian light drilling rig. The previous wells in the field have encountered gas in the Upper and Lower Visean and Tournaisian reservoirs and in one well hydrocarbons have

been encountered in the Devonian. Reservoir depths vary from 4,500 to 5,500 metres. The wells have tested gas at rates up to 115 Mcm/d (3.9MMcf/d) and some pilot production took place from the lower Visean reservoirs during the period of 1997 to 2004.

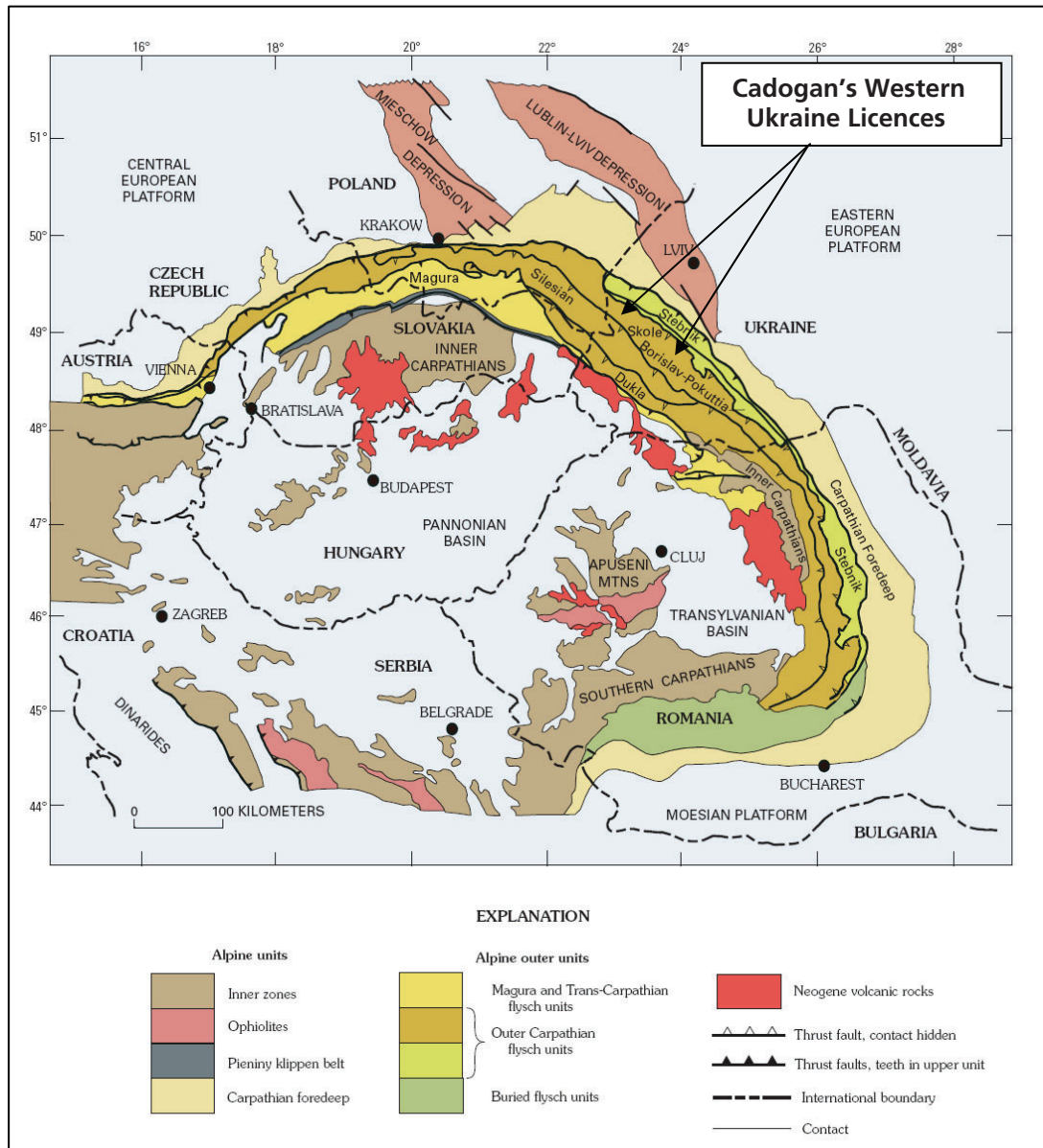
Zagoryanska Licence



5.5 Major Fields in Western Ukraine

The Major Fields in Western Ukraine are Borynya and Bitlya, both part of the Bitlyanska licence area. The licence area lies in the Carpathian Basin in an area to the south of Lviv.

Major Fields in Western Ukraine



The Carpathian basin is located in Western Ukraine, Poland and Romania and is one of the largest hydrocarbon basins in Central Europe. The oldest beds of interest in this area are late Jurassic to Lower Cretaceous. Menilite black shales contain one source of hydrocarbons. A second source may occur in the Cretaceous. Menilite sandstones form one of the main reservoir targets in the thrust belt and other potential reservoirs may occur in the Late Paleocene Yamna formation and the Vigodska and Manyavska formations. The shallow gas fields are found in the Lower Miocene sandstones. The Menilite shales are likely to form effective vertical seals, and thrust faults may also constitute good seals.

5.5.1 Bitlyanska Licence

The following table summarises the features of the Bitlyanska licence, which includes the Major Fields of Bitlya and Borynya and the Vovchenska Minor Field:

Licence Type	Exploration and Development
Group Working Interest	Bitlya – 96.8 to 98.5 per cent. Borynya – 96.5 per cent. Vovchenska – 96.8 per cent.
Hydrocarbon Classification	Contingent resources
Product	Gas and condensate (Bitlya and Borynya)
Estimated Volumetrics	Bitlya 2C gas contingent resources – 539.0 Bcf Bitlya 2C condensate contingent resources – 17.0 MMbbl Borynya 2C gas contingent resources – 899.0 Bcf Borynya 2C condensate contingent resources – 26.8 MMbbl
Reservoir	Lower Oligocene
Target Depth	Borynya Upper Interval 3,100 – 4,700 metres Lower Interval 5,200 – 5,600 metres Bitlya Upper Interval 3,100 – 3,700 metres

The Bitlyanska exploration and development licence covers an area of 390.0 km² tectonically belonging to the Krosno zone of the folded Carpathians and includes the Bitlya, Borynya and Vovchenska fields. Within the Bitlyanska licence area there are two structures, the Bitlya at approximately 3,000 metres depth and the Borynya at between approximately 3,000 and 5,000 metres depth.

Wells have previously been drilled on the Bitlya and Borynya structures (Bitlya well number 1, Borynya wells number 1 and 2). The Bitlya well number 1 was abandoned in 2007 after well testing due to a change in land zoning which required the liquidation of the well. Borynya well number 1 was abandoned after a blow out in 1974 and the re-drill of Borynya well number 2 was tested from numerous intervals which generally showed low rates, although there was one test with a reported gas rate at 400 Mcm/d (14.1 MMcf/d) but no long term test data or reliable pressure data is available.

Following a geological study a location for Borynya well number 3 was determined and drilling commenced in the first half of 2008 and the well has reached 1,611 metres. Borynya well number 3 is targeting formations at a depth of 3,500 metres and 5,200 metres. The drilling of well Bitlya well number 2 is being planned, the wellsite is ready and the access road is being prepared. The well is expected to spud in July 2008. Commercial production is targeted for mid-2009 for one well on Borynya and the second half of 2009 for one well on Bitlya. The Group may drill further wells with light drilling rigs on both the Borynya and Bitlya fields in 2010, drilling down to target depths of 4,500 metres on Borynya and 3,900 metres on Bitlya.

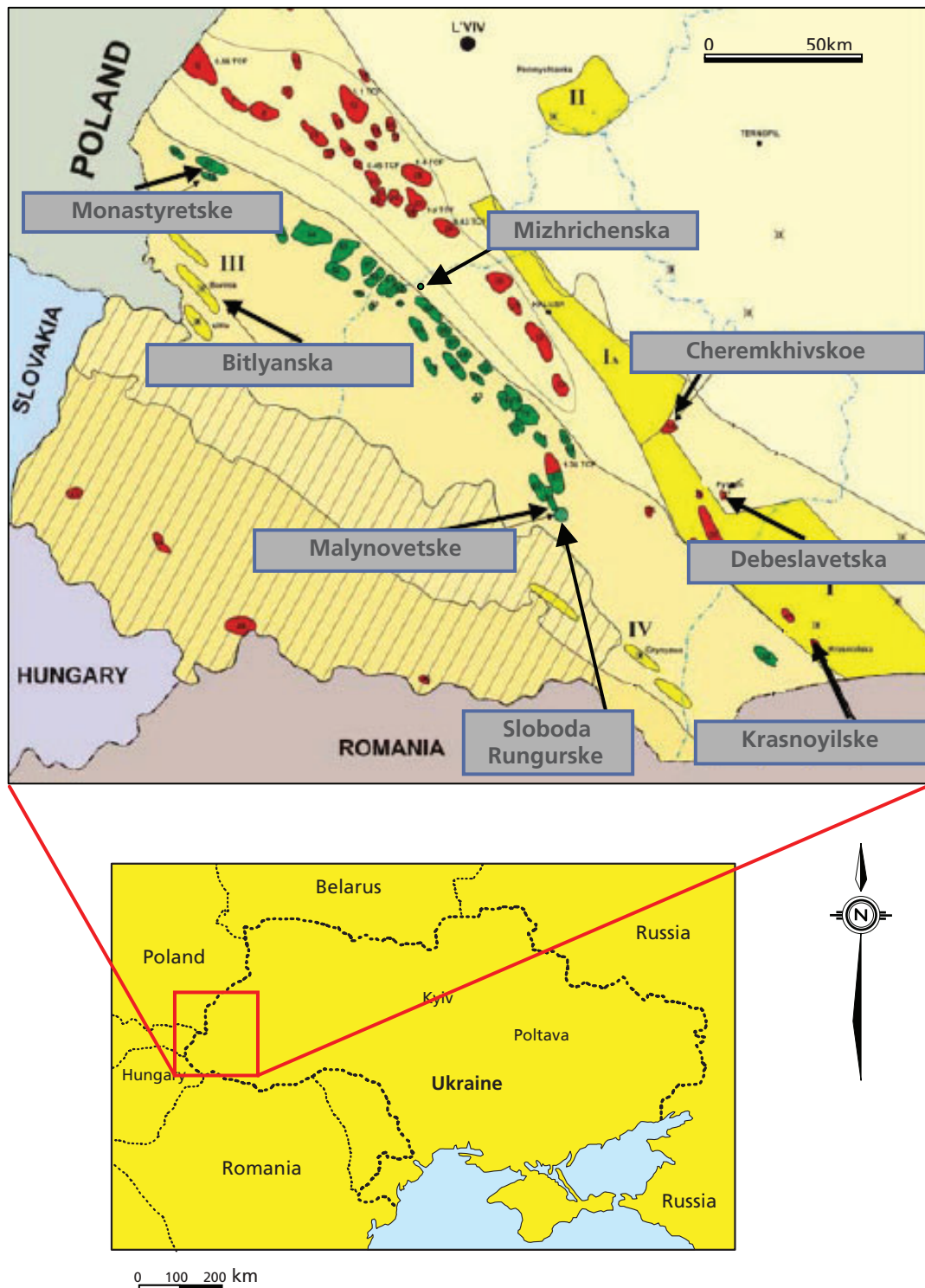
Vovchenska well number 11 was spudded in 2001 but suspended in 2002 due to the lack of funds by the then operator. In 2006, the geological data were revised. The Group re-drilled the well, perforated it and obtained initial oil flow. Well testing operations continue but there are no current plans to develop this field.

5.6 Minor Fields in Western Ukraine

In Western Ukraine, the Company holds exploration, development and production licences either directly through subsidiaries or through joint ventures. The Minor Fields in Western Ukraine include the only four fields currently in commercial production for the Group, namely Monastyrtske, Debeslavetska, Cheremkhivskoe and Slobodo-Rungurske. The Group plans to focus on geological studies, fulfilling its licence obligations and reviewing development programmes for

each of the Minor Fields. The Directors intend that capital expenditure on the Minor Fields will be phased in when such expenditure can be funded primarily from revenue generated by the Major Fields. Capital expenditure on the Minor Fields will also depend on the economic viability of the fields, current and forecast oil and gas prices, and the opportunities for diversifying exploration and appraisal risk and obtaining additional capital through farm outs. The licence areas containing these Minor Fields, Monastyretske, Krasnoyilske, Debeslavetska, Slobodo-Rungurske, Cheremkhivskoe, Malynovetske and Mizhrichenska, along with the Bitlyanska licence area discussed in paragraph 5.5.1 of this Part VIII are located in the map below.

Western Ukrainian Licences



5.6.1 Monastiretske Licence Area

The Group's working interest in the Monastiretske licence will vary over time by virtue of a net profit sharing mechanism in the applicable JAA under which its interest reduces after it has recovered a level of capital expenditure. The effect of the reorganisation in respect of the licence in 2007 has been to reduce significantly the impact of this variation on the working interest of the Group.

Licence Type	Exploration and Development
Field Name	Monastiretske Blazhivskoe
Group Working Interest	95 to 96 per cent.
Hydrocarbon Classification	Reserves, contingent and prospective resources
Product	Oil
Estimated Volumetrics	Blazhivskoe 2P oil reserves – 0.15 MMbbl Blazhivskoe 2C oil contingent resources – 1.5 MMbbl Monastiretske P50 oil prospective resources, see CPR
Reservoir	Oligocene Eocene
Target Depth	3,000 – 3,500 metres
Current Status	Producing
Future Plans	Subject to development plan review and is a potential farm-out candidate

5.6.2 Krasnoyilske Licence

The Group's working interest in this licence will under the applicable JAA vary over time as described in paragraph 5.1 of this Part VIII.

Licence Type	Exploration and Development
Field Name	Krasnoyilske
Group Working Interest	96.8 to 98.5 per cent.
Hydrocarbon Classification	Contingent resources
Product	Gas
Estimated Volumetrics	2C gas contingent resources – 8.0 Bcf
Reservoir	Miocene
Target Depth	700 metres – 1,300 metres
Current Status	Suspended
Future Plans	Subject to development plan review

5.6.3 Debeslavetska Licence

Licence Types	Exploration and Development Production
Field Name	Debeslavetska
Company Working Interest	98.3 per cent.
Hydrocarbon Classification	Reserves
Product	Gas
Estimated Volumetrics	2P gas reserves – 2.4 Bcf
Reservoir	Miocene
Target Depth	600 metres
Current Status	Producing
Future Plans	Subject to development plan review including potential five workovers and three new wells

5.6.4 Cheremkhivskoe Licence

Licence Type	Production
Field Name	Cheremkhivskoe
Group Working Interest	49.8 per cent.
Hydrocarbon Classification	Reserves
Product	Gas
Estimated Volumetrics	2P gas reserves – 0.4 Bcf
Reservoir	Miocene
Target Depth	200 metres
Current Status	Producing
Future Plans	Continue production to abandonment

5.6.5 Slobodo-Rungurske Licence

Licence Type	Exploration and Development
Field Name	Slobodo-Rungurske
Group Working Interest	100 per cent.
Hydrocarbon Classification	Reserves, prospective resources
Product	Oil
Estimated Volumetrics	2P oil reserves – 0.02 MMbbl P50 oil prospective resources, see CPR
Reservoir	Eocene
Target Depth	0 – 300 metres
Current Status	Producing
Future Plans	Continue production to abandonment. Potential farm out candidate

5.6.6 Malynovetske Licence

Licence Type	Exploration and Development
Field Name	Malynovetske
Company Working Interest	79.9 per cent.
Hydrocarbon Classification	Prospective resources
Product	Oil
Estimated Volumetrics	P50 oil prospective resources, see CPR
Reservoir	Miocene
Target Depth	1,600 metres
Current Status	Geological study in progress
Future Plans	Subject to development plan review. Potential farm-out candidate

5.6.7 Mizhrichenska Licence

Licence Type	Exploration and Development
Field Name	Mizhrichenska
Group Working Interest	39.95 per cent.
Hydrocarbon Classification	Remains to be classified
Product	Oil
Reservoir	Mezozoic (Paleocene, Cretaceous, Jurassic)
Depth	6,200m
Current Status	No activity
Future Plans	Subject to development plan review. Potential farm-out candidate. Licence obligation to drill exploration well.

5.7 Treatment facilities and transmission

5.7.1 Overview

Ukraine has an established gas transmission system and storage network consisting of approximately 37,800 kilometres of pipelines that connects its gas producing regions to population and industrial centres (Source: International Energy Agency). The national gas transmission system is operated by UkrTransGas, a State-owned entity. Gas production companies connect to the UkrTransGas network which charges a fee for the initial connection and transporting the gas. The sale of gas by producing companies takes place at the entry to the UkrTransGas system and the transportation fees are paid by the purchaser of gas. The price paid to the producer is net of any transportation costs.

5.7.2 Major Fields in Eastern Ukraine

The Eastern Ukraine fields of Pirkovskoe and Zagoryanska are within 15 kilometres of the UkrTransGas system. The Group owns the Kraznozayarska gas treatment plant, located on the Pirkovskoe licence area, which is connected to the UkrTransGas system. Its capacity was upgraded in July 2007 to 300 Mcm/d of gas and 150 tonnes/d of condensate. Gas from the Pirkovskoe field will initially be processed by the Kraznozayarska plant. The Group has entered into a letter of intent for the construction of a further gas treatment facility with an initial capacity of two MMcm/d on the Pirkovskoe licence area. This facility is planned to begin operation in mid-2009 and process anticipated production from the Zagoryanska field as well as the Pirkovskoe field. The Company's subsidiary Astroinvest-Ukraine has signed a letter of intent with Global Process Systems for the initial work on the construction of this facility at a cost of approximately US\$29 million. The letter of intent provides for a stepped payment schedule and stepped cancellation fees ranging from 10 per cent. to 100 per cent. of the initial cost. The Group expects to enter into a final contract with Global Process Systems shortly. The Group intends to meet the cost of this construction from the net proceeds of the Global Offer and internally generated cash flows. The Group currently trucks its condensate production from the Pirkovskoe field to the Kremenchug refinery, and it plans to link into Kremenchug's existing pipeline system when the Group has sufficient production.

The Pokrovskoe field is approximately 15 kilometres from the UkrTransGas system. The Directors plan to connect the field to this system during the first half of 2009, and process the gas via a separate treatment facility with an initial capacity of one MMcm/d. The Group intends to have the facility constructed by a third party, although the Group has not yet entered into any contract. This facility is planned to be completed in the first half of 2009.

5.7.3 Major Fields in Western Ukraine

The Bitlya and Borynya fields are approximately 20 kilometres apart. The Group has entered into a letter of intent for the construction of a gas treatment facility on the Borynya field with an initial capacity of two MMcm/d with provision to expand this to four MMcm/d in the future and this will be connected to the UkrTransGas system. The Directors intend this combined facility to service all wells on both Bitlya and Borynya due to the geographic proximity of the two fields. The Company's subsidiary USENCO Ukraine has signed a letter of intent with Global Process Systems for the initial work on the construction of this facility at a cost of approximately US\$29 million. The letter of intent provides for a stepped payment schedule and stepped cancellation fees ranging from 10 per cent. to 100 per cent. of the initial cost. The Group expects to enter into a final contract with Global Process Systems shortly. The Group intends to meet the cost of this construction from the net proceeds of the Global Offer and internally generated cash flows. A pipeline is planned to connect production from Bitlya to the facility on Borynya. The Directors intend that this pipeline and the combined gas treatment facility will begin operating in the first half of 2009. Both fields are close to a UkrTransGas pipeline at Turka situated some 10 kilometres from Borynya and it is expected to connect them via a Group-owned pipeline.

5.8 Drilling rig operations

The Group plans to utilise low cost Ukrainian drilling rigs and crews trained to international standards, supplemented with internationally experienced drilling managers and supported by an entirely Ukrainian operational administration. The Group currently has eight light Ukrainian drilling rigs contracted for operations in both Eastern and Western Ukraine. In addition, the Group owns a mobile drilling rig suitable for workovers and drilling shallow wells.

To improve drilling performance, during the second half of 2008 and the first half of 2009 the Group is planning to lease two heavy drilling rigs. The Group is currently analysing tenders for supplying the drilling rigs, and have identified potentially suitable heavy rigs belonging to Polish, Croatian and Romanian companies. No contracts have yet been signed. The Directors estimate that heavy drilling rigs should reduce drilling times by approximately one third to reach a target depth of 5,400 metres, though the daily operating costs would be significantly higher. The first imported heavy drilling rigs are planned for use in the Eastern Ukraine fields to evaluate the cost-time benefits of using heavy drilling rigs. Depending on the results, the Group may seek to import two or more additional heavy drilling rigs in 2010, subject to availability, to be deployed in both the Eastern and Western Ukraine fields.

5.9 Marketing of the Group's products

In the first quarter of 2008, the Group produced 365 metric tonnes of oil, 171 metric tonnes of condensate and 4.6 Mcm of gas.

The majority of the gas is currently sold to industrial customers, principally Bitimpex Energy and the State-owned Naftogas, at market prices. ZUG's share of gas production from the Cheremkhivskoe Field is sold to Naftogas at the price set by NCRE for further sale by Naftogas to residential customers (due to the rules imposed by the State Budget of 2007 described in paragraph 5.1 of this Part VIII). The Group's strategy will be to sell most of its gas to industrial users.

The Group currently sells its gas to industrial users at approximately US\$220/Mcm. In Ukraine, the price for sales by the Government to industrial customers is set by the Cabinet of Ministers of Ukraine. This price effectively caps domestic gas sales by private companies to industrial customers. As Ukraine relies to a significant extent on supplies of energy resources from, and deliveries of such resources through, Russia, the domestic industrial gas price exhibits a strong correlation with the Russian gas import price. This import price is determined based on annual negotiations between the governments of Ukraine and Russia and is currently set at US\$179.50/Mcm. The Group sells gas on a spot monthly basis on cash-in-advance terms, thus reducing the credit risk on such sales, in return for a discount on price, which is currently approximately two to five per cent. The Directors believe they will be able to continue to sell gas on a cash-in-advance basis once production increases.

The oil produced by the Group is sold to a local industrial user at market prices.

A small volume of condensate from the Pirkovskoe well number 460 has been sold to local industrial users, who collected the product from the well site, at a price of US\$535/tonne.

The Group has its own in-house marketing team and does not currently anticipate using third parties to market and sell its initial commercial production from its Major Fields.

5.10 Third party contractors

The Group relies on the services of various contractors and advisers in the performance of its activities. Drilling and related operations are carried out for the Group by a combination of Ukrainian drilling contractors, western solids control and mud systems contracted from the M-I SWACO Group and western drilling bits supplied by Smith International, Inc. Electrical logging is

carried out by a regional geophysical company and workovers are carried out by Smith Eurasia, part of the Integra Group of Russia.

TRACS International Consultancy Limited provides Cadogan with reserve and geological advisory services and GCA has been appointed as the Competent Person for the purposes of the Global Offer.

5.11 Fiscal regime in Ukraine

Taxes on hydrocarbon development are levied at three levels, namely production taxes, value added tax and corporate income tax. The fiscal regime applicable to the Group's operations in Ukraine is described in paragraph 6 of Part VI of this Prospectus.

6 Health, Safety and Environment

The Group's operations generate hazardous and non-hazardous waste, effluent and atmospheric, water and soil emissions that are typical of extractive industries. In addition, many of the Group's work places are exposed to dust, noise, vibration, moving machinery and other factors, such as Ukraine's climate. The Directors consider that the Group has in place the necessary health, safety and environment (the "HSE") policy and compliance procedures to address these issues within the requirements of applicable law and regulation and within a framework agreed with the relevant Ukraine governmental authorities.

The Group is committed to following good practice in respect of HSE matters and its HSE policy includes, amongst other things, compliance with applicable laws and regulations, implementation of systems to identify and manage risks associated with its activities and ensuring that its employees and contractors are adequately trained in the HSE aspects of their jobs.

The Board has established a Health, Safety and Environment Committee which is responsible for formulating and recommending policies on HSE issues relating to the Group's operations. Further details regarding the Committee are given in paragraph 2 of Part IX of this Prospectus.

7 Operational Hazards and Risks

The Group's operations are subject to numerous operating risks, including geological conditions, seismic activity, climatic conditions, interruptions to power supplies, environmental hazards, technical failures, fires, explosions and other accidents at its facilities. These risks and hazards could result in damage to facilities, personal injury, fatalities, environmental damage, business interruption and possible legal liability.

The Group's policy historically with regard to its insurance arrangements has been to obtain cover from a local reputable insurer for the risks typically covered by oil and gas companies operating in Ukraine and in order to comply with its statutory obligations. Such cover includes Employment, Motor Accident and Civil Liability, Personal Insurance for certain workers, Environmental Damage, Property, Well Control and Medical. The Group operates from a number of sites in different locations and the Directors believe that its risk profile is accordingly lower than would be the case if its operations were restricted to a smaller number of sites. The Group keeps its insurance arrangements under review.

8 Dividend Policy

The Directors intend for the Company to re-invest any net earnings to finance the development of its assets and accordingly it is not intended that the Company shall pay any dividends in the foreseeable future. However, the Directors will review the policy as the business develops and intend to commence the payment of a dividend as soon as is appropriate and practicable.

9 Timeline of Key Events and Corporate Structure

Date	Event
October 2004	Cadogan Holdings incorporated in England and Wales as a private limited company
September to December 2005	Seed financing undertaken raising £1.3 million
December 2005	Cadogan Holdings acquires entities holding 70 per cent. interest in a JAA to the Pirkovskoe licence area and 100 per cent. of the Pokrovskoe licence area for considerations of £546,000 and £461,000 respectively
January to April 2006	Seed financing undertaken raising £1.3 million
February 2006	Cadogan incorporated in England and Wales as a private limited company
April 2006	Cadogan re-registered as a public limited company
May 2006	Equity financing undertaken raising £0.8 million
August 2006	Equity financing undertaken raising £14.5 million
September 2006	Acquisition of 100 per cent. interest in USENCO International which holds interests in the Bitlyanska licence area and two other minor licence areas to operate gas-condensate fields in Western Ukraine for £1.1 million
December 2006	Equity financing undertaken raising £9.4 million
January to June 2007	Equity financing undertaken raising £12.1 million
May 2007	Acquisition of 100 per cent. of Momentum Energy for £3.8 million which included Cadogan's first two production licences on the Debeslavetska and Cheremkhivskoe fields as well as a further exploration licence
June 2007	Acquisition of a further licence to operate oil fields (Blazhivske and Monastyretske oil fields on Monastyretske exploration licence)
September to November 2007	Equity financing undertaken raising £27.5 million
November 2007	Acquisition of Radley, the entity that owns a 90 per cent. interest in the Zagoryanska gas-condensate field exploration licence for £15.9 million
December 2007	Equity financing undertaken raising £15.5 million Acquisition of 100 per cent. of Ramet and its 79.9 per cent. subsidiary Agro which holds interests in the Malynovetske and Mizhrichenska licences, for initial consideration of US\$5 million, consisting of cash and shares, with potential further cash consideration of up to US\$5 million
February 2008	Acquisition of 100 per cent. of the issued share capital of LLC Mercor, which holds interests in Zagoryanska well number 8 for US\$4.35 million
January to May 2008	Equity financing undertaken raising £29.1 million

Note: The equity financing amounts above are net of any costs or expenses incurred in procuring such subscriptions.

Cadogan is currently effecting a reorganisation of its corporate structure with a view to simplifying the structure of the Group, improving its tax efficiency in anticipation of greater revenue streams in the future and incurring lower ongoing administrative costs (the “**Reorganisation**”). The Reorganisation is being undertaken by way of liquidating or disposing of dormant or unnecessary entities in the Group's corporate structure and the introduction of an intermediate holding company, Cadogan Petroleum Holdings B.V., a wholly owned subsidiary of the Company, further details of which are set out in paragraph 3.2 of Part XVII of this Prospectus. It is expected that the Reorganisation will be completed by September 2008. A description of the Group post-Reorganisation is described further at paragraph 3.2 of Part XVII of this Prospectus.

10 Reasons for the Global Offer and Use of Proceeds

Initially, the Group intends to use the net proceeds of the Global Offer to pursue its field appraisal, exploration and drilling programme for its Major Fields and then to otherwise finance the Group until it can fund its future cash requirements from internally generated cash flow.

The key objectives of these appraisal, exploration and development activities are to bring the Major Fields into sustainable commercial production, to convert hydrocarbons currently classified as contingent resources and prospective resources into reserves, and to phase in additional investment in the Minor Fields when production from the Major Fields can support the required expenditures.

The Directors plan to prioritise the Group's investment in its assets on the development of its identified 2P reserves on the Pirkovskoe field. The Group will consider farm-out proposals for the Minor Fields under which other industry participants would jointly exploit and develop these fields with the Group to spread the exploration and appraisal risk.

Pending use, the net proceeds of the Global Offer will be placed on deposit in cash or cash instruments.

The Directors believe that Admission will offer the Group a number of benefits including raising the profile of the business and greater financial flexibility. In addition, Admission will provide the existing investors, who have supported the Group's growth over recent years, with a market quotation for the Ordinary Shares and accordingly an opportunity to realise part or all of their investment.

PART IX

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1 Directors and Senior Management

1.1 The Directors of the Company and their functions are:

Name	Age	Position
Simon Patrick Duffy	58	Non-executive Chairman
Mark Clifton Tolley	50	Chief Executive Officer
Alexander Sawka	51	Chief Financial Officer
Peter Anthony Biddlestone	58	Asset Development Director
Vasyl Petrovych Vivcharyk	59	Chief Operating Officer
Philip John Dayer	57	Senior Independent Non-executive Director
Alan Jack Cole	65	Non-executive Director
Nicholas Charles Corby	48	Non-executive Director
James Charles Donaldson	54	Non-executive Director
Nicholas John Hooke	50	Non-executive Director

The business address of each of the Directors and senior management (as defined below) is Fifth Floor, 4/5 Grosvenor Place, London SW1X 7HJ.

1.2 In addition to the executive management on the Board of the Company, the following senior management are considered relevant to establishing that the Company has the appropriate expertise and experience for the management of its business:

Name	Age	Position
Vladimir Jovanovic	45	HSE Director
Vladimir Shlimak	47	Operations Director

1.3 Founders

On 10 March 2006, the entire issued share capital of the Company was transferred to 3Legs Venture Capital plc, a company in which William Jeffcock (the former chairman of the Company) whose business address is 6A Bouligrins, 5 bis av de la Princesse Alice, MC 98000, Monaco, is beneficially interested. At such time, each of Mark Tolley and William Jeffcock were directors of the Company. On 13 April 2006, the Company allotted Ordinary Shares to the shareholders of Cadogan Holdings as consideration pursuant to a share for share exchange agreement entered into between each such shareholder to acquire all of their respective shareholdings in Cadogan Holdings. At such time, Mark Tolley was a director of Cadogan Holdings and William Jeffcock resigned as a director of Cadogan Holdings on 13 April 2006.

1.4 Brief biographies of the Directors and senior management are set out below. Paragraphs 8 and 9 of Part XVII of this Prospectus contain further details of the Directors' and senior management's current and past directorships and certain other important information regarding the Directors and senior management.

1.5 Directors

Simon Duffy

Mr Duffy has over 20 years' experience as an executive director of a number of companies listed in the UK, Europe and the United States. These include, amongst others, Thorn EMI plc, Orange SA and most recently ntl Inc. He has served variously as chief financial officer, chief operating officer, chief executive officer, president and executive vice-chairman. He also has 30 years' experience as a non-executive director or non-executive chairman of a range of companies, including ten years with Imperial Tobacco Group plc. Mr Duffy joined the Board on 9 May 2008.

Mark Tolley

Mr Tolley has over 24 years' international experience in the oil industry with the last 13 years working primarily in the CIS and Russia. He is married to a Ukrainian national and is based in Kiev. Between 1996 and 2000 Mr Tolley worked in the Ukraine as general director and country manager for JKC Oil & Gas plc, Carpathy Petroleum (subsequently re-named Cardinal) and Momentum Energy. From 2001 to 2004 he was technical director of Sibir Energy plc, where he was responsible for the technical management of operated and non-operated interests in Russia and the UK. He is fluent in Russian. Mr Tolley joined the Board on 10 March 2006.

Alexander Sawka

Mr Sawka was born in Australia to Ukrainian parents. He has held a number of senior management positions in organisations with developing operations in Russia and Ukraine since 1991. He was first assigned to establish and manage the Moscow and St Petersburg offices of TNT Express Worldwide. He later worked as a consultant to Eurasia Mining plc where he was based in Yekaterinburg, Russia. In March 2000, he was appointed chief financial officer to the Western NIS Enterprise Fund, a US private equity fund specialising in Ukraine. Alex was until 2006 finance director of Man Sugar, based in Moscow and responsible for the financial management and control of its Russian operations. He is fluent in Russian. He is a certified practising accountant and holds a MBA. Mr Sawka joined the Board on 13 April 2006.

Vasyl Vivcharyk

Mr Vivcharyk is a professional engineer and economist with over 25 years' experience in the oil and gas industry. In the former Soviet Union, he held the post of Deputy General Director in the Ministry of Electrical Industry.

He has been Deputy Chairman of the State Committee on technical Regulation and Consumer Policy; Deputy Chairman of the National Oil and Gas Holding Company Naftogas Ukrainy and General Director of one of its subsidiaries; Vice-President of Momentum Enterprises Inc. (Canada); General Director of Ukrainian-Canadian Joint Venture Kolomya Oil & Gas Company Delta; Chairman of Euraftogas; General Director of Joint Stock Company Oil Company Evikhon (Russia). Vasyl has also been a Parliamentarian of the Ivano-Frankivsk region. In 1999, the President of Ukraine presented Vasyl with the "Honored Industryman of Ukraine" award for outstanding achievements in the development of the energy industry, namely discovery, exploration and development of oil and gas fields. Mr Vivcharyk joined the Board on 5 June 2007.

Peter Biddlestone

Mr Biddlestone has over 25 years' experience in the upstream and midstream oil and gas industry in technical and commercial roles. He has worked in the petroleum teams with Texaco and Shell. With British Gas, he was director of their Karachaganak project in Kazakhstan, including dealing with inter governmental and treaty arrangements. He has provided advisory services in a number of other jurisdictions, including to Gazprom in Russia, Premier Oil in Pakistan and BulgarGas in Bulgaria. Mr Biddlestone joined the Board on 20 April 2006.

Philip Dayer

Mr Dayer qualified as a chartered accountant with Peat, Marwick, Mitchell & Co and then pursued a corporate finance career in investment banking, specialising in advising small and mid-market UK companies. He was first appointed an Advisory Director in 1983 at Barclays Merchant Bank Limited and since then has held the position of corporate finance director with a number of banks. He retired from Hoare Govett Limited in 2004. Mr Dayer was a financial consultant to OJSC Rosneft Oil Company, the Russian state-owned oil and gas company, on its flotation in 2006. Mr Dayer is a non-executive director of Dana Petroleum plc, AVEVA Group plc, senior independent director of Arden Partners plc, chairman of Baltic Oil Terminals plc and chairman of County Contact Centres plc. Mr Dayer joined the Board on 9 May 2008.

Alan Cole

Mr Cole is currently a non-executive chairman of several companies including JP Morgan Income and Growth plc and NAAFI Pension Trustees. He is also non-executive director of Hexadex Limited. Between 1990 and 1999, he was chief executive of Transport Development Group plc. Mr Cole was a non-executive director of Burren Energy plc when it was admitted to the Official List in 2003. Mr Cole joined the Board on 9 May 2008.

Nicholas Corby

Mr Corby has over 20 years' experience investing in the emerging markets. He is currently a partner and fund manager of Bridge Asset Management LLP, having previously been a director of Argo Capital Management. Mr Corby joined the Company as a non-executive director in December 2006. Mr Corby joined the Board on 19 December 2006.

James Donaldson

Mr Donaldson has been a non-executive director since March 2007. Since 1981, Mr Donaldson has worked with companies in exploration, development and production of hydrocarbons. Mr Donaldson is based in the United States, and is involved in numerous domestic oil and gas projects, primarily in the US mid-continent. He was initially appointed to represent the European Bank for Reconstruction and Development (the "EBRD"), one of the Company's major shareholders. However, he now has no contractual relationship with the EBRD. Mr Donaldson joined the Board on 5 March 2007.

Nicholas Hooke

Mr Hooke is a chartered petroleum engineer and a fellow of the Energy Institute. He has over 25 years of oil and gas experience. Mr Hooke has worked in a variety of technical, commercial and management roles with ESSO and Conoco and is currently an executive director of Challenge Energy, an oil and gas advisory company which he founded in 1997. Mr Hooke joined the Board on 9 May 2008.

1.6 Senior management**Vladimir Jovanovic**

Vladimir Jovanovic is the Company's HSE director. His responsibilities include ensuring appropriate health and safety procedures are in place across each of Cadogan's operating locations and the Group's insurance arrangements. Dr Jovanovic has over 17 years of international experience providing occupational HSE services for offshore and onshore oil and gas and construction projects. He has worked in Turkmenistan, Kazakhstan and Russia and speaks fluent Russian.

Vladimir Shlimak

Vladimir Shlimak is the Company's Operations Director. Mr Shlimak is a petroleum engineer with more than 23 years of international experience. He has worked both onshore and offshore in the CIS region. From November 2006 to April 2008, he served as Director of Engineering and Integrated Product Management for Integra Management CJSC. From February 2003 to November 2006, Mr Shlimak served as Deputy General Director of Operations for Ural Oil & Gas LLP. Prior to that, from July 2002, he worked at Maersk Oil Kazakhstan GmbH as Head of the Production Department.

2 Corporate Governance and Board Practices

The Board is committed to the highest standards of corporate governance. The Board currently comprises the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Asset Development Director and six non-executive directors. As recommended by the Combined Code, the roles of Chairman and Chief Executive are separate and the Chairman is independent. Philip Dayer has been appointed as the senior independent director. The role of the senior independent director is to evaluate the performance of the Chairman and address shareholders' concerns that are not resolved through the normal channels of communication with the Chairman, the Chief Executive or Chief Financial Officer or in cases when such communications would be inappropriate.

The Combined Code recommends that at least half the Board (excluding the Chairman) should be non-executive directors who are independent in character and judgment and free from relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The Group has four non-executive directors (in addition to the Chairman) who, in the opinion of the Board, are independent in character and judgment. Notwithstanding his former association with the EBRD, James Donaldson is considered to be independent in character and judgment. The Board does not consider Nicholas Corby to be independent. He will stay on the Board for a transitional period post listing. At the date of this Prospectus, the Company is not compliant with the recommendation of the Combined Code that at least half the Board, excluding the Chairman, should be independent non-executive directors. However, Nicholas Corby, who is not independent, will only remain on the Board for a transitional period and, following Mr Corby's departure, the Company will be compliant with such recommendation.

The composition of the Board will be reviewed regularly. Appropriate training and an induction programme is undertaken in respect of all directors on appointment and subsequently as necessary, taking into account existing qualifications and experience. One third of all directors are subject to election by shareholders each year.

The Board intends to meet at least five times a year. At these meetings, the Board will review the Company's long-term strategic direction and financial plans.

In addition, the Company has adopted a code of securities dealings in relation to the Ordinary Shares, which is based on, and is no less exacting than, the Model Code published in the Listing Rules. This code will apply to Directors and other persons discharging managerial responsibilities.

The Board has recently established the following committees:

Audit Committee

The role of the Audit Committee is to monitor the integrity of the Company's financial reporting, to review the Company's internal control and risk management systems, to monitor the effectiveness of the Group's internal audit function and to oversee the relationship with the Group's external auditors. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the rules of the FSA. The Audit Committee will meet at least three times a year with further meetings that are determined by the committee. Any member of the committee or the external auditors or the Director of Group Risk, Audit and Compliance may request additional meetings they consider necessary. The Combined Code

recommends that all members of the Audit Committee should be independent non-executive directors and that at least one member should have recent and relevant financial experience. The Audit Committee is chaired by Philip Dayer and the other members are Alan Cole and James Donaldson. The Company complies with the Combined Code recommendations regarding membership of the Audit Committee. The terms of reference of the committee are available on the Company's website.

Remuneration Committee

The role of the Remuneration Committee is to determine and agree with the Board the broad policy for the remuneration of executives and senior management as designated, as well as for setting the specific remuneration packages, including pension rights and any compensation payments of all executive Directors and the Chairman. The Remuneration Committee will meet at least twice a year and as otherwise required. The Combined Code recommends that the Remuneration Committee should consist of at least three members who are all independent non-executive directors. The Remuneration Committee is chaired by Philip Dayer and the other members are Alan Cole and Nicholas Hooke. The Company complies with the Combined Code recommendations regarding membership of the Remuneration Committee. The terms of reference of the committee are available on the Company's website.

Nominations Committee

The role of the Nominations Committee is to lead the process for Board appointment by identifying and nominating candidates for the approval of the Board to fill Board vacancies and making recommendations to the Board on Board composition and balance. The Nominations Committee will meet at least twice a year. The Combined Code recommends that a majority of the members of the Nominations Committee should be independent non-executive directors. The Nominations Committee is chaired by Simon Duffy and the other members are Peter Biddlestone and Nicholas Hooke. The Company complies with the Combined Code recommendations regarding membership of the Nominations Committee. The terms of reference of the committee are available on the Company's website.

Risk Committee

The Risk Committee is chaired by Peter Biddlestone and the other members are Alexander Sawka and Alan Cole. As required by the terms of reference of the Risk Committee, Mr. Cole has recent relevant experience of risk in the oil and gas industry. The Risk Committee is responsible for formulating and evaluating the effectiveness of the Group's policies and procedures for identifying, mitigating and managing the strategic, operational, financial and compliance risks faced by the Group in its different business divisions and geographical areas of operation. The Risk Committee will meet at least once every three months.

Disclosure Committee

The Disclosure Committee is chaired by Philip Dayer and the other members are Alexander Sawka and Peter Biddlestone. The Disclosure Committee is responsible for establishing and maintaining procedures, systems and controls for the identification, treatment and disclosure of inside information and for complying with other disclosure obligations falling on the Company under the Listing Rules and the Disclosure and Transparency Rules. The Disclosure Committee will meet at least annually and otherwise ad hoc as necessary or appropriate.

Executive Committee

The Executive Committee is chaired by Mark Tolley and the other members are Alexander Sawka, Vasyl Vivcharyk, Vladimir Jovanovic, Peter Biddlestone and Vladimir Shlimak. The Executive Committee is responsible for assisting the Chief Executive Officer and (in relation to certain matters) the Board, in the performance of his and its duties in relation to the development of strategy for the Group and the Group's operational plans, policies, procedures and budgets; the monitoring of the Group's financial performance, internal controls, funding and accounting issues; the review of operational and technical performance; the assessment and control of HSE,

IT, risk and dispute resolution; the prioritisation and allocation of resources; and sales and marketing performance. The Executive Committee will meet at least monthly.

Health, Safety and Environment Committee (the “HSE Committee”)

The HSE Committee is chaired by Mark Tolley and the other members are Nicholas Hooke and Peter Biddlestone. The HSE Committee is responsible for formulating and recommending to the Board a policy on health, safety and environmental issues related to the Group’s operations, and will meet at least twice a year. In particular, the HSE Committee will focus on compliance with applicable standards to ensure that an effective system of health and safety and environmental standards, procedures and practices is in place at each of the Group’s operations. The Group intends to engage specialists with appropriate technical expertise to be members of, or advise, the HSE Committee. The HSE Committee is also responsible for reviewing management’s investigation of incidents or accidents that occur to assess whether policy improvements are required. While the HSE Committee is expected to make recommendations, the ultimate responsibility for establishing the Group’s health, safety and environment policy remains with the Board. The terms of reference of the committee are available on the Company’s website.

3 Pension Arrangements

The Group contributes to a State pension scheme in Ukraine in accordance with Ukrainian law and practice. The Group’s policy on pension arrangements is kept under review. Further details on pensions are set out in paragraph 10 of Part XVII of this Prospectus.

4 Incentive Schemes

The Company adopted a Share Option Scheme on 20 April 2007. Further details of this share option scheme and awards made under this scheme are set out in paragraph 5 and 11 of Part XVII of this Prospectus. It is intended that no further awards will be made under this scheme following Admission.

The Company also adopted the 2008 Performance Share Plan, the 2008 Share Option Plan and the 2008 Approved Share Option Plan on 29 May 2008. Further details of these schemes are set out in paragraph 11 of Part XVII of this Prospectus.

The Company also intends to operate an annual bonus scheme. Further details of this scheme are set out in paragraph 11 of Part XVII of this Prospectus.

PART X

OPERATING AND FINANCIAL REVIEW

The following is a discussion of the results of operations and financial condition of the Group for the years ended and as at 31 December 2005, 2006 and 2007. For the purposes of this Part X, the 'Group' includes Cadogan Holdings and its subsidiary entities prior to their acquisition by Cadogan. The acquisition of Cadogan Holdings and its subsidiary entities by the Company on 13 April 2006 was accounted for on the basis that the transaction is a reorganisation of entities under common control.

Prospective investors should read this discussion in conjunction with the consolidated financial information as set out in Part XI of this Prospectus, the pro forma net asset statement as set out in Part XII of this Prospectus, the information on the Group's capitalisation and indebtedness as set out in Part XIII of this Prospectus, the information on the Group's oil and gas reserves set out in Part XV of this Prospectus and the illustrative projections as set out in Part XIV of this Prospectus.

The Group has prepared its financial information in accordance with IFRS. Information on the Group's oil and gas reserves are derived from the CPR included in Part XV of this Prospectus.

This Part X of this Prospectus contains forward-looking statements about the Group's future revenue, operating results and expectations that have not been audited and involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in Part II of this Prospectus and elsewhere in this Prospectus.

1 Overview

Cadogan is an independent oil and gas exploration, development and production company with a diversified portfolio of onshore assets in Ukraine. The Group has built a portfolio of assets, at varying stages of development, through a series of acquisitions, the first of which was in December 2005. The Group currently has significant working interest in 11 licence areas covering 14 fields in Ukraine. The Group's assets are located in two of the three proven hydrocarbon basins in Ukraine, the Dnieper-Donets basin and the Carpathian basin. Initially, the Group intends to use the net proceeds from the Global Offer to pursue its field appraisal, exploration and drilling programme for its Major Fields and then to otherwise finance the Group until it can fund its future cash requirements from internally generated cash flow.

Currently, none of the Group's Major Fields have achieved commercial production. In the first quarter of 2008, the Group produced 365 metric tonnes of oil, 171 metric tonnes of condensate and 4.6 Mcm of gas. The Group has had net cash outflow from operating activities and has had no operating profit since inception, relying primarily for working capital on a series of private placements of equity to its current shareholders. The Group expects to remain cash flow negative for the foreseeable future as it expects to incur significant capital expenditure of approximately £100,665,000 in 2008, £85,292,000 in 2009 and £65,533,000 in 2010 as it seeks to develop its 2P reserves from Pirkovskoe, convert its current contingent resources and prospective resources to reserves, build additional collection and treatment infrastructure that will allow delivery of gas and condensate to the transportation system, and commence production on existing and planned wells. The Directors intend to fund these capital expenditures from the net proceeds of the Global Offer and projected cash flows from anticipated future production.

In Eastern Ukraine, the Group is targeting commercial production to commence from the Pirkovskoe field during the second half of 2008, subject to, among other things, the successful outcome of production testing of two wells which are currently being drilled. The Group is targeting commercial production to commence from the Zagoryanska and Pokrovskoe fields in the first half of 2009, subject to, among other things, positive results from appraisal drilling and the completion of processing of 3D seismic surveys which the Group has conducted on the Pokrovskoe field. In Western Ukraine, drilling in the Borynya field is currently underway and following construction of a new gas treatment facility, the Group is targeting commercial production to commence in mid-2009, subject to, among other things, successful test drilling of two wells. In relation to the Bitlya field, the Group is targeting

commercial production to commence in the second half of 2009, subject to, among other things, drilling and testing of the exploration well and completion of a pipeline linking Bitlya to the gas treatment facility planned for construction on Borynya.

The Group's future production is dependent upon, among other things, developing and monetising 2P reserves, converting contingent and prospective resources into reserves, allocating capital expenditures effectively to the most productive fields, and achieving projected production rates from existing and planned wells. The Directors believe that a significant majority of the anticipated production from its Major Fields will be gas, with substantial production of condensate and a significantly lower level of production of crude oil.

GCA estimates that, as at 31 January 2008, the Group had:

- proved net reserves of 109 Bcf of gas, 7.6 MMbbl of condensate and 0.16 MMbbl of oil;
- proved and probable net reserves of 320 Bcf of gas, 22 MMbbl of condensate and 0.77 MMbbl of oil; and
- proved and probable and possible net reserves of 588 Bcf of gas, 42 MMbbl of condensate and 1.6 MMbbl of oil.

GCA also estimates that, as at 31 January 2008, the Group had net best estimate contingent resources of 1,583 Bcf of gas, 48 MMbbl of condensate and 1.5 MMbbl of oil. In addition, GCA estimates that the Group has significant prospective resources, as set forth in the CPR in Part XV of this Prospectus.

For illustrative purposes, the Group has converted the net reserves and resources figures contained in the CPR of GCA into MMboe, using the conversion factor of one Bcf equals 0.18 MMboe. This conversion results in proved net reserves of approximately 27.4 MMboe, proved and probable net reserves of approximately 80.4 MMboe, proved and probable and possible net reserves of approximately 149.4 MMboe and net best estimate contingent resources of approximately 334.4 MMboe.

Significant additional appraisal and development work of the Group's existing assets is required to classify as recoverable on a commercial basis the assets currently shown as contingent resources and prospective resources, representing a significant portion of the Group's hydrocarbon assets. As a result, future production volumes, required capital expenditures, and revenues and operating profits are highly uncertain. Although the Group's existing wells have not yet reached target depths, the Group has tested in and will continue to test fields within its existing licence areas, and to engage in workover activities intended to improve production on older and recently-acquired fields.

2 Significant Factors Affecting Results of Operations and Financial Condition

A number of factors have affected, and are expected to continue to affect, the Group's results of operations and financial condition, including the Group's achieved levels of production, reserve and resource levels, the success of its drilling and workover activities, the regulatory and operating environment in Ukraine (including pricing, taxation and licensing regulation), and the impact of currency exchange rates. Each of these factors is discussed below.

2.1 Production volume and reserve and resource levels

The Group's current exploration, development and production strategy is focused on achieving commercial production on Pirkovskoe and on converting those hydrocarbons that are currently classified as contingent or prospective resources into reserves through exploration and appraisal drilling, in particular of the Group's Major Fields.

The Group's projected cash flows, as set out in detail in the Illustrative Projections contained in Part XIV of this Prospectus, are based on the production profile as set forth in the CPR presented in Part XV of this Prospectus. Therefore, for the purposes of the Illustrative Projections, production over the period shown relates solely to the Pirkovskoe assets which are currently

classified as reserves. Thus, the Group's production volumes over the near term are dependent upon achieving commercial production on Pirkovskoe. In addition, over the near and medium-term, hydrocarbon production volume from the Group's existing and planned wells will also be impacted by the Group's ability to convert those hydrocarbons that are currently classified as contingent or prospective resources into reserves, particularly on its Major Fields, and subsequently commence sale of hydrocarbons from those Major Fields. Although substantially all of the Group's fields have had wells drilled in them and undergone some degree of appraisal work, these assets nonetheless cannot be classified as reserves at this time according to SPE PRMS definitions and guidelines (as set out in the CPR) because, among other reasons, with the exception of Pirkovskoe which has achieved test production, the wells have not to date produced at commercial rates or durations according to recognised standards of international practice. A significant portion of the Company's projected production is dependent on assets currently classified as contingent resources and prospective resources. According to SPE PRMS definitions and guidelines (as set out in the CPR), contingent resources are 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, and prospective resources are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Contingent and prospective resources can be classified as reserves only once recoverability has been confirmed by the achievement of sufficient commercial production rates from those assets. The Group's ability to convert those hydrocarbons that are currently classified as contingent or prospective resources into reserves, particularly on the Major Fields, and to do so in a cost effective and timely manner, will be a key factor in determining the Group's production volumes going forward.

Substantially all of the Group's Major Field licences are exploration and development licences, and the Group's Major Fields and certain of its Minor Fields are currently in the exploration, appraisal and testing stage. If the Group's existing wells are able to achieve commercial production rates, the Directors expect that it will be able to convert additional 2P reserves and prepare development plans with the aim of obtaining production licences and significantly growing production volumes from existing fields.

The Group's future production volume will be determined by the number of wells drilled, their depth, the amount of time and resource it takes to bring planned wells into production, and the flow rates achieved in the Group's existing and planned wells. The flow rate for a given well is a key element in determining whether production from that well is economic, and whether additional capital expenditures are required to enhance drilling and workover activities and to achieve sufficient commercial production. Growth in the number of wells drilled, an improvement in flow rates, and a resulting increase in production to date has been delayed principally due to a shortage of available funds which caused the Group to defer the implementation of certain capital expenditure programmes in 2006 and 2007. As a result, no revenues from production were recorded in 2006 and only minimal production and revenues were recorded in 2007. Going forward, the Group intends to incur significant capital expenditures from 2008 to 2010 in prioritising commercial production from its existing 2P reserves on Pirkovskoe and by exploration and appraisal drilling to convert those hydrocarbons that are currently classified as contingent or prospective resources into reserves, particularly on the Major Fields. Subject to its work programme obligations, the Group has the flexibility and discretion to modify its projected capital expenditure and there may be circumstances where, for sound business reasons, a reallocation of funds or strategic priorities may be necessary. For example, this may be necessary if the results of exploration, development or appraisal activities are unsatisfactory or the results are not commercially viable.

Additional information about the Group's projected capital expenditures is available in paragraph 5.3 of Part VIII of this Prospectus. As further discussed below in paragraph 2.2 of this Part X, the Group will also seek to improve operational efficiency in its drilling and workover activities by seeking to contract for heavy drilling rigs and their international crews in an effort to reduce the lead time to production and to accelerate the availability of operational cash flows.

The level of production volume growth achieved will determine the need for, and feasibility of, the elements of the Group's future capital expenditures which are projected to be funded by operating cash flows once the net proceeds of the Global Offer have been spent, which is currently projected to be by the end of 2009. See Part XIV of this Prospectus. In addition, a high proportion of the Group's operating expenses are fixed rather than variable, including operating costs of processing and treatment facilities and staff costs, and are therefore incurred regardless of production volumes. As a result, achievement of higher levels of production volumes will also be a key driver of the Group's operating profits going forward.

2.2 Drilling and workover activities

Higher production volumes, and resulting revenues, operating profits and cash flows, are dependent on the effectiveness of the Group's drilling and workover activities on its existing and planned wells. Due to the deep horizons within which the Group's main gas reservoirs are located, successful hydrocarbon extraction at commercial rates of production will depend upon the ability of the Group to drill and workover its wells in a timely and cost-effective manner. Application of well stimulation techniques to enhance flow rates and remove any formation damage will affect the Group's ability to achieve commercial production rates.

The Group's operational wells, and the effectiveness and sustainability of its current and planned drilling activities, are still undergoing appraisal and testing as a database of information on field geology and drilling equipment performance is being obtained in the course of drilling. Although specific results will vary on a well-by-well basis within a given field, the Group has assigned priority to drilling and workover activities in its Major Fields, as described in paragraph 5.1 of Part VIII of this Prospectus. The Directors believe these Major Fields have greater prospective or more immediately accessible gas assets which are more likely to generate revenue from production on a more cost-effective basis.

In conducting its drilling and workover activities, the Group currently has contracted for use of eight Ukrainian light drilling rigs, upgraded with western mud systems and drilling bits, and manned by western trained rig management personnel. These Ukrainian drilling rigs are lower-cost (charging day rates which are up to five times lower than western drilling equipment) and more readily available for contract than heavier drilling rigs commonly used in international operations, but also have slower drilling times that result in increased risk of damage to geological formations which may cause lower flow rates and production volumes, when compared to heavier international drilling rigs. As a result, although the Directors believe that the lighter drilling rigs have to date enabled the Group to incur lower asset development and operating costs than international operational peers, the Group is conducting an international tender to import two heavy drilling rigs from Romania, Poland or Croatia, the first during the second half of 2008 and the second in the first half of 2009. The daily operating costs of these heavy drilling rigs is expected to be significantly higher than the lighter local drilling rigs, (approximately US\$25,000/d versus the current rate of US\$7,000/d) but the Directors believe these additional daily drilling costs will be significantly offset by a reduction to drilling times to reach a target depth of 5,400 metres of at least one third compared to lighter local drilling rigs. The first heavy international drilling rigs will be used in Eastern Ukraine fields to allow the evaluation of the time-cost benefits of using heavy drilling rigs. The Directors intend to evaluate the time-cost benefits of the two heavy drilling rigs and, depending upon the results, may seek to import two or more additional heavy rigs in 2010, subject to availability, to be deployed in both the Eastern and Western Ukraine fields.

The Group's historical drilling activities have been slower and, in some cases, more costly than anticipated, principally due to a shortage of available funds but also due to technical issues inherited from prior operators' development of the Pirkovskoe field. The Group will scale its future capital expenditure plans up or down, according to the effectiveness of its drilling and workover activities and the resulting rate of production volume and cash flows. The success of the Group's drilling and workover activities, and the resulting capital expenditures, production volumes and operational and financial results, will be driven by the ability of the Group to execute its planned development programmes on time and within budget.

2.3 Regulatory environment in Ukraine

The gas and oil sector is of considerable importance to Ukraine for various reasons, including economic and strategic considerations, as discussed in Part VI of this Prospectus. The Ukrainian Government has historically dominated the oil and gas sector and is expected to continue to exercise significant influence over the sector. As a result of the economic and strategic importance of the oil and gas sector, the Group's ability to sell hydrocarbon products to industrial customers in Ukraine at attractive prices will be driven by Ukrainian Government policies towards the gas and oil sector generally, and in particular its pricing, taxation and licensing policies.

2.3.1 Prevailing gas, condensate and oil prices in Ukraine

In Ukraine, prices for domestic industrial gas customers are set by the Cabinet of Ministers of Ukraine on an "import parity" basis. As Ukraine relies to a significant extent on supplies of energy resources from, and deliveries of such resources through, Russia, the domestic industrial gas price in Ukraine exhibits a strong correlation with the Russian gas import price. This import price, and consequently the prices which may be charged by producers in Ukraine to their industrial customers, is determined based on annual negotiations between the governments of Ukraine and Russia.

The price of gas in Ukraine has historically been, and currently remains, at a discount to the price prevailing in the European Union. Given increased co-operation and integration with the European Union by Ukraine, the price of gas in Ukraine is expected to converge with prevailing Western European gas prices and achieve export netback parity in the near term. In the view of Gas Strategies, this could occur as early as 2009, as more fully described in Part VII of this Prospectus.

Ukrainian gas pricing regulation differentiates between gas prices which may be charged to residential customers and prices which may be charged to industrial customers. Industrial customer gas prices in Ukraine are based on the price set by the Government for its gas sales to industrial users. For 2008, the Cabinet of Ministers of Ukraine set the maximum price for industrial users at UAH 1,121.64/Mcm (US\$231/Mcm) including VAT, but excluding other taxes, transportation costs and distribution costs of Naftogas. Residential customer prices, which are effectively state-subsidised in accordance with the requirements of the 2008 Ukrainian State Budget, are controlled and set at a range from UAH 315/Mcm to UAH 1,290/Mcm (US\$65/Mcm to US\$266/Mcm), depending on usage. Historically, the Group has primarily sold its gas to industrial customers, with the exception of a period from April to June 2007 when certain of its production was sold to residential customers according to the Group's licence then in effect. Given the Group's costs incurred in production of gas, sales at residential customer rates are not economical for the Group going forward. In 2007, the Group therefore restructured its interests in its key licences held in partnership with NAK Nadra to reduce NAK Nadra's working interest to below 50 per cent. This restructuring and changes in legislation enable the Group to sell its gas in 2008 to industrial customers rather than being subject to the residential customer price cap set by NCRE (UAH 319/Mcm including VAT in 2007) which applies to licences where a Government owned subsidiary owns a majority interest.

The prices of condensate and crude oil in Ukraine are generally not regulated, and fluctuate according to world market prices, denominated in USD (although prices remain slightly lower than the world market level).

The Directors believe that the demand for gas produced in Ukraine in substitution for imported gas will continue, and that Ukrainian Government policies, which encourage reduced dependence on imported gas production, will continue to permit private companies, such as the Group, to continue to sell their gas production at the higher market-based prices which can be realised from industrial customers. Continuation of a positive trend in gas prices to industrial customers is a key component of the Group's present and future production, as extraction from certain of its fields would be uneconomic at

significantly lower prices due to the deep horizons within which the main gas reservoirs are located. In certain circumstances, specifically where no industrial customers are locally available, the Group may sell oil, condensate and gas to residential customers in the localities where its Minor Fields are located, although the Directors do not expect these sales at the lower controlled prices to be significant.

As discussed in Part VII and Part II of this Prospectus, prices for gas, condensate and oil can vary significantly and are affected by a number of factors which are outside the control of the Group.

2.3.2 Taxation

As more fully described in paragraph 6 of Part VI of this Prospectus, a variety of Ukrainian taxes apply to the Group's operations, including various forms of production taxes, Value Added Tax, corporate income tax (profits tax), customs duties, payroll (social) taxes and other taxes. In addition, Ukrainian tax laws have not been in force for significant periods of time as compared to more developed market economies and are subject to frequent changes and amendments and unclear interpretations.

To date, the Group has had net cash outflow from operating activities and has had no operating profit since inception, and as a result has not had any material production tax expenses since commencing operations. Over the short term, the Directors believe that the level of cash and cash equivalents maintained by the Group from the net proceeds of the Global Offer to fund its planned capital expenditure programme will result in significant interest income, resulting in material corporate income taxes. Over the medium to long term, if the Group is successful in achieving commercial production from its Major Fields, the most significant element of taxation for the Group will be the three forms of production taxes – rent (royalty) tax, subsoil tax and geological tax. All three elements of production taxes are calculated, at least in part, on the volume of hydrocarbons produced. The rate of hydrocarbon production volume growth the Group is able to achieve will therefore be the most significant determinant of the Group's taxation going forward. The rent component of production tax is indexed to inflation and is also determined, in part, by the horizon depth of extraction of gas, with more favourable tax treatment afforded to hydrocarbons obtained from depth horizons over 5,000 metres. As a consequence of the deep horizons at which the Group's main gas reservoirs are located, the tax treatment in Ukraine of the production and sale of gas by the Group is more favourable than the tax treatment of crude oil and condensate. Accordingly, the proportion of the Group's production which is in the form of gas and derived from its deeper reservoirs, as compared to condensate and oil, will have a material effect on the Group's level of taxation going forward.

The Group carries on its consolidated balance sheet receivables which include VAT recoverables from the State budget of Ukraine relating to reimbursement of VAT arising on purchases of goods and services from external service and product providers. Under the VAT regime in Ukraine, any VAT that would be recoverable against the Group's expenses will be deemed unrecoverable for any period in which there are not sufficient product revenues by the Group to generate VAT liabilities. Consequently, the Group recognises recoverable VAT only to the extent that it is probable that VAT payable arising on sales of production will be sufficient to offset the VAT recoveries due from the State. The Group's ability to recover VAT will depend upon its level of hydrocarbon production, the timing of such production in relation to its expenses and the resulting revenues subject to VAT.

2.3.3 Licensing

The Ukrainian Government authorises all exploration, development and production of hydrocarbons in Ukraine, and closely monitors compliance with hydrocarbon licence obligations. Exploration and development as well as production licences entitle the holder to the rights to revenue and profits from hydrocarbon production in the licenced field, according to the level of the holder's working interest in the ownership of the licence,

subject to certain work programme obligations and other requirements on the part of the licence holder. As explained in greater detail in Part VII of this Prospectus, the Ukrainian Government awards exploration and development licences, typically for five year terms, via an auction process. On completion of the initial five-year exploration phase, if the licence holder has satisfactorily fulfilled its work programme obligations under the exploration and development licence, it may apply to the Ministry of Environment of Ukraine for the grant of a production licence for that field, for terms of up to 20 years, as determined by the agreed work programme for that licence. So long as the applicant has complied with its work programme obligations under the exploration licence, the award of the production licence is not subject to an auction process, but is subject to Ministry approval of the proposed work programme for the portion of the field covered by the production licence. Work programme and other obligations under each licence are tested periodically for compliance by the authorities, and licence holders found to be out of compliance with their commitments under either exploration and development or production licences may have their licences revoked by the Ministry, as further discussed in paragraph 1.3 of Part II of this Prospectus.

Since commencing operations, the Group has acquired nine exploration and development licences and two production licences, and is obliged to remain in compliance with the work programme and other requirements under each licence in order to maintain their validity. As a result of the specific work programme requirements of each licence, the Group's capital expenditure and operational decisions have been and will continue to be determined, in part, by the need to maintain compliance with work programme obligations, both for its existing licences as well as future obligations which arise as exploration and development licences are upgraded to the longer-term production licences on new terms. Production licences, in general, entail more specific work programme requirements, and consequently higher required levels of capital expenditure, than exploration and development licences. The Group's existing licences have been subjected to regular review and, in certain cases, to challenge by regulators based on defaults of work programme obligations that had occurred prior to the Group's acquisition of the licence. For example, shortly after acquiring the Pokrovskoe licence in 2006, the Group was required to demonstrate compliance with its licence obligations, which it did successfully by obtaining an extension of the time frame agreed to by the previous licence holder.

Going forward, the Group's ability to maintain existing and future licences will be determined by its success in meeting work programme requirements, including drilling and workover benchmarks and, in the case of its production licences, the availability of funding from production to meet medium to long-term capital expenditure goals. Effective deployment of the cash proceeds from the Global Offer and the generation of positive cash flows from anticipated future production going forward are therefore key drivers of the Group's ability to comply with existing and future production licence obligations. In negotiations with the Ministry regarding upgrades of its existing exploration and development licences, the Group will seek to align proposed work programme obligations with the Group's own development and capital expenditure projections for its assets.

2.4 Operating environment in Ukraine

Ukraine is a strategic hub for Russian transit gas, primarily from Central Asia to Europe, and consequently has a well developed gas transmission and storage network. The proximity of the Group's Major Fields to this national gas transmission network allows the Group to deliver its hydrocarbon products to customers with relatively low expenditure on gathering and processing infrastructure.

Domestic demand is rising in line with Ukrainian economic growth, and the Government of Ukraine has been taking measures, including permitting sales to industrial customers at market prices, to stimulate domestic production and reduce dependency on imported gas supplies which have been rising in price as a result of periodic bi-lateral negotiations with Gazprom to establish the price of gas imports from Russia. Historically, political relations with Russia have played a key

role in ensuring the reliability of gas supplies and the Ukrainian Government is seeking to reduce this dependency by promoting domestic production. There is also substantial room for improvements in efficiency of energy usage in Ukrainian industry and households that could offset increased demand.

The maintenance of Ukraine's gas transmission and storage network (particularly transmission points in close proximity to the Group's assets), the continued growth of domestic demand for hydrocarbon products within Ukraine, and continued Government emphasis on and support of increased domestic production of hydrocarbon products will be significant factors influencing the Group's results.

2.5 Exchange rates

Production revenues to date have been received in Ukraine's national currency, the Hyrvnia. The Ukrainian economy continues to display certain characteristics consistent with that of an economy in transition, including low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls, all of which cause the UAH to be illiquid outside Ukraine.

The price in UAH for gas, condensate and oil received by the Group is negotiated with its industrial customers with reference principally to the price of gas imported from Russia established in bi-lateral negotiations between Ukraine and Gazprom. This gas import price is influenced by prevailing international prices for hydrocarbons principally denominated in US dollars and the rate of exchange for US dollars and UAH fixed by the Ukrainian Government. The majority of the Group's operating expenses and capital expenditures are also denominated in UAH. Since 2000, the UAH has been de facto pegged to the US dollar, which was at an exchange rate of \$1 to UAH 5.05 until 22 May 2008, when it was changed to UAH 4.85 to US\$1.00.

As the Group's operations expand, the relative amounts of expenditures incurred in the various currencies may change.

The Group has been financed principally by the issue of equity in Sterling. The Group holds its cash and cash equivalents in Sterling and these funds are then exchanged for foreign currency as required by the Group's operating and capital expenditure requirements. Funds are primarily exchanged for US dollars which are then used to make payments to foreign suppliers or transferred to the Group's subsidiary operating companies. Any US dollar funds transferred to Ukraine-based subsidiaries are subsequently exchanged for UAH.

The Group has historically reported and will continue to report its financial results in its presentation currency, Sterling, and for this purpose the assets and liabilities of the Group's subsidiaries outside the UK are translated at each reporting period date from the subsidiary's functional currency into the Group's presentation currency at the then-prevailing exchange rate.

Accordingly, fluctuations between the value of Sterling, US dollars and UAH may affect the expenditure and reported results of the Group as follows:

- Where operating transactions are entered into in a currency other than a subsidiary's functional currency, any movement in exchange rates will result in an operating exchange gain or loss, which is reflected in administrative expenses in the Group's consolidated income statement.
- At the end of each reporting period, any monetary assets or liabilities held in a subsidiary's balance sheet which are payable or receivable in a currency other than the Group's presentation currency are subject to restatement at the closing rate. This will result in an exchange gain or loss, which is reflected in administrative expenses in the Group's consolidated income statement.

- On consolidation of the Group's results, any movement in exchange rates from one reporting period to another will result in an exchange gain or loss on translation of any assets and liabilities previously translated at a different exchange rate. This exchange gain or loss is not recognised in the Group's consolidated income statement, but is classified as a separate component of shareholders' equity on the Group's consolidated balance sheet. See the notes to the Group's financial statements in Part XI of this Prospectus.

In 2006 and 2007, the US dollar and UAH weakened against Sterling, resulting in a foreign currency translation loss in the Group's consolidated income statement in each period.

3 Results of Operations

The following discussion and analysis of the Group's results of operations and financial condition is based on the Group's historical results. As a result of its multiple acquisitions in the periods under review, the Group's results of operations may not be directly comparable from period to period.

3.1 Consolidated Income Statement

	For the Year Ended 31 December		
	2007 (£)	2006 (£)	2005 (£)
Revenue.....	665,627		
Cost of sales.....	(611,345)	–	–
Gross profit.....	54,282	–	–
Administrative expenses.....	(12,355,428)	(4,016,497)	(122,906)
Other operating expenses.....	(2,926,342)	(1,224,996)	(925,745)
Operating loss.....	(15,227,488)	(5,241,493)	(1,048,651)
Investment revenue.....	277,984	88,085	–
Finance costs.....	(28,154)	(18,567)	(395)
Loss before tax.....	(14,977,658)	(5,171,975)	(1,049,046)
Tax – foreign.....	(221,563)	(11,423)	–
Loss for the year.....	(15,199,221)	(5,183,398)	(1,049,046)

3.2 Year Ended 31 December 2007 Compared to Year Ended 31 December 2006

3.2.1 Revenue

Revenue consists of revenues from sale of hydrocarbon products.

Revenue was £665,627 in 2007, compared to nil revenue in 2006. Revenue in 2007 consisted of production and sale, since June 2007, of gas from well testing and from the producing wells in the Debeslavetska and Cheremkhivskoe Minor Fields which the Group acquired as part of its acquisition of Momentum Energy.

3.2.2 Cost of sales

Cost of sales consists of the cost of operating the Group's existing wells, the cost of drilling operations and gathering and gas collection and processing facilities, production taxes, and amortisation charges reflecting the costs of acquisitions of properties for which the existence of commercial reserves has been determined.

Cost of sales was £611,345 in 2007, compared to nil in 2006. Cost of sales in 2007 consisted primarily of costs incurred in the production and sale, since June 2007, of gas from well testing and from the producing wells in the Debeslavetska and Cheremkhivskoe Minor Fields which the Group acquired as part of its acquisition of Momentum Energy. In addition, costs of sales in 2007 also included amortisation charges.

3.2.3 Administrative expenses

Administrative expenses consist of staff costs (including charges for share-based payments for the granting of options in relation to the Share Scheme), professional fees, rental costs relating to office premises in London and Kiev, Directors' fee-based remuneration (excluding professional consultancy fees for certain Non-executive Directors and two members of the senior management team, which are included in other operating expenses), travel and security costs, depreciation charges for the Group's property, plant and equipment and its other intangible assets, and any currency effects from operating transactions or from the currency-related restatement of the value of monetary assets or liabilities. Administrative expenses may also reflect other income statement charges, including the impact of any adjustments to the carrying value of VAT assets on the Group's consolidated balance sheet.

Going forward, the Group's administrative expenses are likely to be materially higher in 2008 as compared to 2007, due to legal and professional costs resulting from the Global Offer, higher staff costs as headcount increases in line with a higher level of operational activity, and significantly greater depreciation charges resulting from materially higher capital expenditures.

Administrative expenses increased by £8,338,931, to £12,355,428 in 2007, compared to £4,016,097 in 2006, primarily due to increased operational activity and higher headcount in 2007. In particular, administrative expenses increased in 2007 due to charges for the granting of options to certain Directors under the Share Scheme, in the amount of £4,243,887 in 2007, as well as other staff costs of £1,973,039 resulting from higher headcount in 2007, both due to organic headcount growth as well as staff acquired in the acquisition of Momentum Energy. Administrative expenses were also higher in 2007 due to £668,000 in increased legal and professional fees resulting from the Group's 2007 restructuring of its interests in its key licences, and from higher general corporate legal expenses. In addition, administrative expenses were higher in 2007 due to the impact of an adjustment to the carrying value of VAT and depreciation of property, plant and equipment in 2007, resulting from the Group's higher level of operating activity and capital expenditure.

3.2.4 Other operating expenses

Other operating expenses consist of professional consultancy fees paid to third party consultants, consultancy fees paid to Non-executive Directors and to two members of the senior management team (excluding Directors' fee-based remuneration, which is included in administrative expenses) and pre-licence expenditures, which are costs incurred in appraisal and development work prior to having obtained a licence for a given area.

Certain costs are not expensed on the Group's consolidated income statement, but are capitalised as capital expenditures, as described in paragraph 4.1.2 of this Part X and paragraph 7.2 of this Part X.

Other operating expenses increased by £1,701,346, to £2,926,342 in 2007, compared to £1,224,996 in 2006, primarily due to £1,855,058 in pre-licence expenditures, compared to no such expenses in 2006. Other operating expenses were also higher in 2007 due to higher consultancy fees paid to Non-executive Directors and to two members of the senior management team, and to third party health and safety consultants. The increase in operating expenses in 2007 was partly offset by lower professional consultancy fees for third party consultants as compared to 2006.

3.2.5 Operating loss

Operating losses increased by £9,985,995, to £15,227,488 in 2007, compared to a loss of £5,241,493 in 2006. The increase in operating losses was principally due to the substantial

increase in administrative expenses and other operating expenses associated with the Group's increased operational activity in 2007.

3.2.6 Investment revenue

Investment revenue consists of interest earned on bank deposits.

Investment revenue increased by £189,899, to £277,984 in 2007, compared to £88,085 in 2006, primarily due to an increase in the average balance of cash and cash equivalents in the Group's bank deposits in 2007.

3.2.7 Finance costs

Finance costs consist of interest paid on shareholder loans and changes in the present value of the provision taken against future decommissioning costs related to acquired wells.

Finance costs increased by £9,587, or 52 per cent., to £28,154 in 2007, compared to £18,567 in 2006, primarily due to the change in the present value of a previously-estimated provision taken against future decommissioning costs related to acquired wells, adjusted for the time value of money. The Group had no finance costs related to interest paid on the shareholder loan in 2007, as the shareholder loan was repaid in 2006.

3.2.8 Loss before tax

Loss before tax increased by £9,805,683, to £14,977,658 in 2007, compared to a loss of £5,171,975. The increase in loss before tax was principally due to the substantial increase in administrative expenses and other operating expenses associated with the Group's increased operational activity in 2007.

3.2.9 Tax-Foreign

Tax-foreign consists of liabilities in Ukraine due to corporate income tax (profits tax) and deferred tax provisions relating to accelerated tax depreciation and other temporary differences.

Tax-foreign increased by £210,140 to £221,563 in 2007, compared to £11,423 in 2006. Provision for deferred tax was made in 2007 despite the Group's loss before tax, due to the fact that deferred tax assets have not been recognised due to the uncertainty that profits will be available in future periods against which they can be utilised.

3.2.10 Loss for the year

Loss for the year increased by £10,015,823, to £15,199,221 in 2007, compared to a loss of £5,183,398 in 2006. The increase in loss for the year was principally due to the substantial increase in administrative expenses and other operating expenses associated with the Group's increased operational activity in 2007.

3.3 Year Ended 31 December 2006 Compared to Year Ended 31 December 2005

3.3.1 Revenue

There was no revenue from operations in 2006 or 2005.

3.3.2 Cost of sales

There was no cost of sales in 2006 or 2005.

3.3.3 Administrative expenses

Administrative expenses increased by £3,893,591, to £4,016,097 in 2006, compared to £122,906 in 2005. The increase was primarily due to legal and professional fees, including a one-off expense of £1,100,000 in 2006 related to the Group's abortive listing on AIM, and

expenses related to the subsequent private placement of equity with its current shareholders. In addition, further contributing to administrative expenses in 2006 were significantly higher general and administrative costs, including an increase in staff costs in 2006 to £808,797 due to increased headcount compared to 2005. Higher administrative expenses also reflected operational activity in 2006 covering the full year, relative to the shorter period of operations in 2005. In addition, Group administrative expenses increased in 2006 due to currency effects from operating transactions and from the currency-related restatement of the value of monetary assets or liabilities. Partially offsetting increased administrative expenses in 2006 was the funding-related delay in Group activities, which caused certain operations that had commenced in 2005 to be temporarily suspended in the spring of 2006, and recommence at a slower pace in the late autumn of 2006.

Administrative expenses in 2005 of £122,906 primarily related to general administrative and legal costs, including costs of staffing and operations in 2005 and costs incurred in 2005 relating to the Group's abortive 2006 listing on AIM.

3.3.4 Other operating expenses

Other operating expenses increased by £299,251, or 32 per cent., to £1,224,996 in 2006, compared to £925,745 in 2005. The increase principally reflected increased consultancy costs (both third party consultants and Directors' consultancy arrangements) which grew as a result of the Group's increased operational activity over the full year, relative to the shorter period of operations in 2005.

Other operating expenses in 2005 of £925,795 primarily related to third party consultants resulting from the commencement of operating activities in Ukraine.

3.3.5 Operating loss

Operating loss increased by £4,192,842 to £5,241,493 in 2006, compared to a loss of £1,048,651 in 2005. The increase in operating loss was principally due to the substantial increase in administrative expenses associated with the Group's increased operational activity in 2006.

The operating loss in 2005 was principally due to other operating expenses.

3.3.6 Investment revenue

Investment revenue increased to £88,085 in 2006, compared to nil in 2005. The Group commenced earning investment revenue in 2006 from interest on its bank deposits containing funds raised from the private placement of equity.

3.3.7 Finance costs

Finance costs increased to £18,567 in 2006, due to both a substantial increase in interest paid on a shareholder loan, reflecting a longer period in which the shareholder loan was outstanding in 2006 compared to 2005, as well as the change in the present value of a previously-estimated provision taken against future decommissioning costs related to acquired wells, adjusted for the time value of money.

3.3.8 Loss before tax

Loss before tax increased to £5,171,975 in 2006, compared to a loss of £1,049,046 in 2005. The increase in loss before tax was principally due to the substantial increase in administrative expenses associated with the Group's increased operational activity in 2006.

The loss before tax in 2005 was principally due to other operating expenses.

3.3.9 Tax-Foreign

Tax-foreign increased to £11,423 in 2006 compared to nil in 2005 due to deferred tax provisions relating to accelerated tax depreciation and other temporary differences.

3.3.10 Loss for the year

Loss for the year increased to £5,183,398 in 2006, compared to a loss of £1,049,046 in 2005. The increase in loss for the year was principally due to the substantial increase in administrative expenses associated with the Group's increased operational activity in 2006.

The loss for the year in 2005 was principally due to other operating expenses.

4 Liquidity and Capital Resources

The Group's primary source of liquidity to date has been the proceeds from a series of private placements of equity and, to a lesser extent, debt provided in the form of a shareholder loan raised principally in 2005 and repaid in 2006. Initially, the Group intends to use the net proceeds of the Global Offer to pursue its field appraisal, exploration and drilling programme for its Major Fields and then to otherwise finance the Group until it can fund its future cash requirements from internally generated cash flow. The Directors plan to prioritise the Group's investment into its assets on the development of its identified 2P reserves on the Pirkovskoe field. The key objectives of the Group's appraisal, exploration and development activities are to bring its Major Fields into sustainable commercial production, to convert hydrocarbons currently classified as contingent resources and prospective resources into reserves, and to phase in additional investment in the Minor Fields when production from the Major Fields can support the required expenditures.

The Group also expects to continue, where appropriate, reviewing oil and gas properties in Ukraine for potential acquisitions, although its primary focus will remain on increasing proved and probable reserves and commencing commercial production from its Major Fields. Although the Group is not currently engaged in any discussions with potential acquisition targets, and the Group has no such plans within 12 months from the date of this Prospectus that would require external financing, the Directors expect that any future acquisitions would be funded by additional financing or share issuances to the Group's current shareholders unless the Group determines that the acquired properties have such significant economic potential as to warrant delay in exploration and development of the Group's existing fields.

4.1 Cash Flows

The following table shows the Group's net cash outflow from operating activities, net cash used in investing activities, and net cash from financing activities, for the periods presented.

	For the Year Ended 31 December		
	2007 (£)	2006 (£)	2005 (£)
Net cash outflow from operating activities.....	(12,286,361)	(7,498,423)	(1,035,131)
Net cash used in investing activities	(39,931,762)	(9,011,058)	(980,637)
Net cash from financing activities	57,653,578	25,009,339	2,263,944
Net increase in cash and cash equivalents	5,435,455	8,499,858	248,176
Effect of foreign exchange rate changes	(167,004)	(59,773)	–
Cash and cash equivalents at beginning of year	8,688,261	248,176	–
Cash and cash equivalents at end of year	13,956,712	8,688,261	248,176

4.1.1 Net cash outflow from operating activities

Cash outflow from operating activities is the Group's net loss as adjusted for non-cash movements, as set out in the Group's financial statements.

Net cash outflow from operating activities increased to £12,286,361 in 2007, compared to £7,498,423 in 2006. The increase in cash outflow from operating activities in 2007 reflected the significant increase in operational activity, staff costs and consultancy costs. The increase in cash outflow from operating activities in 2007 was partially offset by the non-cash expense of £4,243,887 attributable to the granting of options to certain Directors under the Share Scheme in 2007.

Net cash outflow from operating activities increased to £7,498,423 in 2006, compared to £1,035,131 in 2005. The increase in cash outflow from operating activities in 2006 reflected the significant increase in operational activity over the full year relative to the shorter period of operations in 2005, and in particular significantly higher staff costs in 2006 resulting from increased headcount. The increase in cash outflow in 2006 was partially offset by delays in raising equity capital in 2006, as discussed below, which caused certain operations that had commenced in 2005 to be temporarily suspended in the spring of 2006, and recommenced at a slower pace in the late autumn of 2006. Operations which did not take place in 2006 would have been concentrated on the development of the Pirkovskoe and Pokrovskoe fields. In addition, there were increases in cash charges impacting the Group's net cash outflow from operating activities in 2006, particularly relating to an increase in receivables resulting from a deposit with a supplier.

Net cash outflow from operating activities was £1,035,131 in 2005, and represented a partial year of operations after commencement of operating activities in Ukraine.

4.1.2 Net cash used in investing activities

Cash used in investing activities includes acquisitions of subsidiaries (including acquisition costs), purchases of property, plant and equipment, and purchases of intangible exploration and evaluation assets, offset by investment revenue interest earned on bank deposits and proceeds from sale of property, plant and equipment.

Net cash used in investing activities increased to £39,931,762 in 2007, compared to £9,011,058 in 2006. The Group's primary use of cash in investing activities in 2007 was capital expenditure of £22,094,647, the most significant element of which was the purchase of intangible exploration and evaluation assets of £17,493,816, including costs of technical services and studies, seismic acquisition, and exploratory drilling and testing of wells on the Group's Major and Minor Fields. The other element of the Group's capital expenditure in 2007 was £4,600,831 of purchases of property, plant and equipment, which included vehicles, drilling rigs, seismic equipment and other facilities and equipment. In addition to the above capital expenditures in 2007, the Group also invested net cash in the acquisition of subsidiaries in the amount of £18,356,764. The Group's most significant acquisition in 2007 was of Radley Investments Limited, the entity that owns a 90 per cent. interest in the Zagoryanska field in Eastern Ukraine, for net cash consideration of £14,747,787. In 2007 the Group also acquired Momentum Energy International Inc. and its subsidiaries for net cash consideration of £3,535,140, in the process obtaining its first production licences, a 98.3 per cent. interest in Debeslavetska and an interest in Cheremkhivskoe which, when aggregated with the subsequent Ramet acquisition, accounted for a 49.8 per cent. interest in Cheremkhivskoe, as well as a 100 per cent. interest in a further exploration licence, Slobodo-Rungurske, in Western Ukraine. A mobile drilling rig and gas compression facilities were also included in the Momentum Energy acquisition. Finally, in late 2007, the Group acquired Ramet Holdings Limited and its subsidiary AgroNaftogas TechService, which provides construction services for oil and gas fields, access roads, gas pipelines, petrol stations and transportation services, for net cash consideration in 2007 of £73,837 (and £1,123,400 worth of Ordinary Shares issued as non-cash consideration in 2007, and in addition to £149,142 in net cash consideration and £1,259,510 worth of Ordinary Shares issued as non-cash consideration, both due in 2008), with potential further consideration of up to US\$5,000,000, consisting of \$1/boe from the first two producing wells on the Malynovetske licence or, in the alternative, a US\$5,000,000 cash payment upon change in control of the Group (less any such payment made for commercial production from the Malynovetske

licence). As part of the Ramet acquisition, the Group acquired an 80 per cent. interest in the Malynovetske licence, and a 40 per cent. interest in an exploration licence, Mizhrichenska, in Western Ukraine.

Net cash used in investing activities increased to £9,011,058 in 2006, compared to £980,637 in 2005. The increase in investing activities in 2006 compared to 2005 reflected a significant increase in funds made available for investment in equipment, plant and hydrocarbon assets, as operational activity in 2006 covered the full year relative to the shorter period of operations in 2005. The Group's primary use of cash in investing activities in 2006 was capital expenditure of £7,942,378, principally towards purchases of property, plant and equipment including the purchase of a gas treatment facility, equipment, drill pipe and other materials to service the Pirkovskoe field. In 2006 the Group also invested net cash in the acquisition of subsidiaries in the amount of £1,145,853, acquiring Western Ukrainian oil and gas fields through the acquisition of USENCO International Inc, which held a variable 97 per cent. interest in the Bitlyanska licence, a 95 per cent. interest in the Monastyrtske licence and a 98.5 per cent. interest in the Krasnyiyske licence.

Net cash used in investing activities in 2005 of £980,637 principally represented the Group's Gazvyboduвання and Astroinvest Ukraine acquisitions in December 2005, of a 70 per cent. interest in a JAA to the Pirkovskoe licence area and a 100 per cent. interest in the Pokrovskoe licence.

4.1.3 Net cash from financing activities

Cash from financing activities includes proceeds from the issue of shares as well as, historically, the issue of other or "hybrid" equity instruments and shareholder loans. Cash received from financing activities is recorded net of the direct costs of raising such funds, such as professional and advisory fees, which are directly attributable to the fund raising transaction and which would otherwise have been avoided.

Net cash from financing activities increased to £57,653,578 in 2007, compared to £25,009,339 in 2006, as a result of additional rounds of equity private placements to the Group's current shareholders. Net cash from financing activities in 2007 included three rounds of equity fundraisings, raising net cash proceeds of £12,063,098 in the first half of 2007, £27,518,387 from September to November 2007 and £15,479,295 in December 2007. In addition, in 2007 the Group also financed part of its acquisition of Ramet, as discussed above, with the non-cash issuance of Ordinary Shares valued at £2,382,910.

Net cash from financing activities increased to £25,009,339 in 2006, compared to £2,263,944 in 2005, principally from the private placement of equity to the Group's current shareholders. Net cash proceeds of £1,392,860 were received early in 2006 as seed capital from a venture capital firm, related parties, and Group management that was raised in 2005 but received in 2006. In March 2006 the Group commenced a public fundraising effort with a view to listing the Group on the London Stock Exchange AIM market. The Group raised equity capital of £760,000 pending completion of the AIM offering but due to market conditions the Group withdrew its public offering and engaged in further equity private placements. By the end of August 2006, £14,498,445 had been raised in the first private placement rounds, with a further £9,389,726 being raised in December 2006. Net cash from financing activities in 2006 was partially offset as the Group repaid a £900,000 hybrid equity instrument issued in 2005 and a £180,000 shareholder loan incurred in 2005.

Net cash from financing activities in 2005 was £2,263,944, including £1,241,839 in equity seed capital from a venture capital firm, related parties, and Group management as well as £842,500 from issuance of a hybrid equity instrument to shareholders and a £180,000 shareholder loan.

Further details of these fund raisings are set out in paragraph 9 of Part VIII of this Prospectus.

4.1.4 Effect of foreign exchange rate changes

The effect of foreign exchange rate changes reflects the impact on the Group's consolidated income statement of non-cash charges resulting from currency effects from operating transactions and from the currency-related restatement of the value of monetary assets or liabilities.

4.2 Capital Resources

4.2.1 Capital Expenditures

The table below presents the historical capital expenditures incurred by the Group to support its development plans in its Major and Minor Fields, and to meet the relevant licence obligations for each.

	For the Year Ended 31 December		
	2007 (£)	2006 (£)	2005 (£)
Total Capital Expenditures	22,094,647	7,942,378	–

Capital expenditures have historically comprised the costs of technical services and studies, seismic acquisition, and exploratory drilling and testing of wells on the Group's Major and Minor Fields, as well as the purchase of vehicles, drilling rigs, seismic equipment and other facilities and equipment.

Group capital expenditures increased to £22,094,647 in 2007, compared to £7,942,378 in 2006. The increase was primarily attributable to the capacity upgrade of the Group's gas treatment facility for the Pirkovskoe field in 2007.

Group capital expenditures increased to £7,942,378 in 2006, compared to nil in 2005. The increase was primarily attributable to expenditure on plant and equipment including the purchase of a gas treatment facility, equipment, drill pipe and other materials to service the Pirkovskoe field.

The Group's projected total capital expenditures and assuming successful completion of the field development schedule as set out in paragraph 5.3 of Part VIII of this Prospectus are projected to be approximately £244,338,000. The Group plans to fund these projected capital expenditures using the net proceeds of the Global Offer and, over the medium to long term, using operating cash flows resulting from the commencement of production and sale of hydrocarbon products from its Major Fields.

4.2.2 Capital Commitments and Contingencies

The following table sets forth the Group's outstanding contractual capital commitments and contingencies as of 31 December 2007.

	Within one year (£)	One to five years (£)	After five years (£)	Total (£)
Licence requirements	26,895,000	18,821,000	–	45,716,000
Total	26,895,000	18,821,000	–	45,716,000

The Group has entered into certain capital commitments in respect of future capital expenditures. Under the terms of its exploration and development as well as its production licences, the Group is committed to meeting certain work programme obligations which will necessitate certain expenditures prior to the expiry of the licences. In general, the Group's licences will each specify certain requirements and timetables relating to seismic testing for prospective oil and gas deposits, the requirement to drill a specified number of exploratory or appraisal wells, benchmarks to be met in working over existing or

abandoned wells, and undertaking environmental impact assessments or reserves estimation studies. The Group intends to meet these obligations from the net proceeds of the Global Offer and internally generated cash flows.

In addition to the above table, as part of the Ramet acquisition, the Group may have to pay an additional cash consideration of up to US\$5,000,000, consisting of \$1/boe from the first two producing wells on the Malynovetske licence or, in the alternative, a US\$5,000,000 cash payment upon change in control of the Group (less any such payment made for commercial production from the Malynovetske licence). The Group intends to meet this obligation from the net proceeds of the Global Offer and internally generated cash flows.

In addition to the above table, in May 2008, the Group entered into letters of intent for initial work for the construction of two gas treatment facilities for a total initial aggregate cost of approximately US\$58,000,000. The Group expects to enter into final contracts shortly. The Group intends to meet the cost of this construction from the net proceeds of the Global Offer and internally generated cash flows. See paragraphs 5.7.2 and 5.7.3 of Part VIII of this Prospectus for additional detail.

5 Disclosure about Market Risk

The Group's primary market risk exposures are fluctuations in gas, condensate and oil prices, inflation, exchange rates and credit risk.

5.1 Commodity price risk

The commodity price risk related to Ukrainian gas and condensate prices and, to a lesser extent, prices for crude oil are the Group's most significant market risk exposures. World prices for gas and crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments, including actions taken by the Organisation of Petroleum Exporting Countries. These fluctuations may have a significant effect on the Group's revenues and operating profits going forward. The Ukrainian gas price has historically been, and currently remains, at a discount to gas prices prevailing in the European Union. The principal factor in the current Ukrainian gas price is bi-lateral negotiations with Gazprom to establish the price of gas imports from Russia. The price for Ukrainian gas is based on the current price of these gas imports from Russia, which are nonetheless influenced by world prices, and it is expected that the trend of Ukrainian prices becoming more in alignment with prevailing European and world prices will continue. Ukrainian gas prices are also influenced in some degree by local supply and demand and the varying availability of pipeline infrastructure for export of gas from Ukraine. The Group continues to expect that its 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. See paragraph 2.2 of Part II of this Prospectus.

5.2 Inflation risk

Inflation in Ukraine and in the international market for oil and gas equipment and supplies may affect certain of the Group's costs. As more fully described in paragraph 2 of Part VI of this Prospectus, the rate of inflation in 2007 was 16.6 per cent., compared to 11.6 per cent. in 2006 and 10.3 per cent. in 2005, according to the State Statistics Committee of Ukraine. The Directors believe that the Group's practices of raising funds in Sterling, maintaining deposits in Sterling accounts until funds are needed and selling its gas production to industrial customers at market-based prices, coupled with the peg of the UAH to the US dollar, will enable the Group to manage the risk of inflation.

5.3 Foreign exchange risk

The Group's foreign exchange exposure gives rise to market risks associated with exchange rate movements between the UAH, US dollar and Sterling. As set out in paragraph 2.5 of this Part X, the Group's production revenues to date have been received in UAH, at a price influenced by prevailing international prices for hydrocarbons principally denominated in US dollars and the rate of exchange for dollars and UAH fixed by the Ukrainian Government. The majority of the Group's operating expenses and capital expenditures are also denominated in UAH.

The Group has been financed principally by issuances of equity in Sterling and, to a lesser extent, loans in US dollars. The Group has historically reported and will continue to report its financial results in Sterling. Accordingly, fluctuations between the value of Sterling, US dollars and UAH may affect the reported results of the Group. In particular, continued depreciation of the US dollar against the Sterling could adversely affect production revenues reported in Sterling, which may be offset to some extent by expenses incurred in currencies that have depreciated against Sterling.

The Group to date has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

5.4 Credit risk

The normal terms for sales of gas and condensate to the Group's customers require payment before delivery. In the future the Group could face issues with customers if curtailments of throughput in the gas transportation system delay deliveries to customers, but the Group has yet to experience such issues and transportation remains the responsibility of the customer once the Group has delivered product to the transportation system.

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. No such events occurred in the periods presented.

6 Off-balance sheet arrangements

The Group has not entered into and is not a party to any off-balance sheet arrangements.

7 Critical Accounting Policies

The Group's significant accounting policies are more fully described in the financial information included in Part XI of this Prospectus.

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the carrying amounts of the Group's assets and liabilities, impairment of the value of certain of the Group's assets, the reported levels and elements of expenses during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. The Directors regularly evaluate these judgments, estimates and assumptions, and have based them on historical experience and other factors, including expectations of future events believed to be reasonable under the circumstances.

The Group's estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

7.1 Revenue recognition

Revenue is measured at the fair value of the consideration received or recoverable and represents amounts receivable for goods and services provided in the normal course of business,

net of discounts, VAT and other sales-related taxes. Sales of goods are recognised when goods are delivered and title has passed.

Because the Group's hydrocarbon products are recognised as delivered at the time the Group has delivered gas to the transportation system, in effect the Group sells gas and condensate on a cash-in-advance basis, such that payment is received prior to receipt by the end customer, which takes title to the product at the point where the product is delivered to the pipeline and enters the public distribution system. This payment model, which the Directors believe will remain the relevant contract model going forward, eliminates risk of non-payment from customers. In the future the Group could face issues with customers if curtailments of throughput in the gas transportation system delay deliveries to customers, but the Group has yet to experience such issues and title continues to pass, and revenue is recognised, at the point in time when the Group has delivered product to the transportation system.

7.2 Intangible exploration and evaluation assets

The Group applies the full cost method of accounting for exploration and evaluation ("E&E") costs, having regard to the requirements of IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Under the full cost method of accounting, costs of appraisal, exploration and drilling incurred under the Group's licences are capitalised as intangible E&E assets on the Group's consolidated balance sheet by reference to separate cost pools for the relevant fields.

Intangible E&E assets comprise (i) expenditures on E&E activities that are ongoing at the balance sheet date, pending determination of whether or not commercial reserves exist for a given field and (ii) costs of E&E activities that, whilst representing part of the E&E activities associated with adding to the commercial reserves of a given cost pool, did not result in the discovery of commercial reserves for that field. The Group recognises a cost pool for each of its 14 fields.

The application of the full cost method of accounting for E&E costs requires the Directors to make certain judgments, estimates and assumptions, including with regard to the impairment of intangible E&E assets and property plant and equipment.

7.2.1 Pre-licence costs

E&E costs incurred by the Group prior to having obtained the legal rights to explore an area under licence are not capitalised, and are recognised as other operating expenses in the Group's consolidated income statement as they are incurred.

7.2.2 Exploration and evaluation costs

Once a licence has been obtained for a given field, E&E costs are initially capitalised as either intangible E&E assets or as property, plant and equipment.

E&E costs capitalised as intangible E&E assets include any payments made to acquire the legal right to explore the field, costs of technical services and studies, seismic acquisition expenses and exploratory drilling and testing costs.

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment) are classified as property, plant and equipment. To the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the relevant intangible E&E asset. These recorded costs include any overhead directly attributable to the relevant intangible E&E asset (such as the depreciation of property, plant and equipment utilised in E&E activities related to that intangible E&E asset) as well as the cost of other materials consumed during the exploration and evaluation phases of a given field.

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

7.2.3 Treatment of E&E assets at conclusion of appraisal activities

Intangible E&E assets related to each exploration and development licence are carried forward as intangible E&E assets on the Group's consolidated balance sheet, until the existence (or otherwise) of commercial reserves has been determined for the given field cost pool. If commercial reserves have been discovered in that field, the field's intangible E&E assets are assessed for impairment, as set out below in 7.2.4, and any difference between the carrying value of that intangible E&E asset and the appraised value at that point in time will be considered an impairment loss against that intangible E&E asset. Any such impairment loss will be recognised in the Group's consolidated income statement. The adjusted carrying value, after any impairment loss, of the relevant intangible E&E asset will then be reclassified as property, plant and equipment.

Intangible E&E assets that relate to E&E activities that are determined not to have resulted in the discovery of commercial reserves for a given field remain capitalised as intangible E&E assets on the Group's consolidated balance sheet, carried at cost less accumulated amortisation, subject to meeting a cost pool-wide impairment test in accordance with the accounting policy for impairment of intangible E&E assets set out below in 7.2.4. Such intangible E&E assets are amortised on a unit-of-production basis over the life of the commercial reserves of the pool to which they relate.

7.2.4 Impairment of intangible E&E assets

Intangible E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Such indicators include, but are not limited to, whether or not commercial reserves exist. Such a determination involves the Directors' estimates on highly uncertain matters such as geological and geophysical factors, future costs and commodity prices, the duration of the licence and its terms and the availability of the financial and other resources needed to progress exploration and development activities.

Where there are indications of impairment, the intangible E&E assets concerned are tested for impairment. Where the intangible E&E assets concerned fall within the scope of an established cost pool, the intangible E&E assets are tested for impairment together with all property, plant and equipment assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value of all assets in a given cost pool is compared against the expected recoverable amount of those assets, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves in that cost pool. Where the intangible E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the intangible E&E assets concerned will, upon determination of any impairment, generally be written off in full.

Any impairment loss to intangible E&E assets is recognised in the Group's consolidated income statement, and separately disclosed. Any such impairment loss is initially recorded against the carrying value of the related intangible E&E asset, and to the extent the impairment exceeds the carrying value of the intangible E&E asset for a given cost pool, a separate impairment test is conducted on the related property, plant and equipment assets within the relevant field cost pool.

7.3 Impairment of property, plant and equipment

The Group assesses its property, plant and equipment for possible impairment when facts and circumstances indicate to the Directors that the carrying value of the assets may exceed its recoverable amount. Such indicators include, but are not limited to, whether the carrying value of the property, plant and equipment assets exceed the discounted estimated future cash flows generated by the assets. Determination of these future cash flows involves the Directors' estimates on highly uncertain matters such as future commodity prices, the effects of inflation

and technology improvements on operating expenses, production profiles and the outlook for supply-and-demand conditions for gas, condensate and crude oil in Ukraine.

In the event the Directors' estimate of the discounted estimated cash flows generated by the assets are less than the carrying value of the assets, an impairment charge to the Group's consolidated income statement is made for the difference.

Charges for impairment may be recognised in the Group's results from time to time as a result of, among other factors, adverse changes in the recoverable reserves from oil and gas fields, adverse changes to commodity prices or increases in costs. If there are low gas prices or oil prices over an extended period, the Group may need to recognise significant impairment charges.

7.4 Fair values of exploration and evaluation assets acquired

The acquisition method of accounting for business combinations under IFRS 3 requires assets and liabilities acquired, including intangible E&E assets, to be recognised on the Group's consolidated balance sheet at their fair value. The actual value that will be realised, if any, from an intangible E&E asset is inherently uncertain and reflects a wide range of factors that are subject to the Directors' judgment, including, but not limited to: geological and geophysical factors, future costs and commodity prices, the duration of the licence and its terms and the availability of the financial and other resources needed to progress exploration and development activities.

7.5 Calculation of commercial reserves

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

The Group employs specialist independent reserves experts. The assessment of reserves is subjective by reference to data including geological, geophysical and engineering data together with reports, presentations and financial information pertaining to the contractual and fiscal terms applicable to the Group's assets.

The changes in the level of the Group's reserves will have an effect on the Group's consolidated income statement by adjusting the amount of amortisation charged and in some instances may also lead to impairment of intangible E&E assets and property, plant and equipment, as described above.

7.6 Decommissioning

The Group recognises a provision on its consolidated balance sheet for expected decommissioning and site restoration costs related to environmental and other regulatory costs it expects to incur in approximately 15 to 20 years. The provision is estimated taking into consideration existing technology and current prices of site restoration after adjusting for expected future inflation as discounted using rates reflecting current market assessments of the time value of money and, where appropriate, the risks specific to the estimated future liability. The Group makes an estimate based on its experience and historical data. Such a determination involves the Directors' estimates on highly uncertain matters such as technology advances, regulatory and compliance requirements and future inflation rates.

7.7 VAT Recoverables

The Group carries on its consolidated balance sheet receivables which include VAT recoverables from the State budget of Ukraine relating to reimbursement of VAT arising on purchase of

goods and services from external service and product providers. These VAT recoverables will only be released to the Group once sufficient commercial production commences, and only to the extent that it is probable that VAT payable arising on sales of production will be sufficient to offset the VAT recoverables due from the State.

The recoverability of VAT recoverables is subject to significant judgment and estimation by management. The Directors perform an estimate of the recoverability of VAT, based on their estimate of future revenues, in order to calculate amounts and timing of the VAT payable available for offset. The Directors currently anticipate no significant cash settlements of VAT receivables from the state budget.

7.8 Share-based payments

The Group has issued equity-settled share-based payments to certain parties in return for services or goods. The goods or services received and the corresponding increase in shareholders' equity are measured directly at the fair value of the goods or services received.

The fair value of the services or goods received is recognised in administrative expenses on the Group's consolidated balance sheet except in so far as they relate to the cost of issuing or acquiring the Group's own equity instruments. The costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

Under IFRS, an expense is recognised in the consolidated income statement for all share-based payments. The Group is required to make assumptions in respect of the inputs used to calculate the fair values of share-based payment arrangements.

8 Current Trading and Prospects

The Group expects to continue to focus on achieving increased production targets in the near term. In Eastern Ukraine, the Group is targeting commercial production to commence from the Pirkovskoe field during the second half of 2008, subject to, among other things, the successful outcome of production testing of two wells which are currently being drilled. The Group is targeting commercial production to commence from the Zagoryanska and Pokrovskoe fields in the first half of 2009, subject to, among other things, positive results from appraisal drilling and the completion of processing of 3D seismic surveys which the Group has conducted on the Pokrovskoe field. In Western Ukraine, drilling in the Borynya field is currently underway and following construction of a new gas treatment facility, the Group is targeting commercial production to commence in mid-2009, subject to, among other things, successful test drilling of two wells. In relation to the Bitlya field, the Group is targeting commercial production to commence in the second half of 2009, subject to, among other things, drilling and testing of the exploration well and completion of a pipeline linking Bitlya to the gas treatment facility planned for construction on Borynya.

PART XI

FINANCIAL INFORMATION ON THE GROUP



Deloitte & Touche LLP
Athene Place
66 Shoe Lane
London EC4A 3BQ
Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.co.uk

The Board of Directors
Cadogan Petroleum plc
Fifth Floor, 4/5 Grosvenor Place
London
SW1X 7HJ

UBS Limited
1 Finsbury Avenue
London
EC2M 2PP

18 June 2008

Dear Sirs

Cadogan Petroleum plc

We report on the financial information set out in Part XI of the prospectus (the "**Prospectus**") dated 18 June 2008 of Cadogan Petroleum plc (the "**Company**") and, together with its subsidiaries, the "**Group**") and Cadogan Petroleum Holdings Limited. This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in note 3 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No. 809/2004 (the "**Prospectus Directive Regulation**") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 3 to the financial information.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Audit.Tax.Consulting.Corporate Finance.

Member of
Deloitte Touche Tohmatsu

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office. Deloitte & Touche LLP is authorised and regulated by the Financial Services Authority.



Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its losses, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 3 to the financial information.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

A handwritten signature in black ink that reads "Deloitte & Touche LLP." The signature is written in a cursive, flowing style.

Deloitte & Touche LLP
Chartered Accountants

Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ("DTT"), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.

Cadogan Petroleum plc

Consolidated Income Statement

THREE YEARS ENDED 31 DECEMBER 2007

	Notes	2007 (£)	2006 (£)	2005 (£)
Revenue.....	5	665,627	–	–
Cost of sales.....		(611,345)	–	–
Gross profit		54,282	–	–
Administrative expenses.....		(12,355,428)	(4,016,497)	(122,906)
Other operating expenses.....	7	(2,926,342)	(1,224,996)	(925,745)
Operating loss		(15,227,488)	(5,241,493)	(1,048,651)
Investment revenue	10	277,984	88,085	–
Finance costs	11	(28,154)	(18,567)	(395)
Loss before tax		(14,977,658)	(5,171,975)	(1,049,046)
Tax – foreign	12	(221,563)	(11,423)	–
Loss for the year	8	(15,199,221)	(5,183,398)	(1,049,046)
Attributable to:				
Equity holders of the parent		(15,197,276)	(5,183,398)	(1,049,046)
Minority interest		(1,945)	–	–
		(15,199,221)	(5,183,398)	(1,049,046)
Loss per share				
Basic and diluted	13	14.3p	8.4p	8.6p

All operations were continuing throughout the years presented.

Cadogan Petroleum plc

Consolidated balance sheet

AS AT 31 DECEMBER 2007, 2006 AND 2005

	Notes	2007 (£)	2006 (£)	2005 (£)
Non-current assets				
Goodwill.....	14	2,804,199	–	–
Intangible exploration and evaluation assets	15	28,687,262	5,771,074	1,374,348
Other intangible assets	16	12,537	24,666	–
Property, plant and equipment	17	22,732,979	4,939,541	18,687
Other receivables	20	3,059,654	–	–
		57,296,631	10,735,281	1,393,035
Current assets				
Inventories.....	19	1,654,464	835,552	2,378
Trade and other receivables	20	1,686,477	3,873,901	288,150
Cash and cash equivalents.....	20	13,956,712	8,688,261	248,176
		17,297,653	13,397,714	538,704
Total assets		74,594,284	24,132,995	1,931,739
Current liabilities				
Trade and other payables	22	(3,055,129)	(2,448,999)	(341,479)
Current tax liabilities		–	–	(2,378)
Loans.....	22	–	–	(180,000)
Financial liability.....	22	(1,583,333)	–	–
Current provisions	23	(374,291)	(141,124)	–
		(5,012,753)	(2,590,123)	(523,857)
Net current assets		12,284,900	10,807,591	14,847
Non-current liabilities				
Deferred tax liabilities	21	(967,369)	(275,867)	(296,928)
Long-term provisions	23	(398,703)	(412,353)	(26,161)
		(1,366,072)	(688,220)	(323,089)
Total liabilities		(6,378,825)	(3,278,343)	(846,946)
Net assets		68,215,459	20,854,652	1,084,793
Equity				
Share capital.....	24	4,169,409	2,570,789	20,539
Share premium		78,027,552	23,743,164	1,285,465
Shares to be issued		2,260,209	–	–
Accumulated deficit.....		(21,517,721)	(6,320,445)	(1,087,047)
Cumulative translation reserves.....		(491,840)	(157,824)	–
Other reserves		5,564,027	1,018,968	865,836
Equity attributable to equity holders of the parent		68,011,636	20,854,652	1,084,793
Minority interest		203,823	–	–
Total equity		68,215,459	20,854,652	1,084,793

The notes on pages 116 to 154 form part of this financial information.

Cadogan Petroleum plc

Consolidated Cash Flow Statement

THREE YEARS ENDED 31 DECEMBER 2007

	Notes	2007 (£)	2006 (£)	2005 (£)
Net cash outflow from operating activities	27	(12,286,361)	(7,498,423)	(1,035,131)
Investing activities				
Acquisition of subsidiaries.....	26	(18,356,764)	(1,145,853)	(980,637)
Purchases of property, plant and equipment.....		(4,600,831)	(5,127,908)	–
Purchases of intangible exploration and evaluation assets.....		(17,493,816)	(2,814,470)	–
Purchase of other intangible assets.....		(8,924)	(24,666)	–
Proceeds from sale of property, plant and equipment.....		260,789	13,754	–
Interest received		267,784	88,085	–
Net cash used in investing activities		(39,931,762)	(9,011,058)	(980,637)
Financing activities				
Proceeds from issue of shares.....		55,060,780	26,041,031	1,241,839
Proceeds from shares to be issued.....		2,584,032	–	–
Proceeds from issue of other equity instruments.....		–	57,500	842,500
New loans raised		–	–	180,000
Interest paid		–	(9,192)	(395)
Redemption of other equity instruments.....		–	(900,000)	–
Loan repayment.....		–	(180,000)	–
Cash received from minority shareholders on incorporation of subsidiaries.....		8,766	–	–
Net cash from financing activities		57,653,578	25,009,339	2,263,944
Net increase in cash and cash equivalents		5,435,455	8,499,858	248,176
Effect of foreign exchange rate changes.....		(167,004)	(59,773)	–
Cash and cash equivalents at beginning of year		8,688,261	248,176	–
Cash and cash equivalents at end of year		13,956,712	8,688,261	248,176

Cadogan Petroleum plc

Consolidated Statement of Changes in Equity

THREE YEARS ENDED 31 DECEMBER 2007

	Share capital (£)	Share premium (£)	Shares to be issued (£)	Accumulated deficit (£)	Cumulative translation reserves (£)	Other (£)	Minority interest (£)	Total (£)
As at 1 January 2005	1	-	-	(38,001)	-	-	-	(38,000)
Issue of equity shares	20,538	1,251,301	-	-	-	-	-	1,271,839
Premium arising on issue of options	-	34,164	-	-	-	(34,164)	-	-
Issue of other equity instruments	-	-	-	-	-	900,000	-	900,000
Net loss for the year	-	-	-	(1,049,046)	-	-	-	(1,049,046)
As at 1 January 2006	20,539	1,285,465	-	(1,087,047)	-	865,836	-	1,084,793
Issue of equity shares	1,503	1,164,207	-	-	-	-	-	1,165,710
Premium arising on issue of options	-	15,836	-	-	-	(15,836)	-	-
Redemption of other equity instruments	-	-	-	(50,000)	-	(850,000)	-	(900,000)
Group reorganisation (see notes 4(b) and 18)	22,042	2,465,508	-	(1,137,047)	-	-	-	1,350,503
Share exchange (see note 18)	(22,042)	(2,465,508)	-	-	-	2,487,550	-	-
Issue of equity shares	1,598,016	-	-	-	-	(1,598,016)	-	-
Expenses of issue of equity shares	972,773	25,265,190	-	-	-	-	-	26,237,963
Share-based payments (see note 25)	-	(1,392,592)	-	-	-	-	-	(1,392,592)
Net loss for the year	-	(129,434)	-	-	-	129,434	-	-
Exchange translation differences on foreign operations	-	-	-	(5,183,398)	-	-	-	(5,183,398)
As at 1 January 2007	-	-	-	-	(157,824)	-	-	(157,824)
Issue of equity shares	2,570,789	23,743,164	-	(6,320,445)	(157,824)	1,018,968	-	20,854,652
Equity shares to be issued	1,598,620	57,504,752	-	-	-	-	-	59,103,372
Minority interest on incorporation of subsidiaries	-	-	2,260,209	-	-	-	-	2,260,209
Minority interest on acquisition of subsidiary (see note 26)	-	-	-	-	-	-	8,766	8,766
Expenses of issue of equity shares	-	(2,919,192)	-	-	-	-	197,002	197,002
Share-based payments (see note 25)	-	(301,172)	-	-	-	-	-	(2,919,192)
Net loss for the year	-	-	-	(15,197,276)	-	4,545,059	-	4,243,887
Exchange translation differences on foreign operations	-	-	-	-	(334,016)	-	(1,945)	(15,199,221)
As at 31 December 2007	4,169,409	78,027,552	2,260,209	(21,517,721)	(491,840)	5,564,027	203,823	68,215,459

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

1. General information

Cadogan Petroleum plc ('the Company'), together with its subsidiaries ('the Group') is a company incorporated in Great Britain on 22 February 2006 under the Companies Act 1985, which acts as the holding company for the Group. The address of the registered office is 5th Floor, 4/5 Grosvenor Place, London SW1X 7HJ.

The nature of the Group's operations is exploration and development of oil and gas reserves in the Ukraine.

The financial information is presented in Sterling, the functional currency of the Company. Foreign operations are included in accordance with the policies set out in note 3(b).

2. Adoption of new and revised Standards

At the date of authorisation of this financial information, the following Standards and Interpretations which have not been applied in the financial information were in issue but not yet effective:

- IFRS 3 (Revised 2008): *Business Combinations* – Comprehensive revision on applying the acquisition method
- IFRS 8: *Operating Segments*
- IAS 1 (Revised 2007): *Presentation of Financial Statements* – Comprehensive revision including a statement on comprehensive income
- IAS 23 (Revised 2007): *Borrowing Costs* – Comprehensive revision to prohibit immediate expensing
- IAS 27 (Revised 2008): *Consolidated and Separate Financial Statements*
- IFRIC 11: *IFRS 2 – Group and Treasury Share Transactions*
- IFRIC 12: *Service Concession Arrangements*
- IFRIC 13: *Customer Loyalty Programme*
- IFRIC 14: *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact upon the financial position of the Group.

3. Significant accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the current year and prior years, is set out below.

(a) Basis of accounting

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and related interpretations. The financial information has been prepared on the historical cost convention, except for share-based payments and the financial liability that have been measured at fair value, and using accounting policies consistent with IFRS.

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

(b) Basis of consolidation

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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 information of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control.

Where a consolidated member of the Group participates in unincorporated joint ventures, that member accounts directly for its share of the jointly controlled assets, liabilities and related income and expenses which are then similarly included in the consolidated financial information of the Group.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase 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, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss.

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment loss. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

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

(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, VAT and other sales-related taxes.

Sales are recognised when hydrocarbons are delivered and title has passed.

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

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). For the purpose of the consolidated financial information, the results and financial position of each group company are expressed in Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial information.

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.

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Gains and losses arising on retranslation are included in net profit or loss for that period, except for exchange differences arising on non-monetary assets and liabilities carried at fair value where the changes in fair value are recognised directly in equity.

For the purpose of presenting consolidated financial information, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items 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 transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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

(h) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company'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 reporting package and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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, using tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Property, plant and equipment and other intangible assets (software licences) are carried at cost less accumulated depreciation and any recognised impairment loss.

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

Other

Buildings	4 per cent.
Fixtures and equipment	10 per cent. – 30 per cent.

Other intangible assets

Software licences	2 to 5 years
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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 tangible and other intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The Group considers the whole of Ukraine to be one cash-generating unit and therefore aggregates all Ukraine assets for the purposes of determining whether impairment has occurred.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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(k) Intangible exploration and evaluation assets

The Group applies the full cost method of accounting for Exploration and Evaluation ("E&E") costs, having regard to the requirements of IFRS 6 *Exploration for and Evaluation of Mineral Resources*. Under the full cost method of accounting, costs of exploring for and evaluating oil and gas properties are accumulated by reference to appropriate cost centres being the appropriate oil or gas property, but are tested for impairment on a cost pool basis as described below.

E&E assets comprise costs of (i) E&E activities that are ongoing at the balance sheet date, pending determination of whether or not commercial reserves exist and (ii) costs of E&E that, 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.

Pre-licence costs

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

Exploration and Evaluation costs

All costs of E&E are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are 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 classified as property plant and equipment. However, to the extent that such a tangible asset is 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 overhead, including the depreciation of property plant and equipment utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

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

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

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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 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, the E&E assets 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 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. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the E&E assets concerned will generally be written off in full.

Any impairment loss is recognised in the income statement as additional depreciation and amortisation, and separately disclosed. It is initially recorded against the carrying value of the related E&E asset. To the extent the impairment exceeds the carrying value of the E&E asset, a separate impairment test is conducted on the development and production assets.

(I) Development and production assets

Development and production assets are accumulated generally 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 also includes 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

The net book value of producing assets are depreciated generally on a field-by-field basis on a unit of production method by reference to the ratio of production in the year and the related proved and probable reserves of the field, taking into account future development expenditures necessary to bring those reserves into production.

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

Impairment of development and production assets

An impairment test is performed whenever events and circumstances arising during both the development and production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount.

The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future cash flows expected to be derived from production of commercial reserves. The cash-generating unit applied for impairment test

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purpose is generally the field, except that a number of the field interests may be grouped as a single cash generating unit where the cash flow of each field is interdependent.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated 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.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. 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 and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and 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.

Trade payables

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

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Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs.

Financial liabilities classified at fair value through profit and loss (FVTPL)

Financial liabilities are classified as at FVTPL where the financial liability is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 22.

(o) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the present value of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

(p) Decommissioning

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 in finance costs.

(q) Leases

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

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

(r) Share-based payments

The Group issues equity-settled share-based payments to certain parties in return for services or goods. The goods or services received and the corresponding increase in equity are measured directly at the fair value of the goods or services received. The fair value of the services or goods received is recognised as an expense except in so far as they relate to the cost of issuing or acquiring its own equity instruments. The costs of an equity transaction are accounted for as a

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deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

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

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

4. Critical accounting judgments 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 judgments, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgments and estimations 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 information.

(a) Group reorganisation

The acquisition of Cadogan Petroleum Holdings Ltd and its subsidiary entities by the Company in 2006 has been accounted for on the basis that the transaction is a reorganisation of entities under common control. The shareholders remain the same and there has been no change in control. There is no change in the reporting group's substance and so the transaction does not meet the definition of a business combination as defined in IFRS 3 *Business Combinations*. Refer to Note 18 'Subsidiaries' for further details.

(b) Recoverability of exploration and evaluation assets and goodwill

Determining whether an exploration and evaluation asset is impaired requires an assessment of whether there are any indicators of impairment, including by reference to the specific impairment indicators prescribed in IFRS 6 *Exploration for and Evaluation of Mineral Resources*. If there is any indication of potential impairment, an impairment test is required based on value in use of the asset. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of exploration and evaluation assets at the balance sheet date was £28,687,262 (2006: £5,771,074; 2005: £1,374,348) and no impairment was identified or recognised in any of the years reported. A similar assessment is required in connection with the annual impairment test for goodwill.

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(c) Acquisition of Radley Investments Limited and USENCO International Inc.

The acquisition of Radley Investments Limited and USENCO International Inc., together with their subsidiaries, have not been treated as business combinations as defined in IFRS 3 *Business Combinations* as it was judged by management that these were acquisitions of business assets rather than that of a business as defined in IFRS 3.

(d) Recoverability of value added tax ('VAT')

The Group has significant receivables from the State budget of Ukraine relating to reimbursement of VAT arising on purchases of goods and services from external service and product providers. Management anticipates no significant cash settlements of receivables from the State budget. Consequently, the Group recognises recoverable VAT only to the extent that it is probable that VAT payable arising on the sales of gas production will be sufficient to offset the VAT due from the State within a reasonable period. Estimating the recoverability of VAT requires management to make an estimate of the future revenues in order to calculate amounts and timing of the VAT payable available for offset. The carrying amount of recoverable VAT at 31 December 2007 is shown in note 20.

(e) Fair values of exploration and evaluation assets acquired

The acquisition of subsidiaries is accounted for using the purchase method, which requires assets and liabilities acquired, including exploration and evaluation assets, to be included at their fair value. The actual value that will be realised, if any, from an exploration and evaluation asset is inherently uncertain and reflects a wide range of factors (including, but not limited to, geological and geophysical factors, future costs and commodity prices, the duration of the licence and its terms and the availability of the financial and other resources needed to progress exploration and development activities). The carrying amount of exploration and evaluation assets acquired is shown in note 26.

(f) Decommissioning

The Group recognises a provision for asset retirement obligation for expected decommissioning and site restoration costs expected to incur in approximately 14 to 19 years. At 31 December 2007, a provision has been made for costs of £374,291 (2006: £141,124, 2005: £nil) which are expected to be incurred within the next year due to the demobilisation of drilling equipment and respective site restoration. A further provision of £360,978 has been made for long term costs (2006: £383,239; 2005: £26,161). The provision is estimated taking into consideration existing technology and current prices of site restoration after adjusting for expected future inflation as discounted using rates reflecting current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Group makes an estimate based on its experience and historical data (see notes 23).

(g) Reserves

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

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Commercial reserves used in the calculation of depreciation and for impairment test purposes are determined using estimates of oil and gas in place, recovery factors and future oil and gas prices. Management base their estimate of oil and gas reserves and resources upon competent persons reports (CPR) provided by independent advisors.

(h) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 31 December 2007 is shown in note 14.

(i) Share-based payments

The Group has an equity-settled share option scheme available to certain Directors. In accordance with IFRS 2 *Share-based payment*, in determining the fair value of options granted, the Group has applied the Black-Scholes and Stochastic models. As a result, the Group makes assumptions for expected volatility, expected life, risk free rate and expected dividend yield. The fair value of options granted at 31 December 2007 is shown in note 25.

5. Revenue

An analysis of the Group's revenue is as follows:

	2007 (£)	2006 (£)	2005 (£)
Sale of hydrocarbon products.....	665,627	–	–
Investment revenue (note 10).....	277,984	88,085	–
.....	943,611	88,085	–

6. Business and geographical segments

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

7. Other operating expenses

	2007 (£)	2006 (£)	2005 (£)
Professional consultancy	1,071,284	1,224,996	925,745
Write-off pre-licence expenditure	1,855,058	–	–
.....	2,926,342	1,224,996	925,745

Included within professional consultancy expenses above, £439,034 (2006: £285,145; 2005: £154,700) relates to amounts paid to Executive Directors for services rendered.

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8. Loss for the year

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

	2007 (£)	2006 (£)	2005 (£)
Depreciation of property, plant and equipment	598,118	66,747	1,423
Amortisation of other intangible assets	1,728	–	–
Loss/(gain) on disposal of property, plant and equipment	7,496	(714)	–
Staff costs (see note 9)	6,216,926	808,797	255,376
Net foreign exchange losses	538,973	487,136	–

The analysis of the auditor's remuneration is as follows:

Fees payable to the Company's auditors for the audit of the Company's annual accounts	127,000	120,000	–
Total audit fees	127,000	120,000	–
Fees payable to the Company's auditors for the review of the Company's interim accounts	48,000	–	–
Corporate finance services	–	256,249	–
Tax services	93,200	11,500	–
Total non-audit fees	141,200	267,749	–
Total audit and non-audit fees	268,200	387,749	–

Corporate finance services represent the fee in respect of reporting accountants work performed in the year.

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9. Staff costs

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

	2007 No.	2006 No.	2005 No.
Executive Directors	3	3	3
Other employees	285	60	19
	<u>288</u>	<u>63</u>	<u>22</u>

Their aggregate remuneration comprised:

	(£)	(£)	(£)
Wages and salaries	1,592,452	690,845	255,376
Social security costs	379,179	14,327	–
Other pension costs	1,408	8,225	–
Other	–	95,400	–
Share-based payments (note 25)	4,243,887	–	–
	<u>6,216,926</u>	<u>808,797</u>	<u>255,376</u>

Other pension costs consist of payments to a former director's personal pension plan.

Other staff costs relate to payments made to a former director of the Group under a termination compromise agreement.

Within wages and salaries, £119,967 (2006: £1,003; 2005: £nil) relates to amounts paid to Executive Directors for services rendered. Refer to related party disclosure (note 29) for key management remuneration disclosure.

10. Investment revenue

	2007 (£)	2006 (£)	2005 (£)
Interest on bank deposits	277,984	88,085	–

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

11. Finance costs

	2007 (£)	2006 (£)	2005 (£)
Interest on shareholder loans	–	9,192	395
Unwinding of discount on decommissioning provision	28,154	9,375	–
	<u>28,154</u>	<u>18,567</u>	<u>395</u>

The transaction costs of equity transactions are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided.

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

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12. Tax – foreign

	2007 (£)	2006 (£)	2005 (£)
Current tax.....	9,265	–	–
Deferred tax (note 21).....	212,298	11,423	–
	<u>221,563</u>	<u>11,423</u>	<u>–</u>

The Group's operations are conducted primarily outside the UK. The most appropriate tax rate for the Group is therefore considered to be 25 per cent. (2006: 25 per cent.) the rate of profit tax in Ukraine which is the primary source of revenue for the Group. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The charge for the year can be reconciled to the loss per the income statement as follows:

	2007 (£)	2007 per cent.	2006 (£)	2006 per cent.	2005 (£)	2005 per cent.
Loss before tax						
Continuing operations.....	(14,977,658)	100	(5,171,975)	100	(1,049,046)	100
Tax at the Ukraine corporation tax rate of 25 per cent.	(3,744,415)	25	(1,292,994)	25	(262,262)	25
Tax effect of expenses that are not deductible in determining taxable profit.....	2,394,189	(16)	624,578	(12)	59,044	(6)
Tax effect of deferred tax assets not recognised	1,571,789	(10)	679,839	(13)	203,218	(19)
Tax expense and effective tax rate for the year	<u>221,563</u>	<u>(1)</u>	<u>11,423</u>	<u>-</u>	<u>-</u>	<u>-</u>

13. Loss per share

Basic loss per share amounts are calculated by dividing the net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. For the year ended 31 December 2006 and 2005 the shares issued by Cadogan Petroleum Holdings Ltd have been multiplied by the share exchange ratio of 725:1.

As disclosed in note 31, on 10 June 2008, the Company consolidated their Ordinary Shares on a three for one basis. As the Share Consolidation was without consideration, it is treated as if it had occurred at the beginning of 2005, the earliest period presented, for the purposes of calculating loss per share. The weighted average number of Ordinary Shares outstanding has therefore been adjusted downward proportionately for all three years, resulting in a higher basic and diluted loss per share.

Diluted loss per share equals basic loss per ordinary share as, due to the losses incurred in 2007, 2006 and 2005, there is no dilutive effect from the subsisting share warrants, share options, shares to be issued and financial liabilities (see note 22).

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The calculation of the basic and diluted loss per share is based on the following data:

Losses

	2007 (£)	2006 (£)	2005 (£)
Loss for the purposes of basic loss per share being net loss attributable to equity holders of the parent	(15,197,276)	(5,183,398)	(1,049,046)

Number of shares

	No.	No.	No.
Weighted average number of ordinary shares for the purposes of basic loss per share.....	106,164,167	61,673,249	12,191,600

14. Goodwill

	(£)
At 1 January 2005, 2006 and 2007	—
Recognised on acquisition of subsidiaries (note 26)	2,837,579
Exchange differences.....	(33,380)
At 31 December 2007.....	2,804,199

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination.

The recoverable amounts of CGUs are determined from value in use calculations. The value in use calculations are based upon the competent persons report (CPR) provided by independent advisors. The key assumptions used in the report are as follows:

- the Group's proved and proved plus probable reserve categories;
- discount rate of 12.5 per cent. (post tax rate which approximates the Group's adjusted tax-free rate of 15 per cent.);
- inclusion of relevant elements of Ukraine's fiscal regime for petroleum operators (such as production and royalty tax relevant to each licence and corporate income tax of 25 per cent.);
- expected future selling prices (based on current and anticipated market conditions for oil, condensate and gas); and
- costs escalated 2.5 per cent. annually (based on US dollar costs).

These assumptions reflect management's best estimates, and reflect current market assessments of the time value of money and the risks specific to the CGUs.

The fair value of goodwill has been allocated to all Ukraine assets as management believes that the anticipated future operating synergies gained on business acquisition can be used across the Group's entire asset base in Ukraine.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

At 31 December 2007, no impairment of goodwill has been recognised.

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15. Intangible exploration and evaluation assets

	(£)
At 1 January 2005.....	–
Additions on acquisition of subsidiaries (note 26).....	1,374,348
At 1 January 2006.....	1,374,348
Additions on acquisition of subsidiaries (note 26).....	1,106,113
Additions	3,472,099
Exchange differences.....	(181,486)
At 1 January 2007.....	5,771,074
Additions on acquisition of subsidiaries (note 26).....	14,752,015
Additions	18,045,341
Transfer from other intangible assets (note 16)	13,926
Increase in estimate of decommissioning assets.....	91,811
Transfer to property, plant and equipment.....	(10,313,176)
Exchange differences.....	326,271
At 31 December 2007.....	28,687,262

Total intangible exploration and evaluation assets at 31 December 2007 include £722,754 (2006: £517,797; 2005: £26,161) in respect of decommissioning assets.

Additions during the year includes £551,525 (2006: £165,993; 2005: £nil) of capitalised depreciation of development and production assets used in exploration and evaluation activities.

16. Other intangible assets

	(£)
Cost	
At 1 January 2005 and 2006.....	–
Additions	24,666
At 1 January 2007.....	24,666
Additions	8,924
Transfer to intangible exploration and evaluation assets.....	(13,926)
Transfer to property, plant and equipment.....	(4,480)
Exchange differences.....	(904)
At 31 December 2007.....	14,280
Accumulated amortisation	
At 1 January 2005, 2006 and 2007	–
Charge for the year.....	1,728
Exchange differences.....	15
At 31 December 2007.....	1,743
Carrying amount	
At 31 December 2007.....	12,537
At 31 December 2006.....	24,666
At 31 December 2005.....	–

Other intangible assets comprise principally software licences. The amortisation charge is presented as part of administration expense.

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17. Property, plant and equipment

	Other (£)	Development and production assets (£)	Total (£)
Cost			
At 1 January 2005.....	–	–	–
Additions on acquisition of subsidiaries (note 26).....	35,561	–	35,561
At 1 January 2006.....	35,561	–	35,561
Additions on acquisition of subsidiaries (note 26).....	4,589	36,919	41,508
Additions.....	617,394	4,510,514	5,127,908
Disposals.....	(19,182)	–	(19,182)
Exchange differences.....	(2,772)	(1,133)	(3,905)
At 1 January 2007.....	635,590	4,546,300	5,181,890
Additions on acquisition of subsidiaries (note 26).....	901,792	3,729,164	4,630,956
Additions.....	438,547	4,162,284	4,600,831
Transfer from intangible exploration and evaluation assets and other intangible assets.....	4,480	10,313,176	10,317,656
Disposals.....	(148,092)	(132,067)	(280,159)
Exchange differences.....	(31,118)	(266,451)	(297,569)
At 31 December 2007.....	1,801,199	22,352,406	24,153,605
Accumulated depreciation			
At 1 January 2005.....	–	–	–
Additions on acquisition of subsidiaries (note 26).....	15,451	–	15,451
Charge for the year.....	1,423	–	1,423
At 1 January 2006.....	16,874	–	16,874
Additions on acquisition of subsidiaries (note 26).....	4,172	–	4,172
Charge for the year.....	37,221	195,519	232,740
Disposals.....	(6,142)	–	(6,142)
Exchange differences.....	(3,468)	(1,827)	(5,295)
At 1 January 2007.....	48,657	193,692	242,349
Additions on acquisition of subsidiaries (note 26).....	60	39,205	39,265
Charge for the year.....	178,581	971,062	1,149,643
Disposals.....	(10,619)	(1,255)	(11,874)
Exchange differences.....	(180)	1,423	1,243
At 31 December 2007.....	216,499	1,204,127	1,420,626
Carrying amount			
At 31 December 2007.....	1,584,700	21,148,279	22,732,979
At 31 December 2006.....	586,933	4,352,608	4,939,541
At 31 December 2005.....	18,687	–	18,687

As at 31 December 2007, development and production assets totalling £10,313,176 (2006: £nil, 2005: £nil) were not depleted or depreciated pending commercial production.

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18. Subsidiaries

The Company had investments in the following subsidiary undertakings as at 31 December 2007, which principally affected the losses and net assets of the Group.

Name	Country of incorporation (or registration) and operation	Proportion of voting interest per cent.	Activity
<i>Directly held</i>			
Cadogan Petroleum Holdings Ltd	Great Britain	100	Holding company
Ramet Holdings Ltd	Cyprus	100	Holding company
<i>Indirectly held</i>			
Colby Petroleum Ltd	British Virgin Islands	100	Holding company
Rentoul Ltd	Isle of Man	100	Holding company
LLC Industrial Company Gazvydobuvannya	Ukraine	100	Exploration
LLC AstroInvest-Ukraine	Ukraine	100	Exploration
LLC Astro Gas	Ukraine	90	Exploration
Tigar Oil & Gas Ltd	British Virgin Islands	100	Holding company
Tigar Oil SA	Panama	100	Inactive exploration
Anglo Georgian Petroleum Ltd	British Virgin Islands	100	Holding company
LLC Anglo Georgian Petroleum	Georgia	100	Inactive exploration
Stickle Ltd	Isle of Man	100	Holding company
Rocheport Ventures Ltd	Cyprus	100	Inactive exploration
USENCO International Inc.	USA	100	Holding company
USENCO Ukraine	Ukraine	100	Exploration
LLC USENCO Nadra	Ukraine	90	Exploration
Momentum Energy International Inc.	Canada	100	Holding company
Momentum Enterprise Inc.	Canada	100	Holding company
Momentum Enterprise (Europe) Ltd	Cyprus	100	Holding company
LLC JV Delta	Ukraine	100	Exploration
Radley Investments Ltd	Great Britain	100	Holding company
LLC Astro-Energy	Ukraine	100	Exploration
LLC Astroinvest-Energy	Ukraine	90	Exploration
OJSC 'AgroNaftoGasTechService	Ukraine	79.9	Construction services

Cadogan Petroleum plc was incorporated on 22 February 2006 with an authorised share capital of 600,000,000 Ordinary Shares of £0.01 each. On 13 April 2006, the Company acquired the whole of the share capital of Cadogan Petroleum Holdings Limited in a share for share exchange transaction where each share in Cadogan Petroleum Holdings Limited was exchanged for 725 Ordinary Shares in Cadogan Petroleum plc. The number of shares in issue at 13 April 2006 was 220,416 (nominal value £22,042), which resulted in the issue of 159,801,600 Ordinary Shares in Cadogan Petroleum plc.

As detailed in note 26, the Group acquired Momentum Energy International Inc., Radley Investment Limited and Ramet Holdings Limited together with all associated subsidiaries during the year ended 31 December 2007. The Group also acquired USENCO International Inc. and USENCO Ukraine in 2006 and LLC Astroinvest-Ukraine and LLC Industrial Company Gazvydobuvannya in 2005.

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19. Inventories

	2007 (£)	2006 (£)	2005 (£)
Material and supplies	1,654,464	835,552	2,378

20. Other financial assets

Other non-current receivables

	2007 (£)	2006 (£)	2005 (£)
VAT recoverable	3,059,654	–	–

Trade and other receivables

	2007 (£)	2006 (£)	2005 (£)
Other receivables.....	310,338	1,468,426	268,903
VAT recoverable	526,283	1,504,552	–
Prepayments.....	849,856	900,923	19,247
	<u>1,686,477</u>	<u>3,873,901</u>	<u>288,150</u>

The Group's principal financial assets are bank balances and cash and other receivables none of which are past due. The Directors consider that the carrying amount of other receivables approximates their fair value.

Included in other receivables there is no unpaid share capital (2006: £50; 2005: £87,500).

VAT balances recoverable from Ukraine authorities will only be recoverable once significant production commences. The Directors consider amounts in the balance sheet to be fully recoverable. An allowance for impairment is made where there is an identified event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. No such events occurred in 2007, 2006 and 2005. VAT will be recovered by netting off the VAT liabilities arising from future revenues and therefore have been adjusted for the time value of money. As a result, a charge of £856,987 was provided for in 2007 (2006: £165,199; 2005: £nil). The portion that is not expected to be recovered within the next twelve months has been presented as non-current.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group. The Directors consider that the carrying amount of these assets approximates their fair value.

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21. Deferred tax

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior years.

	Accelerated tax depreciation and other temporary differences (£)
At 1 January 2005.....	–
Asset capitalisation on acquisition of subsidiaries	21,631
Fair value adjustment on acquisition of subsidiaries	275,297
At 1 January 2006.....	296,928
Charge to income	11,423
Exchange differences.....	(32,484)
At 1 January 2007.....	275,867
Acquisition of subsidiaries	497,422
Charge to income	212,298
Exchange differences.....	(18,218)
At 31 December 2007.....	967,369

At 31 December 2007, the Group had unused tax losses of £10.1 million (2006: £4.2 million; 2005: £1.0 million) available for offset against future taxable profits. Tax losses have not been recognised as deferred tax assets due to the uncertainty that profits will be available in future periods against which they can be utilised.

Of the Group's total unused tax losses, £5.2 million (2006: £2.6 million; 2005: £1.0 million) relate to losses incurred in the UK. These tax losses are available to shelter future non-trading profits arising within Cadogan Petroleum Holdings Ltd and Cadogan Petroleum plc, subject to restrictions which may apply if there is a change of ownership. These losses are not subject to a time restriction on expiry.

Total unused tax losses of £1.3 million (2006: £nil; 2005: £nil) relate to losses incurred by USENCO International Inc. in the USA. Net operating losses ("NOL") can be carried forward and utilised to offset taxable income arising in the succeeding 20 years. However, if there is a change in ownership the losses would be subject to an annual limitation, being broadly the NOL, at the date of change in ownership, multiplied by the federal interest rate at that time.

Unused tax losses incurred by Ukraine subsidiaries, amount to £3.6 million (2006: £1.6 million; 2005: £nil). 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. Under Ukraine tax law, losses can be carried forward indefinitely. However, in the last few years, Ukrainian legislation has been established imposing restrictions regarding the carry forward of tax losses. Should similar restrictions be introduced in future periods and before the Ukraine companies become profitable, the accumulated tax losses at 31 December 2007 may not be used.

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22. Other financial liabilities

Trade and other payables

	2007 (£)	2006 (£)	2005 (£)
Trade creditors	1,493,679	2,018,298	341,479
Other taxes and social security	99,090	9,485	–
Other creditors and payables	596,236	103,722	–
Accruals	866,124	317,494	–
	<u>3,055,129</u>	<u>2,448,999</u>	<u>341,479</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. 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 charged on balances outstanding.

Loans

	2007 (£)	2006 (£)	2005 (£)
Shareholder loans, repayable on demand or within one year.....	–	–	180,000

Shareholder loans of £180,000 were repaid during 2006.

Financial liability

	2007 (£)	2006 (£)	2005 (£)
Financial liability	<u>1,583,333</u>	–	–

In December 2007, 8,333,333 Ordinary Shares of £0.01 each were issued for a consideration of £0.60 per Ordinary Share raising a total cash consideration of £5,000,000. As a condition of this placing, it was agreed that in the event that the Company did not complete any additional placings at the increased price per Ordinary Share of £0.60 prior to 15 March 2008, the weighted average price per Ordinary Share for this tranche of Ordinary Shares would revert back to £0.41. Additional Ordinary Shares would then fall due to be issued with no additional cash consideration being due.

As the number of Ordinary Shares issued in the second tranche is dependent on a future placing, the value of the Ordinary Shares has been determined at the fair market value at 31 December 2007 of £0.41 per Ordinary Share, this being the price at which the Ordinary Shares were being issued in private equity fundraising, with the difference between this and the cash received recorded as a financial liability.

Refer to note 31 for a discussion of events that occurred after the balance sheet date.

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23. Provisions

	Decommissioning (£)	Other (£)	Total (£)
At 1 January 2005.....	–	–	–
Additions on acquisition of subsidiaries (note 26).....	26,161	–	26,161
At 1 January 2006.....	26,161	–	26,161
Additions on acquisition of subsidiaries (note 26).....	491,636	29,114	520,750
Unwinding of discount on decommissioning provision.....	9,375	–	9,375
Exchange differences.....	(2,809)	–	(2,809)
At 1 January 2007.....	524,363	29,114	553,477
Additions on acquisition of subsidiaries (note 26).....	113,146	19,943	133,089
Additions.....	225,069	–	225,069
Change in estimate.....	(133,258)	–	(133,258)
Utilisation of provision.....	–	(11,332)	(11,332)
Unwinding of the discount on decommissioning provision.....	28,154	–	28,154
Exchange difference.....	(22,205)	–	(22,205)
At 31 December 2007.....	735,269	37,725	772,994
Included in current provisions.....			374,291
Included in long-term provisions.....			398,703
			<u>772,994</u>

In accordance with the Group's environmental policy and applicable legal requirements, the Group intends to restore the site of geological exploration upon the completion of the exploration phase. A short-term provision of £374,291 (2006: £141,124; 2005: £nil) has been made for decommissioning costs, which are expected to be incurred within the next year as a result of the demobilisation of drilling equipment and respective site restoration.

The long-term provision recognised in respect of decommissioning reflects management's estimate of the net present value of the Group's share of the expenditure expected to be incurred in this respect with regard to expected expenditure on similar site restorations. This amount has been recognised as a provision at its net present value, using a discount rate that reflected 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. Key assumptions underlying the calculation are a pre-tax, risk free discount rate, estimated to be 15 per cent. and inflation estimated to be 12 per cent. 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 14 and 19 years).

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24. Share capital

	2007 (£)	2006 (£)	2005 (£)
Authorised:			
600,000,000 Ordinary Shares of £0.01 each (2006: 600,000,000 Ordinary Shares of £0.01 each; 2005: 100,000,000 shares of £0.10 each in Cadogan Petroleum Holdings Limited).....	6,000,000	6,000,000	10,000,000
Issued and partly paid:			
416,940,862 Ordinary Shares of £0.01 each (2006: 257,078 Ordinary Shares of £0.01 each; 2005: 205,391 shares of £0.10 each in Cadogan Petroleum Holdings Limited).....	4,169,409	2,570,789	20,539

At 31 December 2007, no Ordinary Shares of £0.01 each remained unpaid (2006: 242 Ordinary Shares of £0.01; 2005: 1,500 shares of £0.10).

Cadogan Petroleum Holdings Limited issued shares for cash at various prices as follows:

	Number issued
At 1 January 2005.....	1
Share issues.....	205,390
At 1 January 2006.....	205,391
Share issues.....	15,025
At 13 April 2006.....	220,416

Cadogan Petroleum plc was incorporated on 22 February 2006 with an authorised share capital of 600,000,000 Ordinary Shares of £0.01 each. On 13 April 2006, the Company acquired the whole of the share capital of Cadogan Petroleum Holdings Limited in a share for share exchange transaction where each share in Cadogan Petroleum Holdings Limited was exchanged for 725 Ordinary Shares in Cadogan Petroleum plc. The number of shares in issue at 13 April 2006 was 220,416 (nominal value £22,042), which resulted in the issue of 159,801,600 Ordinary Shares in Cadogan Petroleum plc.

The Company issued further Ordinary Shares for cash at various prices as follows:

	Number issued
At 22 February 2006.....	—
Share exchange.....	159,801,600
Share issues.....	97,277,267
At 1 January 2007.....	257,078,867
Share issues.....	157,121,995
On acquisition of subsidiary (note 26)	2,740,000
At 31 December 2007.....	416,940,862

In December 2007, 8,333,333 Ordinary Shares of £0.01 each were issued for a consideration of £0.60 per Ordinary Share raising a total cash consideration of £5,000,000. As a condition of this placing, it was agreed that in the event that the Company did not complete any additional placings at the increased price per Ordinary Share of £0.60 prior to 15 March 2008, the weighted average price per Ordinary Share for this tranche of Ordinary Shares would revert back to £0.41. Additional Ordinary Shares would then fall due to be issued with no additional cash consideration being due.

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As the number of shares issued in the second tranche is dependent on future placings, the value of the shares has been determined at the fair market value of £0.41 per share, this being the price at which the Company's shares were being issued in private equity fundraising.

Refer to note 22 for discussion of financial liability and note 31 for a discussion of events that occurred after the balance sheet date in respect of this matter.

At 31 December 2007, a placing agreement was in place for the issue of 2,440,731 shares of £0.41 each, where cash had been received, but the shares were not yet issued. The total consideration received amounted to £1,000,700. As the shares were not in issue at year end, the value has been presented as shares to be issued. Refer to note 31 for a discussion of events that occurred after the balance sheet date. The information shown above has not been restated to reflect the Share Consolidation that took place in June 2008.

25. Share based payments

Under the terms of an agreement dated 17 February 2006, which was subsequently updated on 20 September 2006 and 8 May 2007, the Company's broker and financial adviser Fox-Davies Capital ('Fox Davies') were granted certain warrant rights. Under the terms of this agreement, as amended on 8 May 2007, Fox-Davies became entitled, on completion of any share placing to be granted warrants to subscribe for 4.5 per cent. (which was changed from 5 per cent. at 17 February 2006 and subsequently to 6 per cent. at 20 September 2006) of the total number of shares allotted by the Company on funds raised by Fox-Davies, such warrants to be exercisable at a price per share equal to the placing price (average price of £0.273 and £0.41) and to be exercisable at any time within the five-year period following completion of the placing.

At 31 December 2007, 13,170,933 (2006: 5,147,883; 2005: £nil) warrants had accrued to Fox-Davies and these were deemed to hold a value equivalent to one half of one percent cash commission on gross funds raised. This valuation has been made with reference to the additional commission which would have been due to Fox-Davies had the warrants not been granted. The monetary value of the warrants was calculated as £430,606 (2006: £129,434; 2005: £nil).

In accordance with the Group's accounting policy, the costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that would otherwise have been avoided. The effect on the income statement during the year is, therefore, nil.

Equity-settled share option scheme

The Company has a share option scheme for certain directors of the Group. Options are exercisable at a price of £0.273 and vest on achieving certain performance criteria. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the director leaves the Group before the options vest. The options are split into the following tranches and each tranche is subject to the following performance conditions:

Option tranche 1

Of the total options granted, 40 per cent. vest on the grant date.

Option tranche 2

- 20 per cent. of the options granted will vest and become exercisable when the Group has sales over a continuous period of 90 days of at least 5,000 barrels of oil equivalent per day.
- 20 per cent. of the options granted will vest and become exercisable when the Group has sales over a continuous period of 90 days of at least 10,000 barrels of oil equivalent per day.

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Barrels of oil equivalent means the aggregate of:

- barrels of oil; and
- barrels of condensate; and
- gas converted to equivalent barrels on the basis of 6,000 standard cubic feet per barrel at a standard temperature and pressure.

Sales shall not include sales to any subsidiary or sales which are not on an arm's length basis.

Option tranche 3

Of the total options granted 20 per cent. vest upon the earlier of:

- Admission, being the date in which the shares are first admitted on any stock exchange, at an initial price per share of £1.092 and, maintaining a daily average price per share of at least £1.092 for any period of 45 consecutive days after Admission; and
- a trade sale at a price per share of at least £1.092.

Details of the share options outstanding during the year were as follows.

	No. Tranche 1	No. Tranche 2	No. Tranche 3
Outstanding at 1 January 2006 and 2007	–	–	–
Granted during the year	17,138,315	17,138,315	8,569,158
Outstanding at 31 December 2007	17,138,315	17,138,315	8,569,158
Exercisable at 31 December 2007	17,138,315	–	–

No share options were forfeited, exercised or expired during the year (2006: nil; 2005: nil).

The options outstanding at 31 December 2007 had a weighted average exercise price of £0.273, and a weighted average remaining contractual life of 57 months. Options were granted on 11 September 2007.

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

- Option tranche 1 and 2 – not subject to any market-based performance conditions and therefore the Black- Scholes model has been used.
- Option tranche 3 – market-based performance conditions must be included in the calculation of fair value and therefore the Stochastic model has been considered the most appropriate.

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The inputs into the models were as follows:

	Black-Scholes	stochastic
Weighted average share price	41p	41p
Weighted average exercise price.....	27.3p	27.3p
Expected volatility.....	55 per cent.	55 per cent.
Expected term	2.5 years	5 years
Risk free rate	4.99 per cent.	4.98 per cent.
Expected dividend yield	0 per cent.	0 per cent.

As the Company is unlisted, expected volatility was determined by considering the historical volatility of other similar entities. Similar entities have been chosen as the FTSE AIM Oil & Exploration constituents (with a market capitalisation of greater than £100m). Volatility for each of these companies has been calculated over both 5 years and 2.5 years resulting in median volatility for the Group of 56 per cent. and 55 per cent. These numbers have been rounded to 55 per cent. respectively and taken as a proxy for the Company's volatility in valuing the options. The aggregate of the estimated fair values of the options granted on that date is £8,966,938 (option tranche 1: £3,634,180; option tranche 2: £3,634,180; option tranche 3: £1,698,578).

The Group recognised total expenses of £4,243,887 related to equity-settled share-based payment transactions in 2007 (2006: £nil; 2005: £nil). Of this expense, £3,634,180 relates to tranche 1 and £609,707 relates to option tranche 2. No expense has been recognised for option tranche 3 as this is considered to be a discrete event and therefore it will be recognised when the conditions are met.

For option tranche 1 and 2, an expected term of two and a half years has been assumed, being half way between the grant date and the lapse date. For option tranche 3, an expected term of five years was derived from the Stochastic valuation model being the expected term of the market-based performance condition.

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

The information in this note has not been restated to reflect the Share Consolidation that took place in June 2008 (see note 31).

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26. Acquisition of subsidiaries

Momentum Energy International Inc.

On 24 May 2007, the Company completed the acquisition of 100 per cent of the issued share capital of Momentum Energy International Inc. ('Momentum') for cash consideration of US\$7.3 million via its wholly-owned subsidiary Cadogan Petroleum Holdings Limited. Momentum, through its subsidiaries, holds interests in several oil and gas fields in Western Ukraine.

The transaction has been accounted for as a business combination using an effective date of 24 May 2007, being the date that the Company gained control of Momentum. For reasons of materiality and practicality, the Company has consolidated Momentum's results from 31 May 2007.

	Book value (£)	Fair value (£)
Net assets acquired:		
Property, plant and equipment.....	2,092,206	3,407,610
Inventories.....	79,974	79,974
Trade and other receivables.....	197,926	157,004
Cash and cash equivalents.....	254,001	254,001
Trade and other payables.....	(561,324)	(747,672)
Non-current provisions.....	–	(113,243)
Deferred tax.....	–	(319,657)
	<u>2,062,783</u>	<u>2,718,017</u>
Goodwill.....		1,071,124
		<u>3,789,141</u>
Satisfied by:		
Cash.....		3,736,944
Directly attributable costs.....		52,197
Total consideration.....		<u>3,789,141</u>
Net cash outflow arising on acquisition		
Cash consideration.....		3,789,141
Cash and cash equivalents acquired.....		(254,001)
		<u>3,535,140</u>

The goodwill arising on the acquisition of Momentum and its subsidiary undertaking is attributable to future operating synergies from the combination.

Momentum contributed £488,075 to revenue and £204,268 to the Group's loss before tax for the period between the date of acquisition and the balance sheet date.

Ramet Holdings Limited

On 26 December 2007, the Company entered into an agreement to purchase 100 per cent. of the issued share capital of Ramet Holdings Limited, a company which was owned by Mark Tolley, an Executive Director of Cadogan Petroleum plc, for consideration consisting of:

- the allotment of 3,048,780 Ordinary Shares of £0.01 in the Company;
- cash consideration of US\$2.5 million; and

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

- deferred consideration equal to the number of recoverable proven and probable barrels of oil equivalent from the first two wells drilled and tested in the Malynovestske Field (the Malynovestske licence area in the Bogorodchansky Administration District of the Ivano-Frankivska Administration Region in Western Ukraine). For the purpose of ascertaining the quantity of oil equivalent recoverable, the parties should instruct a suitably qualified and insured independent expert of at least 10 years' standing. Payment shall be paid within 30 days of the expert's report and, notwithstanding that report, shall not exceed US\$5 million. No consideration for this has been included in the purchase consideration as these costs were not considered probable at the date of acquisition.

It was subsequently agreed that the cash consideration of US\$2.5 million would be settled by the issue of 2,763,194 Ordinary Shares of £0.01 in the Company and a cash payment of £149,142. The fair value of the shares was deemed to be £0.41 per share, this being the price at which the Company's shares were being issued in private equity fundraising.

Of the total consideration to be settled by the issue of Ordinary Shares, 2,740,000 had been issued at 31 December 2007 and 3,071,974 were issued in January 2008. The value of the shares issued and to be issued has been determined at the fair market value of £0.41 per share, this being the price at which the Company's shares were being issued in private equity fundraising.

Ramet Holdings Limited is the beneficial owner of 79.9 per cent. shares in the Ukrainian company OJSC 'AgroNaftGasTechService' which holds interests in two licences and provides construction services to the oil and gas sector. Prior to being held by Ramet Holdings Limited, the shares in OJSC 'AgroNaftGasTechService' were originally held by Mark Tolley and Vasyl Vivcharyk both of whom are Executive Directors of Cadogan Petroleum plc.

The transaction has been accounted for as a business combination using an effective date of 28 December 2007, being the date that the Company gained control of Ramet Holdings Limited and consolidated at 31 December 2007 for reasons of materiality and practicality.

If the Company disposes of a controlling interest in Ramet Holdings Limited or OJSC 'AgroNaftGasTechService' within two years of completion, the Company will pay the previous owner an amount equal to US\$5 million less the value of any payment made under the reserves based deferred consideration mechanism discussed above.

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Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

Ramet Holdings Limited (continued)

	Book value (£)	Fair value (£)
Net assets acquired:		
Property, plant and equipment	491,854	1,184,081
Inventories	80,748	80,748
Trade and other receivables	121,437	121,437
Cash and cash equivalents	20,258	20,258
Trade and other payables	(152,219)	(152,219)
Non-current provisions	(9,148)	(19,846)
Deferred tax	(7,383)	(177,765)
Minority interest	(94,262)	(197,002)
	<u>451,285</u>	<u>859,692</u>
Goodwill		1,766,455
		<u>2,626,147</u>
Satisfied by:		
Cash to be paid		149,142
Directly attributable costs		14,614
Issue of equity instruments – shares issued		1,123,400
Issue of equity instruments – shares to be issued		1,259,510
Forgiven intercompany loans		79,481
Total consideration		<u>2,626,147</u>
Net cash outflow arising on acquisition		
Total consideration		2,626,147
Consideration not yet paid		(149,142)
Cash and cash equivalents acquired		(20,258)
Issue of equity instruments – shares issued		(1,123,400)
Issue of equity instruments – shares to be issued		(1,259,510)
		<u>73,837</u>

The goodwill arising on the acquisition of Ramet Holdings Limited and its subsidiary undertaking is attributable to future operating synergies from the combination.

As the company was acquired on 28 December 2007, it has made no contribution to the Group revenues or losses.

If the acquisition of Momentum and Ramet Holdings Limited, together with their subsidiaries, had been completed on the first day of the financial year, Group revenues for the year would have been £2,160,773 and Group loss attributable to equity holders of the parent would have been £15,256,766.

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

Radley Investments Limited

On 30 November 2007, the Company acquired 100 per cent. of the issued share capital of Radley Investments Limited for cash consideration of US\$32.6 million, via its wholly-owned subsidiary Cadogan Petroleum Holdings Limited. The Company has a beneficial interest, through its wholly-owned subsidiary LLC Astro-Energy, of 90 per cent. in LLC Astroinvest-Energy which holds together with NAK Nadra Ukraine the Zagoryanska licence. The acquisition of Radley Investments Limited has not been treated as a business combination as defined in IFRS 3 *Business Combinations* as it was judged by management that it was an acquisition of business assets rather than that of a business as defined in IFRS 3.

The cost of the transaction was allocated between the assets and the liabilities acquired as follows:

	(£)
Net assets acquired:	
Intangible exploration and evaluation assets.....	14,752,015
Trade and other receivables	2
Cash and cash equivalents	1,254,230
Trade and other payables	(4,230)
	<u>16,002,017</u>
Satisfied by:	
Cash	15,913,660
Directly attributable costs	88,357
Total consideration.....	<u>16,002,017</u>
Net cash outflow arising on the transaction	
Cash consideration.....	16,002,017
Cash and cash equivalents acquired	<u>(1,254,230)</u>
	<u>14,747,787</u>

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THREE YEARS ENDED 31 DECEMBER 2007

USENCO International Inc.

On 1 September 2006, the Company acquired 100 per cent. of the issued share capital of USENCO International Inc. for cash consideration of £1,147,243, via its wholly owned subsidiary Stickle Limited. USENCO International Inc.'s principal activity is the exploration of oil and gas reserves in the Ukraine. The acquisition of USENCO International Inc. has not been treated as a business combination as defined in IFRS 3 *Business Combinations* as it was judged by management that it was an acquisition of business assets rather than that of a business as defined in IFRS 3.

The cost of the transaction was allocated between the assets and the liabilities acquired as follows:

	(£)
Net assets acquired:	
Property, plant and equipment.....	37,336
Intangible exploration and evaluation assets.....	1,106,113
Trade and other receivables	11,791
Cash and cash equivalents	1,390
Trade and other payables.....	(8,447)
Current tax liabilities	(940)
	<u>1,147,243</u>
Satisfied by:	
Cash	525,762
Directly attributable costs	621,481
Total consideration	<u>1,147,243</u>
Net cash outflow arising on the transaction	
Cash consideration.....	1,147,243
Cash and cash equivalents acquired.....	(1,390)
	<u>1,145,853</u>

LLC Astroinvest-Ukraine and LLC Industrial Company Gazvydobuvannya

On 10 December 2005, the Cadogan Holdings Group acquired 100 per cent. of the issued share capital of LLC Astroinvest-Ukraine and LLC Industrial Company Gazvydobuvannya for cash consideration of £1,007,163 via its wholly owned subsidiary Rentoul Limited.

The transaction has been accounted for as a business combination. LLC Astroinvest-Ukraine and LLC Industrial Company Gazvydobuvannya activity is the exploration of oil and gas reserves in the Ukraine.

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

	Book value (£)	Fair value (£)
Net assets acquired:		
Property, plant and equipment.....	20,110	20,110
Intangible exploration and extraction rights.....	273,158	1,374,348
Inventories.....	2,378	2,378
Trade and other receivables.....	4,417	4,417
Cash and cash equivalents.....	26,526	26,526
Trade and other payables.....	(95,148)	(95,149)
Current tax liabilities.....	(2,378)	(2,378)
Deferred tax liabilities.....	(21,631)	(296,928)
Non-current provisions.....	(26,161)	(26,161)
	<u>181,271</u>	<u>1,007,163</u>
Satisfied by:		
Cash.....		<u>1,007,163</u>
Total consideration.....		<u>1,007,163</u>
Net cash outflow arising on acquisition		
Cash consideration.....		1,007,163
Cash and cash equivalents acquired.....		<u>(26,526)</u>
		<u>980,637</u>

LLC Astroinvest-Ukraine made no contribution to the Group revenues and contributed £6,115 to the Group's loss before tax for the period between the date of acquisition and the 31 December 2005. LLC Industrial Company Gazvydobuvannya made no contribution to the Group revenues and contributed £3,171 to the Group's loss before tax for the period between the date of acquisition and 31 December 2005.

If this acquisition had been completed on the first day of 2005, neither of the acquired companies would have contributed to Group revenues for the year and Group loss attributable to equity holders of the parent would have been £1,058,332.

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27. Notes to the cash flow statement

	2007 (£)	2006 (£)	2005 (£)
Net loss	(15,199,221)	(5,183,398)	(1,049,046)
Adjustments for:.....			
Depreciation of property, plant and equipment	598,118	66,747	1,423
Depreciation of other intangible assets	1,728	–	–
Loss / (gain) on disposal of property, plant and equipment	7,496	(714)	–
Share-based payments	4,243,887	–	–
Investment revenue	(277,984)	(88,085)	–
Interest on shareholder loans	–	9,192	395
Tax – foreign	221,563	11,423	–
Minority interest	1,945	–	–
Effect of foreign exchange rate changes	(154,829)	341,690	–
Operating cash flows before movements in working capital	(10,557,297)	(4,843,145)	(1,047,228)
Increase in inventories	(658,190)	(833,174)	–
Increase in receivables	(603,144)	(3,956,348)	(196,232)
(Decrease) / increase in payables	(458,465)	2,137,562	208,329
Cash used in operations	(12,277,096)	(7,495,105)	(1,035,131)
Income taxes paid	(9,265)	(3,318)	–
Net cash outflows from continuing operations	(12,286,361)	(7,498,423)	(1,035,131)

Cash and cash equivalents comprise cash at bank.

28. Financial instruments

Categories of financial instruments

	2007 (£)	2006 (£)	2005 (£)
Financial assets			
Cash and cash equivalents	13,956,712	8,688,261	248,176
Other receivables	281,210	1,417,138	268,903
	14,237,922	10,105,399	517,079
	2007 (£)	2006 (£)	2005 (£)
Financial liabilities			
Trade creditors	(1,493,679)	(2,018,298)	(341,479)
Other creditors and payables	(596,236)	(103,722)	–
Loans	–	–	(180,000)
Financial liabilities	(1,583,333)	–	–
	(3,673,248)	(2,122,020)	(521,479)

Fair value of financial liabilities

As discussed in note 22, a financial liability has been recognised in relation to the issuance of Ordinary Shares during the year as the number of shares issued is dependent on future placing. The fair value has been determined as being the fair market value of the Company's Ordinary Shares of £0.41 per share as at 31 December 2007.

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders. The Group is not subject to externally imposed capital requirements.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

Significant accounting policies

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

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 Group's operations in Ukraine. These risks include market risks, credit risk, liquidity risk and cash flow interest rate risk.

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

As the Group has no committed borrowings, the Group is not exposed to any risks associated with fluctuations in interest rates. Fluctuations in interest rates on cash balances held are immaterial.

Commodity price risk

The commodity price risk related to Ukrainian gas and condensate prices and, to a lesser extent, prices for crude oil are the Group's most significant market risk exposures. World prices for gas and crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand and worldwide political developments, including actions taken by the Organisation of Petroleum Exporting Countries. These fluctuations may have a significant effect on the Group's revenues and operating profits going forward. The Ukrainian gas price has historically been, and currently remains, at a discount to gas prices prevailing in the European Union. The principal factor in the current Ukrainian gas price is bi-lateral negotiations with Gazprom to establish the price of gas imports from Russia. The price for Ukrainian gas is based on the current price of these gas imports from Russia, which are nonetheless influenced by world prices, and it is expected that the trend of Ukrainian prices becoming more in alignment with prevailing European and world prices will continue. Ukrainian gas prices are also influenced in some degree by local supply and demand. The Group continues to expect that its 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.

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

Inflation risk

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

Foreign exchange risk and foreign currency risk management

The Group does not hold large quantities of foreign currency and therefore is not exposed to significant foreign currency risk.

The Group to date has elected not to hedge its exposure to the risk of changes in foreign currency exchange rates.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not have any significant credit risk exposure as the normal terms for sales of gas and condensate to the Group's customers require payment before delivery. In the future, the Group could face issues with customers if curtailments of throughput in the gas transportation system delay deliveries to customers, but the Group has yet to experience such issues and transportation remains the responsibility of the customer once the Group has delivered product to the transportation system.

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 information 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 monitoring forecast and actual cash flows. The maturities of financial liabilities have been disclosed in note 22.

Sensitivity analysis

Interest rate sensitivity

Management's estimate of a reasonable possible change in interest rates is +/- 1 per cent. This change would not have a material impact on interest received in the period.

Exchange rate sensitivity

Management estimates the impact of a reasonable possible movement in foreign exchange rates at around +/- 10 per cent. to be immaterial.

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

29. Related party transactions

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

Trading transactions

During the year, the Group companies entered into the following transactions with related parties who were not members of the Group:

	Purchase of services			Amounts owed to related parties		
	2007 (£)	2006 (£)	2005 (£)	2007 (£)	2006 (£)	2005 (£)
OJSC 'AgroNaftoGasTechService'	1,128,206	1,404,067	–	–	11,000	–

Purchase of services from related parties were made at the market price on standard terms equivalent to those that prevail in an arm's length transaction. Prior to being held by Ramet Holdings Limited, the shares in OJSC 'AgroNaftGasTechService' were originally held by Mark Tolley and Vasyl Vivcharyk both of whom are Executive Directors of the Company.

Acquisition of subsidiary

On 26 December 2007, the Company acquired Ramet Holdings Limited, a company which was owned by Mark Tolley, an Executive Director of the Company. Ramet Holdings Limited is the beneficial owner of 79.9 per cent. shares in the Ukrainian company OJSC 'AgroNaftGasTechService' which holds interests in two licences and provides construction services to the oil and gas sector. Prior to being held by Ramet Holdings Limited, the shares in OJSC 'AgroNaftGasTechService' were originally held by Mark Tolley and Vasyl Vivcharyk both of whom are Executive Directors of the Group. Refer to note 26 for further details of the transaction.

An outstanding balance of £149,142, being a portion of the total consideration for the acquisition, had not yet been paid to Mark Tolley and Vasyl Vivcharyk at 31 December 2007.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	Purchase of services			Amounts owed to related parties		
	2007 (£)	2006 (£)	2005 (£)	2007 (£)	2006 (£)	2005 (£)
Short-term employee benefits.....	974,066	559,988	250,250	86,177	143,299	5,095
Termination benefits.....	–	95,400	–	–	–	–
Share-based payments.....	4,243,887	–	–	–	–	–
	5,217,953	655,388	250,250	86,177	143,299	5,095

No Directors belong to pension schemes operated by the Group although, as disclosed in note 9, the Group made contributions of £1,408 (2006: £8,225; 2005: £nil) to a former director's personal pension plan which are not included in the above table.

The total remuneration of the highest paid Director was £278,420 in the year (2006: £180,000; 2005: £154,700).

Cadogan Petroleum plc

Notes to the Financial Information

THREE YEARS ENDED 31 DECEMBER 2007

30. Commitments and contingencies

Joint activity agreements

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

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

	2007 £'000	2006 £'000	2005 £'000
Within one year.....	26,895	12,665	6,311
Between one and five years.....	18,821	18,660	35,092
	45,716	31,325	41,403

A greater level of capital expenditure is however budgeted over the above period to achieve corporate targets.

Ramet Holdings Limited

Under the terms of acquisition of Ramet Holdings Limited, the Group has a contingent liability in relation to the deferred consideration equal to the number of recoverable proven and probable barrels of oil equivalent from the first two wells drilled and tested in the Malynovestske Field (the Malynovestske licence area in the Bogorodchansky Administration District of the Ivano-Frankivska Administration Region in Western Ukraine). For the purpose of ascertaining the quantity of oil equivalent recoverable, the parties should instruct a suitably qualified and insured independent expert of at least ten years' standing. Payment shall be paid within 30 days of the expert's report and, notwithstanding that report, shall not exceed US\$5 million (see note 26).

31. Events after the balance sheet date

Acquisition of subsidiary

On 16 January 2008, Astro-Energy LLC signed an agreement to acquire a 99.991 per cent. interest in Mercor LLC for a cash consideration of US\$4.35 million. On the same date, Astroinvest-Ukraine signed an agreement to acquire the remaining 0.009 per cent. interest in Mercor LLC for US\$490. Under the terms of the agreements, the vendor was obliged to execute certain obligations related to technical documentation on land plots and resolution of certain contractual obligations with other third parties. It was stipulated that the full control would pass to Astro-Energy LLC only after fulfilment of these obligations and after the final 50 per cent. payment were made. The final payment was made on 8 April 2008 and management considers that the Group gained control of Mercor LLC as of this date.

Mercor LLC holds an interest in JAA#17 on the Zagoryanska Licence which was previously acquired by the Group through the purchase of Radley Investments Limited. As a result of the acquisition of Mercor LLC, Astro-Energy LLC and Astroinvest-Ukraine together hold a 100 per cent. interest in JAA#17.

Approval of this acquisition was received from the Anti-Monopoly Committee of Ukraine on 28 February 2008.

Cadogan Petroleum plc

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THREE YEARS ENDED 31 DECEMBER 2007

On 18 January 2008, Astro-Energy LLC acquired a 99.91 per cent. stake in the Zagoryanska JAA#1 from Profit LLC for a cash consideration of US\$1 million. The other participant in this joint activity agreement, holding a 0.09 per cent. interest is Poltavanaftogasgeologia, a subsidiary of NAK Nadra Ukraine. Approval of this acquisition was received from the Anti-Monopoly Committee of Ukraine on 25 April 2008.

This acquisition has not been treated as a business combination as defined in IFRS 3 *Business Combinations* as it was judged by management that this was an acquisition of business assets rather than that of a business as defined in IFRS 3.

Share capital issues

Cadogan Petroleum plc issued a further 70,070,142 Ordinary Shares subsequent to 31 December 2007 as follows, raising gross proceeds of £28,728,758.

Date issued	Number ⁽¹⁾ issued	Price per share
January 2008.....	731	£0.41
February 2008.....	13,992,335	£0.41
April 2008.....	13,500,000	£0.41
May 2008.....	42,577,076	£0.41

(1) These numbers do not reflect the Share Consolidation.

In January 2008, 3,071,974 Ordinary Shares were issued as part of the consideration for the acquisition of Ramet Holdings Limited (see note 26).

On 12 May 2008 the terms of the agreement signed between Fox Davies and the Company have been amended; reducing the percentage of warrants to be subscribed to 2.75 per cent. of the total number of Ordinary Shares allotted by the Company on funds raised by Fox Davies.

Associated with the financial liability in note 22, as the Company did not complete any additional placing of shares at the increased price per share of £0.60, in accordance with the terms of the share agreement, the price per share for the second tranche was reduced to £0.41 per share. This resulted in 3,861,788 additional Ordinary Shares of £0.01 each being issued on 9 April 2008.

Share Consolidation

On 10 June 2008, the Company consolidated every three Ordinary Shares of £0.01 each in the capital of the Company into one Ordinary Share of £0.03 each. As the Share Consolidation was without consideration and the number of Ordinary Shares outstanding has decreased, the calculation of basic and diluted loss per share for all periods presented has been adjusted retrospectively. As a result, the weighted average number of shares has been adjusted downwards proportionately for all three years, resulting in a higher basic and diluted loss per share (see note 13).

PART XII

PRO FORMA NET ASSET STATEMENT

UNAUDITED PRO FORMA NET ASSET STATEMENT

Introduction

Set out below is the unaudited pro forma net asset statement as at 31 December 2007 (the “**pro forma information**”).

The pro forma net asset statement has been prepared to show the position as if the Global Offer and Ordinary Shares issued subsequent to 31 December 2007 had occurred on 31 December 2007.

Because of its nature, the pro forma net asset statement addresses a hypothetical situation and, therefore, does not represent the Group’s actual financial position or results. It may not, therefore, give a true picture of the Group’s financial position or results and has been prepared for illustrative purposes only.

The pro forma financial information is presented as at 31 December 2007 which has been chosen as the most recent date for which financial information is disclosed in this Prospectus.

Basis of preparation

The pro forma net asset statement at 31 December 2007 set out below is based on information which has been extracted without material adjustment from the audited balance sheet of the Company set out in the financial information in Part XI of this Prospectus. Adjustments have been made in accordance with Annex II item 6 of Appendix 3 to the Prospectus Rules.

Pro forma net asset statement at 31 December 2007

	Cadogan Petroleum Plc £000 ⁽¹⁾	Adjustments		Pro forma net assets £000
		Pre- Admission share issues £000 ⁽²⁾	Proceeds from Global Offer £000 ⁽³⁾	
Non-current assets				
Intangibles.....	31,504	–	–	31,504
Tangible	22,733	–	–	22,733
Other receivables.....	3,060	–	–	3,060
Current assets				
Inventories.....	1,654	–	–	1,654
Other current assets	1,686	–	–	1,686
Cash and cash equivalents	13,957	26,411	139,010	179,378
Total assets	74,594	26,411	139,010	240,015
Current liabilities	(5,013)	–	–	(5,013)
Non-current liabilities.....	(1,366)	–	–	(1,366)
Total liabilities	(6,379)	–	–	(6,379)
Total net assets	68,215	26,411	139,010	233,636

Notes

- (1) The financial information in respect to the Company as at 31 December 2007 has been extracted without material adjustment from the financial information in Part XI of this Prospectus. The Company was incorporated and registered in England and Wales on 22 February 2006. The financial information is stated in accordance with IFRS.
- (2) Prior to Admission and subsequent to 31 December 2007, the Company raised proceeds of £26.4 million from the private placing of Ordinary Shares, comprising gross proceeds of £27.7 million less expenses of £1.3 million.
- (3) The Company expects to raise proceeds of £139 million from the Global Offer, comprising gross proceeds of £150 million less expenses of £11 million and assuming no exercise of the Over-allotment Option.
- (4) The unaudited pro forma statement of net assets does not reflect any changes in the consolidated trading position of the Company or any other changes arising from transactions, other than those outlined in the above notes, since 31 December 2007.
- (5) The pro forma net asset statement at 31 December 2007 set out below is based on information which has been extracted without material adjustment from the audited balance sheet of the Company set out in the financial information in Part XI of this Prospectus. Adjustments have been made in accordance with Annex II item 6 of Appendix 3 to the Prospectus Rules.

The Board of Directors
Cadogan Petroleum plc
5th Floor
4/5 Grosvenor Place
London SW1X 7HJ

UBS Limited
1 Finsbury Avenue
London
EC2M 2PP

18 June 2008

Dear Sirs,

Cadogan Petroleum plc (the “Company” and, together with its subsidiaries, the “Group”)

We report on the pro forma net asset statement (the “**Pro forma net asset statement**”) set out in Part XII of the prospectus dated 18 June 2008 (the “**Prospectus**”), which has been prepared on the basis described in note 1 to the Pro forma net asset statement, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 December 2007. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the “**Prospectus Directive Regulation**”).

Responsibilities

It is the responsibility of the directors of the Company (together the “**Directors**”) to prepare the Pro forma financial information in accordance with Annex I item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma net asset statement and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma net asset statement, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

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Member of
Deloitte Touche Tohmatsu

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Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

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PART XIII

CAPITALISATION AND INDEBTEDNESS

The capitalisation of the Group, extracted from the reported on financial information contained in Part XI of this Prospectus as at 31 December 2007 and the indebtedness of the Group, extracted from the unaudited management and financial reporting system as at 31 March 2008, is set out below.

Capitalisation and indebtedness of the Group

Indebtedness at 31 March 2008 (unaudited)	£000
Total current debt	
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
	—
Total non current debt	
Guaranteed	—
Secured	—
Unguaranteed/unsecured	—
Total Indebtedness	—

Capitalisation at 31 December 2007 (audited)

Shareholders' equity

Share capital	4,169
Share premium account	78,028
Shares to be issued	2,260
Accumulated deficit	(21,518)
Cumulative translation reserves	(492)
Other reserves	5,564
Total	68,011

Shareholders' equity

The Company issued 17,065,040 Ordinary Shares of £0.01 each, as part of its pre-IPO fund raising, resulting in a share capital balance of £4,340,059 million, as at 31 March 2008.

The issue price of the Ordinary Shares was £0.41 each, resulting in an increase of £6,590,975 (net of issue costs) and a share premium balance of £84,618,527 million, as at 31 March 2008.

The Company had 5,512,705 Ordinary Shares to be issued, as at 31 December 2007, these were all issued during January and February 2008 resulting in a nil balance as at 31 March 2008.

The Directors confirm that there have been no material changes to the capitalisation of the Group up to 31 March 2008, other than those discussed above, since 31 December 2007.

Net indebtedness of the Group in the short and medium-long term as at 31 March 2008 (unaudited)

	Unaudited £000
Cash	5,233
Cash equivalent (short term deposits)	–
Trading securities	–
Liquidity	5,233
Current financial receivable	–
Current bank debt	–
Current portion of non current debt	–
Other current financial debt	–
Current financial debt	–
Net current financial receivable	5,233
Non current bank loans	–
Bonds issued	–
Other non current loans	–
Non-current financial indebtedness	–
Net financial receivable	5,233

Contingent indebtedness

The Group has additional commitments and contingencies that are not included in the above indebtedness schedule. Firstly, the Group has a future obligation to build a minimum set of exploration activities associated with each license to which the Group has an interest. The amount owing at 31 December 2007 within one year and between one and five years was £26,895,000 and £18,821,000, respectively, and there have been no significant changes to amounts owing up to 31 March 2008. Secondly, under the terms of acquisition for Ramet Holdings Limited, the Group has a contingent liability in relation to the deferred consideration equal to the number of recoverable and proven and probable barrels of oil equivalent from the first two wells drilled and tested in the Malynovetske Field, not exceeding US\$5 million. No amounts have yet been paid for this consideration at 31 March 2008.

On 20 May 2008, the Group signed letters of intent committing it to the purchase of two gas treatment facilities, with a total contracted value of US\$58 million, due within one year, unless cancelled, in which case there are stepped cancellation fees ranging from 10 per cent. to 100 per cent. of the purchase price.

Indirect indebtedness

The Group has committed operating leases arrangements associated with their office premises resulting in rental payments over the next two years. Leases are negotiated for an average term of twelve months, resulting in £860,395 due within the next twelve months and £169,901 thereafter. Such commitments were entered into after 31 December 2007.

PART XIV

ILLUSTRATIVE PROJECTIONS OF THE GROUP

Basis of preparation

Set out below, for the purposes of illustration only, is a summary of the illustrative projected cash flows of the Group for the period ending 31 December 2010 (the “**Illustrative Projections**”). The Illustrative Projections have been prepared by, and are the sole responsibility of, the Directors of the Company. The Illustrative Projections should be read in conjunction with the assumptions set out below.

The Illustrative Projections have been prepared solely for the purpose of complying with the requirement in paragraph 133(b)(iii) of the Committee of European Securities Regulators’ recommendations for the consistent implementation of the European Commission’s Regulation on Prospectuses no 809/2004 (the “**CESR recommendations**”) that this Prospectus includes particulars of estimated cash flow for either the two years following publication of this Prospectus or, if greater, the period until the end of the first full financial year in which extraction of mineral resources is expected to be conducted on a commercial scale and for no other reason. In the absence of this requirement in the CESR recommendations, the Directors would not have included the Illustrative Projections in this Prospectus.

It is emphasised that the Illustrative Projections, which are unaudited, do not constitute any form of forecast, whether of cash, profit or otherwise. The Illustrative Projections relate to an extended future period and accordingly the estimates and assumptions underlying the projections are inherently highly uncertain, based on events that have not taken place, and are subject to significant economic, competitive and other uncertainties and contingencies beyond the Group’s control. Further, given the nature of the Group’s business and industry, which is subject to a number of significant risk factors, there can be no assurance that the projected cash flows can be realised and it is probable that the actual cash flows will be higher or lower, possibly materially, than those projected. The attention of prospective investors is drawn to the risk factors section in this Prospectus.

Since the Illustrative Projections are based on the assumptions and factors which may be affected by unforeseen events and relate to an extended future period, the actual results reported may not correspond to those shown in the Illustrative Projections and any differences may be material.

The Illustrative Projections relate only to the illustrative cash flows for the period ending 31 December 2010 as presented in this Part XIV.

Illustrative Projections

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Net cash (outflow)/inflow from operating activities	(12,685)	1,450	18,745
Capital expenditure.....	(100,665)	(85,292)	(65,533)
Cash flow from financing activities	168,939	803	(2,437)
Corporation and profit tax.....	(814)	(3,970)	(5,818)
Movement in cash	54,775	(87,009)	55,043
Opening cash balance.....	13,957	68,732	(18,277)
Closing cash balance	68,732	(18,277)	(73,320)

The Illustrative Projections above are not presented in a statutory format.

For the purposes of the Illustrative Projections, the Directors have assumed that the production profile is based on the production profile as set out in the CPR presented in Part XV of the Prospectus. Therefore, production over the Illustrative Projections period relates solely to Pirkovskoe's assets which are currently classified as reserves. No gas or condensate production is assumed from any other of the Group's licence interests.

Initially, the Group intends to use the net proceeds of the Global Offer to pursue its field appraisal, exploration and drilling programme for its Major Fields and then to otherwise finance the Group until it can fund its future cash requirements from internally generated cash flow.

The key objectives of these exploration, appraisal and development activities are to bring Major Fields into sustainable commercial production, to transfer hydrocarbons currently classified as contingent resources and prospective resources into reserves, and to phase in additional investment in the Minor Fields when production from the Major Fields can support the required expenditures. The Directors plan to prioritise the Group's investment in its assets on the development of its identified 2P reserves on the Pirkovskoe field.

As set out in further detail below and in Part VIII of the Prospectus, the Group has specific plans focussed on the development of its Major Fields. For the purposes of the Illustrative Projections, the Directors have assumed all capital expenditure and other fixed costs associated with bringing the targeted wells on each of these fields into commercial production. However, with the exception of the Pirkovskoe field, these are assets which are currently classified as contingent and prospective resources, as set out in the CPR. Therefore, although the expected costs are included in the Illustrative Projections, no revenue associated with these fields (with the exception of Pirkovskoe's assets which are currently classified as reserves), has been included in the Illustrative Projections. To the extent that exploration and appraisal activities on existing resources do not meet the current expectations of the Board, the Group will reallocate funds to prioritise other elements of their business plan.

Subject to its work programme obligations, the Group has the flexibility and discretion to modify its projected capital expenditure and there may be circumstances where, for sound business reasons, a reallocation of funds or strategic priorities may be considered necessary. For example, this may be necessary if the results of exploration, development or appraisal activities are unsatisfactory or the results are not commercially viable.

The following principal bases and assumptions have been used by the Directors in preparing the Illustrative Projections.

(1) Licences

The Directors have confirmed that the Group is not in breach of its licence requirements and that all of the Group's licences were issued and registered by the proper authority as of the date of their issuance and registration.

The Directors have assumed that all exploration and production licences are and will remain valid over the period of the Illustrative Projections.

The Directors have assumed that all exploration licences will be converted to production licences prior to the expiry of exploration licences.

The Directors have assumed that 100 per cent. of revenue from production is attributable to the Company and no account has been taken of third party interests in the Group's licences.

(2) Production

	Year ending 31 December 2008	Year ending 31 December 2009	Year ending 31 December 2010
Gas (Mcm).....	15,208	91,250	182,500
Condensate (kT)	6	35	69
Total (Mboe).....	135	809	1,618

The Directors have assumed gas and condensate production of 135 Mboe in 2008, 809 Mboe in 2009 and 1,618 Mboe in 2010.

Production over the Illustrative Projections Period relates solely to the Pirkovskoe field. No gas or condensate production is assumed from any other of the Group's licence interests.

(3) Price

	Year ending 31 December 2008	Year ending 31 December 2009	Year ending 31 December 2010
Gas (£ per Mcm).....	111	130	145
Condensate (£ per tonne).....	268	239	210

The Directors have assumed all gas sales will be made to industrial customers. The gas price is projected to be £111 (\$222)/Mcm in 2008, £130 (\$260)/Mcm in 2009 and £145 (\$290)/Mcm in 2010.

The condensate price is projected to be £268 (\$535) per tonne in 2008, £239 (\$477) per tonne in 2009 and £210 (\$420) per tonne in 2010.

(4) Operating Expenditure

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Variable costs			
– Production	15	91	183
– Wells	22	130	260
	37	221	443
Fixed costs	4,649	5,378	5,555
	4,686	5,599	5,998

Operating expenditure comprises a variable element and a fixed element. The variable element is derived as follows:

- £1/Mcm of gas production to reflect the cost of chemicals and lubricants; and
- a monthly cost for each producing well of £5,415. This costs includes security, well surface equipment, geological and geographical costs and land rent.

Variable operating expenditure relates solely to the Pirkovskoe field. No variable operating expenditure is assumed from any other of the Group's licence interests.

Fixed operating expenditure comprises staff and office costs relating to Cadogan's offices in Poltava and Lviv and the cost of maintenance and spare parts for the Group's gas treatment facilities, three of which are located on the Eastern fields and one on the Western fields.

Fixed operating expenditure is assumed to support all planned production from the Group's licences over the period.

(5) Rent Tax

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Gas.....	157	941	1,882
Condensate	420	2,248	3,959
	577	3,189	5,841
Gas > 5,000m (£ /Mcm)	10	10	10
Condensate > 5,000m (£ /Mcm)	56	56	56
Price coefficient	1.25	1.11	0.98

Rent tax on gas production is calculated at £10/Mcm on gas extracted from wells deeper than 5,000 metres.

From 1 June 2008, rent tax on condensate production is calculated at £56 per tonne on condensate extracted from wells deeper than 5,000 metres multiplied by the price coefficient.

From 1 June 2008, the price coefficient is calculated as the Urals price divided by US\$100 per bbl.

Rent tax relates solely to the Pirkovskoe field.

The Directors have confirmed that the calculation of rent tax is consistent with current Ukrainian tax legislation.

(6) Subsoil

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Gas.....	6	35	69
Condensate	30	178	357
	36	213	426
Gas (£ per Mcm).....	0.5	0.5	0.5
Condensate (£ per tonne).....	5.0	5.0	5.0

Subsoil tax is calculated at the rate of £0.5/Mcm of gas extracted and £5 per tonne of condensate production.

Subsoil tax relates solely to the Pirkovskoe field.

The Directors have confirmed that the calculation of subsoil tax is consistent with current Ukrainian tax legislation.

(7) Geological Tax

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Wet gas.....	46	291	622
Inflation.....	9.6 per cent.	8.3 per cent.	7.4 per cent.

Pirkovskoe is expected to produce wet gas (i.e. gas and condensate). Geological tax is calculated at a rate per mcm for wet extracted. The applicable rate for wet as at 1 January 2008 is assumed to be £2.5 (\$5)/Mcm and inflated by 9.6 per cent. in 2008, 8.3 per cent. in 2009 and 7.4 per cent. in 2010.

Geological tax relates solely to the Pirkovskoe field.

The Directors have confirmed that the calculation of geological tax is consistent with current Ukrainian tax legislation.

(8) General and Administrative Expenses

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
UK	4,015	3,272	3,272
Ukraine	3,223	3,945	4,060
HSE	3,077	2,590	2,466
	10,315	9,807	9,798

General and administrative expenses comprise Directors' remuneration, staff and office costs of the Company's offices in Kiev and London and HSE costs.

Projected general and administrative expenses are assumed to support all planned production from the Group's licence interests over the period.

(9) Capital Expenditure

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Pirkovskoe	38,530	39,020	24,435
Borynya	29,304	19,370	8,071
Bitlya	558	10,073	9,264
Debeslavetska	932	578	–
Pokrovskoe	23,019	8,713	13,938
Zagoryanska	7,122	6,338	8,625
G&G services	1,200	1,200	1,200
	100,665	85,292	65,533

The Directors have assumed that eleven new wells will be completed and four workovers will be completed during the period. In addition, the Directors have assumed that drilling will commence on five further wells not completed during the period.

The Directors have assumed capital expenditure in respect of Borynya, Bitlya, Debeslavetska, Pokrovskoe and Zagoryanska of £60.9 million in 2008, £45.1 million in 2009 and £39.9 million in 2010. However, no production is assumed to arise from these fields during the period. The Directors have assumed capital expenditure in respect of Pirkovskoe of £38.5 million in 2008, £39.0 million in 2009 and £24.4 million in 2010.

The Directors have assumed that the Group will contract the use of two international heavy rigs in order to execute the proposed drilling programme.

The Directors have assumed that three gas treatment facilities and pipeline connections to the Ukrainian gas and condensate distribution network will be constructed during the period.

These projects are currently in the design stage and commencement of construction is conditional upon the granting of the required approvals by the regional authorities. Furthermore, no contracts for construction have yet been concluded. The Directors have assumed that all requisite approvals will be granted and construction contracts agreed prior to the assumed commencement of construction.

The Directors have confirmed that projected capital expenditure includes assumed costs attributable to the satisfaction of all requirements and obligations in respect of each of Cadogan's licences.

(10) Cash Flows from Financing

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Net pre-Global Offer proceeds.....	26,411	–	–
Net Global Offer proceeds.....	139,010	–	–
Joint venture partner contribution	338	–	–
Interest income/(expense)	3,180	803	(2,437)
	168,939	803	(2,437)

The Directors have included net proceeds raised from the private placing of shares of £26.4 million in 2008 prior to Admission.

The Directors have assumed that the Company will raise net proceeds of £139.0 million from the placing of shares at Admission, comprising gross proceeds of £150.0 million less transaction costs of £11.0 million.

The Directors have assumed that NAK Nadra, the Group's joint venture partner will contribute £338,000 to field development in August 2008.

Interest has been calculated at the rate of 3.0 per cent on cash deposits held in the Ukraine and 5.25 per cent on cash deposits held in the UK.

(11) Corporation and Profit Taxes

	Year ending 31 December 2008 £000	Year ending 31 December 2009 £000	Year ending 31 December 2010 £000
Ukraine profit tax.....	156	2,290	4,180
UK corporation tax	658	1,680	1,638
	814	3,970	5,818

The Directors have confirmed that profit and corporation taxes have been estimated in accordance with the applicable tax regimes and taking into consideration available losses and allowances in each jurisdiction in which the Group operates.

The Directors have assumed that no cash will be remitted from the Group's Ukrainian subsidiaries to other jurisdictions and accordingly no Ukrainian withholding tax is assumed to be payable during the period.

Ukraine profit tax relates principally to profits assumed to arise from the Group's interest in Pirkovskoe.

(12) Macroeconomic Assumptions

The Directors have assumed that there will be no material fluctuations in respect of foreign exchange rates. The UAH:US dollar exchange rate adopted throughout the period is 4.85 and the USD:GBP rate adopted is 2.0.

(13) Other Assumptions

The Directors have assumed:

- there will be no changes in UK, Ukraine or other overseas legislation, taxation, regulations, political or economic conditions which will materially affect the Group;
- there will be no interruption to business which would have a material adverse effect on the Group or its operations and customers; and
- the Directors have assumed that the Group will not make any acquisitions or disposals during the period.

(14) Risk Factors

The Illustrative Projections are subject to a variety of material risk factors that could cause the actual cash flows to differ materially from those projected. These material risk factors are set out in the "Risk Factors" section of the Prospectus.

The Board of Directors
Cadogan Petroleum plc
Fifth Floor, 4/5 Grosvenor Place
London
SW1X 7HJ

UBS Limited
1 Finsbury Avenue
London
EC2M 2PP

18 June 2008

Dear Sirs,

We report on the illustrative cashflow projections for the period ending 31 December 2010 (the **"Illustrative Projections"**), as set out in Part XIV of the prospectus issued by Cadogan Petroleum plc (the **"Company"**) dated 18 June 2008 (the **"Prospectus"**).

The Illustrative Projections have been prepared solely for the purposes of complying with CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectus No. 809/2004 (the **"CESR recommendations"**), paragraph 133. They have been prepared by the Directors of the Company (the **"Directors"**) for illustrative purposes only and should be read in conjunction with the accompanying assumptions and basis of preparation.

This report is required by paragraph 133(b)(iii) of the CESR recommendations and is given for the purpose of complying with that requirement and for no other purpose.

Our report is solely for the purposes of the Global Offer within the European Union and must not be used in connection with any offer outside the European Union, including the United States of America.

Responsibilities

It is the responsibility of the Directors to prepare the Illustrative Projections in accordance with the requirements of paragraph 133(b)(ii) of the CESR recommendations.

It is our responsibility to form an opinion, as required by paragraph 133(b)(iii) to CESR's recommendations, that the Illustrative Projections has been made by the Company after due care and enquiry and to report that opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

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Member of
Deloitte Touche Tohmatsu

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Basis of preparation of the Illustrative Projections

It is emphasised that the Illustrative Projections, which are unaudited, do not constitute any form of forecast, whether of cash, profit or otherwise. The Illustrative Projections relate to an extended future period and accordingly the estimates and assumptions underlying the projections are inherently highly uncertain, based on events that have not taken place, and are subject to significant economic, competitive and other uncertainties and contingencies beyond the Group's control. Further, given the nature of the Group's business and industry which is subject to a number of significant risk factors, there can be no assurance that the projected cash flows can be realised and it is probable that the actual cash flows will be higher or lower, possibly materially, than those projected. The attention of prospective investors is drawn to the risk factors set out in Part II of this document.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom to the extent that such standards are applicable in respect of this work. Our work included reviewing and discussing with the Directors the process undertaken by them in identifying the key risks and assumptions affecting cash flows and in compiling the Illustrative Projections, including consideration of whether the Illustrative Projections have been accurately computed based upon the disclosed assumptions. The assumptions upon which the Illustrative Projections are based are solely the responsibility of the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Illustrative Projections have been stated by the Company after due care and enquiry.

Since the Illustrative Projections are based on assumptions and factors which may be affected by unforeseen events and relate to an extended future period, we can express no opinion as to whether the actual results reported will correspond to those shown in the Illustrative Projections and any differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, based on the foregoing, the Illustrative Projections have been stated by the Company after due care and enquiry.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

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PART XV

Competent Person's Report

Gaffney, Cline & Associates

**COMPETENT PERSON'S REPORT
EVALUATION OF UKRAINE PETROLEUM ASSETS**

**Prepared for
CADOGAN PETROLEUM PLC**

18th June, 2008

The Americas 1360 Post Oak Blvd., Suite 2500 Houston, Texas 77056 Tel: +1 713 850 9955 Fax: +1 713 850-9966 email: gcah@gaffney-cline.com	Europe, Africa, FSU and the Middle East Bentley Hall, Blacknest Alton, Hampshire United Kingdom GU34 4PU Tel: +44 1420 525366 Fax: +44 1420 525367 email: gcauk@gaffney-cline.com	Asia Pacific 80 Anson Road 31-01C IBM Towers Singapore 079907 Tel: +65 225 6951 Fax: +65 224 0842 email: gcas@gaffney-cline.com
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*and at Caracas – Rio de Janeiro – Buenos Aires – Sydney
www.gaffney-cline.com*

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Appendices

I.	Facilities and Site Visit
II.	SPE/WPC/AAPG/SPEE, Petroleum Resources Management System Definitions and Guidelines
III.	Glossary
IV.	Cash Flow Tables

**Gaffney, Cline & Associates Ltd***Technical and Management Advisers to the Petroleum Industry Internationally Since 1962***Principals**

William B. Cline
Peter D. Gaffney

Registered London No. 1122740

Bentley Hall
Blacknest, Alton
Hampshire GU34 4PU
United Kingdom

Telephone: +44 (0) 1420 525366
Facsimile: +44 (0) 1420 525367

email: gcauk@gaffney-cline.com
www.gaffney-cline.com

JWB/E1900/1230/sf**18th June, 2008**

Cadogan Petroleum plc,
5th Floor,
4/5 Grosvenor Place,
London,
SW1X 7HJ

Fox-Davies Capital Limited,
Whitefriars House,
6 Carmelite Street,
London,
EC4Y 0BS

UBS Limited,
1 Finsbury Avenue,
London,
EC2M 2PP

Dear Sirs,

Competent Person's Report**INTRODUCTION**

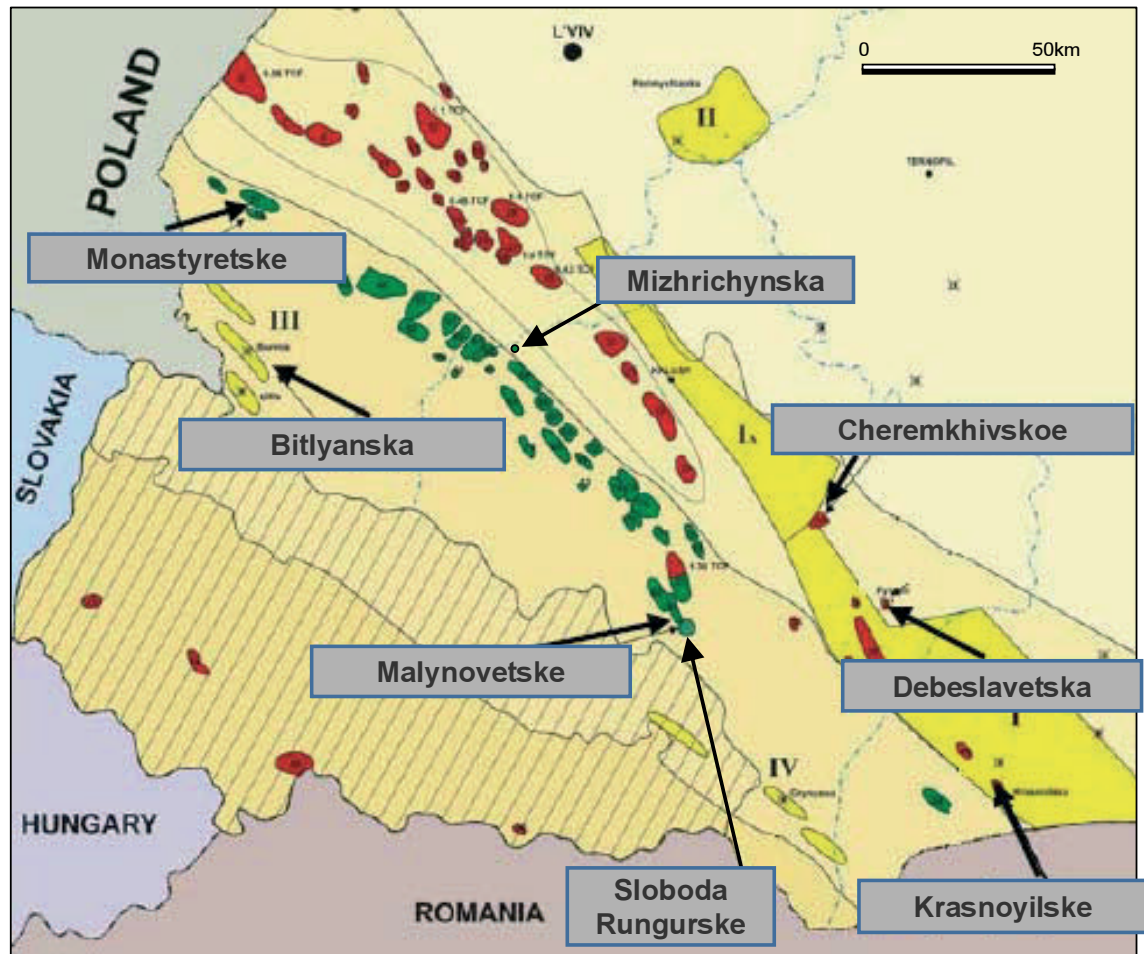
Gaffney, Cline & Associates Ltd ("GCA") has assessed the petroleum interests held by Cadogan Petroleum plc ("Cadogan") in the Ukraine (Figures 1 and 2). These interests comprise 11 Licences, some in full or test production, some under appraisal and some at the exploration stage (Table 1).

GCA understands that Cadogan intends to apply to list its shares on the London Stock Exchange. This Competent Persons Report is intended to be included and/or referred to in that application

Cadogan has made available to GCA a data set of technical information including geological, geophysical, and engineering data and reports together with financial data and the fiscal terms applicable to the Licences. In carrying out this assessment GCA has relied on the accuracy and completeness of this information. For many of the Licences, the principal data source has been reports prepared for Cadogan by TRACS International Consultancy Limited (TRACS). Independent analysis has been carried out where judged necessary and where the available data has been sufficient to allow it.

GCA has visited the majority of the Licence areas, including all the major assets and all the currently producing assets, and found them to be as described and in satisfactory condition. Some further details may be found in Appendix I.

GCA uses the Petroleum Resources Management System (SPE PRMS) published by the Society of Petroleum Engineers/World Petroleum Congresses/American Association of Petroleum Geologists/Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) in March, 2007 as the basis for its classification

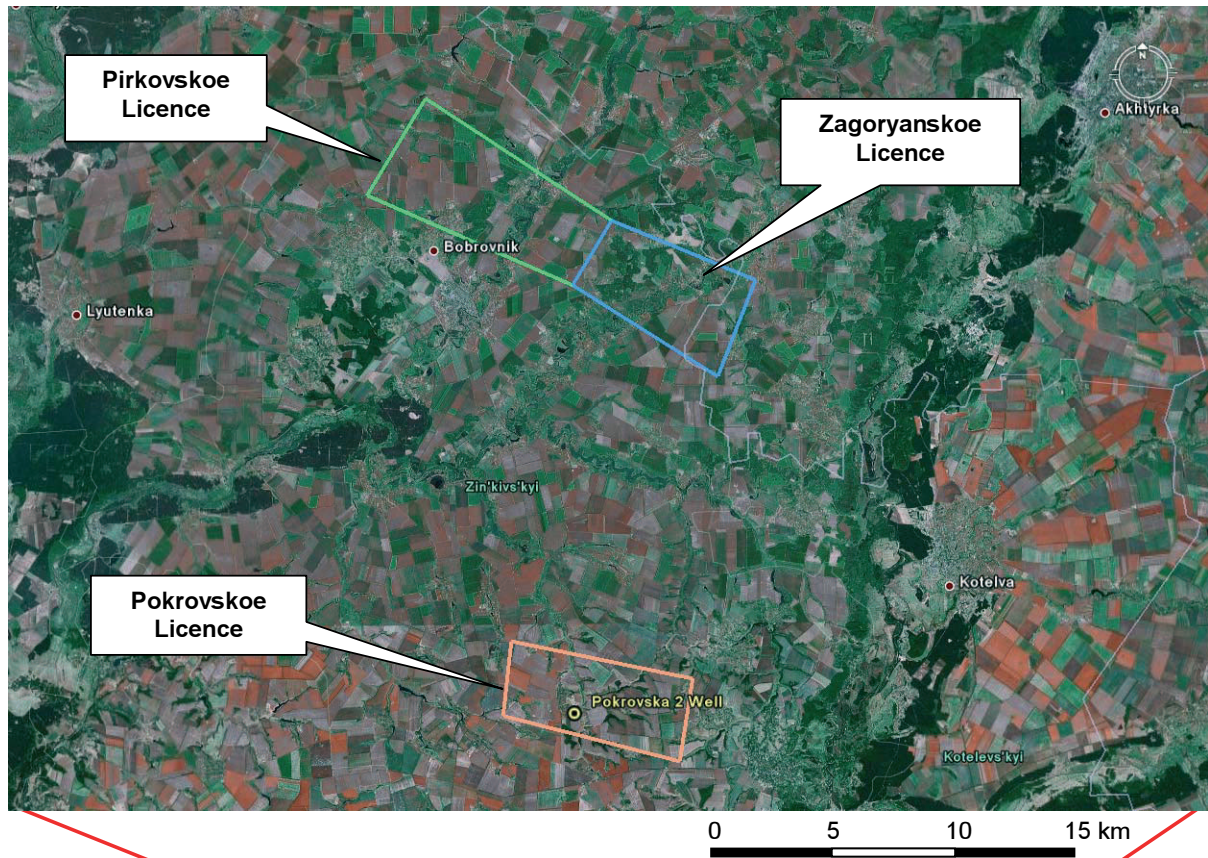


Legend:

- Gas
- Oil
- Gas

Cadogan Licences in Western Ukraine

Proj. E1900 June 08 Checked: *[Signature]* Fig. 1



Source: Cadogan (upper figure)

Cadogan Licences in Eastern Ukraine

Proj. E1900 June 08 Checked: *[Signature]* Fig. 2

Cadogan Petroleum

TABLE 1**CADOGAN LICENCES, FIELDS AND NET WORKING INTERESTS**

Licence	Licence Type	Gross Area (km ²)	Expiry Date	Fields	Cadogan WI (%)
Bitlyanska	E&D	390.0	23/12/09	Bitlya Borynya Vovchenska	97.1 96.5 96.8
Monastyretske	E&D	25.9	18/11/09	Blazhivska Monastyretske	95.0 95.0
Debeslavetska	Prod	26.9	04/10/26	Debeslavetska	98.29
	E&D	218.0	07/09/11	See note 3	98.29
Sloboda Rungurske	E&D	101.0	11/04/11	Sloboda Rungurske	100.0
Cheremkhivkse	Prod	119.0	14/05/18	Cheremkhivkse	49.8
Malynovetska	E&D	15.5	11/01/12	Malynovetska	79.9
Krashnoyiiska	E&D	48.1	23/12/09	Krashnoyiiska	98.5
Mizhrichynska	E&D	35.9	07/06/11	Mizhrichynska	39.95
Pirkovskoe	E&D	71.6	19/10/10	Pirkovskoe	97.0
Zagoryanskoe	E&D	49.6	19/10/09	Zagoryanskoe	90.0
Pokrovskoe	E&D	49.5	10/08/11	Pokrovskoe	100.0

Notes:

1. E&D = Exploration and Development.
2. Prod = Production.
3. The Debeslavetska E&D Licence covers an area surrounding the Debeslavetska field.
4. It would normally be expected that an E&D licence would be extended to a production licence of about 20 years duration if the obligations have been met and a field development plan is submitted.
5. Cadogan's net Working Interest in some fields is variable, depending on a number of factors, but the degree of variation is small and the fixed numbers presented in this Table are used for all calculations in this report.

and categorization of hydrocarbon volumes. An abbreviated form of the SPE PRMS definitions and guidelines are given in Appendix II. Reserves, Contingent Resources and Prospective Resources are assigned to the Licences, using the summary definitions below.

Reserves are those quantities of petroleum that are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status. All categories of Reserve volumes quoted herein have been determined within the context of an economic limit test (pre-tax and exclusive of accumulated depreciation amounts) assessment prior to any Net Present Value analysis.

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent Resources may include, for example, projects for which there are currently no evident viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Prospective Resources are those quantities of petroleum that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective Resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.

Prospective Resources include Prospects and Leads. Prospects are features that have been sufficiently well defined, on the basis of geological and geophysical data, to the point that they are considered drillable. Leads, on the other hand, are not sufficiently well defined to be drillable, and need further work and/or data. In general, leads are significantly more risky than prospects and therefore are not suitable for explicit quantification.

Prospective Resource volumes are presented as unrisks. A "Geological Chance of Success" is also presented. This represents an indicative estimate of the probability of achieving the status of a Contingent Resource (where the Geological Chance of Success is 100%). This dimension of risk assessment does not incorporate the considerations of economic uncertainty and commerciality.

The reported hydrocarbon volumes are estimates based on professional engineering judgment and are subject to future revisions, upward or downward, as a result of future operations or as additional information becomes available.

It should also be noted that the Net Present Values (NPVs) of future revenue potential of a petroleum property, such as those discussed in this report, do not represent a GCA opinion as to the market value of that property, nor any interest in it.

In assessing a likely market value, it would be necessary to take into account a number of additional factors including: reserves risk (i.e. that Proved and or Probable Reserves may not be realised within the anticipated timeframe for their exploitation); perceptions of economic and sovereign risk; potential upside, such as in this case exploitation of reserves beyond the Proved and the Probable level; other benefits, encumbrances or charges that may pertain to a particular interest; and the competitive state of the market at the time. GCA has explicitly not taken such factors into account in deriving the reference NPVs presented herein.

GCA is an independent energy consultancy specialising in petroleum reservoir evaluation and economic analysis. In the preparation of this report, GCA has maintained, and continues to maintain, a strict consultant-client relationship with Cadogan. The directors of GCA have been, and continue to be, independent of Cadogan in the services they provide to Cadogan including the provision of the opinion expressed in this review. Furthermore, the directors of GCA have no interest in any assets or share capital of Cadogan, or in the promotion of Cadogan.

A glossary of industry standard abbreviations is contained Appendix III, some or all of which may have been used in this report.

This report must only be used for the purpose for which it was intended.

SUMMARY

Headquartered in Kiev, Cadogan has acquired majority interests in 11 licences in Ukraine (Table 1) during the last two and half years and now operates them through various wholly owned subsidiary companies.

As a result of its review of the available data, GCA estimates that, as at 31st January, 2008, Cadogan had:

- Net Proved Reserves of 109 Bcf of gas, 7.6 MMbbl of condensate and 0.16 MMbbl of oil;
- Net Proved plus Probable Reserves of 320 Bcf of gas, 22 MMbbl of condensate and 0.77 MMbbl of oil; and
- Net Proved plus Probable plus Possible Reserves of 588 Bcf of gas, 42 MMbbl of condensate and 1.6 MMbbl of oil.

GCA also estimates that, as at 31st January, 2008, Cadogan had net Best Estimate Contingent Resources of 1,583 Bcf of gas, 48 MMbbl of condensate and 1.5 MMbbl of oil. In addition, GCA estimates that the Group has Prospective Resources, as described in later sections of this report.

These data are discussed in detail in later sections of this report but summarised in Tables 2, 3 and 4 in this Summary.

Net post tax NPVs of the Proved and Proved plus Probable Reserves are set out in Table 5 at the end of this Summary.

The licences lie in mature petroleum producing provinces in Eastern Ukraine (Dniepr-Donets Basin) and Western Ukraine (Carpathian Basin). Ukraine is a country where the State has dominated and continues to dominate the exploration, development, production and marketing of hydrocarbons. The arrival in the last decade of small independent producers and operators is a result of liberalization and reform as well as Government support to attract Western investment and expertise to improve energy self sufficiency. Ukraine has historically been, and still is a strategic hub for Russian transit gas, primarily from Central Asia, and consequently has a well developed field and pipeline infrastructure used for both transit and internal distribution. Domestic demand is rising and there is the potential in the future for exports of Ukrainian gas to Europe. Costs in Ukraine remain low while gas prices are rising towards parity with Europe.

Historically, all of Cadogan's licences have seen previous activity, including seismic acquisition, exploration and appraisal drilling, and in some cases commercial production. Before Cadogan's interest in the licences, this activity was undertaken by Ukrainian operators using Soviet era technology.

Seismic data acquired before Cadogan's involvement are often of marginal quality and limited to 2D surveys. Cadogan has completed a 3D seismic survey on the Pirkovskoe licence with results expected in the near future. A 3D seismic survey across the Pirkovskoe and Zagoryanska licences is planned for 2008 with results expected before the end of the year.

The old wells were drilled without the benefit of modern practices. Use of excessive mud weights was common (due to poor pressure control equipment) and suspensions for operational or financial problems were often frequent. As a consequence of the poor drilling practices, severe formation damage is likely to have occurred. Available logs are of poor to medium quality and coring is sporadic, often missing the reservoir intervals. Testing conditions did not meet international standards with no meaningful pressure measurements and no reliable fluid samples. Some of the data collected in the pre-Cadogan era are directly available, but much are no longer available, incomplete or poorly presented (poorly annotated maps with no scale, conflicting information concerning dates and production rates, etc). For example, seismic data are generally only available for visual inspection in the geophysical institutes in Kiev or L'viv.

Thus, although most of the licences contain discoveries, principally of gas and condensate, significant further appraisal is needed in nearly all cases. In-place volumes are uncertain, which means that there is the potential both for significant up-side and for significant down-side. The production rates achieved during testing of the old discovery wells in Cadogan's principal assets have been predominantly low (sub-commercial), but with some instances of higher rates that if realised in development wells would be likely to be commercial.

The previous low production rates are attributed by Cadogan to formation damage resulting from the poor drilling practices used in the past. GCA agrees that better results are likely to be obtained using the more modern drilling and completion techniques, including acid stimulation and hydraulic fracturing, that Cadogan are now implementing.

Cadogan is in the process of drilling or working over seven wells in the principal gas fields. Pirkovskoe contains the majority of the Reserves classified in this report which are located in two of the six faulted blocks within the licence and using data from Cadogan's test on the shallow reservoir horizons in a third block currently being drilled. The first concrete result achieved by Cadogan is in Pirkovskoe-1 (Pirk-1), which has produced light oil from the shallowest of the target reservoirs in that field. This well is currently being drilled to its target TD and testing of all the potential reservoir horizons will then take place. The Pokrovskoe-2 well has also reached its first target, with gas shows and gas inferred from logs, but there has been no production test as of the date of this report. Cadogan reports that testing of this well will be carried out shortly.

Cadogan is currently using Ukrainian rigs operated under the supervision of Western contractors. These rigs have been or are in the process of being refurbished and upgraded. The drilling times recorded by Cadogan to date, of wells to depths of circa 5,000 m are between 1 and 2 years. The advantage of the Ukrainian rigs is their low cost which is typically only 20% of the level for an equivalent international rig. Significant amounts of the total well drilling times to date have been taken up with unplanned downtime, rig repairs and further equipment upgrading. Cadogan is continuing the improvement of the Ukrainian rigs to eliminate some of these issues.

Modern, better equipped rigs could drill and complete the wells much more quickly, but the immediate cost would probably be greater. This increase in costs may be offset by the benefit of accelerating production revenue. The degree to which the Ukrainian rigs can avoid the formation damage problems of the past has also yet to be demonstrated. Cadogan is aware of these concerns and, although currently operating according to international best practice with the current Ukrainian

rigs, plan to bring in one or two modern heavy drilling rigs from Eastern Europe later this year to evaluate their performance.

In more detail, the assets within the licences fall into three main groups: the Pirkovskoe, Zagoryanskoe and Pokrovskoe gas/condensate (and light oil) fields in the Dniepr-Donets Basin in Eastern Ukraine; the Bitlya and Borynya gas/condensate discoveries in the Carpathian Basin in Western Ukraine; and several small oil and gas fields also located in the Carpathian Basin.

Pirkovskoe and Zagoryanskoe are adjacent licences that Cadogan plans to exploit, as a joint development through the use of common gas processing facilities. Reserves are attributed to two fault blocks in Pirkovsko, and to part of the Upper Visean formation in a third. This is done on the basis of production tests at acceptable gas rates from two existing wells and the recent results from Pirk-1. A number of the remaining fault blocks within the licences potentially contain gas, condensate and light oil in sandstone and carbonate levels of Visean and Tournaisian age, at a depth of around 5,000 m. Contingent and/or Prospective Resources are attributed to several further blocks in both fields. There has been past production from Zagoryanskoe but the data is missing or of very poor quality. Two new wells are currently being drilled (Pirk-1 and Pirk-2), and two older ones are being worked over/deepened (Pirk-460 and Zag-3). If these are successful, commercial production could begin before the end of 2008, using the gas processing plant at Krasnozayarska. This was acquired by Cadogan in 2007 and is being expanded to a capacity of 1 MMm³/d (35 MMcf/d), and could be further expanded by adding additional processing trains as required. Actual production rates and the number of wells required to develop the Reserves are uncertain until reservoir quality and the impact of the improved well completion practices are better quantified, but GCA calculates that a plateau rate of 1.5 MMm³/d (53 MMcf/d) for the Proved plus Probable Reserves might be expected.

Pokrovskoe is an exploration prospect not far from the two fields mentioned above. The main target reservoirs in Pokrovskoe are again the Visean (Upper and Lower) and Tournaisian at around 5,000 m. As mentioned above, the Pokrovskoe-2 well has already reached the Upper Visean reservoir and will shortly be tested. Strong gas shows have been observed in the drilling mud and the presence of gas has been interpreted from open hole logs. A successful test result would lead to some of the Prospective Resources becoming Contingent Resources, or even Reserves since development planning is under way, but further study would be needed to re-assess volumes in the light of the test results actually achieved. Cadogan has also acquired 3D seismic here and processing of these data are in progress.

Bitlya and Borynya lie about 10 km apart in the Bitlyanska licence area in Western Ukraine and again could be produced through common gas processing facilities. An export pipeline lies some 20 km to the north. Each field has one well that has found gas and condensate in Oligocene sandstones at depths of 3,000-5,000 m. In fact, Borynya has two wells in almost the same location since the first one suffered a blow-out (in 1974) and had to be abandoned. Numerous intervals tested gas at rather low rates, and there is one reported test at 400,000 m³/d (14 MMcf/d) in Borynya. The generally poor data quality is exacerbated in this area by the hilly surface terrain and the structural complexity of the sub-surface. The potential hydrocarbon traps lie in heavily folded and faulted thrust belts. Reservoir rocks were deposited in the midst of thick shales that probably constitute the source rock and a part of the seal, so a stratigraphic component to the trapping is probable and reservoir continuity is somewhat uncertain. The area has a long history of petroleum exploitation, but most of the existing reservoirs are much shallower (from a

few tens of metres depth). It is a tribute to the skills of the Ukrainian geologists involved that gas has been found with the first well on each of the Bitlya and Borynya structures, despite the geological difficulties and the limited technology, and this adds to confidence in their maps.

Currently, Cadogan is drilling an appraisal well on Borynya and will shortly begin drilling an appraisal well on Bitlya. In-place volumes of gas and condensate are potentially larger than those in Cadogan's fields in Eastern Ukraine. If the appraisal wells are successful, commercial production could begin in the second half of 2009, and simple calculations suggest that a plateau rate of up to 2.5 MMm³/d (88 MMcf/d) might reasonably be expected from each field. However, the key point is to demonstrate that commercial production rates can be achieved, by avoiding formation damage and then fracturing the gas bearing rock penetrated by the wells. After that, sustainability of the production rates depends on reservoir continuity and in-place volumes, both of which need further appraisal. These factors also determine how many wells would ultimately be needed to exploit the fields.

The remaining assets in Western Ukraine include a number of small oil and gas fields, some already in production, and some exploration potential that is in general rather poorly defined at the present time. Other than maintaining current production and meeting their licence obligations, little activity is planned in the near future on these assets which are not a high priority for Cadogan. In terms of value, these assets are negligible compared to the larger ones, and the reader is referred to the main body of this report for further details.

Overall, GCA considers that Cadogan has a credible business plan in place to appraise and develop their principal assets. In this report, GCA presents production and cost profiles and cashflows for the Proved and Proved plus Probable Reserves only. Cadogan has plans for the field life development on its five major assets to end 2010 and beyond. The business plan is considered appropriate, given the information available today, for a scenario in which exploration and appraisal activities are successful and result in the exploitation of hydrocarbons currently classified as Contingent Resources and Prospective Resources. This will undoubtedly be subject to revision as more information is acquired.

Reserves and Resources Summary

Based on the information made available, GCA is presenting this independent estimate of Reserves, Contingent Resources and Prospective Resources. The technical and economic conclusions presented herein represent GCA's opinions as of the effective date of 31st January, 2008.

These conclusions are estimates based upon professional geoscience and engineering judgment and they will be subject to future revisions as additional information becomes available.

The Proved, Probable and Possible Reserves attributed to Cadogan's interests in the Licences are summarised in Table 2. As already noted, all categories of Reserve volumes quoted herein have been determined within the context of an economic limit test (pre-tax and exclusive of accumulated depreciation amounts) assessment.

Table 3 shows Contingent Resources attributed to the Licences.

Table 4 shows Prospective Resources attributed to the Licences.

TABLE 2
SUMMARY OF RESERVES
As of 31st January, 2008

Field	Cadogan Interest (%)	Net Interest Gas Reserves, Bcf		
		Proved	Proved + Probable	Proved + Probable + Possible
Pirkovskoe (Main)	97.0	107	314	579
Pirkovskoe (Pivnichna)	97.0	0.8	3.2	5.6
Debeslavetska	98.29	1.0	2.4	2.9
Cheremkhivkse	49.8	0.3	0.4	0.4
Total		109	320	588

Field	Cadogan Interest (%)	Net Interest Condensate Reserves, MMbbl		
		Proved	Proved+ Probable	Proved + Probable + Possible
Pirkovskoe (Main)	97.0	7.6	22	42

Field	Cadogan Interest (%)	Net Interest Oil Reserves, MMbbl		
		Proved	Proved + Probable	Proved + Probable + Possible
Pirkovskoe (Pivnichna)	97.0	0.1	0.6	1.4
Blazhivska	95	0.05	0.15	0.22
Sloboda Rungurske	100	0.006	0.02	0.02
Total		0.16	0.77	1.6

Notes:

1. The above Reserves are reported after being subjected to economic limit tests.

TABLE 3
SUMMARY OF CONTINGENT RESOURCES
As of 31st January, 2008

Field	Cadogan Interest (%)	Net Gas Contingent Resources		
		Bcf		
		1C	2C	3C
Bitlya	97.1	236	539	943
Borynya	96.5	424	899	1,478
Pirkovskoe (Lev)	97.0	12	42	90
Zagorianskoe	90.0	40	95	247
Krashnoyilska	98.5	3	8	19
Total	-	-	1,583	-

Field	Cadogan Interest (%)	Net Condensate Contingent Resources		
		MMbbl		
		1C	2C	3C
Bitlya	97.1	6.9	17.0	32.9
Borynya	96.5	11.0	26.8	58.2
Pirkovskoe (Lev)	97.0	1.3	2.8	6.3
Zagorianskoe	90.0	0.5	1.4	3.2
Total	-	-	48.0	-

Field	Cadogan Interest (%)	Net Oil Contingent Resources		
		MMbbl		
		1C	2C	3C
Blazhivska	95.0	0.6	1.5	2.4

Note:

1. The primary Contingent Resource volume reported here is the 2C, or 'Best Estimate', value.
2. It is inappropriate to aggregate Contingent Resource volumes other than the 2C or "Best Estimate" values.
3. Lev = Levchehskoe fault block.

TABLE 4
(Page 1 of 3)

SUMMARY OF PROSPECTIVE RESOURCES
As of 31st January, 2008

(a) GAS PROSPECTIVE RESOURCES

Field	Cadogan Interest (%)	Net Gas Prospective Resources			GCoS (%)
		Bcf			
		Low Estimate	Best Estimate	High Estimate	
Pirkovskoe Piv UV	97	2	7	15	52
Pirkovskoe Piv V26 + T3	97	5	18	41	45
Pirkovskoe V24-25 + T1-2	97	340	780	1,500	20
Zagoryanskoe Yark UV	90	27	76	180	28
Zagoryanskoe Yark Fam	90	7	15	45	28
Zagoryanskoe Zag UV	90	5	14	50	28
Zagoryanskoe Zag Fam	90	1	2	6	28
Zagoryanskoe Shen UV	90	5	17	50	28
Zagoryanskoe Shen LV	90	1	2	18	45
Zagoryanskoe Shen T	90	1	5	14	45
Zagoryanskoe Shen Fam	90	1	3	9	28
Pokrovskoe UV	100	74	172	796	40
Pokrovskoe LVT	100	44	99	237	34

TABLE 4
(Page 2 of 3)

SUMMARY OF PROSPECTIVE RESOURCES
As of 31st January, 2008

(b) CONDENSATE PROSPECTIVE RESOURCES

Field	Cadogan Interest (%)	Net Condensate Prospective Resources MMbbl			GCoS (%)
		Low Estimate	Best Estimate	High Estimate	
Pirkovskoe Piv UV	97	0.1	0.6	1.3	52
Pirkovskoe Piv V26 +T3	97	0.6	1.1	2.3	45
Pirkovskoe V24-25 + T1-2	97	16	38	76	20
Zagoryanskoe Yark UV	90	0.5	1.1	2.6	28
Zagoryanskoe Yark Fam	90	0.0	0.1	0.3	28
Zagoryanskoe Zag UV	90	0.1	0.2	0.8	28
Zagoryanskoe Zag Fam	90	0.01	0.02	0.04	28
Zagoryanskoe Shen UV	90	0.1	0.3	0.7	28
Zagoryanskoe Shen LV	90	0.02	0.03	0.3	45
Zagoryanskoe Shen T	90	0.01	0.03	0.08	45
Zagoryanskoe Shen Fam	90	0.01	0.02	0.05	28
Pokrovskoe UV	100	2.3	5.4	25.4	40
Pokrovskoe LVT	100	1.9	4.4	10.5	34

TABLE 4
(Page 3 of 3)

SUMMARY OF PROSPECTIVE RESOURCES
As of 31st January, 2008

(c) OIL PROSPECTIVE RESOURCES

Field	Cadogan Interest (%)	Net Oil Prospective Resources MMbbl			GCoS (%)
		Low Estimate	Best Estimate	High Estimate	
Monastyretske	95.0	1.4	2.5	4.2	27
Sloboda Rungurske	100	5.9	10.3	17.8	19
Malynovetska	79.9	1.5	2.9	5.0	9

Notes:

1. It is inappropriate to report aggregated Prospective Resource volumes or to otherwise focus upon those other than the 'Best Estimate'.
2. The Geologic Chance of Success (GCoS) represents an indicative estimate of the probability that the drilling of this prospect would result in a discovery which would warrant the re-categorisation of that volume as a Contingent Resource. (The GCoS value for a Contingent Resource is 100 %). These GCoS percentage values have not been arithmetically applied within this assessment.
3. Reservoirs: UV = Upper Viséan; LV = Lower Viséan; T = Tournaisian; LVT = Lower Viséan and Tournaisian; Fam= Famennian.
4. Fault blocks: Piv=Pivnichna; Yark=Yarkinskoe; Zag=Zagoryanskoe; Shen=Shengarivskoe.

Net Present Value Summary

Reference Net Present Values (NPVs) have been attributed to the Proved and the Proved plus Probable Reserves. The reference Post-Tax NPVs for these cases are summarised in Table 5.

GCA employed its own Ukrainian Gas and Brent Oil price scenario (adjusted for quality and location) for the first quarter of 2008 in preparing these NPVs (see Section 8 for further details). GCA considers this to be reasonable for the purpose of examining a range of monetary values that could be attributable to the assets. All NPVs quoted are those exclusively attributable to Cadogan's net entitlement interests in the properties under review.

It should be clearly noted that the Net Present Values (NPVs) of future revenue potential of a petroleum property, such as those discussed in this report, do not represent a GCA opinion as to the market value of that property, nor any interest in it. In assessing a likely market value, it would be necessary to take into account a number of additional factors including: reserves risk (i.e. that Proved and or Probable Reserves may not be realised within the anticipated timeframe for their exploitation); perceptions of economic and sovereign risk; potential upside, such as in this case exploitation of reserves beyond the Proved and the Probable level; other benefits, encumbrances or charges that may pertain to a particular interest; and the competitive state of the market at the time. GCA has explicitly not taken such factors into account in deriving the reference NPVs presented herein.

TABLE 5

**SUMMARY OF POST-TAX NET PRESENT VALUES (NPV) OF
FUTURE NET REVENUE FROM RESERVES
As of 31st JANUARY, 2008**

Field	Proved U.S.\$ MM			Proved plus Probable U.S.\$ MM		
	7.5%	10.0%	12.5%	7.5%	10.0%	12.5%
Pirkovskoe	293	227	178	949	727	568
Blazhivska	0.93	0.91	0.89	2.15	2.04	1.93
Debeslavetska	1.60	1.53	1.46	4.18	3.69	3.27
Sloboda Rungurske	0.10	0.10	0.10	0.22	0.20	0.18
Cheremkhivkse	0.58	0.54	0.51	0.86	0.79	0.73

Notes:

1. The above reference NPVs are computed based on mid-year cashflows.

DISCUSSION

1. EASTERN UKRAINE

Cadogan operates the Pirkovskoe, Zagoryanskoe and Pokrovskoe licences in the Poltava region of Eastern Ukraine (Figure 2). They lie in the Dniepr-Donets basin, a prolific oil and gas basin which accounts for 90% of Ukraine's oil and gas production.

The Pokrovskoe license is located over one of the major salt induced anticlines in the deeper part of the graben (Figure 3). It is just north of the prolific Solochovskoe gas field. The Pirkovskoe and Zagoryanskoe leases lie adjacent to one another along the northern edge of the same rift graben (Figure 3). They are just to the south of the large Kachanivske and Kransnozayarske fields. The former has been producing for 40 years from 20 oil and 8 gas condensate accumulations. Typical well rates in these fields are 140-250 m³/d (880-1,570 bbl/d) oil or 250-350,000 m³/d (8.8-12.4 MMcf/d) gas.

Altogether, the Poltava region has been producing oil, gas and condensate for over 30 years from 100 or more fields and there is a well established infrastructure including tie-in points to the national gas grid and condensate sales depots.

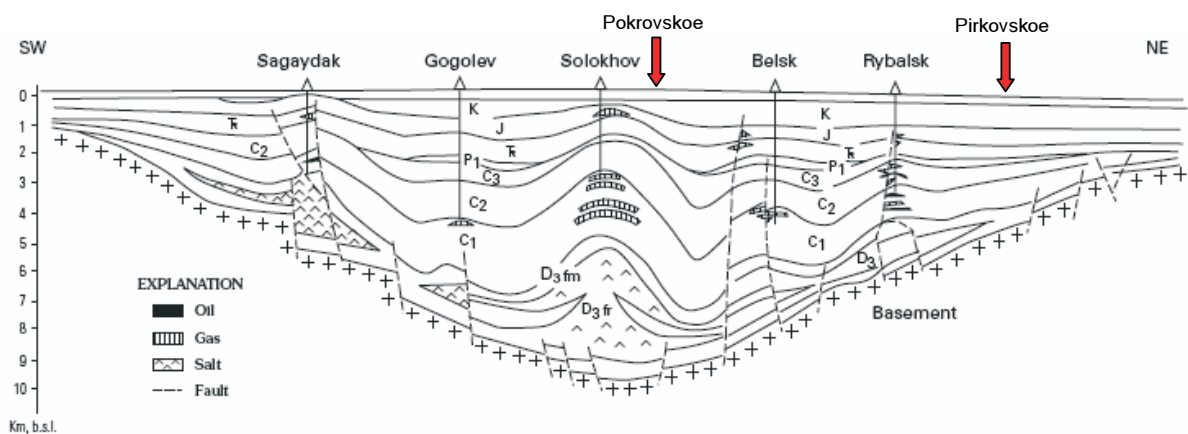
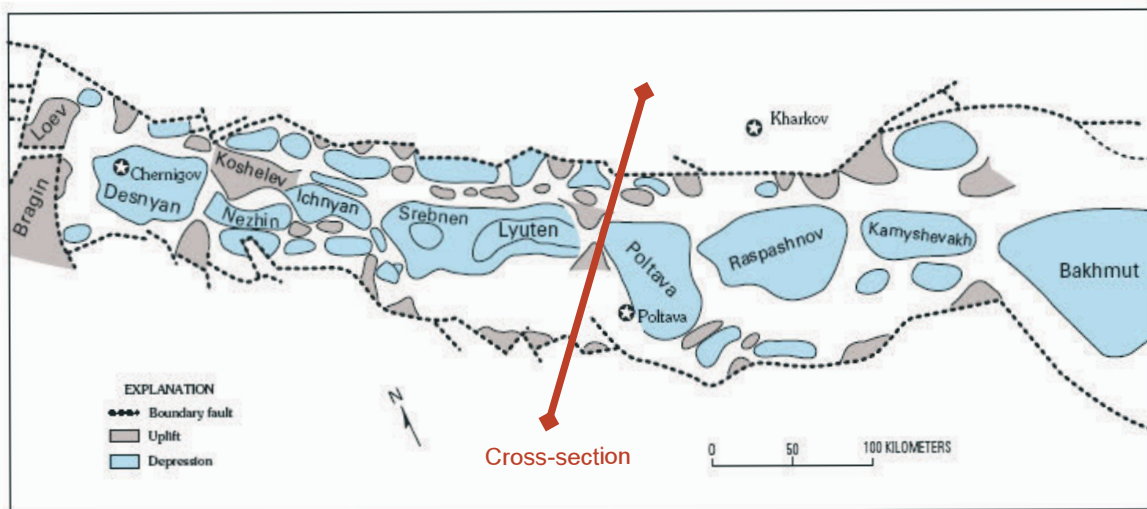
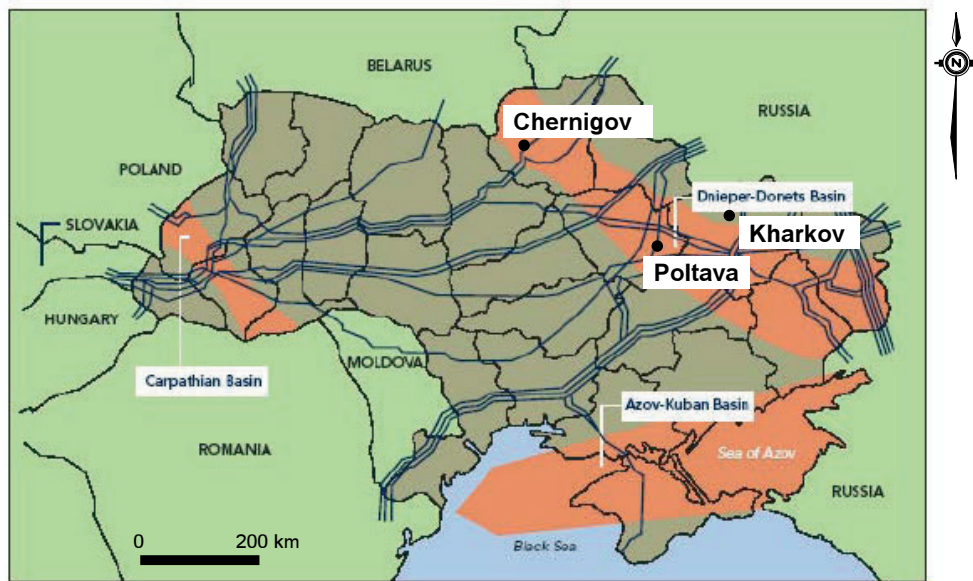
1.1 Geological Setting

Regionally, the Dniepr-Donets basin is a NW-SE oriented paleo-rift graben some 500 km long by 65 km to 150 km wide (Figure 3). The graben is a Devonian-aged rift consisting of clastics, salt, and widespread shallow marine carbonates with reef-like build-ups deposited during the Lower Carboniferous (Figure 3). Post-rift thermal deepening resulted in the deposition of thick clastics, coastal and deltaic deposits of Upper Visean and Middle Carboniferous age. Deposition was terminated during the Permian deformation and was peneplaned at this time. The younger Mesozoic is deposited uniformly above the Permian unconformity and is un-deformed (Figure 4).

Black shales and carbonates in the Lower Visean and Devonian are the hydrocarbon source rocks. Over most of the basin, maximum burial and thermal maturation occurred prior to the Permian deformation. These source rocks are currently in the maturation window.

Most of the traps are caused by extensional faulting down into the graben. There are deep seated salt domes in the graben that also generated structural traps. Vertical migration up these faults is known.

The primary reservoirs are in the Middle Mississippian-aged Upper Visean clastics and Lower Visean carbonates, with secondary reservoirs in the Lower Mississippian Tournaisian carbonates (Figure 4). All these objectives reside in the Lower Carboniferous geologic period. There may be further reservoirs in the even deeper, Devonian-aged Famennian rocks.

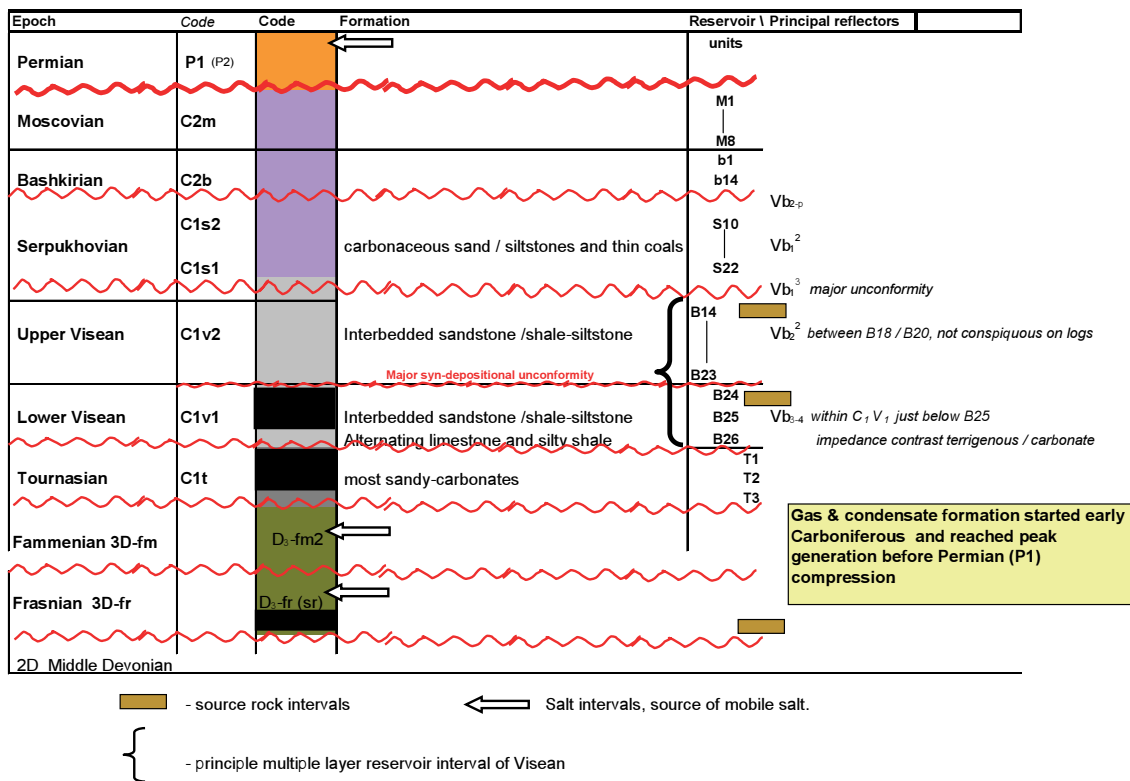


Dniepr-Donets Basin Location Map and Cross-Section

Source: Cadogan

Proj. E1900 June 08 Checked: TUC Fig. 3

Cadogan Petroleum



Source: Cadogan

Stratigraphic Summary, Poltava Region, Dniepr-Donets Basin

 Proj. E1900 June 08 Checked:  Fig. 4

Cadogan Petroleum

The individual reservoirs are spread over a large number of rock units. They are identified as:

- V14 to V22 (or V23) in the Upper Viséan,
- V23 (or V24) to V26 in the Lower Viséan, and,
- T1 through T3, in the Tournaisian.

Even within a unit such as V17, there may be several individual reservoir zones. Identification of the specific units within a well is not straightforward and leads to some ambiguity of terminology. The limited lateral extent of individual reservoirs, particularly in the Lower Viséan, contributes to this ambiguity. Correlation of reservoirs between wells is often difficult.

The Upper Viséan consists of interbedded sandstones, siltstones and shales. The individual sands are thin ranging from 5 to 10 m. The depositional environment is a coastal plain with inter-distributary overbank deposits consisting of coals, shales, silt and minor sandy channels. Most of the Upper Viséan sand units are lobate shaped sandy mouth-bar complexes related to repeated stages of delta advancements. In this type of environment, the reservoirs are locally continuous but discontinuous over larger areas due to the rapid change of depositional conditions because of the influence of tides, flooding, etc. The Upper Viséan lies unconformable over the Lower Viséan. Porosity in hydrocarbon bearing rocks ranges from 6% to 14% with an average of about 10%.

The Lower Viséan consists of mainly carbonate rocks alternating with minor interbedded sandstone, siltstone and shales. It lies directly under the Upper Viséan clastics at a major syn-depositional unconformity. The depositional environment is sediment starved coastal plain. The rocks in this environment tend to be laterally discontinuous. The porosity in hydrocarbon bearing zones ranges from 8% to 16% with an average of about 12%. There is support from core and analogue data that the Lower Viséan (and deeper Tournaisian) has been locally leached resulting in very high porosities and permeabilities. It is believed that vuggy porosity plays an important role in both the Lower Viséan and Tournaisian targets. The importance of fracturing in the Lower Viséan carbonate reservoirs is unknown and has not been documented in any material reviewed.

The Tournaisian lies unconformably below the Lower Viséan and is described as a sandy carbonate. It is the same depositional environment as the Lower Viséan and is considered as a secondary target in these leases. These reservoirs also tend to be laterally discontinuous and show signs of leaching that results in vuggy porosity development. Porosities range up to 16%. The importance of fracturing in the Tournaisian carbonate reservoirs is unknown and has not been documented in any material reviewed.

1.2 Pirkovskoe Licence

The Pirkovskoe exploration and development licence covers 71.6 km² and runs until October, 2010. There is an obligation to re-test the existing Pirk-460 well and to drill two new wells. Drilling of these wells, Pirk-1 and -2, is currently in progress, as is the work-over of 460.

Pirkovskoe is located in the faulted transgression zone that forms the northern shoulder of the Dniepr-Donets Graben. Based on 2D seismic data, six structurally linked fault blocks have been identified within the licence area (Figure 5). Four wells were drilled on the licence in the 1980s and 1990s but successful production tests were limited to three zones (V19, V23 and T3) in 408 with a maximum gas rate of 37,000 m³/d (1.3 MMcf/d) and two (V17 and V26) in 460 with a maximum gas rate of 150,000 m³/d (5.3 MMcf/d). Formation damage may have occurred in the past due to poor drilling practices, and higher rates would almost certainly have been achieved if better drilling and completion techniques had been used.

At the time of writing, Pirk-1 has reached 4,800 m in the Upper Visean and has produced light oil at a maximum rate of 49 m³/d (310 bbl/d) from the V16-17 during testing.

1.2.1 Seismic Data

The seismic grid over the licence can be seen in Figure 6. The 2D seismic line spacing is 1-2 km. Maps based on this 2D data were made by the Ukrainian Geophysical Institute in Kiev. TRACS was allowed to view the seismic and maps in Kiev but not allowed to remove any data. They confirmed both the structure and the approximate positions of the fault traces. The data quality was characterized as poor.

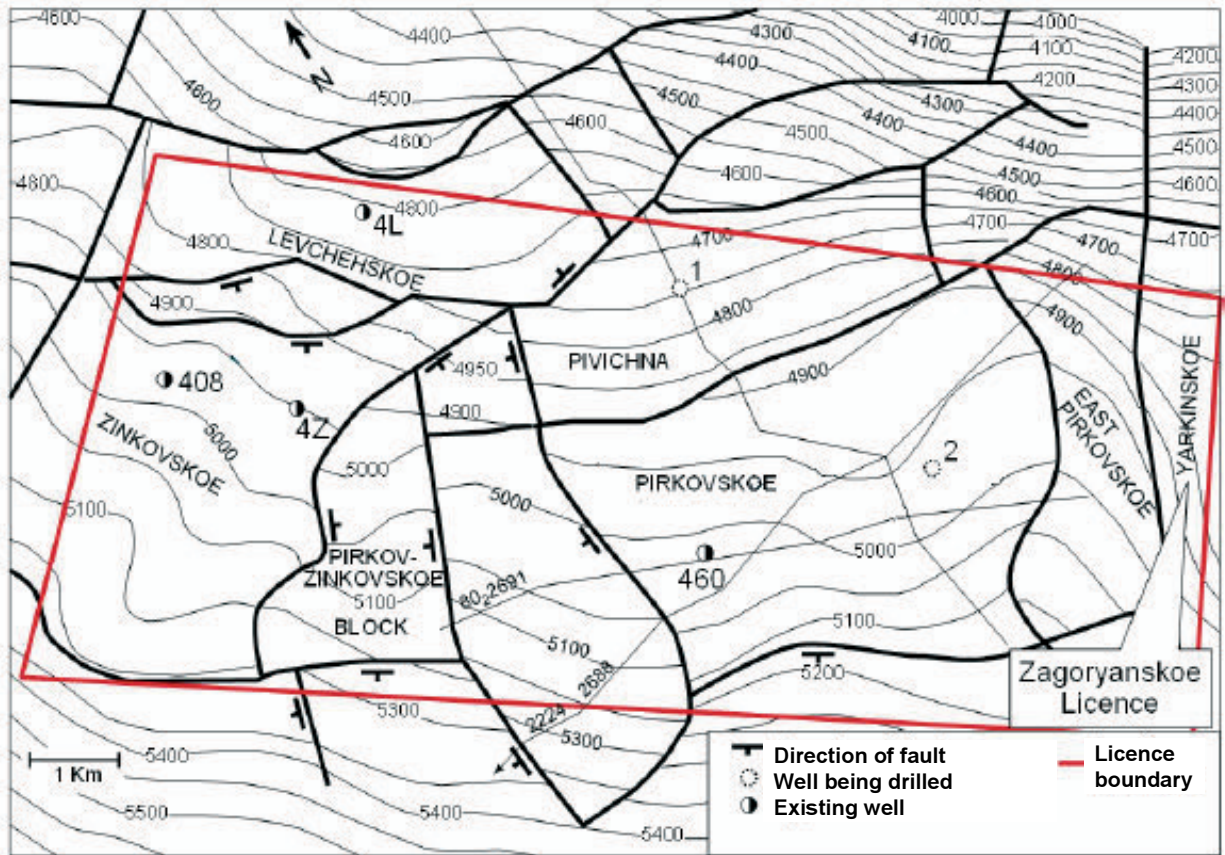
No information is available on the time-to-depth conversion process or whether any lateral velocity anomalies exist in the area. GCA has compared pre-drilling depth predictions with actual depths for Pirk-1. The shallow predictions differ from the actual depths by 50 m while the deeper ones differ by 70 m to over 200 m. It can be inferred from this that, away from the wells, the depth maps may contain errors of a hundred meters or more, with obvious implications for volumetric estimation.

The poor data quality also makes fault recognition difficult so the position and alignment of the faults is uncertain. Additionally, the seismic is unable to resolve individual sands because vertical resolution is +/-50 m. Reservoir intervals are mapped by generating an isopach from two or three seismic reflectors which lie in the Visean but whose exact stratigraphic position is uncertain. In conclusion, there is significant uncertainty associated with the structural maps.

1.2.2 Petrophysics

Logs are available for the four existing wells 4Z, 4L, 408 and 460 (Figure 7), and for the currently drilled Upper Visean section of Pirk-1. However, there is a lack of core data and the quality of the older logs is poor. GCA conducted an independent petrophysical analysis of the 460 and Pirk-1 logs that broadly confirmed an earlier interpretation undertaken by TRACS.

Well 460 has 15-19 m of net pay in the Upper Visean V17, V19 and V23, with porosity of 6-14%. Over the same zones, 408 has 10 m net pay with porosity 6-8%. In the Lower Visean and Tournaisian, 460 has 10-15 m net pay in the V26 with porosity 10-15% while 408 has 11 m net pay in the T3 at 8.5% porosity. The V26 was water-filled in 408. Considerable net pay was evaluated in the Lower Visean and Tournaisian carbonates (V24-25 and

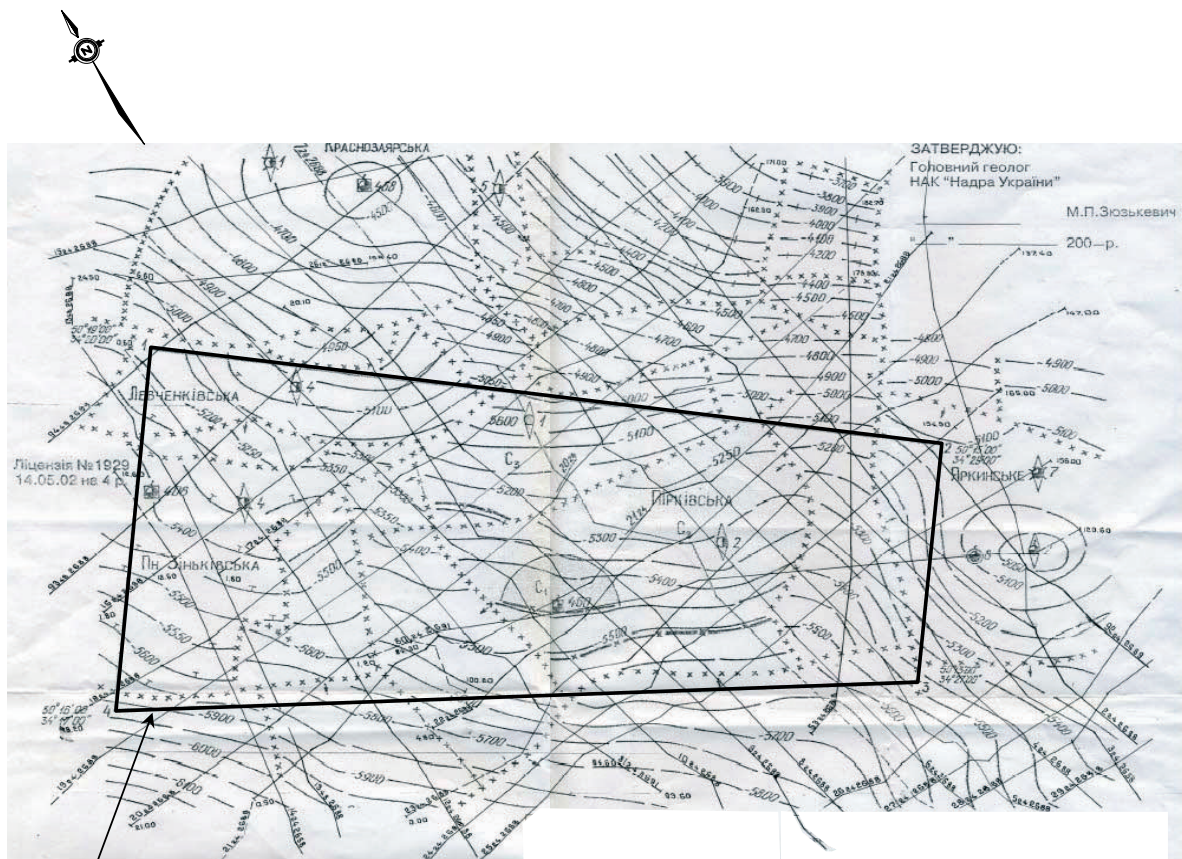


Pirkovskoe Licence Structure Map

Source: Cadogan

Proj. E1900 June 08 Checked: TUB Fig. 5

Cadogan Petroleum



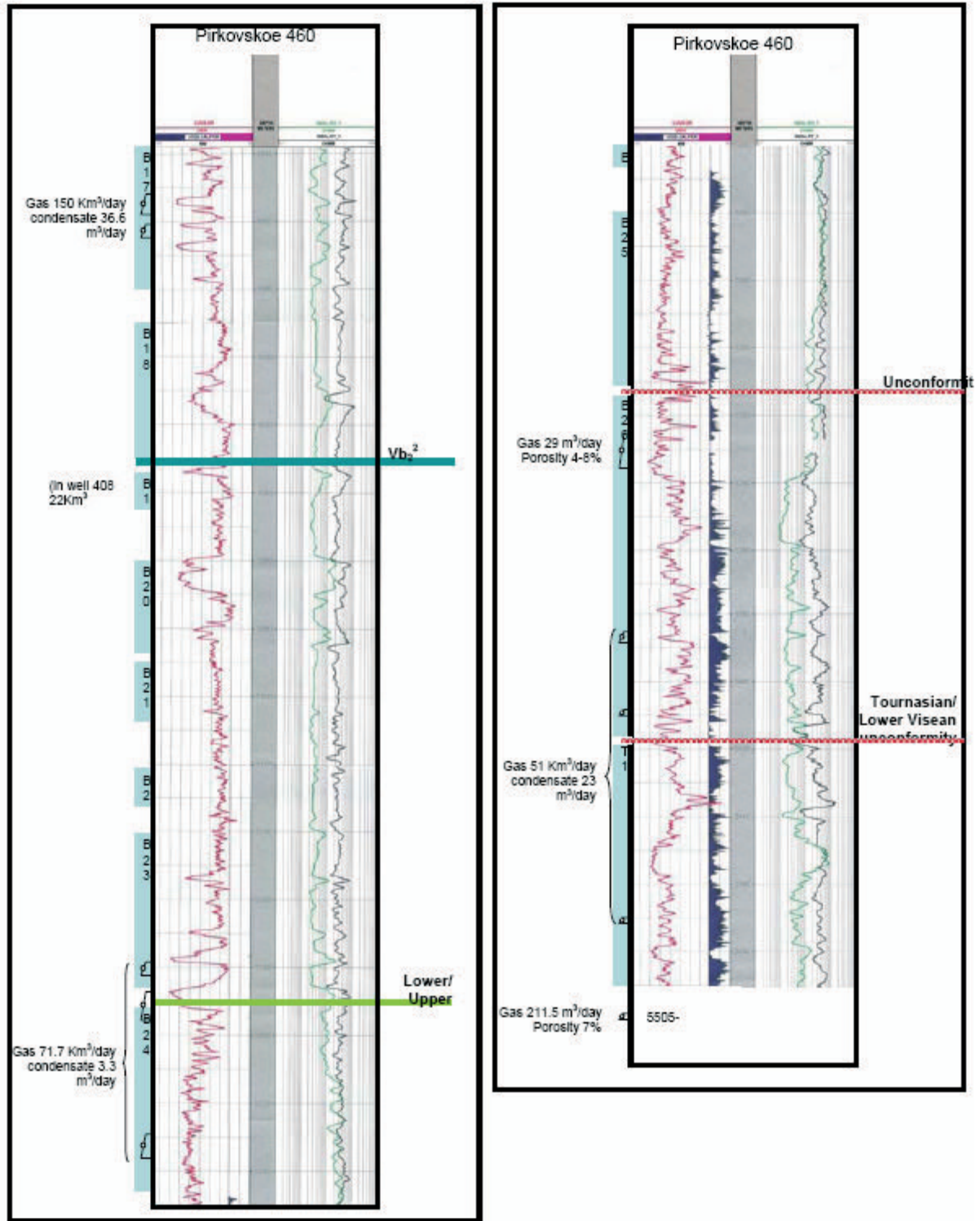
Licence Boundary

Source: Cadogan

Cadogan Petroleum

Pirkovskoe Licence Seismic Coverage

Proj. E1900 June 08	Checked: <i>7/08</i>	Fig. 6
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Source: Cadogan

Cadogan Petroleum

**Pirkovskoe 460 Petrophysical
Summary**

Proj. E1900 June 08	Checked: 7-08	Fig. 7
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T1-2) but these zones have not yet proven productive within the Pirkovskoe licence (see below).

In Pirk-1, V15 to V19 have been logged. Net pay thickness is 5-8 m in the V16-17, with porosity and water saturation of 5-10% and 15-50%, respectively.

1.2.3 Production Testing

Well 408 was drilled in the Zinkovskoe fault block in 1987-89, to a TD of 5,850 m. It successfully tested gas in two Upper Visean intervals and in the Tournaisian T3, but other tests were unsuccessful (Table 6). The maximum rate achieved was 36,600 m³/d (1.3 MMcf/d) T3 horizon. Testing of this well was curtailed due to mechanical problems.

Well 4L was drilled in the Levchehskoe fault block in 1990 or thereabouts. Four intervals flowed gas in open hole tests but at very low rates, despite favourable indications from the logs.

Well 4Z was drilled just over 1 km to the east of 408 in 1992-94, to a TD of 5,900 m. Although gas shows were obtained during drilling and several promising intervals were identified, it seems that only two zones were tested and neither flowed at any significant rate. The reasons for this are unknown.

Drilling of Well 460 in the Pirkovskoe fault block began in March, 1988 but TD of 5,850 m was not reached until July, 1992. Open hole tests were largely unsuccessful. After lengthy delays for various operational reasons, cased hole testing took place between August, 1994 and August, 1996. Two successful tests were achieved with rates of 150,000 m³/d (5.3 MMcf/d) in the Upper Visean V17 and 51,200 m³/d (1.8 MMcf/d) at the bottom of the Lower Visean V26.

Gas samples indicated minor amounts of N₂ and CO₂ but no H₂S or other contaminants. Condensate yields are stated to vary either from 250 to 900 g/m³ or from 250 to 900 cc/m³, which is 22% less.

Pirk-1 was spud by Cadogan in January 2007 and drilling of the intermediate section to 4,800 m ended in August, 2007. After casing and logging, the V16-17 was perforated and tested, producing 46.7°API oil at up to 49 m³/d (310 bbl/d). Between October, 2007 and January, 2008 it produced 673 m³ (4,233 bbl) during testing at different choke sizes. Build-up tests have also been performed and average permeability is inferred to be about 3 mD, based on 5.6 m of net pay, with a skin of around 5. Bubble point pressure is estimated from correlations to be 452 atm. This is just below the initial reservoir pressure of 488 atm (at 4,554 m), although a leak in the lubricator at the wellhead means that reservoir pressure may have been under-estimated. GOR is estimated as 450 m³/m³ (2,500 scf/bbl). Drilling to deeper horizons is currently in progress.

TABLE 6

SUMMARY OF WELL TEST RESULTS, PIRKOVSKOE LICENCE

Well	Interval (m MD)	Formation	Gas (m ³ /d)	Oil or Condensate (m ³ /d)	Water (m ³ /d)
408	5,010-5,015	V19	22,000	17.5	-
	5,154-5,161	V23	14,000	95.0	-
	5,292-5,312	V25	-	-	-
	5,380-5,394	V26	-	-	1.5
	5,608-5,681	T2	-	-	-
	5,744-5,843	T3	36,600	10.8	-
4L	4,543-4,633	V15-16	886	-	-
	4,915-5,006	V25	-	-	-
	5,043-5,087	T1	180	-	-
	5,075-5,158	T1	92	-	-
	5,198-5,246	T1	54	-	-
4Z	5,876-5,900	T?	-	-	-
	5,219-5,290	?	3,085	-	-
460	4,953-4,958	V17	150,000	36.6	-
	4,961-4,965				
	5,178-5,182	V24-26	-	3.3	-
	5,187-5,195				
	5,229-5,236				
	5,288-5,297	V26	-	-	-
	5,337-5,342				
	5,326-5,336	V26	-	2.6	-
	5,385-5,388	V26	51,200	23.3	-
Pirk-1	5,505-5,517	T1	-	-	6
	5,808-5,850	T2	-	-	-
	4,619-4,621	V16-17	-	49.2	-
	4,642-4,648				
	4,660-4,664				

1.2.4 Appraisal and Development Plans

After testing of the Upper Viséan section, Pirk-1 will be deepened to a TD of 5,600 m in the Tournaisian. Pirk-2, which in fact was drilled to about 3,000 m before being suspended due to the financial constraints of the previous owner, has been re-entered and will also be deepened to a TD of 5,600 m in the Tournaisian. Finally, well 460 has also been re-entered and will shortly be re-tested in the V26. Cadogan also plans to acquire 3D seismic data later this year.

These and further appraisal activities will allow the potential of the gas reservoirs to be better defined. A critical aspect is the production rate that can be achieved using the modern drilling and completion techniques, including acid treatments and hydraulic fracturing, that Cadogan is implementing. The lateral extent of individual reservoir bodies and the degree of connectivity between them are also uncertain at the present time, with implications for decline rate and the number of wells required.

Based on the data reviewed by GCA, commercial production from the Pirkovskoe and Zinkovskoe fault blocks (Figure 5) is thought to be viable. Cadogan have purchased and are expanding a gas processing plant at Krasnozayrskoi, a few km to the north of the Pirkovskoe licence, to a capacity of 1 MMm³/d (35 MMcf/d). Flow lines from Pirk-1 and 460 are already in place and commercial production from these two wells could start in the second half of 2008.

1.2.5 Reserves and Resources

Gas has been produced on test at commercial rates from the V17 and V26 reservoirs in the Pirkovskoe fault block (well 460) and from the V19, V23 and T3 reservoirs in the Zinkovskoe fault block (well 408). The presence of producible gas is also inferred from the logs in the V19 and V23 reservoir intervals in well 460. In these two fault blocks, Proved Reserves are attributed to these reservoirs. Gas was inferred from the logs in some other intervals, particularly the carbonate V24-25 and T1-2 reservoirs, but apart from the very low rate tests in well 4L, these zones have not yet proven productive within the Pirkovskoe licence so only Prospective Resources are assigned therein.

The major uncertainty on the recoverable gas and condensate volumes concerns the reservoir area. The accuracy of the mapped fault pattern and the location of the faults are uncertain, as is the sealing capacity of the faults. The fact that Pirk-1 has found oil in the Upper Viséan in the Pivnichna fault block, which is up-thrown compared to the Pirkovskoe block, suggests that the east-west fault between 460 and Pirk-1 is probably sealing, and by extension, the Levchevskoe fault block is also separated from the Zinkovskoe one. GCA's view is, therefore, that the Proved area for gas Reserves is confined to the Pirkovskoe and Zinkovskoe fault blocks up-dip of the 460 and 408 wells respectively. Further, only 75% of this area is counted to allow for uncertainty on fault location and reservoir continuity.

For the Probable and Possible areas, the fact that no GWC has been encountered means that the potential for gas down-dip of wells 408 and 460 should be allowed for, the maximum case being that the whole of each fault block is gas filled. Additionally, parts of the un-named, only slightly down-thrown, fault block just to the west of well 460, the up-thrown East

Pirkovskoe fault block and the slightly further down-thrown Pirkov-Zinkovskoe fault block should also be considered. For the Proved plus Probable area, GCA has taken 100% of the area in the Pirkovskoe and Zinkovskoe fault blocks down to a GWC midway between the wells and the maximum case, and included the area of the un-named fault block down to the same GWC as in the Pirkovskoe block. The Proved plus Probable plus Possible area includes all the above-mentioned fault blocks.

In the Pivnichna fault block, where Pirk-1 has produced light oil from the Upper Visean V16-17, it is difficult to assess volumes in place because it is not known whether the structure is entirely oil filled or whether there is a gas cap up-dip of the well. The latter is a strong possibility, given the prevalence of gas in the area. A commercial development is almost certainly possible in both scenarios, because the oil is immediately marketable and gas could be produced and treated along with the gas from the rest of the licence. However, the optimal development plan may be quite different in the two cases. Further appraisal is needed to better define the accumulation and the development plan, which will also be influenced by what is discovered in the deeper horizons that are currently being drilled. For now, GCA has assigned limited oil and solution gas Reserves based on a Proved area equal to 75% of the area up-dip of the Pirk-1 well, a Proved plus Probable area equal to 100% of the area down to a GWC midway between the well and the edge of the fault block and a Proved plus Probable plus Possible area equal to the area of the whole fault block. All areas are limited to be within the Licence boundary. Reserves are limited to that part of the Upper Visean that has been drilled and tested, i.e. to 5.6 m of net pay. At present, Reserve volumes are small compared to the gas and condensate Reserves in the rest of the Pirkovskoe licence.

Deeper levels in the Pivnichna fault block remain a Prospective Resource.

In the absence of any production test at a commercial rate from the 4L well, the Levchevskoe fault block is regarded as a Contingent Resource at the current time.

GCA has used a probabilistic approach to calculate in-place and recoverable volumes for the various fault blocks and reservoir levels. Reserves, Contingent Resources and Prospective Resources have then been allocated in line with the preceding discussion. Other than area, inputs include petrophysical properties inferred from the processed logs. Low, most likely and high RFs are taken as 55%, 65% and 75% for gas, and 40%, 47.5% and 55% for condensate. Initial CGR values are from 350 to 660 g/m³ (60 to 120 bbl/MMcf) in the Upper Visean and from 270 to 430 g/m³ (50 to 76 bbl/MMcf) in the Lower Visean and Tournaisian. Results of the probabilistic (Monte Carlo) calculations are shown in Tables 7 to 10. For Proved Reserves, a deterministic calculation was made using the Proved area and the minimum RF, together with the most likely values of the other parameters. The results were slightly higher than those from the probabilistic calculations, so the latter are retained. For the carbonate V24-25 and T1-2 levels, large net thickness, porosity and gas saturation are inferred from the logs but the reliability of these values is uncertain and even if producible gas is present, the RF is likely to be significantly lower than in the other formations. A simple estimate of Prospective Resources in the V24-25 and T1-2 levels has therefore been made, equal to 4 times the Contingent

TABLE 7

GIIP, CIIP AND STOIP, PIRKOVSKOE LICENCE

All Fault Blocks Except Levchehskoe and Pivnichna

	Low (P90)	Mid (P50)	High (P10)
GIIP (Bcf)	177.0	499.0	915.0
CIIP (MMbbl)	19.4	48.0	91.0

Levchehskoe Fault Block

	Low (P90)	Mid (P50)	High (P10)
GIIP (Bcf)	20.0	66.0	142.0
CIIP (MMbbl)	1.9	6.2	14.0

Pivnichna Fault Block (Reservoir V19 and Above)

	Low (P90)	Mid (P50)	High (P10)
STOIP (MMbbl)	0.72	2.4	4.1
GIIP (Bcf)	1.8	6.0	10.2

Pivnichna Fault Block (Reservoir V23 and Below)

	Low (P90)	Mid (P50)	High (P10)
GIIP (Bcf)	11.0	39.0	87.0
CIIP (MMbbl)	1.1	3.6	8.0

Notes:

1. Gas, condensate and oil initially outside the Licence boundary are not included in these volumes.
2. Volumes are 100%, i.e. they do not reflect Cadogan's net working interest.
3. GIIP, CIIP and STOIP do not equate to any category of Reserves or Resources because no recovery factor has been applied.
4. Reservoirs V24-25 and T1-2 are excluded from this table.

TABLE 8

GROSS RESERVES, PIRKOVSKOE LICENCE
As of 31st January, 2008

All Fault Blocks Except Levchehskoe and Pivnichna

	Proved	Proved + Probable	Proved + Probable + Possible
Gas (Bcf)	110.0	324.0	597.0
Condensate (MMbbl)	7.8	23.0	43.0

Pivnichna Fault Block (Reservoir V19 and Above)

	Proved	Proved + Probable	Proved + Probable + Possible
Oil (MMbbl)	0.1	0.6	1.4
Gas (Bcf)	0.8	3.3	5.8

Notes:

1. Reserves volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Reserves are reported in Table 2.

TABLE 9

GROSS CONTINGENT RESOURCES, PIRKOVSKOE LICENCE

Gas (Bcf)

	C1	C2	C3
Levchehskoe Block, U. Viséan	7	21	44
Levchehskoe Block, L. Viséan + Tournaisian	6	22	49
Total	13	43	93

Condensate (MMbbl)

	C1	C2	C3
Levchehskoe Block, U. Viséan	0.7	1.6	3.7
Levchehskoe Block, L. Viséan + Tournaisian	0.6	1.3	2.8
Total	1.3	2.9	6.5

Notes:

1. Contingent Resource volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Contingent Resources are reported in Table 3.
2. The primary Contingent Resource volumes reported here is the 2C, or 'Best Estimate'.
3. The aggregated 1C volumes may be conservative and the aggregated 3C volumes may be optimistic as arithmetic summation has been applied.

TABLE 10

GROSS PROSPECTIVE RESOURCES, PIRKOVSKOE LICENCE

Gas (Bcf)

	Low (P90)	Mid (P50)	High (P10)	GCOS (%)
Pivnichna Block, V23	2	7	15	52
Pivnichna Block, V26 and T3	5	18	42	45
V24-25 + T1-2 (All Blocks)	352	808	1,560	20

Condensate (MMbbl)

	Low (P90)	Mid (P50)	High (P10)	GCOS (%)
Pivnichna Block, V23	0.1	0.6	1.3	52
Pivnichna Block, V26 and T3	0.6	1.1	2.4	45
V24-25 + T1-2 (All Blocks)	17	40	78	20

Notes:

1. Prospective Resource volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Prospective Resources are reported in Table 4.
2. It is inappropriate to report aggregated Prospective Resource volumes or to otherwise focus upon those other than the 'Best Estimate'.

Resources in the rest of the Lower Viséan and Tournaisian intervals in all fault blocks.

1.2.6 Production Profiles

Production profiles have been constructed for two scenarios, with recovery close to the Proved and Proved plus Probable Reserves for the Pirkovskoe field. This includes the Pivnichna block, V19 and above, oil and gas Reserves, which are here treated as condensate and gas since the volumes are small by comparison with the rest of the Reserves.

Production is assumed to start with 1 well (460) in September, 2008, and a second well (Pirk-2) is added in January, 2009. Pirk-1 has not been included in these production scenarios at the present time, pending final drilling and testing results on this well. Two additional wells are added each year from January, 2010 onwards, up to a total of 14 wells in the Proved case and 26 in the Proved plus Probable Case. This corresponds to a well spacing/drainage area of approximately 1.0 km². All wells are assumed to be completed in all horizons considered to contain Proved or Probable Reserves (Upper Viséan and Lower Viséan/Tournaisian).

Initial gas production rate for each well depends on a number of factors that are uncertain at the present time, including reservoir permeability, condensate content (which affects gas viscosity and vertical flow performance) and skin. Simple calculations assuming permeability of 0.5 mD and mechanical skin of zero suggest that a rate of 125,000 m³/d (4.4 MMcf/d) could easily be attained. As already noted, a permeability of about 3 mD was inferred from the build-up tests on Pirk-1. Cut-offs used to determine net pay from log analysis are intended to include only rock with permeability greater than 0.1 mD, though the lack of core data for calibration means that these cut-offs are not precisely defined. Altogether, however, an average permeability of 0.5 mD in the net pay does not seem unreasonable. A skin of zero should also be achieved on new wells thanks to the better drilling practices, acid stimulation and hydraulic fracturing (the skin of 5 inferred for Pirk-1 is prior to acid treatment and fracturing). Reported rates from neighbouring fields are in the range 50,000-250,000 m³/d (1.8-8.8 MMcf/d), though whether or not these are from exactly analogous formations is not certain. An average initial gas production rate of 125,000 m³/d (4.4 MMcf/d) has thus been retained for each well in the Proved plus Probable case and 90,000 m³/d (3.1 MMcf/d) in the Proved case.

In the Proved plus Probable Case, a plateau of 1.5 MMm³/d (53 MMcf/d) is maintained for 8 years from 2016. In the Proved case, peak production is at 0.8 MMm³/d (28 MMcf/d) in 2016. Water production is neglected: this is a potential risk but the presence of an extensive aquifer seems unlikely.

The resulting production profiles are shown in Tables 11 and 12, together with associated costs. Costs are based on figures supplied by Cadogan and considered to be reasonable by GCA. They reflect the generally low cost environment prevalent in Ukraine today. Principal cost assumptions are: U.S.\$11 MM for a development well; U.S.\$10 MM per 250,000 m³/d (0.88 MMcf/d) gas processing train; U.S.\$5.4 MM initial facilities costs for pipelines and refurbishment; U.S.\$2/MM³ variable OPEX; and sundry other OPEX. It is assumed that the 1 MMm³/d (35 MMcf/d) capacity of the

TABLE 11

PRODUCTION PROFILE, PROVED CASE, PIRKOVSKOE FIELD

Year	Gas Production (Bcf)	Condensate Production (MMbbl)	Wells CAPEX (U.S.\$ MM)	Facilities CAPEX (U.S.\$ MM)	OPEX (U.S.\$ MM)
2008	0.34	0.03	11.4	5.4	1.93
2009	1.82	0.16	22	0	2.26
2010	3.43	0.30	22	0	2.60
2011	4.83	0.41	22	0	2.92
2012	6.07	0.51	22	0	3.23
2013	7.14	0.58	22	0	3.54
2014	8.12	0.65	22	0	4.64
2015	8.99	0.71	0	0	4.93
2016	7.93	0.61	0	0	4.87
2017	7.04	0.53	0	0	4.82
2018	6.31	0.47	0	0	4.78
2019	5.70	0.41	0	0	4.75
2020	5.19	0.37	0	0	4.72
2021	4.71	0.32	0	0	3.89
2022	4.32	0.28	0	0	3.87
2023	3.97	0.25	0	0	3.85
2024	3.67	0.22	0	0	3.83
2025	3.38	0.20	0	0	3.82
2026	3.14	0.18	0	0	3.80
2027	2.91	0.16	0	0	3.79
2028	2.72	0.14	0	0	3.78
2029	2.53	0.13	0	0	3.77
2030	2.37	0.11	0	0	3.76
2031	2.21	0.10	0	0	3.75
2032	2.08	0.09	0	0	3.74
Total	110.9	7.92	143.4	5.4	95.66

Notes:

1. All volumes and costs in this table are 100%, i.e. they do not reflect Cadogan's net working interest.
2. OPEX includes G&A and work-overs.
3. CAPEX and OPEX values are presented in this Table in unescalated form.

TABLE 12

**PRODUCTION PROFILE, PROVED PLUS PROBABLE CASE,
PIRKOVSKOE FIELD**

Year	Gas Production (Bcf)	Condensate Production (MMbbl)	Wells CAPEX (U.S.\$ MM)	Facilities CAPEX (U.S.\$ MM)	OPEX (U.S.\$ MM)
2008	0.48	0.05	11.4	5.4	1.94
2009	2.90	0.27	22	0	2.32
2010	5.80	0.54	22	0	2.73
2011	8.70	0.78	22	0	3.14
2012	11.56	1.02	22	10	3.55
2013	13.93	1.20	22	0	3.93
2014	15.95	1.34	22	10	5.08
2015	17.62	1.44	22	0	5.42
2016	19.01	1.52	22	0	5.75
2017	19.33	1.50	22	0	6.01
2018	19.33	1.47	22	0	6.26
2019	19.33	1.43	22	0	6.50
2020	19.39	1.40	22	0	6.75
2021	19.33	1.36	0	0	6.99
2022	19.33	1.32	0	0	6.99
2023	19.33	1.29	0	0	6.99
2024	18.47	1.20	0	0	6.94
2025	15.59	0.99	0	0	6.78
2026	13.20	0.81	0	0	6.64
2027	11.29	0.68	0	0	5.73
2028	9.75	0.57	0	0	5.65
2029	8.43	0.48	0	0	5.57
2030	7.35	0.41	0	0	5.51
2031	6.44	0.35	0	0	5.46
2032	5.67	0.30	0	0	5.42
Total	327.6	23.7	275.4	25.4	134.0

Notes:

1. All volumes and costs in this table are 100%, i.e. they do not reflect Cadogan's net working interest.
2. OPEX includes G&A costs and work-overs.
3. CAPEX and OPEX values are presented in this Table in unescalated form.

Krasnozayrskoi gas processing plant would be available for Pirkovskoe. The profiles in Tables 11 and 12 are used in the economic calculations described in Section 8 and the resulting NPVs are shown in Table 5. Cash flow tables are shown in Appendix IV. For the economic calculations, 50% of the production is assumed to come from a depth of below 5,000 m.

It should be stressed that the production profiles presented here are for the Proved and Proved plus Probable Reserves only. The assumptions regarding the number of wells and the required processing facilities are therefore tailored to these volumes. Cadogan's development plans for the whole Pirkovskoe licence call for 4 rigs to drill a total of around 54 wells, as well as an expansion of the processing facilities to accommodate a plateau rate of up to 2.5 MMm³/d (88 MMcf/d). This plan is an appropriate one for a scenario in which exploration and appraisal activities ultimately result in exploitation of hydrocarbons currently classified as Contingent Resources and Prospective Resources.

1.3 Zagoryanskoe Licence

The Zagoryanskoe exploration and production license covers 49.6 km² and runs until October, 2009. It is immediately to the east of the Pirkovskoe licence.

In terms of structure and geological setting, Zagoryanskoe is very similar to Pirkovskoe. The original maps provided by the Kiev Institute showed this lease contained three fault blocks (Figure 8), one of which (Yarkinskoe) extends across the boundary into the Pirkovskoe licence area. A very recent re-interpretation has suggested that the two eastern fault blocks may be one; this point remains uncertain at the present time.

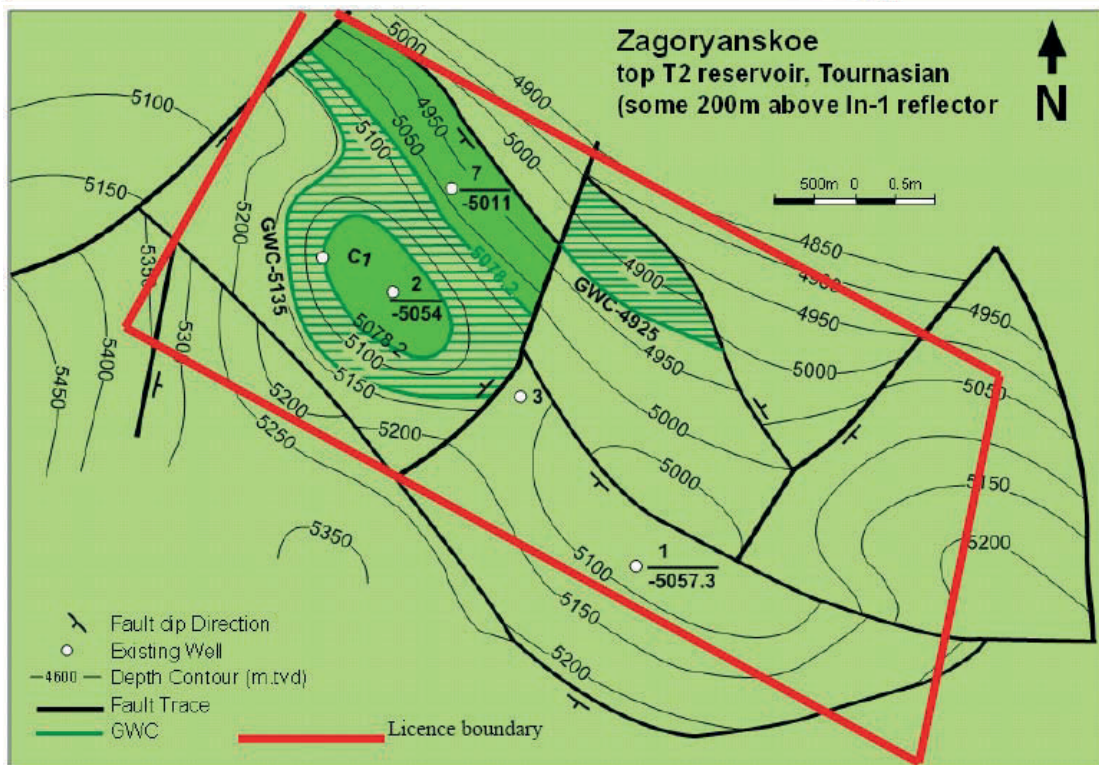
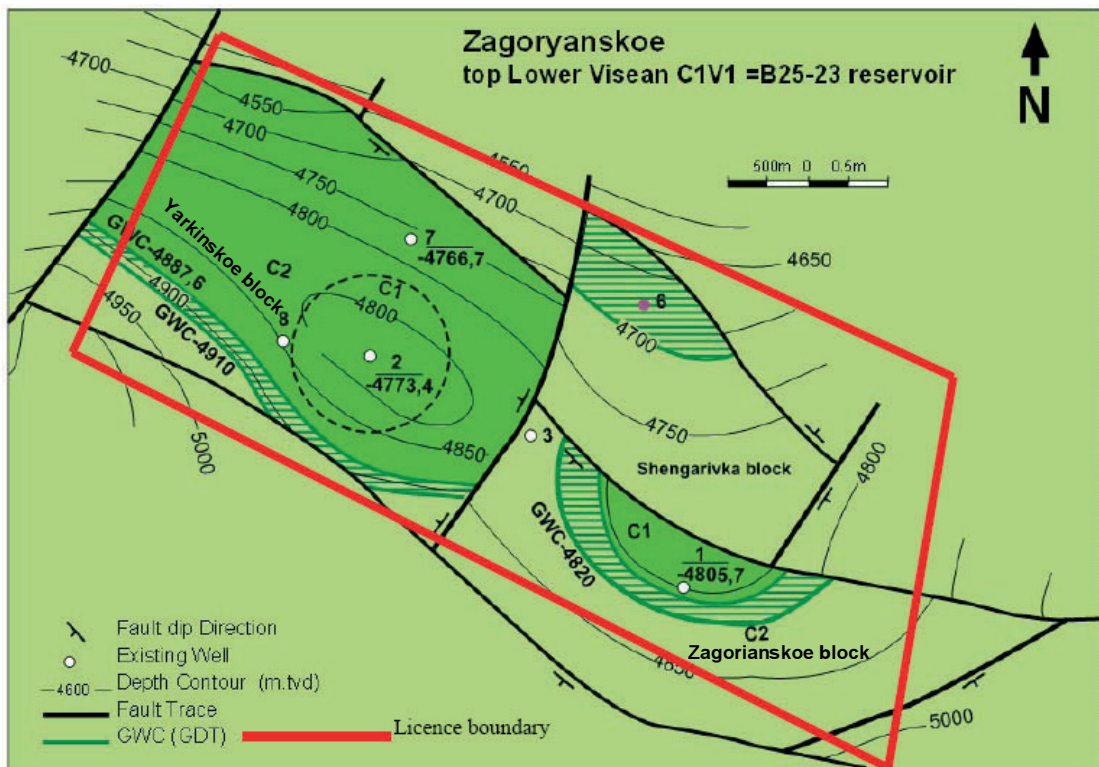
Four wells were drilled within the licence area during the 1980s and 1990s. Gas and condensate were tested in the Lower Viséan and Tournaisian carbonates between 4,500 m and 5,500 m. There was some pilot production from 1997 to 2004 but it is suspected that production records are incomplete.

Seismic data is of similar quality to that for Pirkovskoe. The density of seismic lines over Zagoryanskoe is unclear.

Logs are available for all the wells. GCA conducted an independent petrophysical analysis of the Zag-3 logs that broadly confirmed an earlier interpretation. Again, there is a lack of core data. In several places, the logs are affected by washouts or bad hole, and the presence of thin beds makes the interpretation difficult. Further, production is suspected to come from intervals affected by secondary porosity (vugs) that is not detected by the logs. Overall, the reliability of the petrophysical analyses is highly uncertain.

1.3.1 Production History

Wells 2, 7 and 8 have been drilled in the Yarkinskoe fault block and well 1 in the Zagoryanskoe (Figure 8). There are conflicting reports regarding the dates at which the wells were drilled and the production rates that were achieved during testing. There has been production from 3 wells between 1997 and 2004 but production data is incomplete.



Zagorianskoe Licence Structural Maps

Source: Cadogan

Proj. E1900 June 08 Checked: *[Signature]* Fig. 8

Cadogan Petroleum

It seems that well 2 was tested in 1990 at gas rates of 56,000 m³/d (2.0 MMcf/d) from the Lower Visean (V23-25) and at 112,800 m³/d (4.0 MMcf/d) in the Tournaisian (T1). CGR in the Upper Visean was 1,660-2,360 cc/m³ (300-420 bbl/MMcf), which is very rich indeed and suggests some oil production. CGR in the Tournaisian test was only 42.5 cc/m³ (7 bbl/MMcf). Further tests in 1996 over the same Lower Visean interval produced at less than 20,000 m³/d (0.7 MMcf/d) but with the same high CGR. The well was produced intermittently between 1997 and 2004 but only monthly production volumes are available and a significant part of those are missing. Total production is at least 5 MMm³ (180 MMcf) gas and 4,000 m³ (25,000 bbl) condensate. Reservoir pressure at well 2 is reported to have fallen from 497 to 207 atm.

Well 7 was drilled slightly up dip from well 2 but was found to be tight with some minor indications and inflows of gas, oil and water from both the V23-25 and the Tournaisian formations. The well was subsequently abandoned.

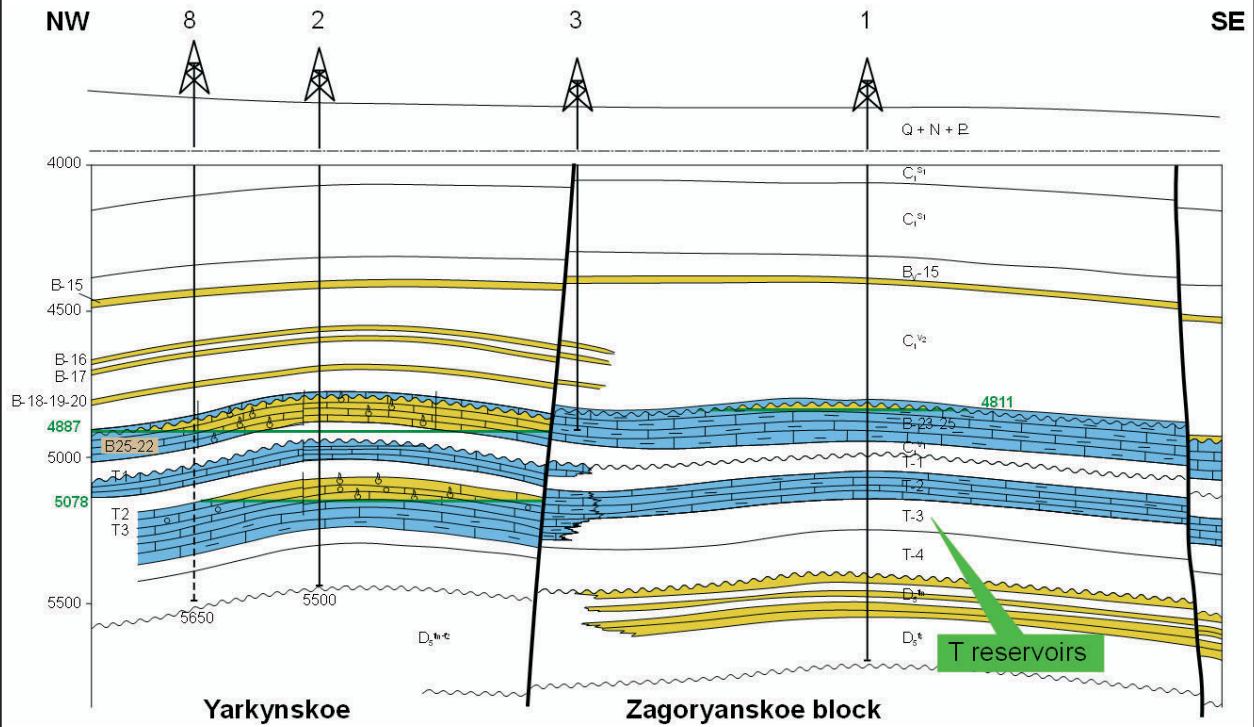
Well 8, located 1 km east of well 2, was reportedly tested in 2004 at 22,800 m³/d (0.8 MMcf/d) from a 49 m interval in the Lower Visean (V23-25) with a CGR of 240 cc/m³ (43 bbl/MMcf). Elsewhere, a rate of only 10,400 m³/d (0.4 MMcf/d) with a CGR of 2,700 cc/m³ (480 bbl/MMcf) is reported. Reservoir pressure is said to have shown no depletion. However, there are monthly production data for the well from 2002 and 2004.

Well 1, in the Zagoryanskoe fault block, produced from 1997 to 2004 at monthly rates of up to 115,000 m³/d (4.1 MMcf/d) but again the data are incomplete. A peak rate of 290,000 m³/d (10.2 MMcf/d) is mentioned, with a CGR of 490 cc/m³ (87 bbl/MMcf). Production is again from the Lower Visean (V23-25). This well reached a TD in the Upper Devonian, underneath the Tournaisian, and the presence of gas was inferred from the logs but these intervals were not tested.

Figure 9 shows a schematic section through the two fault blocks, illustrating the different potentially productive horizons and the GWC depths inferred from the log analysis and well test results.

1.3.2 Appraisal and Development Plans

Well 3 is located in the Zagoryanskoe block about 3 km from well 1. Drilling began but was suspended for financial reasons before Cadogan became involved with the licence. An obligation is to complete the drilling of this well to a TD of 5,020 m in the Lower Visean (V26). This is in progress, even though inspection of Figures 8 and 9 suggests that the location of this well is far from ideal. The well has currently (March, 2008) reached a depth of about 4,935 m. Log interpretations suggest that the Upper Visean V15 and V22-23 may be hydrocarbon bearing but no tests have yet been performed. Drilling and testing should be completed by autumn 2008 and, if successful, commercial production from this well could begin immediately thereafter.

**Legend:**

- Carbonate
- Gas
- GWC

Source: Cadogan

NE-SW Cross-Section, Zagorianskoe
LicenceProj. E1900 June 08 Checked: *[Signature]* Fig. 9

Cadogan Petroleum

Once well 3 is completed, it is planned to work over wells 2 and 8 provided their mechanical condition is sufficiently good to allow it, and, if successful, to resume production from these wells. Further appraisal/development wells would then be drilled from 2010 onwards. Using a Ukrainian rig, each 5,200 m TD well is expected to take about 16 months from start to finish.

It is planned to fracture the development wells to increase production rates.

Production from Zagoryanskoe would share the gas processing facilities already in place for Pirkovskoe, which would be expanded as necessary by adding further processing trains.

1.3.3 Reserves and Resources

There is a great deal of uncertainty concerning the volumes of hydrocarbon present in Zagoryanskoe and how effectively they can be produced. In neighbouring Pirkovskoe, production comes mainly from sandstone reservoirs in the Upper and Lower Visean and Tournaisian; the carbonate intervals have not yet proven productive there. In Zagoryanskoe, some gas has been inferred in the Upper Visean but either has not been tested or has not been productive. Production to date in Zagoryanskoe has come from the carbonate intervals in the Lower Visean and Tournaisian. It is difficult to correlate the productive zones with what is seen on the logs, and it is suspected that production may come from fairly thin vuggy intervals not detected by the logs. The areal extent of the leaching that produced the vugs is very hard to quantify. There are concerns that past production has caused reservoir pressure to fall significantly in the vicinity of each producing well, suggesting that the gas volumes accessible from a single well bore may be quite small, but the lack of adequate production data makes this very difficult to quantify. Condensate content is potentially very high in the Lower Visean, lower in the Tournaisian, but again quite uncertain.

In view of all this uncertainty, GCA considers that further appraisal is needed before any Reserves can be assigned to Zagoryanskoe. Where gas has been discovered and produced, in the Lower Visean and Tournaisian carbonates in the Yarkinskoe and Zagorianskoe fault blocks, Contingent Resources exist. Other horizons in these fault blocks remain as Prospective Resources, as does the Shengarivskoe fault block that has not yet been penetrated by any well (this notwithstanding the recent re-mapping of the Shengarivskoe and Zagorianskoe fault blocks as a single block, the basis of which is not yet clear).

In a recent report, TRACS evaluated fluids initially in place for each of the fault blocks. GCA has no basis for modifying these values but has applied low, mid and high recovery factors (RF) of 40%, 55% and 70% for gas and 30%, 37% and 45% for condensate because of the uncertainty on the connected volumes. The recoverable volumes are apportioned between Contingent and Prospective Resources as described in the previous paragraph. Past production has been neglected. The result is shown in Tables 13 and 14.

TABLE 13

GROSS CONTINGENT RESOURCES, ZAGORYANSKOE LICENCE

Gas (Bcf)

	1C	2C	3C
Yarkinskoe Block, Lower Visean and Tournaisian	41	100	243
Zagoryanskoe Block, Lower Visean and Tournaisian	2.6	6.3	31
Total (Bcf)	44	106	274

Condensate (MMbbl)

	1C	2C	3C
Yarkinskoe Block, Lower Visean and Tournaisian	0.6	1.4	3.2
Zagoryanskoe Block, Lower Visean and Tournaisian	0.03	0.06	0.34
Total (MMbbl)	0.6	1.5	3.5

Notes:

1. Contingent Resources in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Contingent Resources are reported in Table 3.
2. The primary Contingent Resource volume reported here is the 2C, or 'Best Estimate', value.
3. The aggregated 1C volumes may be conservative and the aggregated 3C volumes may be optimistic as arithmetic summation has been applied.

TABLE 14

GROSS PROSPECTIVE RESOURCES, ZAGORYANSKOE LICENCE

Gas (Bcf)

	Low (P90)	Mid (P50)	High (P10)	GCOS (%)
Yarkinskoe Block, U. Visean	30	85	200	28
Yarkinskoe Block, Famennian	8	17	50	28
Zagoryanskoe Block, U. Visean	6	16	55	28
Zagoryanskoe Block, Famennian	1	3	7	28
Shengarivskoe Block, U. Visean	6	19	55	28
Shengarivskoe Block, L. Visean	1	2	20	45
Shengarivskoe Block, Tournaisian	1	6	15	45
Shengarivskoe Block, Famennian	1	3	10	28

Condensate (MMbbl)

	Low (P90)	Mid (P50)	High (P10)	GCOS (%)
Yarkinskoe Block, U. Visean	0.5	1.3	2.9	28
Yarkinskoe Block, Famennian	0.1	0.1	0.3	28
Zagoryanskoe Block, U. Visean	0.1	0.2	0.8	28
Zagoryanskoe Block, Famennian	0.01	0.02	0.04	28
Shengarivskoe Block, U. Visean	0.1	0.3	0.8	28
Shengarivskoe Block, L. Visean	0.02	0.03	0.3	45
Shengarivskoe Block, Tournaisian	0.01	0.03	0.09	45
Shengarivskoe Block, Famennian	0.01	0.02	0.05	28

Notes:

1. Prospective Resource volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Prospective Resources are reported in Table 4.
2. It is inappropriate to report aggregated Prospective Resource volumes or to otherwise focus upon those other than the 'Best Estimate'.

1.4 **Pokrovskoe Exploration Licence**

The Pokrovskoe exploration and development licence covers 49.5 km² and runs until August, 2011. There is a one well and 3D seismic work commitment. The 3D has been acquired and is currently being processed (a quick-look processing is already available). The Pok-2 exploration well is being drilled and has currently (March 2008) reached 4,950 m in the Upper Visean, where it has been logged but not yet tested. There was one previous well on the licence but no data are available.

The Pokrovskoe prospect is located just to the north of and down-dip from the producing Solochovskoe oil and gas field. It lies within the deep central axis of Dniepr-Donets Graben above a large salt-induced anticline. The principle targets are the Upper Visean clastics and the Lower Visean and Tournaisian carbonates. There may additionally be some potential in the Lower Carboniferous below the Tournaisian (Figure 4).

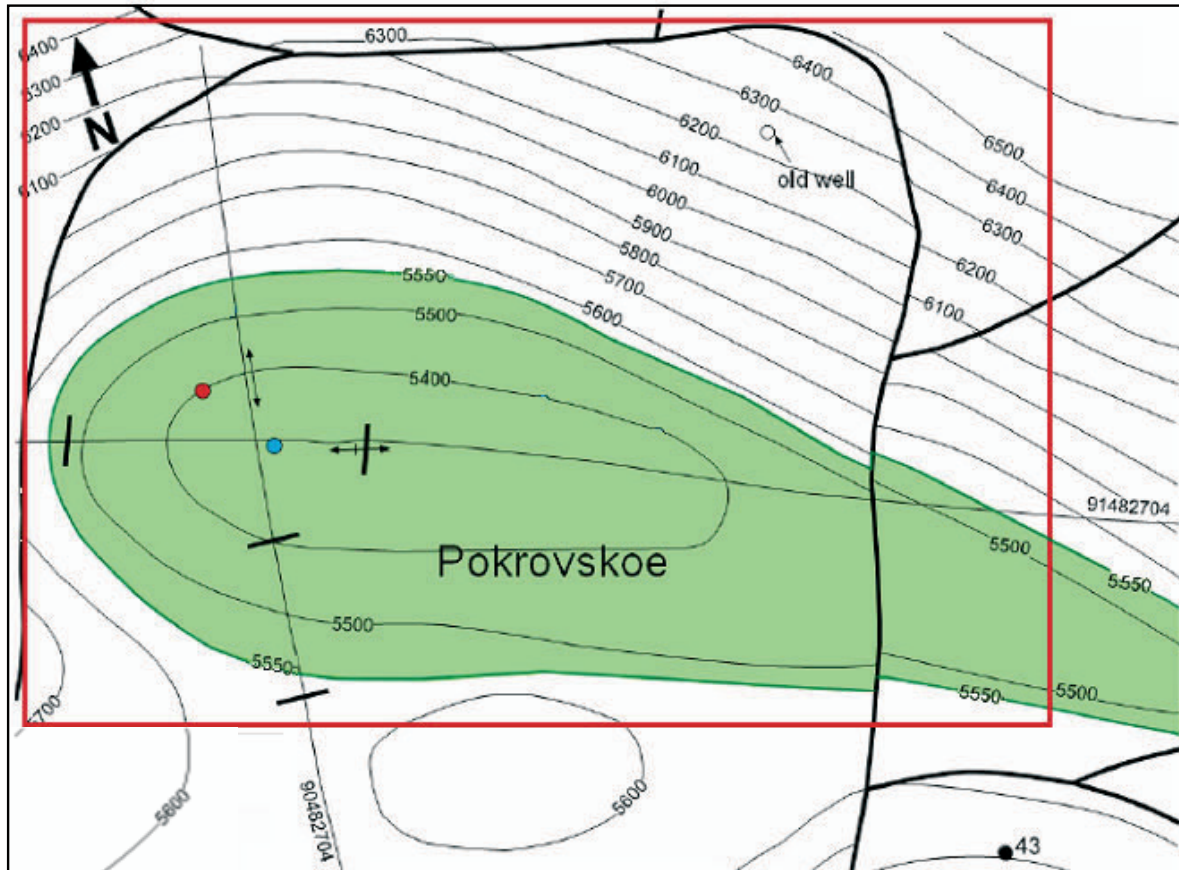
1.4.1 **Seismic Data**

A structure map was provided by the Geophysical Institute in Kiev (Figure 10), based on 2D seismic data acquired from 1982 onwards. TRACS inspected the seismic data in Kiev but was only allowed to take away a paper copy of one strike and one dip line (Figure 11, upper). The data are mostly low fold (12 fold) and generally fair to poor quality. A seismic grid was acquired in 2004 to calibrate the previous mapping and assess improvement in data quality. This allowed faults to be picked with higher confidence.

No information is available on the time to depth conversion process performed by the Kiev Institute. The presence of lateral velocity gradients in the area is possible but this has probably been neglected. GCA has compared pre-drilled depth predictions with actual depths for Pok-2. Pre-drill predictions and actual depths were provided as ranges, so the comparison was based on the mid-points. The shallow predictions were over 250 m deeper than the actual depths. The deeper predictions have been modified based on the drilling to date and the differences are closer to 50 m. It can be inferred from this that the depth maps may contain errors of a couple of hundred metres or more.

A 3D seismic grid has recently been acquired by a private company, Nadra, using vibroseis. The data have undergone initial processing (brute stack) but will require further work before the final stack is completed. An example section is shown in Figure 11 (lower). The data quality of the 3D varies from good to "no seismic signal". The areas of no seismic signal appear to be acquisition and/or processing artefacts. The brute stack has no statics applied as yet, so there is a realistic possibility that a better quality result will be achieved. The 3D seismic has detected the presence of faults not seen with the 2D seismic grid. The reservoir could therefore be broken up more than the current map depicts.

The Lower Visean (Vb3 reflector) is clearly a structural rollover on the seismic. At the shallower, Upper Visean level there is no closure to the south in the time structure map. The Upper Visean horizons appear to continue upward into the Solochovskoe gas field. It is thought unlikely that there is a continuous gas column from Pokrovskoe to Solochovskoe, which would imply



0 1 km

Legend:

- Pok-1 well location
- Pok-2 well location

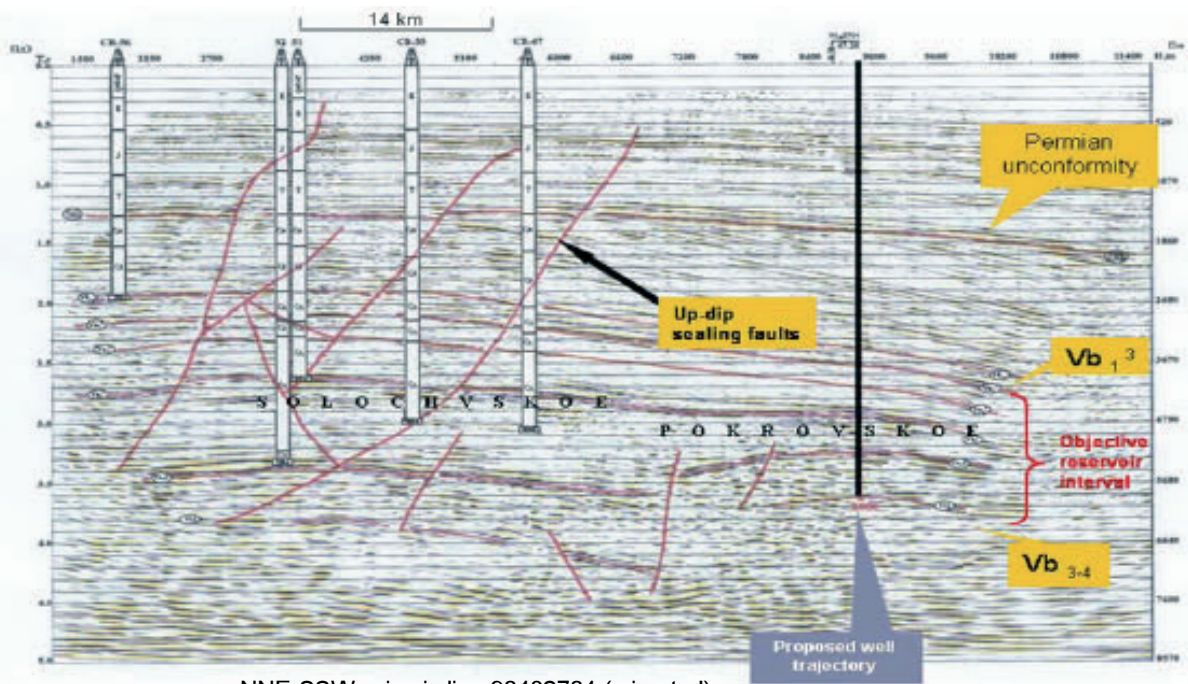
Note: Horizon shown is at Lower Visean Level

Source: Cadogan

Pokrovskoe Field Structure Map

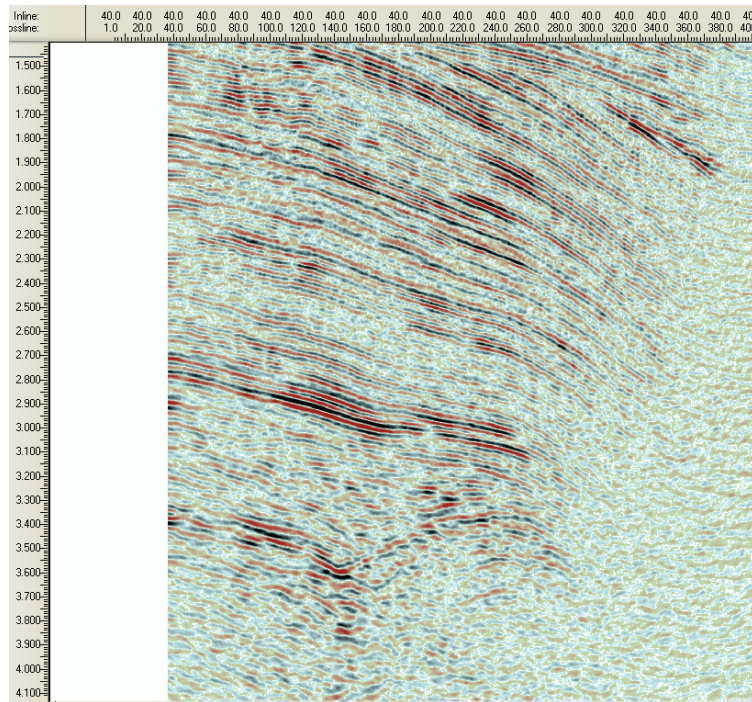
Proj. E1900 June 08	Checked: <i>[Signature]</i>	Fig. 10
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Cadogan Petroleum



NNE-SSW seismic line 90482704 (migrated)

Target interval is approximately 1000 m of some Lower but mainly Upper Visean contained between the Vb₁³ and Vb₃₋₄ seismic reflectors



Example 3D seismic section following initial processing

Source: Cadogan

Pokrovskoe Field Seismic Cross-Section

Proj. E1900 June 08 Checked: JCB Fig. 11

Cadogan Petroleum

a deep GWC in Solochovskoe. Either a fault or a stratigraphic trap is therefore needed for a hydrocarbon accumulation to be present in the Upper Visean in Pokrovskoe.

1.4.2 Petrophysics

Logs are available for the Upper Visean section of the Pok-2 well. No core data are available for calibration. GCA has performed an independent petrophysical analysis and arrived at an estimated net pay of 42.1 m in a dozen separate sands within the V14-20 reservoirs between 4,004 and 4,720.6 m MD. This is slightly more conservative than a previous estimate of 52.7 m. Porosity and water saturation averaged 9% and 33%, respectively.

1.4.3 Appraisal and Development Plans

After testing Pok-2 in the Upper Visean, it is planned to continue drilling to a final TD of 5,400 m in the Lower Visean. Drilling of a second exploration well, Pok-1, has recently started to the northwest of Pok-2, and site preparation is under way for a third well to be drilled with a heavier drilling rig later this year. If these wells are successful, commercial gas production could begin in early to mid 2009, almost as soon as each well is completed. Processing could initially be through the same facilities as for Pirkovskoe, which could readily be expanded at a cost of U.S.\$10 MM per 0.25 MMm³/d (8.8 MMcf/d) processing train.

Again if successful, the plan is to continue development drilling with two rigs, each taking an estimated 12-16 months to drill a well to TD in excess of 5000 m at a cost of about U.S.\$11 MM per well. The number of wells needed is of course highly uncertain at the present time, and plans will have to be adapted in light of the results of the first couple of wells on the structure. However, for planning purposes, on the order of 20-24 wells could be retained on the relatively conservative assumption that each would drain about 1 km². If individual well rates are comparable to those anticipated in Pokrovskoe, a plateau of up to 1.0-1.5 MMm³/d (35-52 MMcf/d) might be achieved.

1.4.4 Prospective Resources

There are indications of gas in the Upper Visean from the logs in Pok-2. Gas shows were also encountered while drilling the well in the V21-22 formations from 4,700-4,950 m. The mud weight had to be increased to 1.5 g/cc to control the well. The Upper Visean formations are productive in the neighbouring Solochovskoe field, but GCA considers that the analogy between the two fields is not sufficiently clearly established at the present time. Pending a production test, therefore, GCA considers that the Upper Visean in Pokrovskoe remains a Prospective Resource. The Lower Visean and Tournaisian horizons are clearly also in this category.

In a recent report, TRACS evaluated fluids initially in place and recoverable volumes for Pokrovskoe. GCA has made some independent estimates but the results are quite similar so GCA has used TRACS volumes which are summarized in Table 15. GCA has estimated the GCOS as 40% for the Upper Visean, the main risk being the presence of a trap, and 34% for the Lower Visean and Tournaisian, the main risk being reservoir presence and quality.

TABLE 15

GROSS PROSPECTIVE RESOURCES, POKROVSKOE LICENCE

Gas (Bcf)

	Low (P90)	Mid (P50)	High (P10)	GCOS
Upper Visean	74	172	796	40%
Lower Visean and Tournaisian	44	99	237	34%

Condensate (MMcf)

	Low (P90)	Mid (P50)	High (P10)	GCOS
Upper Visean	2.3	5.4	25.4	40%
Lower Visean and Tournaisian	1.9	4.4	10.5	34%

Notes:

1. Prospective Resource volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Prospective Resources are reported in Table 4.
2. It is inappropriate to report aggregated Prospective Resource volumes or to otherwise focus upon those other than the 'Best Estimate'.

2. CARPATHIAN BASIN, WESTERN UKRAINE

The Polish and Ukrainian Outer, or Eastern, Carpathians form part of the arcuate Carpathian mountain system that extends over more than 1,500 km from the Danube valley in Austria to Southern Romania. To the west, the Western Carpathians link up with the Eastern Alps, whilst to the south, the Southern Carpathians grade into the Balkan chain (Figure 12). Structurally, the Eastern Carpathian Mountains are a thin skinned thrust belt formed during the late Alpine movement.

2.1 Petroleum Potential

The Carpathian Basin in Poland and Ukraine is one of the largest petroleum provinces in Central Europe. It is also one of the oldest petroleum producing regions in the world, with production dating back to the late 19th century. In Western Ukraine, a string of oil fields occurs in the Boryslav-Pokuttia zone (Figure 1). Parallel and slightly to the north is the Bilche-Volutsa zone where many gas reservoirs are found. Both zones continue westward into Poland where there are further oil and gas fields.

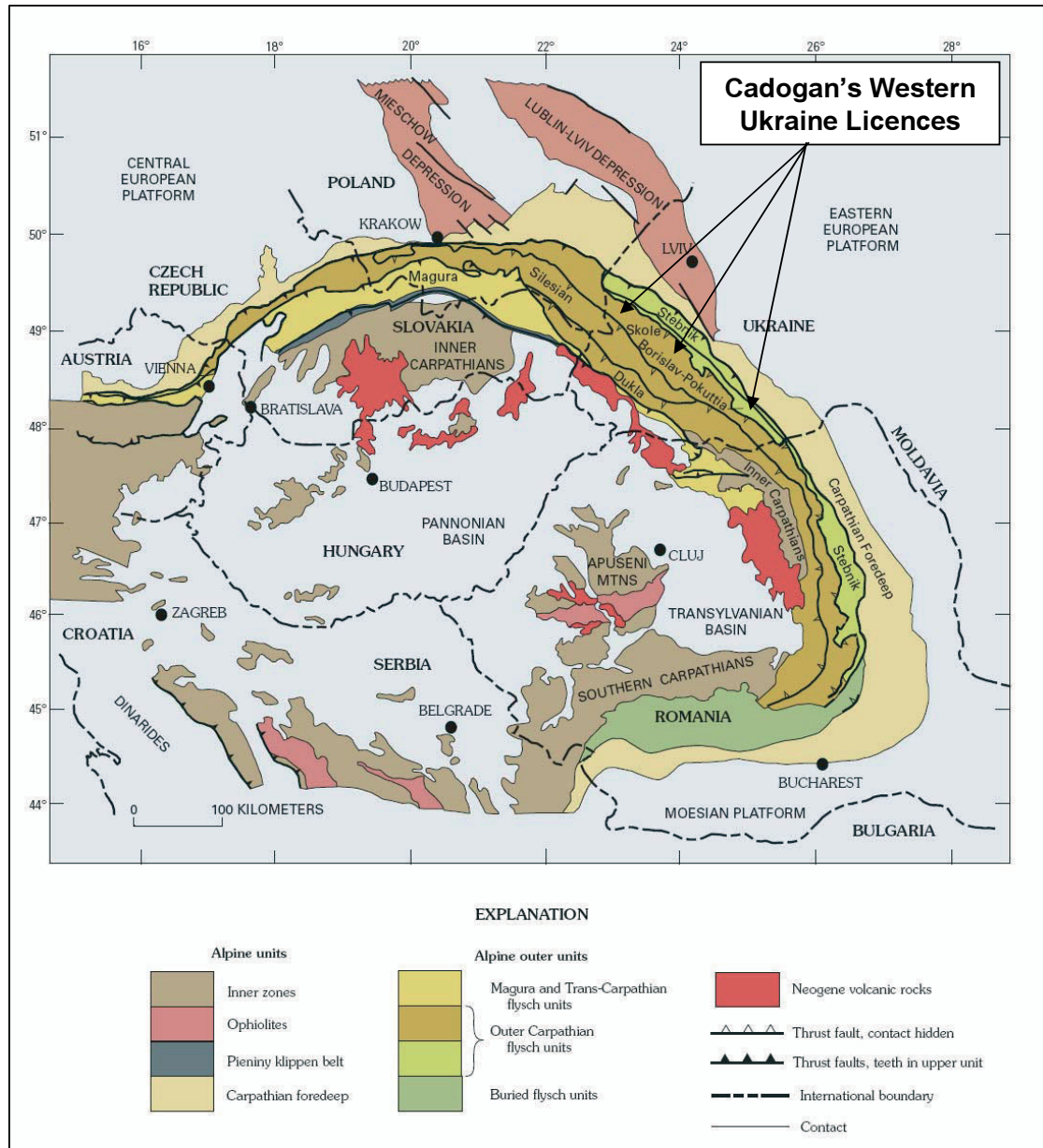
Despite the long history of petroleum production, potential remains today in the deeper horizons. The advent of modern 3D seismic techniques also offers opportunities for additional discoveries in this structurally complex area, and for finding additional reserves in existing fields. Similarly, modern (western) drilling and production methods have the potential to improve recovery from fields previously developed using older Soviet style technology, and indeed for producing reservoirs that were not previously economically exploitable.

Cadogan has several exploration and production licenses scattered throughout the Carpathian Basin in Western Ukraine. Diverse hydrocarbon Reserves and Resources, from existing oil and gas fields at shallow depth to high pressure gas condensate at 3,000 to 5,000 m below the surface, are contained in these licences.

2.2 Geological Setting

The oldest beds of interest in this area are Late Jurassic to Lower Cretaceous and Paleogene in age. These were deposited on a passive continental margin. During the Late Paleogene and Lower Miocene, marine flysch sediments, characterised by widespread turbidites, were progressively deposited on the eastern flank of a subsiding continental margin. Subsequently, during the Middle Miocene, shortening and collision took place during which the sediments were deformed into recumbent folds or nappes, often breaking and sliding one over the other to form gigantic thrust faults. Locally, molasse or non-marine sediments were deposited on top of the flysch in subsiding basins. Later, the thrust folds were cut by cross faults caused by rotational movement.

The Boryslav-Pokuttia zone coincides with the outermost (north-eastern) edge of the thrust belt. Steeply dipping thrust folds of flysch terminate against deformed late Miocene molasse. Cadogan's Monastyrtske, Sloboda Rungurske and Malynovetska licences lie within this zone. Just to the southwest of this, the next tectonic unit is the Skyba nappe, which is of similar character. Less prolific than the



Source: Cadogan

Regional Carpathian Map

Proj. E1900 June 08 Checked: TUB Fig. 12

Cadogan Petroleum

Boryslav-Pokuttia, it nonetheless contains oil and gas reservoirs, particularly in its continuation across the Polish border. The Bitlyanska licence is located in this unit.

Further to the north-east, the Bilche-Volutse zone hosts numerous gas fields in the Miocene molasse that filled the Carpathian foredeep. Beyond that, on the south-west margin of the East European Platform are in number of oil and gas fields including Cadogan's Debeslavetska, Cheremkhivkse and Krashnoyilska shallow gas fields.

Over much of the Skyba and Boryslav-Pokuttia areas, a thick Oligocene section exists, occurring more than once in many areas because of the folding and over-thrusting. The Lower to Mid Oligocene Menilite formation comprises a sand-shale sequence extending across the entire flysch belt and reaching a maximum thickness of 1,500 m. Predominantly shale, it serves as the source rock and also as the reservoir where sand bodies of turbidite origin are found.

2.3 Source

The Menilite black shales contain predominantly marine Type II kerogens. Total organic carbon values up to 18.5%, but typically 4–6%, are reported in Ukrainian samples. The lower part is organically richer than the upper section. The maturity of these units varies from immature in western Poland to over mature in parts of Ukraine. Samples from near the Poland-Ukraine border have been reported as over mature for oil generation and are therefore considered gas/condensate prone. Many of the sediments have a complex burial history as a result of the thrusting, shortening and uplift. Present day burial may be less than the maximum depths attained in the past and this leads to local variations in maturity that may complicate interpretation of hydrocarbon source.

A secondary source rock may occur in the Cretaceous. Samples reportedly contain favourable total organic carbon values up to 4.87%, averaging 1–2% in Poland and 2–4% in Ukraine. Kerogens are reported to be of mixed type and both oil and gas prone. Non-aromatic, sulphur free, low paraffin oil has been found in some Lower Cretaceous–Oligocene flysch sediments, but it is not conclusively demonstrated that the Cretaceous is an effective source in the region.

2.4 Reservoir

Interbedded with the Mid Oligocene shales are the Menilite sandstones, also known locally as Kliwa sandstones, which form one of the main reservoir targets in the thrust belt (Figure 13). Thick, primarily quartz rich sandstones are found as well as thinly laminated siltstones/mudstones (shale, clay, marl).

Other potential reservoir rocks are the Late Paleocene Yamna Formation and the Vigodska and Manyavska Formations in the Eocene (Figure 13). The deep water Yamna comprises thick-bedded turbidites and conglomerates overlying the Cretaceous unconformity and may be as much as 350 m thick. The Yamna sandstones pass upward into thin-bedded turbidites of Early Eocene age.

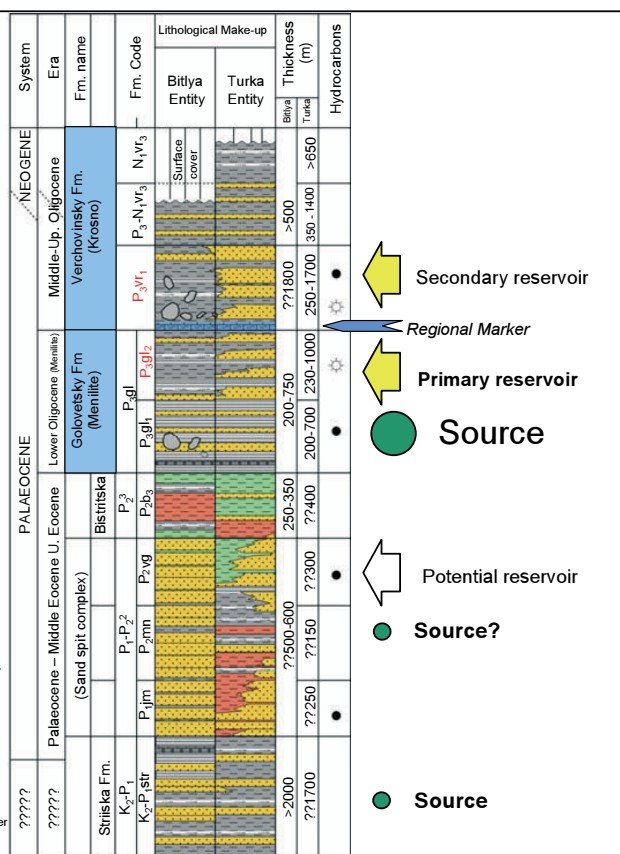
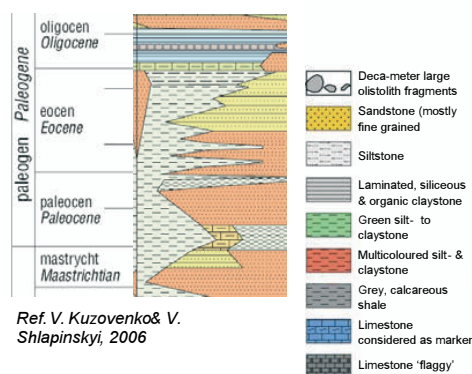
The shallow gas fields are found in Lower Miocene (Badenian) sandstones deposited in a fluvio-deltaic setting. These sandstones are fairly discontinuous with rapidly changing thickness and grade to shales into the basin.

Stratigraphic column based on surface observations within the Bitlayanske area.

Column left : Oligocene in Bitlya tectonic unit

Column right : Oligocene in Turka–Vovchenka tectonic unit.

Polish Carpathians



Epoch		Code	Formation	Thickness range (m)	Regional reservoirs
Miocene		N _{1db} N _{1v} N _{1pl}	Dobrotivska Vorotichenska Poliancia		
Oligocene	Upper	E _{3ml}	Menilite Fm		Kliwa
	Middle			40 - 450	Kliwa
	Lower				
Eocene	Upper	E _{2bs}	Bistricka	40 - 200	Boryslav
	Middle	E _{2vg}	Vigodska	80 - 350	Vygoda
	Lower	E _{2mn}	Manyavska Fm	100 - 300	Maniava
Palaeocene		E _{1jm}	Yamna Fm.	70 - 200	Yamna
Upper-Cretaceous		K2 st	Striyska Fm.	> 1700	

Legend:

Oil Bearing Reservoir

Source: Cadogan

Carpathian Area Stratigraphy

Proj. E1900 June 08 Checked: Fig. 13

2.5 Seal

The Menilite shales are likely to form effective vertical seals. According to Ukrainian cross sections, thrust faults also constitute good seals. These faults, which become listric at depth, may have developed a clay smear that allowed the extensive lateral translation. In general the high clay content in the system and low degree of consolidation would have led to fault gouge smearing during Miocene compression. Field studies in the area have shown that the faults often have slickenslides and other evidence of sealing capabilities. Seals are also provided by both lateral and vertical facies changes into mudstones or shales and it is probable that there is a stratigraphic component to many of the traps.

2.6 Trap

The complex folding and over-thrusting has created many potential structural traps, particularly where the faults are sealing. Typically, anticlinal traps related to frontal thrust anticlines have amplitudes of 1.5 to 2 km. Structural traps are found where tilted reservoirs become sealed up-dip against thrust fault-planes

Pure stratigraphic traps may exist in lens or sheet-like bodies (multiple sand units such as the Kliwa sandstones) formed within the shale and mudstone-rich turbiditic units.

3. BITLYANSKA LICENCE

The Bitlyanska licence lies in the Skyba nappe, in hilly terrain close to the Polish border (Figure 1). Within the licence are three elongated rollover anticlinal structures where hydrocarbons have been found (Figure 14). The northernmost of these contains the small, shallow Vovchenska oil field. Exploration wells on the other two have found the Borynya and Bitlya gas fields at depths of 3,000 to 5,000 m.

Cadogan obtained control of the licence by acquiring USENCO in September, 2006. The licence runs until December, 2009. There is an obligation to drill an appraisal well in each of the Bitlya and Borynya structures. Drilling of the Borynya well has already begun and site preparation is in progress for the one on Bitlya. The obligation to work over and commence trial production on Vovchenska well #11 has been fulfilled.

The Borynya-1 well was drilled in 1974 but suffered a blow out and was abandoned. Borynya-2 was drilled in 1978-81 at a nearby location. Bitlya-1 was drilled in 1992 and partly re-drilled in 1999. All three of these wells encountered a thick Oligocene section. Gas shows were noted throughout drilling, but only a few intervals (one at about 3,000 m in Bitlya-1 and some between depths of 3,000 and 5,000 m in Borynya-2) flowed gas in production tests. With one exception, the rates achieved in these tests were too low to be commercial.

Vovchenska has been drilled, appraised or produced by about a dozen wells but few details of past operations and production are available. Tests of the side-tracked #11 well have not been successful.

The following Sections focus mainly on Bitlya and Borynya, where most of the potential value of the Licence area lies. Vovchenska is described in Section 2.9.

3.1 Seismic Data

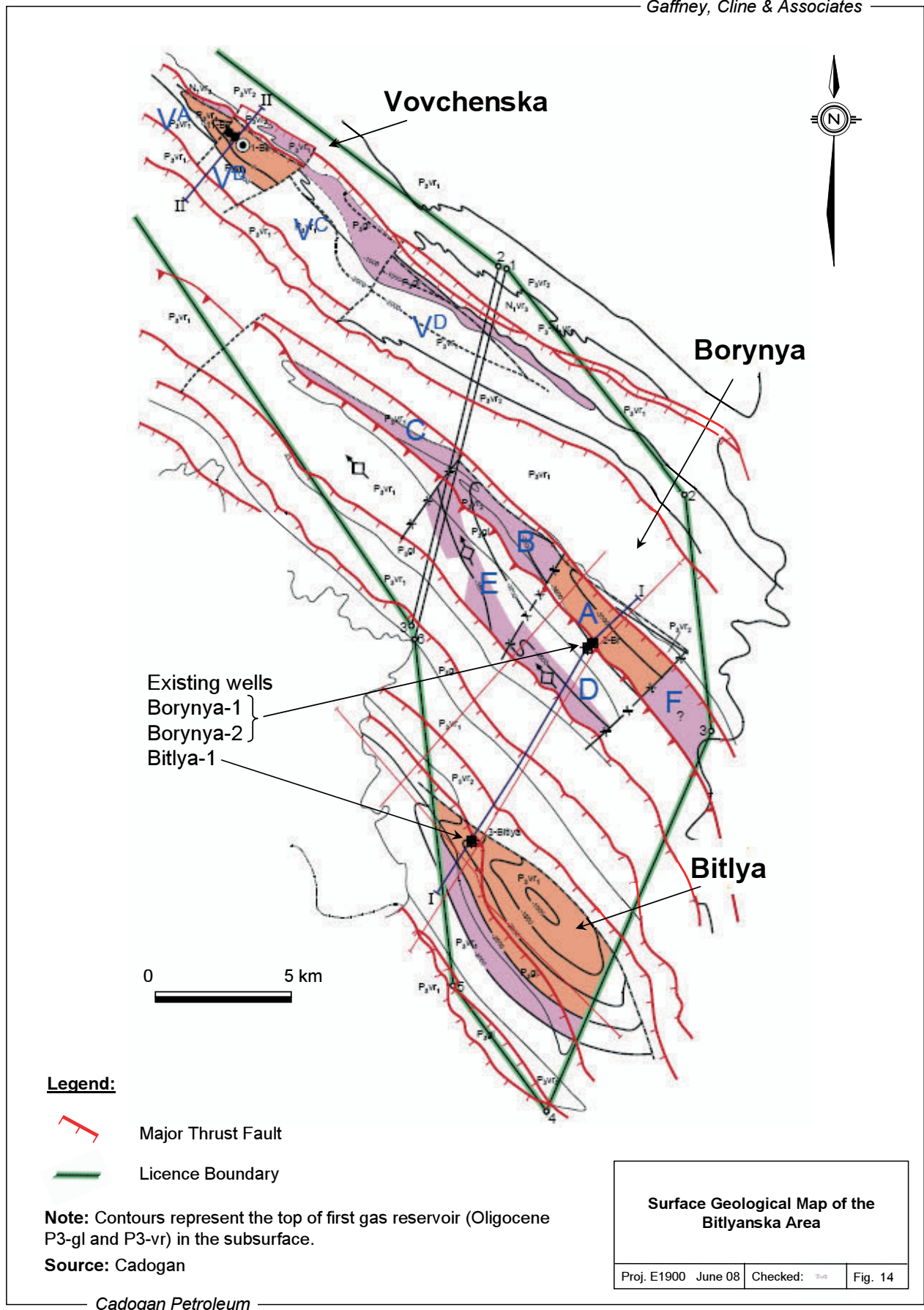
Limited seismic data over the Bitlya (6 lines, 70 km), Borynya (4 lines, 50 km) and Vovchenska (5 lines, 50 km) structures were available for review at the Western Ukraine Geophysical Institute in L'viv. Poor quality copies of just a couple of these lines were allowed to leave the Institute. They are low fold, Soviet era 2D sections, acquired and processed with rather basic methods that are almost certainly inadequate given the hilly surface terrain and the structural complexity of the subsurface. The resulting sections show little coherent reflectivity.

3.2 Petrophysics

Digitized Russian logs for Bitlya-1 and Borynya-2 are available but no core data or water analyses, nor any information on hole conditions or cable tension, so log data quality cannot be assured. GCA has interpreted selected intervals of the logs, chosen to avoid impediments such as uncorrectable drift of the SP log. GCA arrived at broadly similar results to those obtained in earlier interpretations, but it should be recognized that there is considerable uncertainty given the lack of data with which to calibrate the logs.

3.3 Structural and Stratigraphic Interpretation

The depth structure map shown in Figure 14 was constructed by the Western Ukraine Geophysical Institute. The map is a structure form map, poorly annotated, with unclear scales and multiple contoured levels. The map and the cross-sections,



shown in Figure 15 are based on the low quality seismic and petrophysical data supplemented by surface data. The map is, therefore, highly uncertain. Similarly the structural and stratigraphic relationships portrayed in the cross sections are highly interpretive. The cross sections show the traps as being formed by sealing thrust faults located up-dip of the wells. However, the lateral extent of the traps is not substantiated by hard data and a stratigraphic component (sands pinching out or grading laterally to shale) cannot be excluded. Similarly, cross faults seen on the maps may or may not limit the accumulations parallel to the strike. The exact position of all the faults at these depths is subject to considerable uncertainty, and there may be further faults not seen on the seismic.

Figure 13 shows a stratigraphic column for the licence area. The left-hand column applies to Bitlya, the right hand one to Vovchenska. The Oligocene Kliwa Sandstones in the Golovetsky (Menilite) and Verchovinsky (Krosno) formations form the main reservoir target. In the Bitlya Entity, these are fairly thin sands sandwiched between thicker shale layers. The most sand prone interval is the lower half of the Golovetsky, referred to as the P_3gl_1 formation. Field work in the licence area has indicated the presence of clusters of sheet like, sand rich beds as well as thinly laminated sands that are interbedded with mudstones and siltstones. The former are likely to be the better reservoir intervals, while the latter are likely to be less effective reservoirs as their connected volume is more easily limited by pinch-outs or small faults. The character of the log response within the reservoir section of the Boryna-2 and Bitlya-1 wells supports this interpretation, although the log data are not of good quality.

The lateral distribution of the sands, which were deposited in an outer fan system, is unknown but they are likely to be widespread at least across the individual structures within the licence area. However, without additional well control the distribution and quality of the reservoirs is speculative.

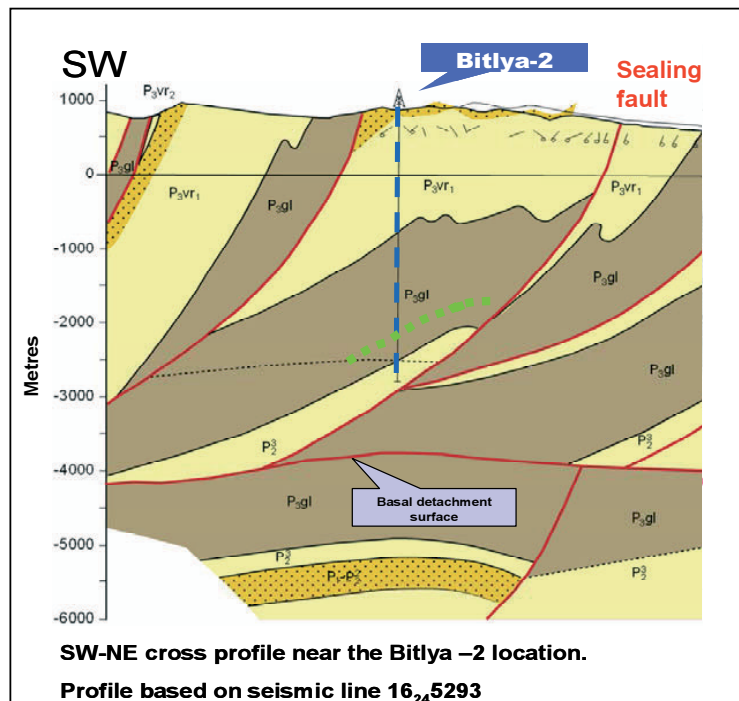
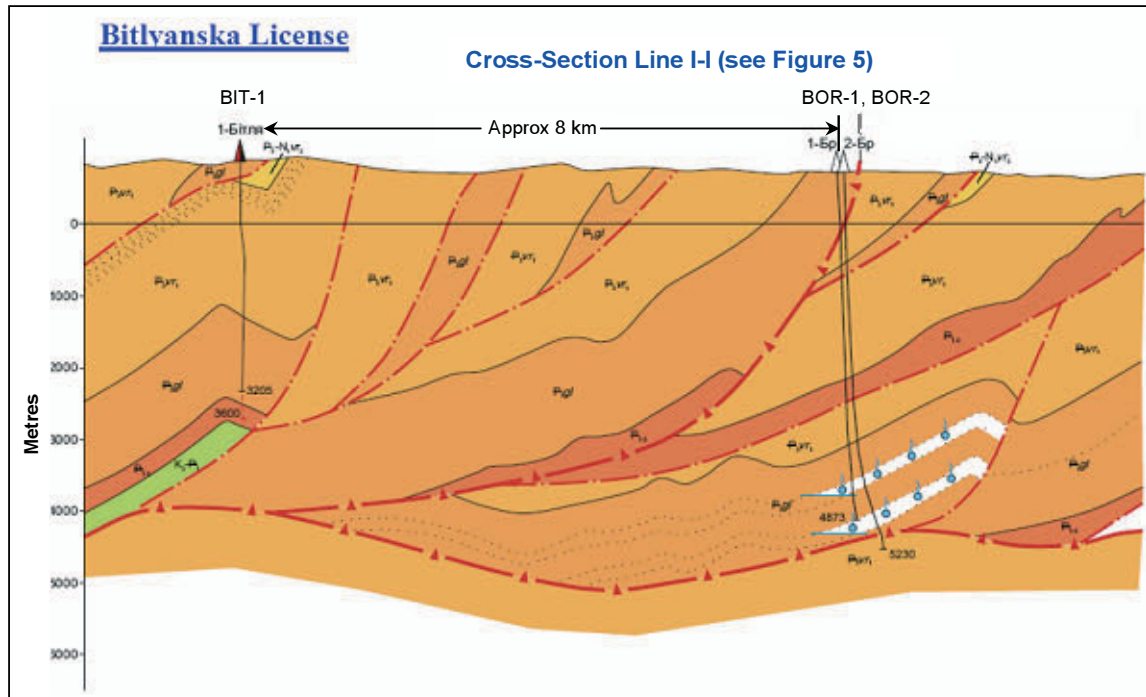
Tested zones exist in both the thinly laminated units and in the more massive units. Test rates are inconclusive as to the effectiveness of the reservoir. It is not known whether fracturing contributes to the producing intervals, but it is quite possible that it does, given the high structural deformation in the area. More geological data would be required to substantiate its contribution.

Figure 13 suggests that the Paleocene and Eocene P_1 - P_2 ² sands may also be potential reservoirs. According to the upper cross-section in Figure 15, these were penetrated by the Borynya wells at around -2,500 m TVDss, but there is no evidence of positive results there¹. The lower cross-section of Figure 15 shows them as a potential target at around -6,000 m TVDss in Bitlya but their capacity as reservoir rocks at these depths remains unknown at the present time.

3.4 Source, Seal and Trap

The Menilite shales are the probable source rock, though there is uncertainty over their maturity and organic richness in the licence area. There is a suggestion that the Menilite section contains predominantly oil prone kerogens and is not sufficiently mature to generate gas. The source beds could then lie in deeper Paleocene and Cretaceous rocks. However, it is typical in complex structural areas to find widely ranging maturities and so the interpretation of the source is often problematical or unresolved without extensive well control.

¹ Another version of this cross-section labels the interval at around -2,500 ft TVDss in Borynya-2 as Oligocene (P_3), confirming the uncertain nature of these sections at the present time.
Cadogan Petroleum, Ukraine



Legend:

..... Gas reservoir found in Bitlya-1

Source: Cadogan

Geological Sections Across Borynya and Bitlya Structures

Proj. E1900 June 08 Checked: TUB Fig. 15

Cadogan Petroleum

The shales within the Oligocene are likely to form effective vertical seals and the overlying thrust section is considered to be impermeable. The major thrust faults are also considered to be sealing, and these form the northeast flanks of the anticlinal traps (Figures 14 and 15). As previously mentioned, cross faults may potentially be sealing but subsurface information is too sparse to be definitive in this respect. A stratigraphic component to the traps cannot be ruled out given the uncertainty over the lateral extent and continuity of the sand bodies.

3.5 Reservoir Quality and Productivity

A key factor in the development of the Bitlya and Borynya fields is the well productivity that can be expected. Both the Bitlya-1 and Borynya-2 wells tested gas over a number of intervals (detailed here below) but, with one exception, at rates that are too low for a commercial development. However, both wells were drilled with mud of density up to 1.7 g/cc, and were left in suspension for long periods. Significant volumes of mud could have invaded the productive formations and considerably reduced the permeability in the area around the well.

The hope then is that the low test rates are due to severe formation damage rather than to low original reservoir permeability. Permeability is currently unknown because of a lack of adequate build up or fall-off testing. From a petrophysical point of view, GCA determined net pay using cut-offs intended to correspond to permeability of 0.1 mD, but there is considerable uncertainty on the results of the log analysis due to lack of calibration against core data, as already noted. Nonetheless, permeability in the range 0.1 to 1 mD is plausible for sandstones of 8-12% porosity. In the Vovchenska field, where oil production has taken place from the same formations, albeit at much shallower depths, permeability of about 1 mD is inferred. The one successful test in Borynya-2 and the fact that a blow-out occurred while drilling the Borynya-1 well are indications that commercial production rates may be possible.

If average permeability in the net pay does exceed 0.1 mD, and if wells can be drilled with limited damage to the formation, simple calculations suggest that initial rates of 100-200,000 m³/d (3.5-7.0 MMcf/d) per well for Bitlya and 300-500,000 m³/d per well for Borynya (10.5-17.5 MMcf/d) should be achievable. It is intended to stimulate all future wells by hydraulically fracturing the productive reservoir rocks, which should improve the production rates. If commercial rates are achieved initially, whether or not they can be sustained depends on the volume and continuity of the reservoir rocks.

Until such time as commercial production rates have been demonstrated, gas and condensate in the Bitlya and Borynya fields are considered as Contingent Resources.

3.6 Development Plans

The Borynya-3 appraisal well is already being drilled, and Bitlya-2 will begin drilling shortly. It is planned to spud two further appraisal/development wells, Borynya-4 and Bitlya-3, in the next few months. Shared facilities are also being designed that could be in place for production to begin from one or two wells by mid-2009 if these first wells are successful in demonstrating commercial production rates.

Development drilling would continue with two rigs in each field, to reach and maintain a production plateau and efficiently drain the accumulations. Using local Ukrainian rigs, drilling time (and cost) is estimated at around 400 days (U.S.\$10 MM) in Bitlya, and 490 days (U.S.\$9 MM) for a shallow well and 700 days (U.S.\$13.5 MM) for a deep well in Borynya. The number of wells needed depends on their drainage areas and the extent of the accumulations, both of which are uncertain at the present time but which will become more clearly defined as more wells are drilled.

Cadogan's current plan assumes each well will drain an area of about 1.25 km², which is a reasonably conservative value. Some 20 wells would then be needed for Bitlya and 12 for Borynya assuming mid case areas. However, these numbers are likely to be significantly revised after the drilling and testing of the appraisal wells, and further refined thereafter as production and development drilling proceed. Simple calculations suggest that production could be built up to a plateau of 2.5 MMm³/d (88 MMcf/d) from each reservoir, if the rates mentioned in the previous Section are realised. Allowing for the quite lengthy drilling times, the plateau would be reached around 2015-2016 and would last for 5-6 years. Again, however, these numbers are likely to be revised as further data is acquired. Facilities costs would be approximately U.S.\$40 MM for each 1.0 MMm³/d (35 MMcf/d) of processing capacity, which could be added in trains of 0.25 MMm³/d (8.8 MMcf/d) with 1-2 years lead time.

In Bitlya, most wells would produce from the whole reservoir section, possibly producing first from the lower zone only if pressure there is initially too high to allow commingled production with the shallower zone. In Borynya, not all wells would be drilled to the deepest zone, to keep costs down.

3.7 Bitlya Field

The Bitlya anticline is a broad, elongated fold, approximately 12 km long by 4 km wide, of which about 80% lies within the Licence area (Figure 14). In 1992, Bitlya-1 was drilled to a depth of 3,135 m. In 1999, the bottom section was re-drilled to a total depth of 3,205 m. The well encountered a thick Oligocene section consisting of intercalated beds of sandstone, siltstone and mudstone. Gas shows were noted from 260 to 3,135 m. The interval from 2,978 to 3,056 m tested gas with a flow rate of 6,210 m³/d (0.22 MMcf/d) but other tests of shallower intervals did not flow (Table 16).

Table 17 summarizes the results of GCA's petrophysical analysis of the digitized Russian logs for Bitlya-1. As already noted, there is considerable uncertainty given the poor log quality and the lack of data with which to calibrate the logs. In the upper interval, which is in the upper part of the P₃gl₁ formation, most of the net pay is seen in an interval from 2,730 to 2,850 m, near the bottom of the zone. This interval was not tested. In the lower interval, which is in the lower part of the P₃gl₁ formation, the net pay is mainly between 2,975 and 3,005 m, i.e. within the interval that tested gas.

3.7.1 Gas and Condensate Initially in Place

GCA has calculated GIIP using a probabilistic approach. The main uncertainty derives from the uncertainty on reservoir area. GCA broadly concurs with a previous study for Cadogan by TRACS in assessing the most likely and maximum reservoir areas, shown by the orange and pink areas on Figure 14. The former is defined by the contour passing through the well, the

TABLE 16
PRODUCTION TESTS, WELL BITLYA-1

Interval (m MD)	Result
973 – 1,010	No flow
1,364.5 – 1,404	Mud filtrate with gas
1,865 – 1,933	Gas indication
2,213 – 2,258	Tool did not reach bottom hole
2,978 – 3,065	6200 m ³ /d gas plus 72 m ³ /d filtrate

TABLE 17
PETROPHYSICAL SUMMARY, WELL BITLYA-1

	Upper Interval	Lower Interval
Depth (m MD)	1,850-2,850	2,973-3,128
Logs available	Self potential log, unspecified normal log, unspecified lateral log.	Same plus gamma ray log, neutron-gamma (porosity) log.
Net pay thickness (m)	102	28
Average porosity in net pay (%)	11	10
Porosity weighted average S_w in net pay (%)	37	45

Notes:

1. The two intervals were selected to avoid impediments such as uncorrectable drift of the SP log.
2. Cut-offs used for net pay: $V_{sh}=55\%$, $S_w=55\%$, $\phi_e=4.5\%$.
3. The computed porosity and water saturations have a high uncertainty.

bounding fault and the licence boundaries. No gas-water contact has been encountered in the well, so there is certainly potential for a larger area to be gas filled. However, given the large uncertainty on the structural map, including the position of the bounding fault, and the uncertainties on the extent and continuity of reservoir sands, the most likely estimate is considered prudent. Maximum area has been defined by a contour further down-dip that corresponds to a spill point on the map. In view of the large uncertainty, GCA has used a minimum area equal to 1.3 km² (approximately 320 acres).

Other input parameters for the GIIP calculation are based on the petrophysical analysis. For net pay in the upper P_{3gl1} reservoir, only the thicker bedded sandstone interval from 2,730 to 2,850 m is included in the minimum and most likely cases. The thinner pay intervals are only included in the maximum net pay. Additional zones with gas shows while drilling but with low porosity and gas saturation inferred from logs are not included as they probably represent thinly laminated shale and sand that are unlikely to be effective reservoirs.

Condensate is thought to be present in the gas but the condensate to gas ratio (CGR) is unknown as no reliable fluid samples have been obtained. Condensate initially in place (CIIP) has been evaluated using a range of possible CGR values from 40 to 260 g/m³ (10 to 60 bbl/MMcf).

Table 18 summarizes the results of the GIIP and CIIP calculations.

3.7.2 Development Plan

Cadogan are about to begin drilling the Bitlya-2 well some 2.5 km away from Bitlya-1, targeting the crest of the anticline. It is expected to reach and test the upper part of the P_{3gl1} reservoir early in 2009 and the lower part about 6 months later. Another well, Bitlya-3, will spud later this year. If these wells are successful, commercial production from them could begin in the latter half of 2009. Development drilling would then continue using two Ukrainian rigs, with drilling time estimated at around a year for each new well.

3.7.3 Contingent Resources

Contingent resources are estimated by including gas and condensate recovery factors (RF) in the Monte Carlo analysis. Even if commercial production rates are achieved, reservoir permeability is likely to be less than 1 mD. A most likely gas RF of 55% and a maximum of 65% have consequently been used. The minimum value of 45% reflects the possibility of condensate blockage in the reservoir, although the dew point is currently unknown for the same reason that the CGR is unknown.

In the absence of condensate drop-out in the reservoir, condensate RF would be equal to gas RF. To reflect the possibility of drop-out, minimum, most likely and maximum condensate RF values of 40%, 50% and 60% have been used.

Contingent Resources for Bitlya are summarized in Table 19.

TABLE 18

GIIP AND CIIP, BITLYA FIELD

Upper P_{3gl1} Reservoir

	Low (P90)	Mid (P50)	High (P10)
GIIP (Bcf)	330	735	1,285
CIIP (MMbbl)	10.8	25.7	50.0

Lower P_{3gl1} Reservoir

	Low (P90)	Mid (P50)	High (P10)
GIIP (Bcf)	130	283	463
CIIP (MMbbl)	3.9	9.2	18.2

Notes:

1. Gas and condensate initially outside the Licence boundary are not included in these volumes.
2. Volumes are 100%, i.e. they do not reflect Cadogan's net working interest.
3. GIIP and CIIP do not equate to any category of Reserves or Resources because no recovery factor has been applied.

TABLE 19

GROSS CONTINGENT RESOURCES, BITLYA FIELD

Gas

	1C	2C	3C
Upper P ₃ gl ₁ Reservoir (Bcf)	177	399	706
Lower P ₃ gl ₁ Reservoir (Bcf)	66	156	265
Total (Bcf)	243	555	971

Condensate

	1C	2C	3C
Upper P ₃ gl ₁ Reservoir (MMbbl)	5.2	12.9	24.8
Lower P ₃ gl ₁ Reservoir (MMbbl)	1.9	4.6	9.1
Total (MMbbl)	7.1	17.5	33.9

Notes:

1. Contingent Resources in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Contingent Resources are reported in Table 3.
2. The primary Contingent Resource volume reported here is the 2C, or 'Best Estimate', value.
3. The aggregated 1C volumes may be conservative and the aggregated 3C volumes may be optimistic as arithmetic summation has been applied.

3.8 Borynya Field

The Borynya anticline is a narrow elongated fold some 2 km wide and about 6 km long if truncated at the two cross faults shown in Figure 14. The anticline is mapped as 3 or more times that length in all, but there is little or no seismic or well control outside the central fault block. In 1974, Borynya-1 was drilled but blew out at a depth of about 4,500 m and was abandoned. Borynya-2 was drilled in 1978-81 at a nearby location, to a total depth of 5,230 m. Little information is available from Borynya-1. A suite of logs is available for Borynya-2 from 100 – 5,180 m, with the limitations already noted in Section 2.2. The well encountered a thick Oligocene section. Although gas shows at shallow depths are mentioned, the zones with production potential appear to be in the Golovetsky formation (P_{3gl} , P_{3gl_1} and P_{3gl_2} reservoirs) below about 3,000 m. Several zones tested gas as shown in Table 20, and a rate of 400,000 m³/d (14 MMcf/d) was achieved in one test, though the maximum rate achieved in the others was only 7,000 m³/d (0.25 MMcf/d).

GCA's analysis of the logs for Borynya-2 is summarized in Table 21. In the upper interval, corresponding to the P_{3gl_2} formation, the net pay appears to lie in a number of sands distributed throughout the interval. Many of these sands correspond to the tested intervals that flowed gas. The lower interval corresponds to the lower P_{3gl_1} and the P_{3gl} formations, but nearly all the net pay is in the P_{3gl} below 4,963 m. There is no significant net pay seen on the logs in the two intervals in the P_{3gl_1} formation which tested gas at 700 and 5,900 sm³/d (0.025 and 0.21 MMcf/d) respectively. Porosity appears to be quite low; this is perhaps not surprising given the depth, the fact that the burial depth may have been even greater in the past, and the possible presence of calcite cements.

3.8.1 Gas and Condensate Initially in Place

The largest uncertainty in the GIIP calculation again stems from the reservoir area. GCA again concurs with the previous study by TRACS in defining the most likely reservoir area by the contour passing through the well, the up-dip thrust fault and the two cross faults, as shown in orange on Figure 14. No gas-water contact has been encountered in the well, so there is certainly potential for the gas filled area to extend further down dip. Similarly, the cross faults are not necessarily sealing and the accumulation may thus extend further along the anticline. However, given the large uncertainty on the validity of the map and on the extent and continuity of reservoir sands, an additional area has been retained only in the maximum case. Further, GCA considers that the maximum area should be limited to the two fault blocks immediately adjacent to the one encountered by the well, and should not include any of the other areas shown in pink on Figure 14. Again in view of the large uncertainty, minimum area has been taken equal to 1.3 km² (approximately 320 acres).

Other input parameters for the GIIP calculation are based on the petrophysical analysis. The upper zone 3,135 – 4,305 m (P_{3gl_2}) and lower zone 4,970 – 5,200 m (P_{3gl}) are considered to be the primary gas bearing zones. Additional zones with gas shows while drilling but with low porosity and gas saturation inferred from logs are not included as they probably represent thinly laminated shale and sand that are unlikely to be effective reservoirs. The P_{3gl_1} reservoir where no significant net pay was seen on the logs has been excluded from the minimum and most likely cases. In view of the test that flowed gas in that interval, an additional 25 m of net pay has

TABLE 20
PRODUCTION TESTS, WELL BORYNYA-2

Perforated Interval (m) (MD)	Formation	Gas Rate (m³/d)	Water Rate (m³/d)
3,135 – 3,150; 3,190 – 3,230	P ₃ gl ₂	1,000	
3,255 – 3,280; 3,282 – 3,302; 3,310 – 3,330	P ₃ gl ₂	700	
3,445 – 3,457; 3,472 – 3,485	P ₃ gl ₂	1,250	
3,729 – 3,980	P ₃ gl ₂	2,000	4
4,000 – 4,050; 4,030 – 4,135	P ₃ gl ₂	3,000	
4,150 – 4,250; 4,275 – 4,305; 4,340 – 4,347	P ₃ gl ₂	7,000	
4,614 – 4,630; 4,635 – 4,647; 4,655 – 4,680	P ₃ gl ₁	700	
4,775 – 4,886	P ₃ gl ₁	5,900	
4,995 – 5,080; 5,096 – 5,160	P ₃ gl	4,200	26
		400,000	

TABLE 21
PETROPHYSICAL SUMMARY, WELL BORYNYA-2

	Upper Interval	Lower Interval
Depth (m MD)	3,102 – 4,410	4,710-5,210
Logs available	Self potential log, unspecified normal log, unspecified lateral log.	Self potential log, unspecified normal log, unspecified lateral log.
Net pay thickness (m)	172	59
Average porosity in net pay (%)	5-8	5-8
Porosity weighted average S_w in net pay (%)	43	50

Notes:

1. The two intervals were selected to avoid impediments such as uncorrectable drift of the SP log.
2. Cut-offs used for net pay: $V_{sh}=55\%$, $S_w=65\%$, $\phi_e=4.5\%$
3. The computed porosity and water saturations have a high uncertainty.

been included in the maximum case for the lower P_{3gl} reservoir which is located just below the P_{3gl_1} .

As in Bitlya, condensate is thought to be present in the gas but the condensate to gas ratio (CGR) is unknown as no reliable fluid samples have been obtained. Condensate initially in place (CIIP) has been evaluated using the same range of possible CGR values as for Bitlya.

Table 22 summarizes the results of the GIIP and CIIP calculations.

3.8.2 Development Plan

Cadogan have recently begun drilling the Borynya-3 well to the east of Borynya-2, targeting the crest of the anticline. It is expected to reach and test the shallower Oligocene section in the second quarter of 2009. If successful, commercial production could begin in mid-2009. Another well, Borynya-4, will spud later this year and will target the deeper reservoir. Two Ukrainian rigs will be used to drill development wells, one adding a shallow well every 16 months, the other adding a deeper well every 2 years. Deeper wells will be recompleted for commingled production from both reservoirs after about 18 months to 2 years.

3.8.3 Contingent Resources

Contingent Resources for Borynya have been calculated using the same RFs as for Bitlya. They are summarized in Table 23.

3.8.4 Prospective Resources

Further extension of the Borynya anticline to the northwest and adjacent, shallower thrust sheets (indicated in pink on Figure 14) are potential drilling targets. However, because of the lack of seismic control, the structural interpretation is quite speculative. Although certain local geologists with extensive experience in the area are confident of the existence of these structural features, GCA considers them to be Leads rather than Prospects, pending further seismic acquisition and interpretation. In any event, drilling these features is currently well down the priority list for Cadogan and further seismic will be acquired before any drilling does take place. No Prospective Resources are therefore attributed to these features at the present time.

3.9 Vovchenska Field

Vovchenska has been drilled, appraised or produced by about a dozen wells over a period of several decades but few details of past operations and production are available. The available cross section (Figure 16) indicates 12 sandstone reservoirs at relatively shallow depths within the Oligocene Golovetsky (P_{3gl}) and Verchovinsky (P_{3vr}) formations. One or two wells may have been drilled as far as 1,500 – 1,700 m TD.

TABLE 22

GIIP AND CIIP, BORYNYA FIELD

 P_{3gl_2} (Upper) Reservoir

Parameter	Low (P90)	Mid (P50)	High (P10)
GIIP (Bcf)	602	1,210	1,952
CIIP (MMbbl)	17.8	40.3	78.1

 P_{3gl} / P_{3gl_1} (Lower) Reservoir

Parameter	Low (P90)	Mid (P50)	High (P10)
GIIP (Bcf)	232	483	800
CIIP (MMbbl)	6.2	15.4	31.6

Notes:

1. Volumes are 100%, i.e. they do not reflect Cadogan's net working interest.
2. GIIP and CIIP do not equate to any category of Reserves or Resources because no recovery factor has been applied.

TABLE 23

GROSS CONTINGENT RESOURCES, BORYNYA FIELD

Gas

	1C	2C	3C
P _{3gl2} (Upper) Reservoir (Bcf)	323	681	1,101
P _{3gl} / P _{3gl1} (Lower) Reservoir (Bcf)	116	251	431
Total (Bcf)	439	932	1,532

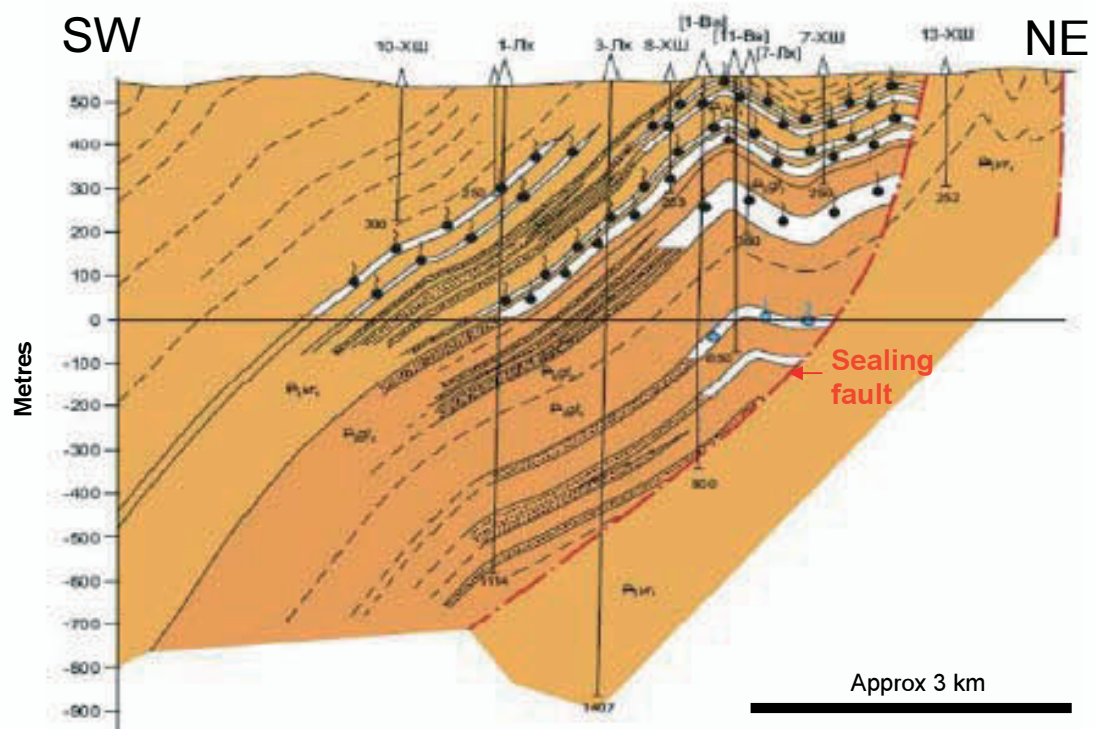
Condensate

	1C	2C	3C
P _{3gl2} (Upper) Reservoir (MMbbl)	8.4	20.1	39.0
P _{3gl} / P _{3gl1} (Lower) Reservoir (MMbbl)	3.0	7.7	21.3
Total (MMbbl)	11.4	27.8	60.3

Notes:

1. Contingent Resources in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Contingent Resources are reported in Table 3.
2. The primary Contingent Resource volume reported here is the 2C, or 'Best Estimate', value.
3. The aggregated 1C volumes may be conservative and the aggregated 3C volumes may be optimistic as arithmetic summation has been applied.

Cross-Section Line II-II (see Figure 5)



Source: Cadogan

Vovchenska Field Cross Section

Proj. E1900 June 08	Checked: JCB	Fig. 16
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Cadogan Petroleum

Drilling of the most recent well, Vovchenska-11, began in 2001. Due to lack of finance, drilling was suspended in 2002 at a depth of 650 m. Only the upper intervals in this well were tested, but it did flow gas at 4,000 m³/d (0.14 MMcf/d) from the interval 490 – 550 m. After reviewing the logs for this well, Cadogan side tracked the original wellbore in March, 2007 to a similar depth. The side track was logged and the interval 557-650 m flowed 35°API oil at a rate of 3 m³/d (20 bpd) from an estimated 19 m of net pay. Permeability was estimated as around 1 mD. A beam pump was subsequently installed and test production conducted until November, 2007, but rates are deemed to be uneconomic. The intention is to abandon the well.

The potential for further production from the field is unclear. It is not known to what extent the shallow reservoirs have been depleted by past production, or whether there is a natural water drive. The field may extend several kilometres along the anticline to the southeast, as highlighted in pink in Figure 14, but better seismic definition of the trap and of possible NE-SW transverse faults is required to define additional drilling targets. Deeper horizons may also be prospective, but again would need further investigation. At present, no further work is anticipated on the Vovchenska structure, which is a low priority for Cadogan. No Reserves or Resources of any kind are attributed here.

4. MONASTYRETSKE LICENCE

The Monastyretske licence covers 25.9 km² and is located in the northwest part of the Boryslav-Pokuttia zone, close to the Polish border (Figure 1). Cadogan acquired the licence in the second half of 2007. The Exploration and Development licence runs until the end of 2009, when it could be converted to a long term production licence. Obligations are to side track two existing wells and drill an exploration well.

Within the licence area are three imbricated or piggy-back thrust-fault units known as Monastyretske, Blazhivska and Pivnichna (Figures 17 and 18). At least 9 wells have been drilled on Blazhivska of which 4 have encountered oil in the Paleocene Yamna formation at around 3,000 m MD. There has been cumulative production of about 380,000 bbl of waxy crude oil since 1993. At least four wells have been drilled on the Monastyretske structure with no significant discovery to date.

GCA has not independently reviewed the original seismic and log data for this licence, but has relied on the recent analysis performed for Cadogan by TRACS.

4.1 Seismic Data

2D seismic data from 1985 and 1993 exists at the Geophysical Institute in L'viv. It is reported to be of "reasonable" quality. Structures have been mapped from a pick of the base Oligocene (top Eocene) reflector. The Paleocene Yamna formation is 300-500 m below this seismic horizon and although well data helps in mapping the top Yamna, considerable uncertainty still exists because of the complexity of the structural setting, as is evident from Figure 18. The interpretation of such complex geology from the seismic is further constrained by the difficulty of identifying low angle thrust faults. It seems that some wells (e.g. 11-Bz²) have missed the reservoir and the maps have subsequently had to be adjusted.

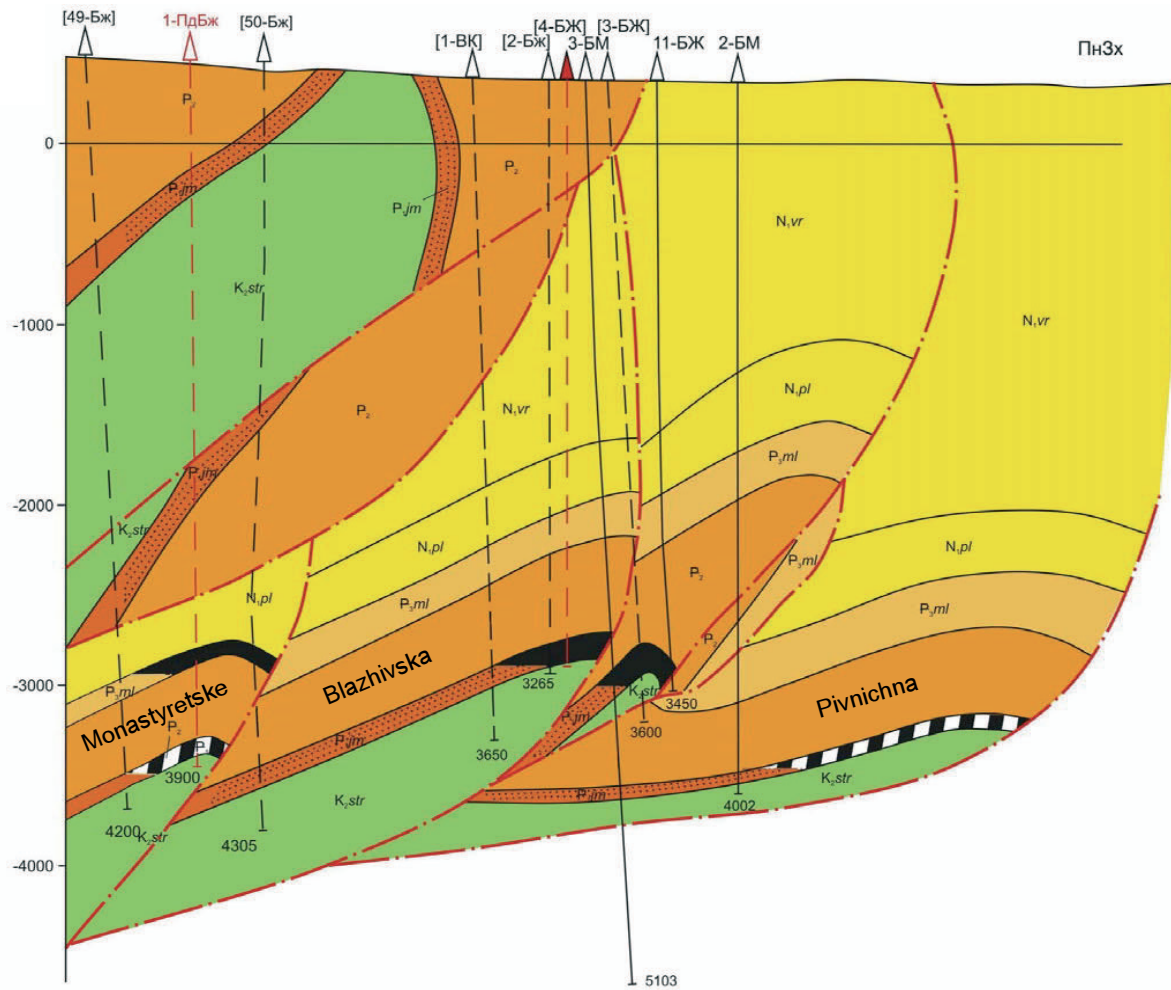
There is thus considerable uncertainty in the extent of the structures, particularly within the Blazhivska double-fold and parallel to the strike, and the closure of the Pivnichna structure cannot be confirmed at present.

4.2 Petrophysics

Digitised logs for 12 wells, 8 in the Blazhivska area and 4 in Monastyretske, are available and are reportedly of "medium" quality. No core data is available to calibrate porosity, but a best estimate is around 8-10% in the net pay. These are low values for such relatively young reservoirs at this depth, possibly due to prior burial and uplift. Around 30 m of net thickness is inferred for the Yamna formation, which occurs more than once in some wells. Higher values seen in some wells are thought to be due to the steep inclination of the strata which are almost vertical in some places.

The presence of oil in the Yamna formation is inferred from the logs for the 4 wells in Blazhivska that have indeed produced oil there. It is also inferred in the Yamna in 49-Bz and in the Oligocene Menilite in 49-Bz and 50-Bz, both in Monastyretske.

² The same well is sometimes referred to as 11-BL, and similarly 1-Bz, 2-Bz, etc are sometimes referred to as 1-BL, 2-BL, etc.



Note: For section location, see Figure 8.

Source: Cadogan

Monasterytske Licence Cross-Section

Proj. E1900 June 08 Checked: *[Signature]* Fig. 18

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The Yamna formation is described as a massive, poorly sorted sandstone with carbonate content up to 20%.

4.3 Blazhivska Field

The Yamna formation in the Blazhivska field was discovered in 1991 with the drilling of well 3-BM. The reservoir has been produced since 1993 by 3 wells at rates of 25-40 bpd in free flow and up to 80 bpd during a period when beam pumps were installed. A fourth well, 2-Bz, came on production at the end of 2007. Additional perforations have recently been added in 1-Bz, and 2-Bz is to be worked over as water production has occurred.

The produced oil is reported to be 35°API (density 0.85 g/cc) with a high wax content of 11-14% and a pour point of +23.5°C. GOR is variously reported as 75 (3-BM), 100 (1-Bz) and 7 m³/m³ (3-Bz). Production problems related to wax buildup in the tubing have been reported, remedied by circulation of hot oil. Production lines and the oil storage tank are heated.

Cumulative annual production for each of the four producing wells is shown in Table 24, but confidence in the production accounting is not high. A few pressure measurements are documented, showing some decline but their reliability is uncertain and the production rates show no significant decline. Permeability is thought to be less than 1 mD.

4.3.1 Stock Tank Oil Initially in Place

The Blazhivska structure is a narrow elongated anticlinal fold that is offset by NNE-SSW running transverse faults. The oil accumulations within the folds are sealed up-dip against the thrust fault planes. The current interpretation suggests that the Yamna reservoir is split into two separate parts by the major thrust fault (Figure 18). In the upper part, to the southwest of the major fault, the OWC is at -2,786 m TVDss, between 2-Bz and 1-BK. In the lower part, 3-BM has an OWC at -3,016 m TVDss.

The interpretation shown in Figure 18 is open to question, however, and alternative interpretations have been put forward. The form and extent of the lower part is particularly uncertain. There is the possibility of additional faulting and folding, at or below seismic resolution, which could limit reservoir continuity.

The principal difficulty in estimating STOIP is thus to determine the extent of the oil accumulations. In view of the uncertainty, GCA has taken a conservative view, with reservoir area essentially limited to be that defined by the existing producing wells. Other input parameters are taken from the petrophysical interpretation. The resulting STOIP values are shown in Table 25. Estimated ultimate recovery (EUR) has also been calculated using a range of RF from 10 to 20%. This is also conservative but not unrealistic, given the structural complexity and the low permeability.

TABLE 24

HISTORICAL PRODUCTION SUMMARY, BLAZHIVSKA FIELD

	Well				Total Production
	3-BM	1-Bz	3-Bz	2-Bz	
Years					
1993	498	0	0	0	498
1994	1,073	0	237	0	1,310
1995	1,672	0	2,118	0	3,790
1996	1,842	367	2,263	0	4,472
1997	1,780	772	2,144	0	4,696
1998	1,373	630	2,864	0	4,867
1999	1,172	471	3,928	0	5,571
2000	1,132	373	3,647	0	5,152
2001	1,009	318	2,717	0	4,044
2002	982	1,076	2,635	0	4,693
2003	1,038	165	2,352	0	3,555
2004	491	314	1,145	0	1,950
2005	0	1,227	0	0	1,227
2006	313	1,193	887	0	2,393
2007	871	1,077	2,257	11	4,216
Total (tonnes)	15,246	7,984	29,194	11	52,436
Total (bbl)	113,007	59,281	216,521	80	380,320

Notes:

1. All figures are in tonnes except for the last line, which is in barrels.

TABLE 25

STOIIP AND EUR, BLAZHIVSKA FIELD

Yamna Reservoir, Oil

	Low (P90)	Mid (P50)	High (P10)
STOIIP (MMbbl)	7.6	13.4	20.2
EUR (MMbbl)	1.1	2.0	3.1

Notes:

1. STOIIP and EUR volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest.
2. STOIIP and EUR do not equate to any category of Reserves or Resources.
3. EUR includes the past production of 0.38 MMbbl.

4.3.2 Development Plans

In the upper part of the Yamna, Cadogan plans to drill an appraisal well, 4-Bz, to the east (Figure 17), and a horizontal section side-tracked from an existing well. It is also planned to acquire seismic to better define the structure of the lower part of the Yamna, prior to any further drilling there.

Depending on the results of this work, further horizontal wells may be drilled and water injection may be considered if natural water influx proves to be insufficient to maintain reservoir pressure. Pumps may also be installed to increase production rates. It is calculated that a rate on the order of 100 m³/d (630 bpd) might be achieved from a successful pumped well with a 500 m horizontal section if reservoir permeability were 2 mD.

4.3.3 Reserves and Contingent Resources

At the present time, the development plans are quite uncertain beyond the two appraisal wells. Given the structural complexity including the possibility of additional faulting, it may be difficult to place the horizontal sections within the reservoir and the relatively high rates suggested for pumped horizontal wells have yet to be demonstrated. Water flooding is not certain to work because of faulting and low permeability. GCA, therefore, considers that Reserves can only be associated with the existing wells. Other potentially recoverable oil must be regarded as Contingent Resources.

Estimating the Reserves associated with the existing wells is difficult because the only available data are monthly or annual cumulative production, which show little systematic behaviour because of variations in operating conditions. Proved Reserves have been calculated assuming a 5% per year decline in annual production until the end of the licence (end 2009), and Probable and Possible Reserves by continuing production for a further 4 and 8 years respectively, as shown in Table 26. With an estimated OPEX of U.S.\$4/bbl, half of it fixed at the 2007 rate, no economic limit intervenes. NPVs have been calculated as described in Section 8 and shown in Table 5. Subtracting the past production of 0.38 MMbbl and the Reserves from the EUR given in Table 1 results in the Contingent Resources listed in Table 27.

4.4 Monastyretske Field

Three key wells have been drilled on the Monastyretske structure. Well 49-Bz encountered the Yamna formation and was tested through perforated casing but produced only water although there is some indication of hydrocarbons on the logs. Well 1-BM found the top Yamna at 4,412 m but it was water bearing with log derived porosities of 9-10%. There is thus a possible hydrocarbon accumulation up-dip of these wells, as indicated in Figures 17 and 18, but at present this represents a Prospective Resource. Note also that about half of the potential area lies outside the licence boundary.

TABLE 26

PRODUCTION PROFILES AND RESERVES, BLAZHIVSKA FIELD
As of 31st January, 2008

Yamna Reservoir	Yearly Oil Production (MMbbl)		
Year	Proved Case	Proved + Probable Case	Proved + Probable + Possible Case
2008	0.027	0.027	0.027
2009	0.026	0.028	0.028
2010		0.027	0.027
2011		0.025	0.025
2012		0.024	0.024
2013		0.023	0.023
2014			0.022
2015			0.021
2016			0.020
2017			0.019
Oil Reserves (MMbbl)	0.053	0.155	0.236

Notes:

1. Production and Reserves volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Reserves are shown in Table 2.

TABLE 27
CONTINGENT RESOURCES, BLAZHIVSKA FIELD

Yamna Reservoir	1C	2C	3C
Contingent Oil Resources (MMbbl)	0.67	1.6	2.5

Notes:

1. Contingent Resources in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Contingent Resources are reported in Table 3.
2. The primary Contingent Resource volume reported here is the 2C, or 'Best Estimate', value.

Well 50-Bz, further to the north-east, encountered oil in the Oligocene Menilite section (P₃ml) but the initial flow rate of 5 m³/d (30 bpd) dropped rapidly to 0.2 m³/d (1.2 bpd). It also encountered the Yamna sandstone below the major thrust fault but found it water-filled (Figure 18).

Cadogan plan to appraise the Monastyretske structure, either with an updip side-track from 49-Bz or with a new well 1-PdBz(?) near the mapped summit of the Yamna (Figure 9).

Reservoir quality in the Menilite appears to be poor and despite the indications of the presence of oil, GCA does not consider that there is sufficient evidence at the present time to warrant associating any category of Resources with this formation.

GCA has calculated STOIP and Prospective Resources for the Yamna reservoir in Monastyreske as shown in Table 28. Geological chance of success (GCOS) is estimated as 27%.

4.5 Pivnichna Structure

The Pivnichna structure is interpreted to the north of and below (sub-thrust) the Blazhivska structure (Figures 17 and 18). It is of a similar structural style to the other two thrust-folds and the Yamna formation here could potentially be oil-charged up-dip of the 2-BM well (Figure 17). However, seismic definition needs to be improved to see if there is any potential for a closing structure and reprocessing of the existing dip-lines is recommended prior to drilling. The structure is considered as a Lead at the present time.

TABLE 28

STOIIP AND PROSPECTIVE RESOURCES, MONASTYRESKE FIELD

Yamna Reservoir, Oil

	Low (P90)	Mid (P50)	High (P10)
STOIIP (MMbbl)	7.3	12.0	17.4
Prospective Resources (MMbbl)	1.5	2.6	4.4

Notes:

1. STOIIP and Prospective Resources volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Prospective Resources are reported in Table 4.
2. STOIIP does not equate to any category of Reserves or Resources because no recovery factor has been applied.
3. It is inappropriate to report aggregated Prospective Resource volumes or to otherwise focus upon those other than the 'Best Estimate'.

5. SLOBODA RUNGURSKÉ

The Sloboda Rungurske licence covers 101 km² and is located at the south eastern end of the Boryslav-Pokuttia zone (Figure 1). The licence covers the shallow Sloboda Rungurske oil field which was discovered in 1771. Oil production began in 1881 and peaked in 1885 when 25,000 tonnes were produced (an average of about 500 bpd). Over 300 wells were drilled in these early years. By the late 1930s, production had declined to 1,500 tonnes per year (30 bpd) and the field was destroyed by saboteurs in 1941.

Some appraisal activities took place over the period from 1956 to the 1990's, apparently demonstrating the presence of hydrocarbons in the deeper blocks/folds. The field was re-activated in 1997 by Ukrnafta and is currently producing 7.5 bpd of 38-41°API oil from six wells, with a water cut of 95%. Cumulative oil production to date is 2.25 MMbbl.

Cadogan acquired the licence through the purchase of Momentum Energy in May, 2007 and now operates it through a local company, JV Delta.

5.1 Geological Setting

Production is principally from the Eocene Vigodska and Manyavska sandstones (Figure 13). Each of these formations has a gross thickness of about 300 m in the licence area.

2D seismic data was acquired in 1998 but has not been seen by Cadogan. Structure contour maps of the top Eocene, top Vigodska and top Manyavska are available, as are some sketchy interpretations based on the seismic data (Figure 19). These were made by the local Ukrainian company.

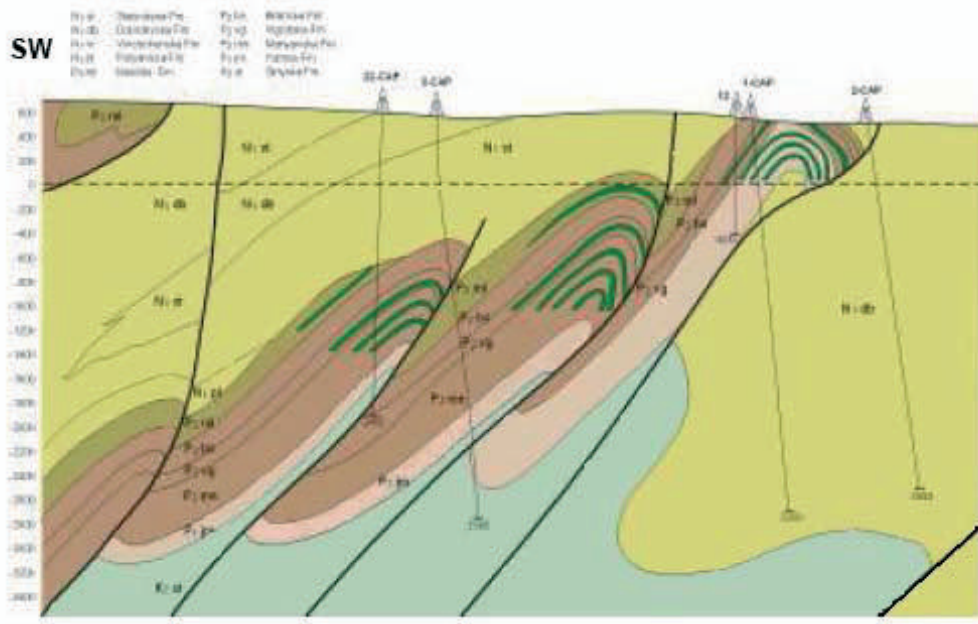
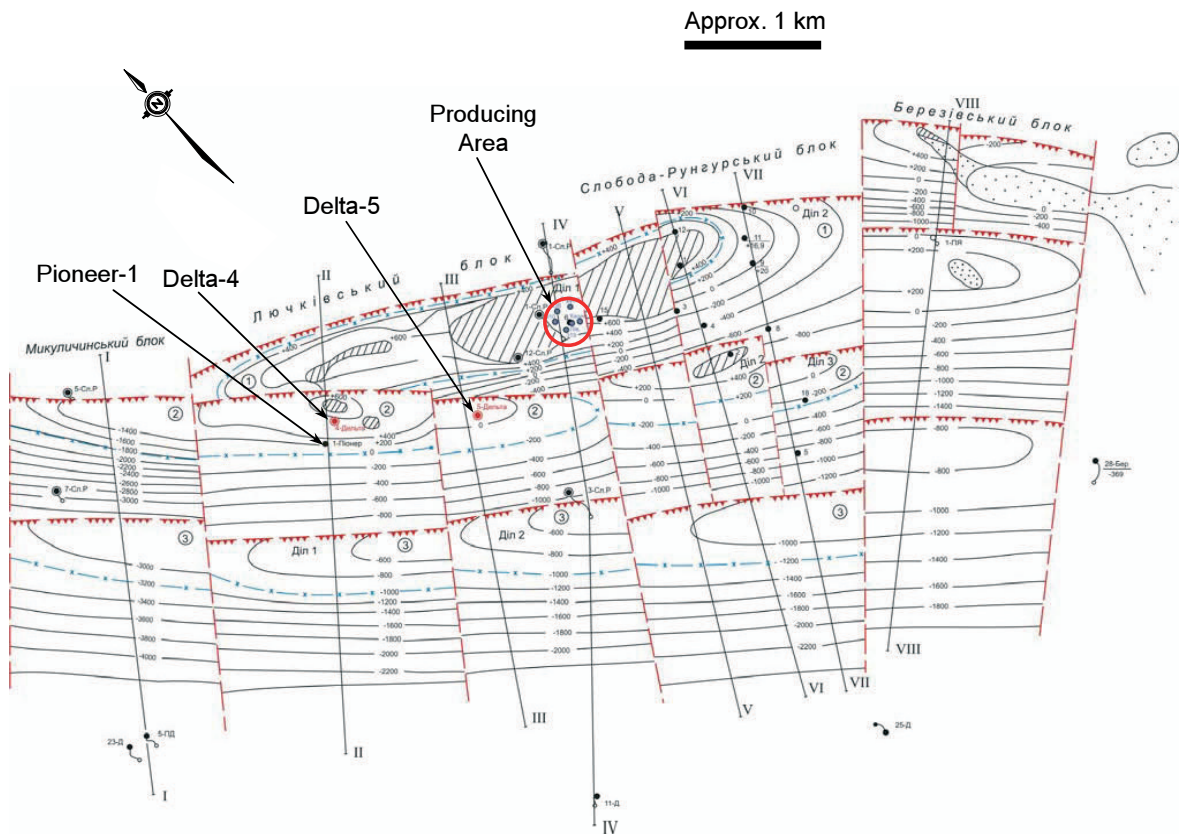
The field essentially consists of three, progressively deepening, thrust fold-units, each between 600 and 1,000 metres wide and cross-cut by several transverse faults which are understood to divide the field into hydraulically separate blocks (Figure 19). Well to well correlations show irregularly distributed sands, typical of deepwater turbidite sediments. Many wells may thus be needed to drain the reservoir although the high water cut is evidence of aquifer support for which there must be some degree of sand to sand communication.

The massive deepwater shales occurring between the sands act as effective seals. Up-dip trapping by tar mats has also been reported where oil reservoirs were in contact with a meteoric zone.

Logs are available for 3 relatively recent wells, Delta-1, -2 and -3. GCA has not independently reviewed these but has relied on the recent analysis performed for Cadogan by TRACS. Total net pay of 30-40 m in the Eocene and porosity of up to 20%, higher than previously reported values of about 10%, were inferred from the logs.

5.2 Development Plans

The currently producing area is small (2-4 km²) and confined to the shallowest thrust fold unit (Figure 19). This shallowest unit seems to be largely depleted. Potential may remain in the two deeper units and Cadogan plans to appraise these with two wells, Delta-4 and -5. The former will be drilled close to the



Note: Cross-section is number IV on map above

Source: Cadogan

Sloboda Rungurske Field Structure Map and Cross-Section

Proj. E1900 June 08 Checked: 7-08 Fig. 19

location of the Pioneer-1 well that reportedly flowed oil to surface at a rate of 3 tonnes/day (25 bpd) when drilled in 1932.

5.3 Reserves and Prospective Resources

It should be noted that many dry wells have been drilled in the field since 1960, missing the target completely, penetrating the water zone or suffering other technical difficulties. Recent results have been mixed. Delta-1, drilled in 1998, produces oil at a water cut of only 4%, but can only produce for an hour a day because of low pressure. Delta-2 and -3, targeting the first deeper thrust-fold unit, produced only muddy formation water when tested, despite indications of hydrocarbons on the logs. The history of exploration of these deeper units is unclear. Although other wells have apparently been drilled, the only known positive test is the one on Pioneer-1. Note also that the cross faults split the deeper units into several fault blocks. Experience in the shallower unit suggests that these are probably not in hydraulic communication and that each would therefore require a separate exploration well.

In view of this uncertainty, GCA considers that hydrocarbons potentially present in the two lower thrust-fold units must be considered as Prospective Resources. A volume calculation has been made treating the whole of the two units as a single entity. Table 29 presents the results. Geological chance of success (GCOS) is estimated as 19%.

Reserves are associated only with the existing wells. Quantification is again difficult because the only available data are the annual production for all six wells together. Over the last four years, this has declined at an average of 4% per year, though operational parameters have probably not been constant over this period. Proved Reserves have been calculated using a 5% per year decline in annual production until the end of the licence (April, 2011), Probable Reserves using a 4% per year decline until the end of 2017, as shown in Table 30. With an estimated OPEX of U.S.\$4/bbl, half of it fixed at the 2007 rate, no economic limit intervenes. NPVs have been calculated as described in Section 8 and shown in Table 5.

TABLE 29

GROSS PROSPECTIVE RESOURCES, SLOBODA RUNGURSKE FIELD

Eocene Reservoirs, Thrust-Fold Units 2 and 3

	Low (P90)	Mid (P50)	High (P10)
STOIIP (MMbbl)	39	70	112
Prospective Oil Resources (MMbbl)	5.9	10.3	17.8

Notes:

1. STOIIP and Prospective Resources volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Prospective Resources are reported in Table 4.
2. STOIIP does not equate to any category of Reserves or Resources because no recovery factor has been applied.
3. It is inappropriate to report aggregated Prospective Resource volumes or to otherwise focus upon those other than the 'Best Estimate'.

TABLE 30
PRODUCTION PROFILES AND RESERVES, SLOBODA RUNGURSKE FIELD
As at 31st January, 2008

Thrust-Fold Unit 1	Yearly Oil Production (bbl)	
Year	Proved Case	Proved + Probable Case
2008	1,869	1,888
2009	1,937	1,978
2010	1,840	1,899
2011	437	1,823
2012		1,750
2013		1,680
2014		1,613
2015		1,548
2016		1,486
2017		1,427
Oil Reserves (bbl)	6,080	17,090

Notes:

1. Reserves volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Reserves are reported in Table 3.

6. DEBESLAVETSKA, CHEREMKHIKSE AND KRASHNOYILSKA

The Debeslavetska (26.9 km²), Cheremkhivkse (119 km²) and Krashnoyilska (48.1 km²) licences are situated in the Ivano-Frankivse region somewhat to the east of the other Cadogan licences (Figure 1). Tectonically, they lie near the boundary between the Carpathian Foredeep and the south-west margin of the East European Platform. All three licences contain relatively small, shallow gas reservoirs.

Production from Debeslavetska and Cheremkhivkse began in the late 1990s, supplying local towns and factories. Cadogan acquired the licences through the purchase of Momentum Energy in May, 2007 and now operates them through its subsidiary company, JV Delta. The licences are long term development licences, expiring in 2026 and 2018. A separate exploration licence for the wider Debeslavetska area (218 km²) runs until 2011, with an obligation to drill and complete two exploration/appraisal wells (Figure 20).

Ten wells have been drilled in the Krashnoyilska field and test rates between 3,000 and 80,000 m³/d (0.11 and 2.8 MMcf/d) of dry gas have been obtained, but there is no commercial production as yet. The appraisal and development licence runs until the end of 2009 and the obligations are to re-enter one well and drill two new wells.

6.1 Geological Setting

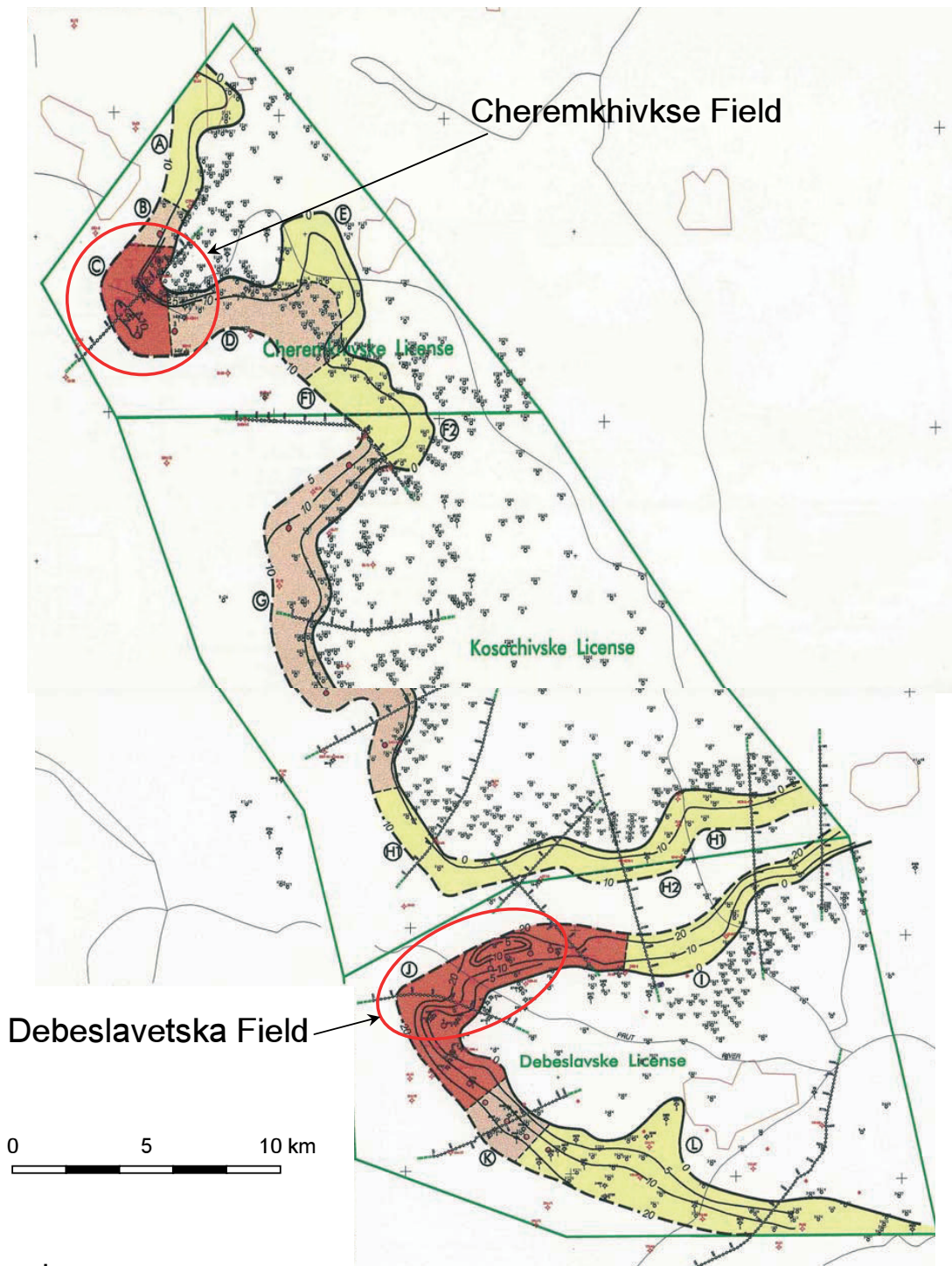
Gas is found in shallow, often unconsolidated, Miocene sandstone reservoirs deposited in a deltaic-coastal plain environment. In Cheremkhivkse and Krashnoyilska, sands are of Badenian age and four levels, B-I to B-IV are identified. In Debeslavetska, the sands are slightly older and were deposited near the margin of a 400 m high paleo-terrace measuring some 6 by 4 km. The reservoir units here are referred to as B1 to B4.

Few core materials are available or accessible. Momentum attempted to core well Deb-32 but recovery was poor due to its unconsolidated nature. Thin section analysis shows a grain-fabric consisting of 70 to 90 % of quartz, feldspar, some muscovite and rare glauconite. Associated siltstones are grey, micaceous and frequently endured by carbonate cement.

The reservoirs are alternating beds of sandstone and siltstones with shales, with variable net sand thickness. Average sandstone unit thickness ranges from less than a meter to 15 m. The well to well continuity of the sands is poor and correlation is often difficult. Interbedded shales are abundant and act as local intraformational seals. Log-derived porosity of individual sandstone beds can be as high as 33%, although the reliability of the log analyses is uncertain. Permeability is in the range of 50 -150 mD. Gas is reported in all the zones of interest either on logs, well tests or both, but is difficult to evaluate quantitatively.

The structures are defined by a seismic contour map derived from the base Miocene anhydrite marker and a large number of shallow boreholes drilled for sulphur exploration. It is noteworthy that many of these boreholes encountered gas accumulations and several suffered blow-outs. Seismic data has not been reviewed by GCA, but it is understood that the shallow gas sands have amplitude anomalies associated with them, which would not be unusual.

The gas is believed to be of biogenic origin, containing 96 % methane with no condensate and virtually no nitrogen or carbon dioxide.



Legend:

- Gas well
- Dry hole
- Proposed well (Ukr)
- Gas show
- Good pressure gas show
- Gas blowouts
- Sulphur well

- Reserve areas suggested by Momentum Energy (not used by GCA)
-

Source: Momentum Energy

Map of Debeslavetska and Cheremkhivkse Licences

Proj. E1900 June 08 Checked: Fig. 20

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6.2 Debeslavetska Gas Field

Production from the Debeslavetska field commenced in 1999 from 3 wells and peaked in 2001 at 140,000 m³/d (4.9 MMcf/d) from 7 wells. A total of 13 producing wells have been drilled as well as a significant number of dry holes. At the end of 2007, the field was producing 33,000 m³/d (1.2 MMcf/d) from 8 wells and the cumulative gas production stood at 7.7 Bcf.

The reservoir produces from 4 levels (B1 to B4) and wells have typically been perforated in one or two of these, according to the sand quality encountered. Identifying the levels from log picks is not always obvious. A study by TRACS for Cadogan has concluded that the existing (hand drawn) surface maps inherited from Momentum are incorrect, though the impact on overall gas volumes is not large. A different depositional model was proposed, with sand development greatest near the edge of the paleo-terrace (Figure 21). The reservoir is a relatively unfaulted.

Four separate GWC's have been identified between -15 m and +44 m TVDss (about 200-250 m sub-surface). Initial reservoir pressure is only 20-25 bars (around or slightly below hydrostatic).

Productivity and longevity of production varies from sand to sand and well to well. Initial rates range from 1,000 to 150,000 m³/d (0.04 to 5.3 MMcf/d). Maximum production from a single sand in one well is 0.88 Bcf.

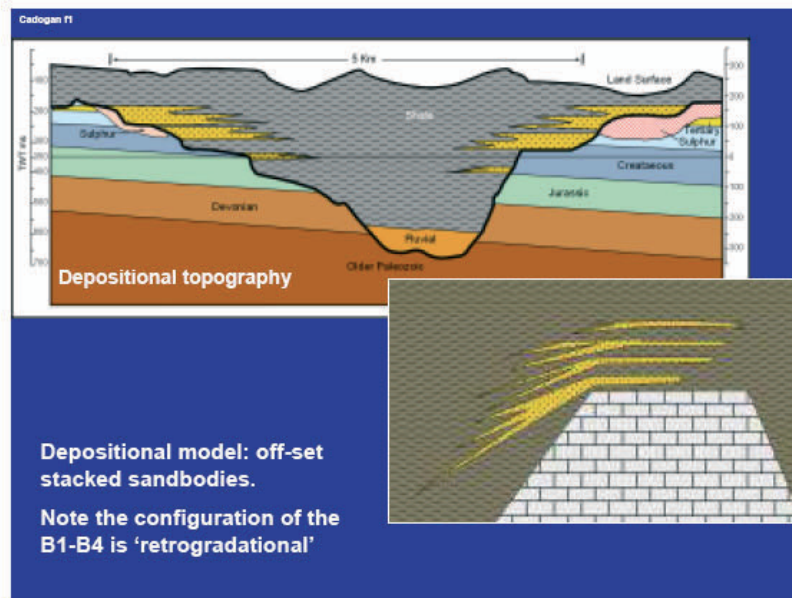
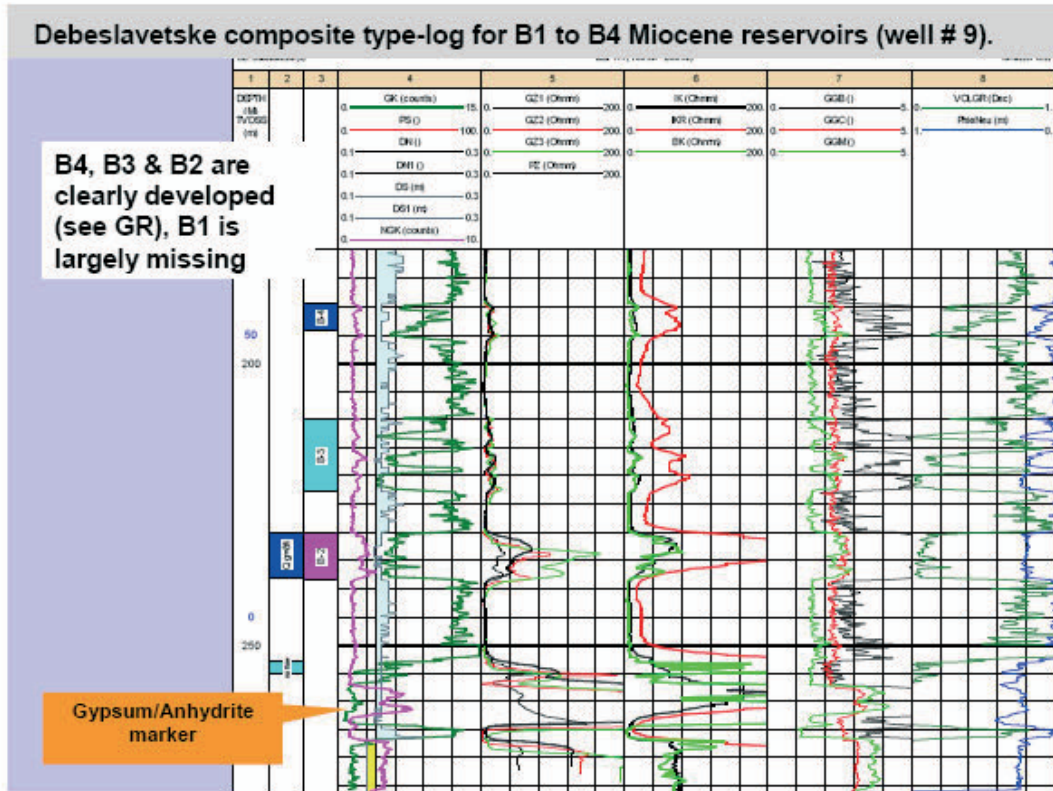
6.2.1 Development Plan

The recent study by TRACS mapped the net sand distribution based on log analysis and test/production results. A number of wells were identified where additional sand levels might be perforated, as well as some locations for in-fill wells. Cadogan consequently has plans work over and recompleting five existing wells and drill two in-fill wells (Deb-42 and Deb-43) by mid 2009.

On the exploration side, one well (Deb-16) has already been drilled but was dry. A second well (Deb-17 Kempbry) will be drilled in late 2009/early 2010. This may target a deeper Cambrian horizon in addition to the Miocene (Badenian), but this is poorly defined at present.

6.2.2 Reserves and Contingent Resources

A lack of pressure measurements makes it impossible to perform material balance analysis or to assess whether there is water influx. Since 2003, annual production has declined on average by about 20% per year. To allow for possible water breakthrough or premature well failure in the future, GCA has calculated Proved Reserves by extrapolating current production using a decline rate of 25% per year. Assuming OPEX of about U.S.\$200,000 p.a., production becomes uneconomical after 2013. Proved plus Probable Reserves are calculated using a decline rate of 20% per year and including additional production from the extra completions and in-fill wells. This additional production is calculated assuming one successful additional completion per workover and two per in-fill, and that the new completions perform on average the same as the existing ones. Additional Possible Reserves have been calculated by assuming the new completions produce at a 50% higher rate than the existing ones because they encounter



Source: Cadogan

Debeslavetska Field Type Log and Geological Model

Proj. E1900 June 08 Checked: TUB Fig. 21

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less depleted sands. The economic limit ends production in 2021 in both cases. The production profiles and Reserves are summarised in Table 31. CAPEX of U.S.\$0.8 MM for a new well and U.S.\$0.2 MM for a workover was used to calculate the NPVs for the Proved and Proved plus Probable cases shown in Table 5.

No Contingent Resources or Prospective Resources have been defined for the Debeslavetske field.

6.3 Cheremkhivkse Gas Field

The Cheremkhivkse field was discovered in 1958. After extensive appraisal the field was brought into commercial production in 1996. Production varies in response to seasonal demand, but peaked at just over 50,000 m³/d (1.8 MMcf/d) in 1998. The field is currently producing at an average of 12,500 m³/d (0.44 MMcf/d) from 4 wells, and cumulative production as of 31st December, 2007 stood at 3.1 Bcf. Gas treatment takes place on site and the produced gas is sold to neighbouring towns for local consumption.

The field contains a relatively small amount of gas in one single shallow, accumulation in the Lower Miocene B-II sandstone unit occurring at some 140 m TVDss (Figure 22). A simple SW-NE cross section of the field is also shown in Figure 22. At the +143 m TVDss contour, where the initial GWC was situated, the field measures 5.2 km². The trap is predominantly stratigraphic with a slight effect of compactional folding related to a young, deeper seated fault.

The field appears to be fully developed with approximately 75% of the recoverable reserves already produced. No further development wells are planned. A lack of pressure measurements makes it impossible to perform material balance analysis or to assess whether there is water influx. Since the last well was drilled in 2003, annual production has declined on average by 15% per year. To allow for possible future water breakthrough and limited well/facilities life, GCA has calculated Proved Reserves by extrapolating current production using a decline rate of 20% per year until 2015. Proved plus Probable Reserves are calculated using a decline rate of 15% per year until the end of the licence. Additional Possible Reserves have not been calculated. The production profiles and Reserves are summarised in Table 32. There is no further CAPEX and a fixed OPEX of U.S.\$98,000 p.a. is used. The NPVs resulting from the economic calculations described in Section 8 are shown in Table 5.

6.4 Krashnoyilska Gas Field

The Krashnoyilska gas accumulation measures some 1.5 x 1.5 km² at the main Miocene reservoir level (Figure 23). Ten wells have been drilled in the field since the 1960s and test rates between 3,000 and 58,000 m³/d (0.1 and 2.0 MMcf/d) of dry gas have been obtained from the Upper Badenian formation at depths of between 700 and 1,300 m (Table 33). Tests have been short, however, and longer term production rates are unknown.

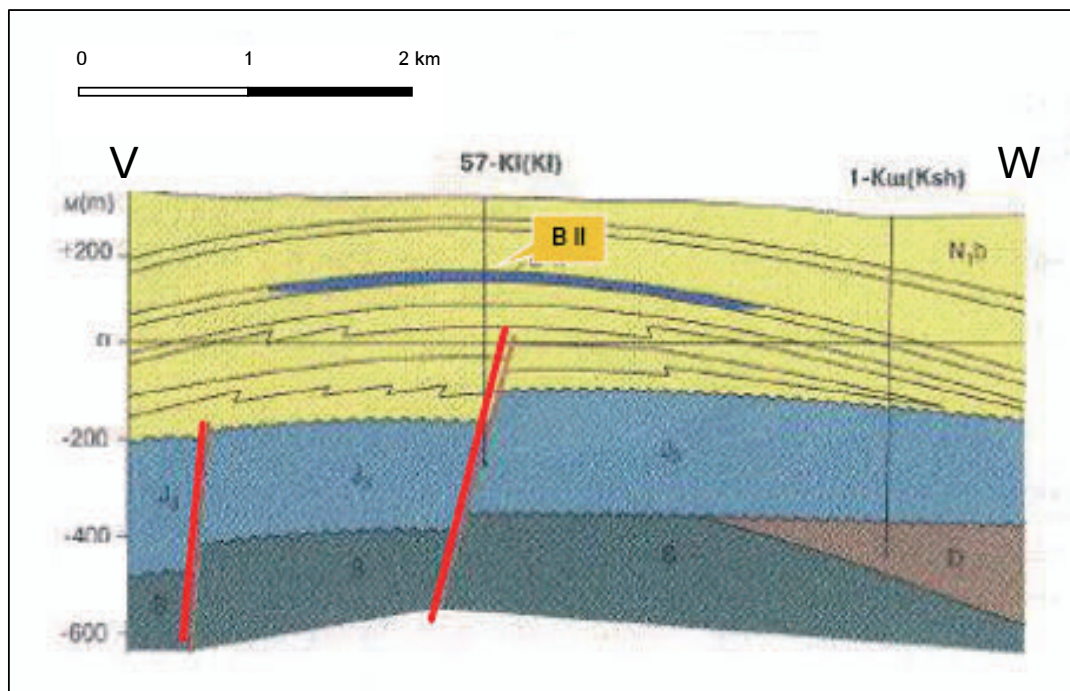
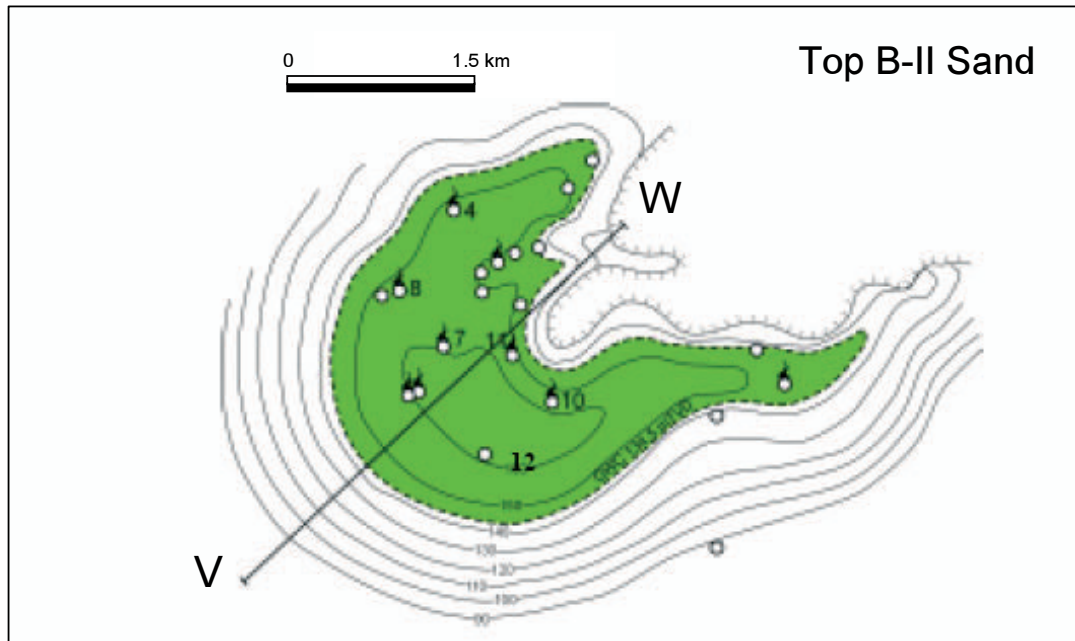
TABLE 31

PRODUCTION PROFILES AND RESERVES, DEBESLAVETSKA FIELD
As of 31st January, 2008

Year	Yearly Gas Production (MMcf)		
	Proved Case	Proved + Probable Case	Proved + Probable + Possible Case
2008	292	312	312
2009	239	419	492
2010	179	369	444
2011	135	295	355
2012	101	236	284
2013	76	189	227
2014		151	182
2015		121	145
2016		97	116
2017		77	93
2018		62	74
2019		49	60
2020		40	48
2021		32	38
Gas Reserves (MMcf)	1,020	2,450	2,870

Notes:

1. Reserves volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Reserves are reported in Table 2.



Source: Cadogan

**Cheremkhivkse Field Structure Map
and Cross Section**

Proj. E1900 June 08 Checked: JCB Fig. 22

Cadogan Petroleum

TABLE 32
PRODUCTION PROFILES AND RESERVES, CHEREMKHIVKSE FIELD
As of 31st January, 2008

Year	Yearly Gas Production (Bcf)	
	Proved Case	Proved + Probable Case
2008	0.117	0.125
2009	0.102	0.115
2010	0.082	0.098
2011	0.065	0.083
2012	0.052	0.071
2013	0.042	0.060
2014	0.034	0.051
2015	0.027	0.044
2016		0.037
2017		0.031
2018		0.013
Gas Reserves (Bcf)	0.52	0.73

Notes:

1. Production and Reserves volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Reserves are reported in Table 2.

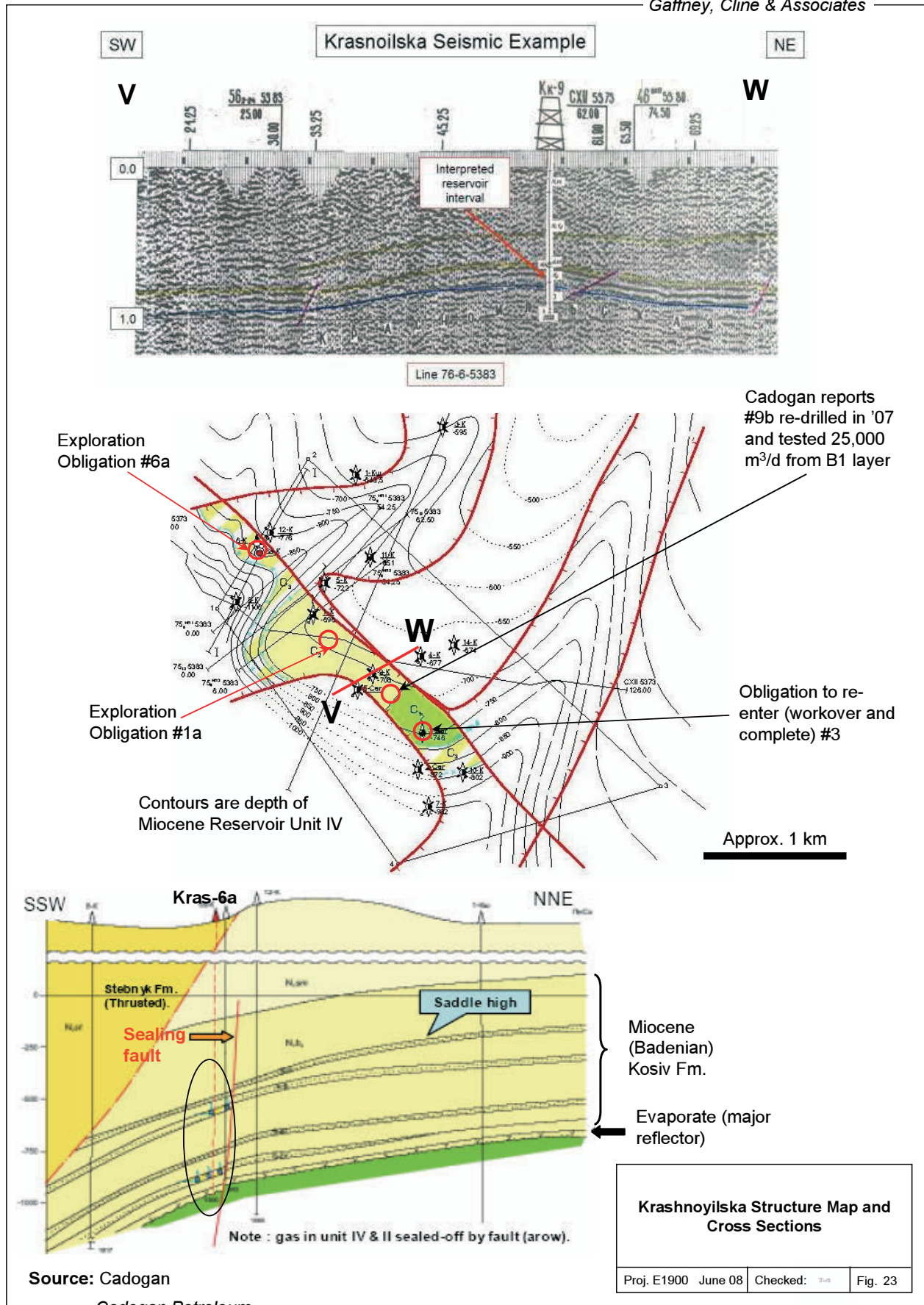


TABLE 33

SUMMARY OF PRODUCTION TEST DATA, KRASHNOYILSKA FIELD

Well	Layer	Interval m	Gas Rate Mm ³ /day	Choke mm	Well Head Pressure atm	AOF m ³ /d	Reservoir Pressure atm	Date
3-Sv	B4	1,274-1,296	13.8	5.1	57.8	16.0	91.2	08/12/86
3-Sv	B4	1,258-1,296	24.4	5.1	33.7	41.4	95.9	18/12/86
3-Sv	B4	1,274-1,283	11.5	5.1	27.9	15.0	95.9	16/11/99
9-Kr	B1	778-819	54.6	10.08	34.4	80.8	59.0	09/12/65
9-Kr	B1	823-829	58.3	10.02	37.1	93.7	62.3	30/09/65
1-Kr	B3	1,179-1,191	10.0	-	-	-	-	-
1-Kr	B4	1,200-1,205	3.0	-	-	-	-	-
10-Kr	B2	952-982	11.4	-	-	-	-	-

The data available consist mainly of Soviet type logs, and surface maps of the four main gas bearing formations. The maps were apparently constructed on the basis of seismic lines and updated with well information. An evaporitic layer at the base of the reservoir section is a recognisable seismic marker and the maps are reported to be constructed just above that marker in the IV sandstone (Figure 23). The coarse 8 x 10 km 2D seismic grid comprises 20 lines of Soviet-era multi-fold reflection data. Only digital images of a few of the lines are available, without SEG Y or navigational data. Data quality is poor although the structural flexure is apparent on the data inspected. Resolution of the reservoir interval is not possible. No velocity data, time maps or synthetics were available to verify the depth maps presented.

The main reservoirs are irregularly distributed, stacked sandstones, probably deposited at a delta front. There is a strong likelihood of a stratigraphic component to the traps. The presence of a sealing fault apparently confines the gas accumulation to an irregularly shaped area in the southern part of the field (Figure 23).

Net sand thickness ranges between 3 and 26 m with porosity of 14-18%. Tabular core data is available. Different OWCs have been identified in each of the BI, BII and BIV layers.

The gas composition is almost pure methane although the deeper layer IV contains 8.9 % Nitrogen and traces of CO₂. This is possibly the result of mixing of thermogenic gas from a deeper source with the biogenic intra-Miocene gas.

6.4.1 Development Plan

Well Kras-9 was re-drilled in 2007 (as -9b) and tested 25,000 m³/d (0.88 MMcf/d), lower than the rates obtained on the original well which were the best rates reported in the area to date. There is an obligation to re-enter (workover) and complete well Sva-3 and to drill appraisal wells Kras-1a and Kras-6a (twinning discovery well Kras-6).

Cadogan has no definite plans for the licence beyond fulfilling the obligations. Further study is needed to determine if an economic development is possible. A key uncertainty is the extent of the individual sand bodies which, if small, might result in rapid decline of production rates. A possible outlet for the gas would be a wood-processing factory just 4 km from the field.

6.4.2 Contingent Resources

Until a firm development plan is defined, the gas is considered as a Contingent Resource. GCA considers the recent volume calculations made by TRACS for Cadogan and shown in Table 34 to be reasonable.

TABLE 34

GROSS CONTINGENT RESOURCES, KRASHNOYILSKA FIELD

	Low (P90/1C)	Mid (P50/2C)	High (P10/3C)
GIIP (Bcf)	3.2	8.8	22.0
Contingent Gas Resources (Bcf)	2.8	7.8	19.4

Notes:

1. GIIP and Contingent Resources in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Contingent Resources are reported in Table 3.
2. The primary Contingent Resource volume reported here is the 2C, or 'Best Estimate', value.
3. GIIP does not equate to any category of Reserves or Resources.

7. MALYNOVETSKA AND MIZRICHYNSKA LICENCES

Malynovetska (15.5 km²) and Mizrichynska (35.9 km²) are two exploration licences, valid until January, 2012 and June, 2011 respectively. Each carries the obligation to drill an exploration well.

7.1 Malynovetska Prospect

The Malynovetska licence is located at the south eastern end of the Boryslav-Pokuttia zone not far from Sloboda Rungurske (Figure 1). It contains a relatively shallow (approx. 1,600 – 2,000 m) exploration Prospect. The target formations are Tertiary (Oligocene Menilite Formation and Eocene Vygodska and Manyavska Formations) and possibly Cretaceous (Figure 13). The play is assumed to be oil prone from nearby analogues.

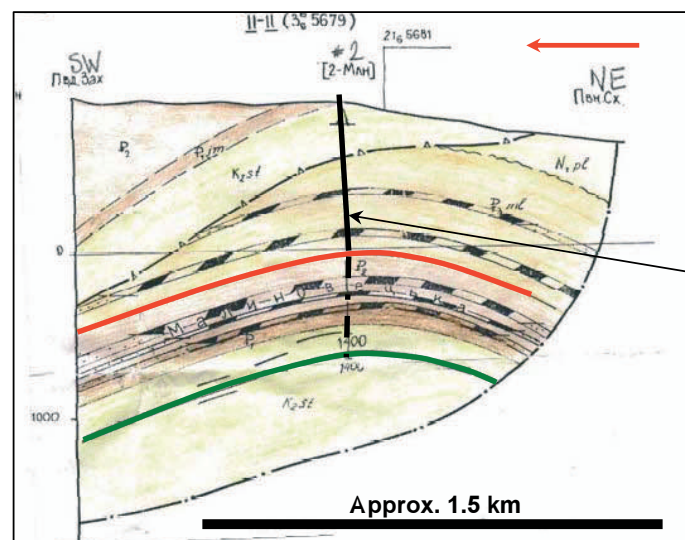
The structure is a faulted anticline with about 250 m of vertical relief and an area of approximately 3.5 km² (Figure 24). It is interpreted to lie beneath an overlying thrust section. It is on-trend with analogous over-thrust production some 20-50 km to the east. The structure appears to have independent four way dip closure and does not rely on a sealing fault.

The structural interpretation was apparently made from surface geology in conjunction with a coarse grid of 2-D seismic data. The seismic data were not provided to GCA nor are any profiles available. No time or velocity maps were presented with the depth interpretation and critical velocity control for depth conversion was not available. It is not clear how the geologic horizons were correlated with respect to the seismic without well control.

The map and cross sections provided to GCA (Figure 24) show 5 well locations, but it seems that only #2 has been drilled and was suspended at a depth of 1,000 m. It is reported to have encountered only the upper part of the Oligocene Menilite Formation. Several hydrocarbon-bearing sands in the Upper Menilite between 10-20 m thick with porosity of 10-15% are reported from logs. However, the three tested intervals either failed to flow or produced water with an oil film.

Well #2 is shown at the crest of the structure but the drilled well is stated to have been on the flank. Depending on the actual location of well, it is possible that the Menilite sands could be oil bearing further up-dip, but further work would be needed to substantiate that a Prospect remains in the Oligocene. Cadogan's current plan is to review existing seismic data and if necessary acquire additional data, possibly in 2009, before drilling the obligation well. GCA has estimated Prospective Resources for the Eocene formations only, as shown in Table 35.

No detailed geological information is available regarding the elements of the postulated petroleum system on the licence. No well data are available to speculate on the reservoir presence or quality, the source richness, seal capacity or timing of possible hydrocarbon generation and migration in the area. The presence of a valid sealed structure and adequate reservoir quality are both uncertain. GCA, therefore, considers the Eocene reservoirs as a high risk exploration Prospect with a GCoS of only 9%.



Legend:

- Horizon shown in map above
— Cretaceous target

- Deepen #2 well to test Cretaceous

Malynovetska Prospect Structure Map and Cross Sections

Source: Cadogan

Cadogan Petroleum

Proj. E1900 June 08	Checked: TJS	Fig. 24
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TABLE 35

STOIIP AND PROSPECTIVE RESOURCES, MALYNOVETSKA FIELD

	Low (P90)	Mid (P50)	High (P10)
STOIIP (MMbbl)	9.5	16.8	23.5
Prospective Oil Resources (MMbbl)	1.9	3.6	6.2

Notes:

1. STOIIP and Prospective Resource volumes in this table are 100%, i.e. they do not reflect Cadogan's net working interest. Net Prospective Resources are reported in Table 4.
2. STOIIP does not equate to any category of Reserves or Resources.
3. It is inappropriate to report aggregated Prospective Resource volumes or to otherwise focus upon those other than the 'Best Estimate'.

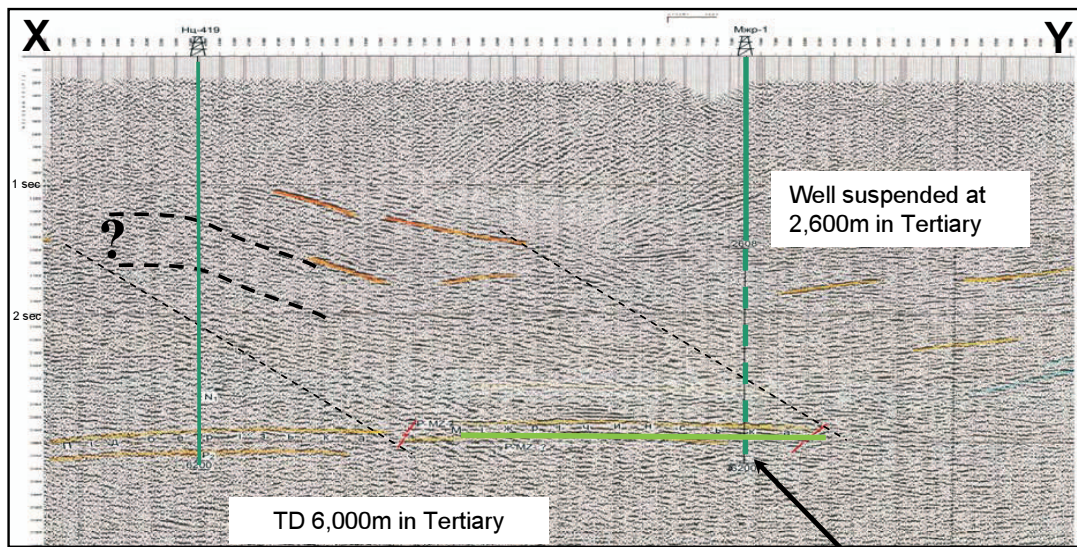
7.2 Mizrichynska

The Mizrichynska licence is located on the northern edge of the central part of the Boryslav-Pokuttia zone (Figure 1). A Lead has been identified with a closure of approximately 8 km² at the Cretaceous level. Cadogan has the obligation to drill an exploration well to a TD of 6,300 m to test the Mesozoic (Cretaceous and Jurassic), or to re-enter and deepen the existing Miz-1 well which was suspended at 2,600 m for financial reasons. The play is presumed to be oil, but the analogue fields are quite distant (120 km to the south-east).

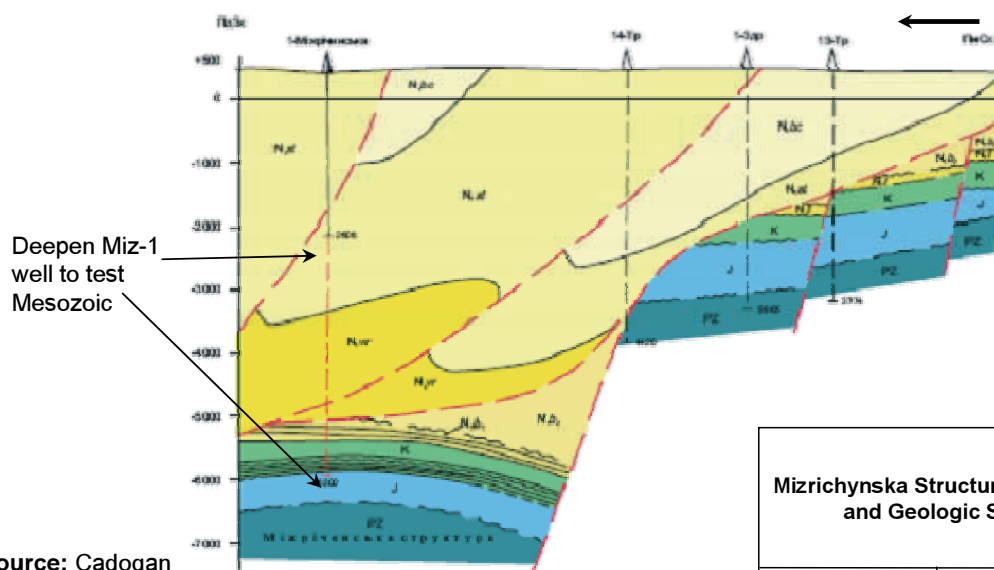
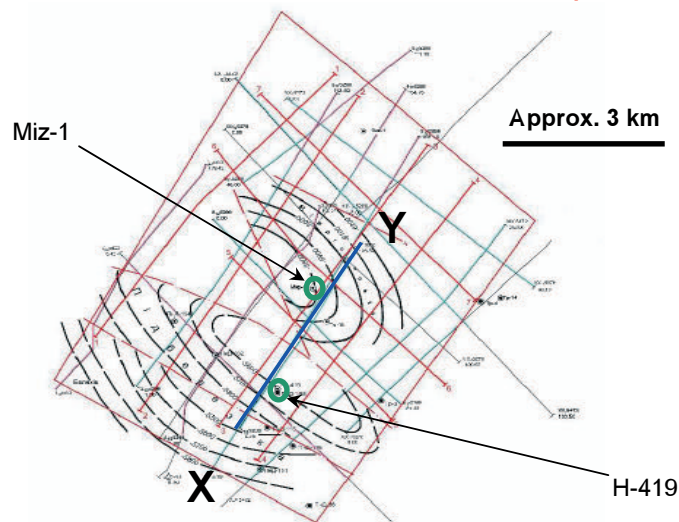
The only supporting material available for this structure is a generalized depth map indicated to be on the Mesozoic (Figure 25) and an example of a reprocessed poor to moderate quality seismic line which is not referenced by location or line name, but appears to be through wells Miz-1 and H-419. The map and the interpreted section do not match and GCA assumes the map is made on a lower Tertiary marker that is thrust faulted and forms two separate structures that resemble the contours on the map. GCA shows the possible thrust interpretation on the section in Figure 16. The presence of a structure is highly uncertain. Seismic data acquired by the local geophysical institute in 2007 are about to be reprocessed. If the results are not satisfactory, Cadogan plan to acquire further data before drilling.

Oil was reportedly recovered in the H-419 wellbore located approximately 2 km to the south of the Miz-1 surface location, but from an unspecified test at unknown depth. H-419 was drilled to approximately 6,000 m but penetrated only the (Tertiary) overthrust section. Data regarding source rocks, or possible maturation levels are not available for this region. Potential reservoir and seal information is additionally lacking.

Overall, GCA regards the Mizrichynska Lead is a very high risk exploration feature. There is a large amount of uncertainty with respect to the critical elements of the petroleum system, because of limited and ambiguous technical data and lack of nearby analogues. No volumetric assessment or estimation of GcoS is warranted at this time.



Proposed TD 6,200m in Mz



Source: Cadogan

Mizrichynska Structure Map, Seismic and Geologic Sections

Proj. E1900 June 08 Checked: TUB Fig. 25

Cadogan Petroleum

8. ECONOMIC ANALYSIS

Reference NPVs have been assigned to the Proved and Proved plus Probable Reserve categories. NPVs have been calculated at nominal discount rates of 7.5%, 10% and 12.5%, these being discount rates considered by GCA to be typical of those Cost of Capital rates used in the petroleum industry for the appraisal of this type of asset. GCA's assessment is based upon GCA's understanding of the fiscal and contractual terms governing the asset.

The values of physical assets, i.e. plant and equipment, have not been considered separately as such values have been implicitly included in the assessment of the NPVs as part of the petroleum property rights and facilities relating to the project.

The NPVs of estimated after-tax cash flows (as at 31st January, 2008) attributable to a net economic interest in the Licences, have been derived using the pricing and inflation assumptions as described herein. No adjustments have been made for cash balances, inventories, indebtedness or other balance sheet effects, other than those stated herein.

GCA's economic analysis excludes VAT in all calculations.

8.1 Fiscal Systems

The relevant elements of the Ukraine fiscal regime for petroleum operations in 2008, as they pertain to the Licences, are summarised below and are assumed to remain constant going forward.

Production Taxes

1. Rent (Royalty)

- Natural gas sold to industrial consumers

Horizons < 5,000m	US\$1.12/Mcf
Horizons > 5,000m	US\$0.56/Mcf
- Crude Oil/Condensate

Horizons < 5,000m	US\$26.00/bbl
Horizons > 5,000m	US\$9.64/bbl
- Rent adjustment coefficient

Applied to crude oil and condensate rent to	
adjust for changes in crude oil prices	
against the base price	
Base crude oil price	US\$46.26/bbl

2. Subsurface Petroleum Tax

- Natural gas US\$0.0207/Mcf
- Crude Oil/Condensate US\$1.19/bbl

3. Geological Tax

- Natural gas with condensate US\$0.1521/Mcf

Corporate Income Tax

25% on taxable income

8.2 Cost Assumptions

Costs vary from Licence to Licence and have been described in the relevant Sections of this report. Costs have been escalated by 2% annually from 2009.

8.3 Pricing

Cadogan's products are assumed to be sold to the domestic market with gas sold to industrial customers.

The Brent Oil price scenario used for the determination of economic limit tests and NPVs by GCA is detailed in Table 36.

GCA has applied an oil price discount of U.S.\$20/bbl (excluding VAT) to Brent for quality and location. This is based on 2007 auction prices for local crude oil supplied by Cadogan, understood to be priced at the field level and excluding trucking costs to customers.

Condensate price in Ukraine has been assumed to track 78% of Brent price (excluding VAT, equivalent to 94% of Brent including VAT). This is again based on Cadogan's 2007 auction prices. Since the auction prices are for small volumes of condensate, this price may be a conservative one.

Gas prices for industrial customers in Ukraine were determined as follows. First, recent historical data was used to establish a relationship between the price of Russian gas sold at the German border and the Brent oil price. This relationship allowed future gas prices at the German border to be determined from the Brent oil price. A transit cost to the German border of U.S.\$28/Mcm was then used to calculate the price of gas at the Russian border. In the first quarter of 2008, industrial gas prices in Ukraine were 55-60% of the price resulting from this calculation, but our assumption is that they are rising towards parity with Western Europe. It is assumed that convergence will occur by 2011. Average gas price for industrial customers in Ukraine was, therefore, taken as 60%, 73% and 87% of the estimated price of gas at the Russian border for 2008, 2009 and 2010 respectively, and as 100% of that price from 2011 onwards.

8.4 Results

The results of Post-tax cash flow analysis for the (i) Proved and (ii) Proved plus Probable Reserves cases are shown in Table 5. All NPVs quoted are those attributable to Cadogan's interest in the Licences, which currently are as listed in Table 1.

TABLE 36
GCA PRICE SCENARIO

Year	Brent Price (U.S.\$/bbl)	Ukraine Industrial Gas Price	
		(U.S.\$/Mcf)	(U.S.\$/Mcm)
2008	94.11	4.47	157.79
2009	90.85	5.57	196.77
2010	88.55	6.72	237.26
2011	83.05	7.91	279.32
2012	80.10	8.07	284.99
2013	81.70	8.24	290.76
Thereafter	+2.0%p.a.	+2.0%p.a.	+2.0%p.a.

Note:

- Gas prices have been derived using GCA's underlying long term Brent Oil price of U.S.\$74/bbl in 2008 terms inflated at 2% per annum.

9. QUALIFICATIONS

GCA is an independent international energy advisory group of 45 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis.

The report is based on information compiled by professional staff members who are full time employees of GCA.

Staff who participated in the compilation of this report includes Mr. William B. Cline, Mr. B.C. Rhodes, Dr. J.W. Barker, Mr. Michael J. Ring and Mr. J.O.H. Griffith. All hold degrees in geoscience, petroleum engineering or a related discipline. Mr. Cline is a Senior Partner and Principal of GCA, with over 48 years of industry experience. He has a BSc in Petroleum and Natural Gas Engineering, is a Chartered Engineer in the U.K. and Registered Professional Engineer in the State of Texas, U.S.A. He is also a Member of the Institute of Gas Engineers, the Society of Petroleum Engineers and the American Association of Petroleum Geologists.

Mr. Rhodes holds a B.Sc. (Hons) Geology, is a member of the Energy Institute, the Petroleum Exploration Society of Great Britain, the Society of Petroleum Engineers and the European Association of Geoscientists and Engineers, and has more than 33 years industry experience.

Dr. Barker is a senior reservoir engineer with 23 years industry and research experience. He has an M.A. in Mathematics from the University of Cambridge and a Ph.D. in Applied Mathematics from the California Institute of Technology, and is a member of the Society of Petroleum Engineers.

Mr. Ring is a senior Geoscientist with 33 years' experience in oil and gas exploration worldwide, involving both technical and managerial positions. He has an MA in Geophysics from the State University of New York and is a member of the Geophysical Society of Houston and Society of Exploration Geophysicists.

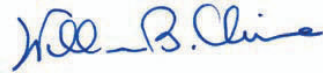
Mr. Griffith is a senior economist with 30 years experience. He has a B.A. in Economics from the University of West Indies and is a member of the Society of Petroleum Engineers.

10. BASIS OF OPINION

This assessment has been conducted within the context of GCA's understanding of the effects of petroleum legislation, taxation, and other regulations that currently apply to these properties. However, GCA is not in a position to attest to property title, financial interest relationships or encumbrances thereon for any part of the appraised properties.

It should be understood that any determination of reserve volumes and corresponding NPVs, particularly involving petroleum developments, would be subject to significant variations over short periods of time as new information becomes available and perceptions change.

Yours sincerely,
GAFFNEY, CLINE & ASSOCIATES

A handwritten signature in blue ink, appearing to read 'Will B. Cline', is centered below the typed name.

William B. Cline BSc., CEng., FIGEM
Senior Partner

APPENDIX I
Facilities and Site Visit

West Ukraine

A three-day visit to Cadogan's assets in Western Ukraine was conducted on 11-13 March, 2008. The sites visited included:

- Borynya-3, currently drilling well; rig and lease in good condition.
- Bitlya-2 location seen from a distance, on side of mountain; no access road to location yet, approx 2km of road to build.
- Vovchenska-11 well site, approx 4km from border with Poland; access to field very poor; facilities include 2 tanks, surface flowlines and beam pump, all in good condition; plan to abandon well; two nearby wells drilled in approx 1958, oil at surface, poor abandonment jobs.
- Blazhivska-1 well site: heated tank and heated surface flowlines onsite in good condition.
- Blazhivska-2 well site: workover rig was rigging up; lease and facilities in good condition.
- Debeslavetska: all wells (6 visited) and lease in very good condition; gas pipelines buried; visited dehydration plant (three separators on site) and compressor plant (maintenance underway).
- Cheremkhivkse: visited wells 10 and 11; area generally flat and muddy; gas plant operating and in good condition; one separator and one drying station; gas delivered to mains town supply; saw metering system and town gas pipelines
- Sloboda Rungurske: located in mountains; saw three oil wells operating; facilities consist of wellsite tanks, beam pumps and one offloading tank all in good condition; electric power supplied to wells for beam pump motors.

East Ukraine

On 11th March, 2008 a one-day site visit was made to observe some of Cadogan's wells/drilling rigs in their Eastern Ukraine licences located approximately 40 and 70-80 km north of Poltava. The Pokrovskoe-1 and -2, Pirkovskoe-1, -2 and -460 and Zagoryanskoe-3 drilling sites were visited, as well as the gas processing facilities recently acquired by Cadogan near Krasnozayskoi.

Generally, all wells are located in a fairly flat, agricultural area. Each well location visited, except Zagoryanskoe-3, had a purpose-built access road of concrete slabs, which in some cases had been there already for several years with a rig (or part of it) on-site. Apparently, these wells had been drilled by the previous owner, a government entity, to a certain depth and not completed because of lack of budget, spare parts or changed priorities. The well locations with the drilling rig and temporary accommodation (portacabins) were all fenced off. At the most recent location, Pok-1, about half a metre of soil had been moved to the side to be returned after completion of drilling activities to restore the landscape.

The gas processing facilities appear in very good condition after recent refurbishment. There is no evidence of earlier spills. The site is fenced off and had a safety officer on site during the visit. A new small plant office that will replace the existing portacabin-type accommodation, has been constructed (nearly complete).



Bitlya-2 well site (on hillside)



Cheremkhivkse



Debeslavetske



Borynya-3



Western Ukraine
Site Visit

Proj. E1900 June 08	Checked: JWG	Fig. A1.1
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Pok-2



Close up of first stage separator C-1
in gas processing plant

Eastern Ukraine
Site Visit

Proj. E1900 June 08 Checked: JWG Fig. AI.2



Part of down-hole drilling equipment to be used on Pirkovskoe-2



Flow line from Pirkovskoe-1 used for light oil production

Eastern Ukraine
Site Visit

Proj. E1900 June 08 Checked: JWG Fig. AI.3

APPENDIX II

**Society of Petroleum Engineers, World Petroleum Council, American Association of
Petroleum Geologists and Society of Petroleum Evaluation Engineers**

Petroleum Resources Management System

Definitions and Guidelines

**Society of Petroleum Engineers, World Petroleum Council, American Association of
Petroleum Geologists and Society of Petroleum Evaluation Engineers**

Petroleum Resources Management System

Definitions and Guidelines ⁽³⁾

March 2007

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in Resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.,

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The full text of the SPE PRMS Definitions and Guidelines can be viewed at:

www.spe.org/specma/binary/files/6859916Petroleum_Resources_Management_System_2007.pdf

³ These Definitions and Guidelines are extracted from the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("SPE PRMS"), approved in March 2007.

RESERVES

Reserves are 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 must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

On Production

The development project is currently producing and selling petroleum to market.

The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project “chance of commerciality” can be said to be 100%. The project “decision gate” is the decision to initiate commercial production from the project.

Approved for Development

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project “decision gate” is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Justified for Development

Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.

In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. (“forecast case”) and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be

sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project “decision gate” is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.

Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

- (1) the area delineated by drilling and defined by fluid contacts, if any, and
- (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see “2001 Supplemental Guidelines,” Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the

reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Probable and Possible Reserves

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed Reserves

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves

Shut-in Reserves are expected to be recovered from:

- (1) completion intervals which are open at the time of the estimate but which have not yet started producing,
- (2) wells which were shut-in for market conditions or pipeline connections, or
- (3) wells not capable of production for mechanical reasons.

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves

Undeveloped Reserves are quantities expected to be recovered through future investments:

- (1) from new wells on undrilled acreage in known accumulations,
- (2) from deepening existing wells to a different (but known) reservoir,
- (3) from infill wells that will increase recovery, or
- (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to
 - (a) recomplete an existing well or
 - (b) install production or transportation facilities for primary or improved recovery projects.

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.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Development Pending

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to “On Hold” or “Not Viable” status. The project “decision gate” is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Development Unclassified or on Hold

A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a re-classification of the project to “Not Viable” status. The project “decision gate” is the decision to

either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Development Not Viable

A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.

The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.

PROSPECTIVE RESOURCES

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

Prospect

A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Lead

A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

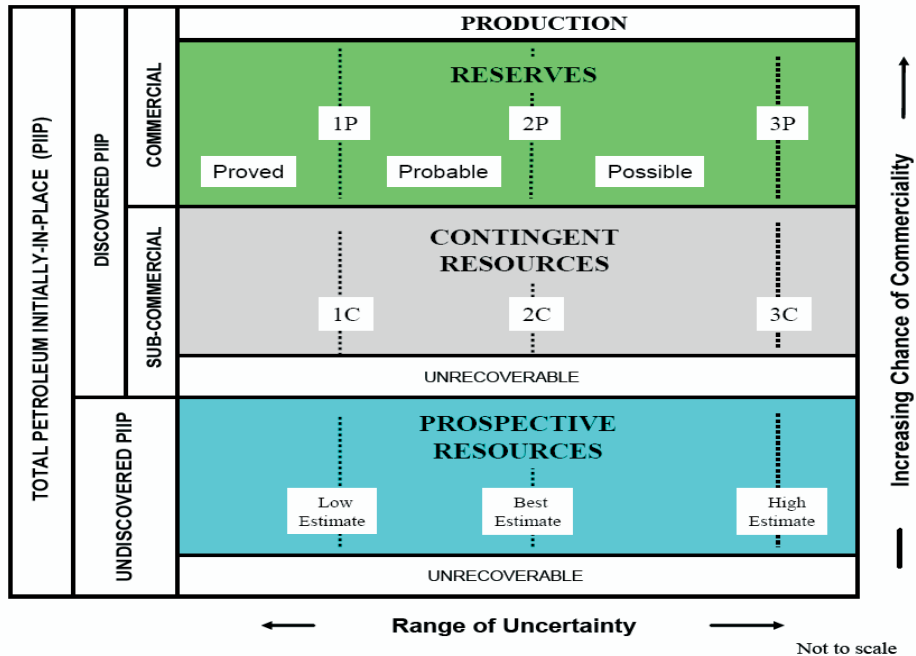
Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

Play

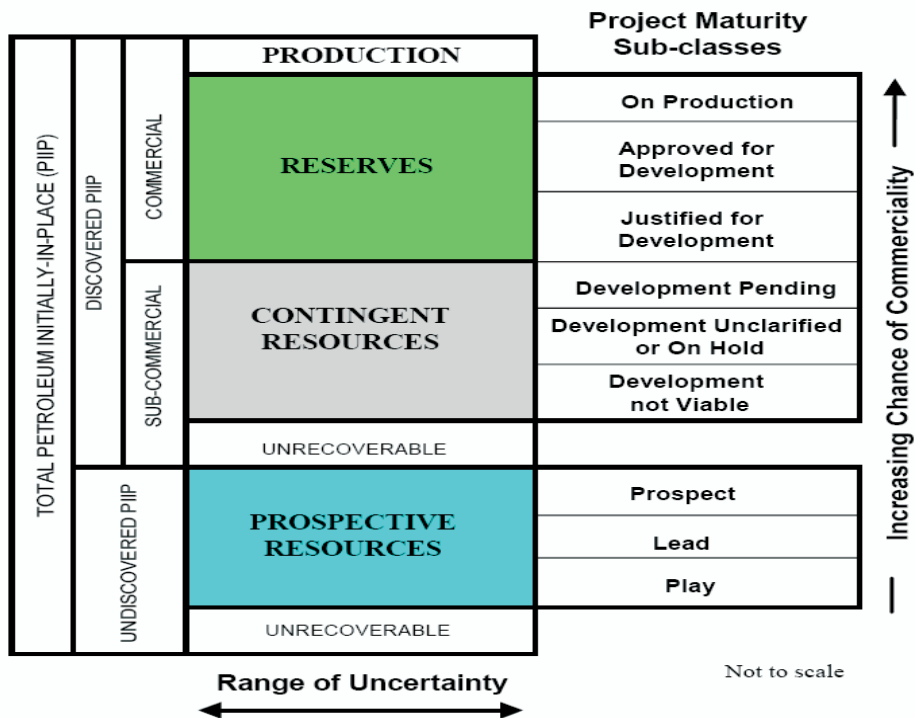
A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

RESOURCES CLASSIFICATION



PROJECT MATURITY



APPENDIX III

Glossary

GLOSSARY

List of Standard Oil Industry Terms and Abbreviations.

ABEX	Abandonment Expenditure
ACQ	Annual Contract Quantity
°API	Degrees API (American Petroleum Institute)
AAPG	American Association of Petroleum Geologists
AVO	Amplitude versus Offset
B	Billion (10 ⁹)
bbl	Barrels
/bbl	per barrel
Bbbl	Billion Barrels
Bscf or Bcf	Billion standard cubic feet
Bscfd or Bcfd	Billion standard cubic feet per day
Bm ³ or BCM	Billion cubic metres
bcpd	Barrels of condensate per day
BHP	Bottom Hole Pressure
blpd	Barrels of liquid per day
bpd	Barrels per day
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
BOP	Blow Out Preventer
bopd	Barrels oil per day
BSW	Basic Sediment and Water
bwpd	Barrels of water per day
cc	cubic centimetres
cf	Standard cubic feet
CGR	Condensate to gas ratio
CIIP	Condensate Initially In Place
CO ₂	Carbon Dioxide
CAPEX	Capital Expenditure
cm	centimetres
CNG	Compressed Natural Gas
Cp	Centipoise (a measure of viscosity)
CT	Corporation Tax
DCQ	Daily Contract Quantity
Deg C	Degrees Celsius
Deg F	Degrees Fahrenheit
DHI	Direct Hydrocarbon Indicator
DST	Drill Stem Test
E&A	Exploration & Appraisal
E&P	Exploration and Production
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EI	Entitlement Interest
EMV	Expected Monetary Value
EUR	Estimated Ultimate Recovery
FDP	Field Development Plan
FEED	Front End Engineering and Design
ft	Foot/feet
Fx	Foreign Exchange Rate
g	gram
g/cc	grams per cubic centimetre
G&A	General and Administrative costs

GBP	Pounds Sterling
GDT	Gas Down to
GIIP	Gas initially in place
GOR	Gas Oil Ratio
GWC	Gas water contact
HSE	Health, Safety and Environment
H ₂ S	Hydrogen Sulphide
IRR	Internal Rate of Return
k	Permeability
KB	Kelly Bushing
km	Kilometres
km ²	Square kilometres
kPa	Thousands of Pascals (measurement of pressure)
LKG	Lowest Known Gas
LKO	Lowest Known Oil
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LWD	Logging while drilling
m	Metres
M	Thousand
m ³	Cubic metres
Mcf or Mscf	Thousand standard cubic feet
MMcf or MMscf	Million standard cubic feet
m ³ /d	Cubic metres per day
mD	Measure of Permeability in millidarcies
MD	Measured Depth
MDT	Modular Dynamic Tester
Mean	Arithmetic average of a set of numbers
mg/l	milligrammes per litre
Mm ³	Thousand Cubic metres
Mm ³ /d	Thousand Cubic metres per day
MM	Million
MMbbl	Millions of barrels
MMcf/d	Million standard cubic feet per day
MWD	Measuring While Drilling
NGL	Natural Gas Liquids
N ₂	Nitrogen
NPV	Net Present Value
OBM	Oil Based Mud
ODT	Oil down to
OPEX	Operating Expenditure
OWC	Oil Water Contact
p.a.	Per annum
Pa	Pascals (metric measurement of pressure)
P&A	Plugged and Abandoned
psi	Pounds per square inch
psia	Pounds per square inch absolute
psig	Pounds per square inch gauge
PVT	Pressure volume temperature
P10	Value that has a 10% Probability of being exceeded
P50	Value that has a 50% Probability of being exceeded
P90	Value that has a 90% Probability of being exceeded
RF	Recovery Factor
RFT	Repeat Formation Tester
RT	Rotary Table

R_w	Resistivity of water
SCAL	Special core analysis
scf	Standard Cubic Feet
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
ss	Subsea
stb	Stock tank barrel
STOIIP	Stock tank oil initially in place
S_w	Water Saturation
T	Tonnes
TD	Total Depth
THP	Tubing Head Pressure
TOC	Total Organic Carbon
Tpd	Tonnes per day
TVD	True Vertical Depth
TVDss	True Vertical Depth Subsea
USGS	United States Geological Survey
U.S.\$	United States Dollar
Vsh	Shale volume fraction
VSP	Vertical Seismic Profiling
WI	Working Interest
2D	Two dimensional
3D	Three dimensional
4D	Four dimensional
1C	Low Estimate of Contingent Resources
2C	Mid or Best Estimate of Contingent Resources
3C	High Estimate of Contingent Resources
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserves
%	Percentage
ϕ_e	Effective porosity

APPENDIX IV
Cash Flow Tables

Field:	Pirkovskoe		
Case:	1P-C		
Working Interest:		Initial	Final
Revenue Interest:		97.00%	97.00%

Ukraine			
Net Working Interest Cashflow Analysis			
Escalated Prices & Costs			
Nominal Net Present Values			
as at 01-Feb-08 (US\$ MM)			
Disc Rate	Pre-Tax	Post-Tax	
0.0%	934.16	697.91	
5.0%	521.27	384.00	
7.5%	401.53	293.03	
10.0%	314.51	227.02	
12.5%	249.90	178.10	
15.0%	200.99	141.15	
IRR	62.7%	50.5%	

Period Beginning	Cond		Gas		Field Revenue US\$ MM	Royalty US\$ MM	Other Prod Tax US\$ MM	Net Revenue US\$ MM	Capital Costs US\$ MM	Operating Costs US\$ MM	Pre Tax NCF US\$ MM	Corporate Tax US\$ MM	Post Tax NCF US\$ MM
	Production MMB	Price US\$/Bbl	Production BCF	Price US\$/MCF									
Jan-08	0.029	73.41	0.33	4.47	3,627	1,117	0.09	2.42	16.30	1.87	-15.75		-15.75
Jan-09	0.156	70.86	1.76	5.57	20.88	5.74	0.49	14.65	21.77	2.24	-9.35	0.93	-10.28
Jan-10	0.289	69.07	3.33	6.72	42.31	10.42	0.92	30.97	22.20	2.62	6.15	5.21	0.94
Jan-11	0.398	64.78	4.68	7.91	62.83	13.60	1.28	47.94	22.65	3.01	22.29	8.63	13.67
Jan-12	0.491	62.48	5.89	8.07	78.18	16.31	1.60	60.27	23.10	3.40	33.78	10.98	22.80
Jan-13	0.566	63.73	6.93	8.24	93.13	19.28	1.87	71.98	23.56	3.79	44.63	13.34	31.29
Jan-14	0.630	65.00	7.87	8.40	107.13	22.00	2.11	83.02	24.03	5.07	53.92	15.54	38.38
Jan-15	0.685	66.30	8.72	8.57	120.18	24.49	2.32	93.37		5.50	87.87	18.25	69.61
Jan-16	0.592	67.63	7.69	8.74	107.31	21.69	2.04	83.59		5.54	78.05	16.47	61.58
Jan-17	0.515	68.98	6.83	8.92	96.44	19.33	1.80	75.31		5.59	69.72	14.79	54.93
Jan-18	0.453	70.36	6.12	9.09	87.58	17.40	1.60	68.58		5.66	62.92	13.43	49.49
Jan-19	0.401	71.77	5.53	9.28	80.04	15.77	1.43	62.84		5.73	57.12	12.31	44.81
Jan-20	0.358	73.20	5.03	9.46	73.76	14.40	1.30	58.07		5.81	52.26	11.46	40.80
Jan-21	0.313	74.67	4.57	9.65	67.48	12.97	1.16	53.35		4.88	48.47	10.89	37.58
Jan-22	0.275	76.16	4.19	9.84	62.19	11.76	1.05	49.38		4.95	44.43	10.25	34.18
Jan-23	0.243	77.68	3.85	10.04	57.54	10.70	0.96	45.89		5.03	40.87	9.74	31.13
Jan-24	0.216	79.24	3.56	10.24	53.58	9.79	0.87	42.92		5.10	37.81	9.29	28.52
Jan-25	0.192	80.82	3.28	10.45	49.77	8.94	0.80	40.04		5.18	34.86	8.71	26.14
Jan-26	0.171	82.44	3.04	10.66	46.50	8.20	0.73	37.57		5.27	32.30	8.08	24.23
Jan-27	0.153	84.09	2.83	10.87	43.56	7.54	0.67	35.35		5.36	29.99	7.50	22.50
Jan-28	0.137	85.77	2.64	11.09	41.01	6.97	0.62	33.42		5.45	27.98	6.99	20.98
Jan-29	0.123	87.48	2.46	11.31	38.49	6.42	0.57	31.50		5.54	25.96	6.49	19.47
Jan-30	0.110	89.23	2.29	11.55	36.30	5.94	0.53	29.83		5.64	24.20	6.05	18.15
Jan-31	0.099	91.02	2.15	11.76	34.30	5.50	0.49	28.31		5.74	22.57	5.64	16.93
Jan-32	0.090	92.84	2.02	12.00	32.54	5.12	0.46	26.97		5.84	21.13	5.28	15.85
Totals (>01-Feb-08):	7.68		107.60		1,536.69	301.37	27.76	1,207.55	153.60	119.79	934.16	236.25	697.91

Field:	Pirkovskoe			
Case:	2P-C			
		Initial		Final
Working Interest:		97.00%		97.00%
Revenue Interest:		97.00%		97.00%

Nominal Net Present Values			
as at 01-Feb-08 (US\$ MM)			
Disc Rate	Pre-Tax	Post-Tax	
0.0%	3,200.28	2,390.64	
5.0%	1,703.12	1,262.20	
7.5%	1,286.20	948.73	
10.0%	991.39	727.48	
12.5%	778.42	567.98	
15.0%	621.47	450.71	
IRR	100+	93.0%	

Ukraine

Net Working Interest Cashflow Analysis

Escalated Prices & Costs

Period Beginning	Cond		Gas		Field Revenue US\$ MM	Royalty US\$ MM	Other Prod Tax US\$ MM	Net Revenue US\$ MM	Capital Costs US\$ MM	Operating Costs US\$ MM	Pre Tax NCF US\$ MM	Corporate Tax US\$ MM	Post Tax NCF US\$ MM
	Production MMB	Price US\$/Bbl	Production BCF	Price US\$/MCF									
Jan -08	0.046	73.41	0.47	4.47	5.453	1.699	0.136	3.618	16.30	1.88	-14.56		-14.56
Jan -09	0.267	70.86	2.81	5.57	34.57	9.64	0.80	24.12	21.77	2.30	0.06	3.58	-3.52
Jan -10	0.520	69.07	5.63	6.72	73.73	18.46	1.59	53.68	22.20	2.75	28.72	10.85	17.87
Jan -11	0.761	64.78	8.44	7.91	116.08	25.68	2.37	88.13	22.65	3.23	62.25	18.62	43.64
Jan -12	0.986	62.48	11.21	8.07	152.15	32.26	3.11	116.77	33.60	3.72	79.45	25.02	54.42
Jan -13	1.160	63.73	13.52	8.24	185.26	38.94	3.72	142.60	23.56	4.20	114.84	30.57	84.26
Jan -14	1.295	65.00	15.47	8.40	214.17	44.61	4.22	165.34	34.96	5.55	124.83	35.68	89.15
Jan -15	1.396	66.30	17.09	8.57	239.00	49.32	4.62	185.05	24.51	6.04	154.50	39.86	114.63
Jan -16	1.470	67.63	18.44	8.74	260.62	53.28	4.94	202.40	25.00	6.53	170.87	43.79	127.08
Jan -17	1.458	68.98	18.75	8.92	267.81	54.22	4.98	208.61	25.50	6.97	176.14	44.89	131.25
Jan -18	1.423	70.36	18.75	9.09	270.66	54.25	4.94	211.48	26.01	7.40	178.07	45.19	132.87
Jan -19	1.388	71.77	18.75	9.28	273.58	54.27	4.90	214.41	26.53	7.84	180.04	45.67	134.38
Jan -20	1.358	73.20	18.81	9.46	277.34	54.44	4.87	218.02	27.06	8.30	182.66	46.45	136.20
Jan -21	1.319	74.67	18.75	9.65	279.45	54.23	4.81	220.40		8.77	211.63	47.78	163.85
Jan -22	1.284	76.16	18.75	9.84	282.40	54.17	4.77	223.46		8.95	214.51	49.46	165.05
Jan -23	1.250	77.68	18.75	10.04	285.43	54.10	4.73	226.59		9.12	217.47	51.27	166.20
Jan -24	1.163	79.24	17.92	10.24	275.67	51.62	4.48	219.57		9.24	210.32	50.13	160.20
Jan -25	0.956	80.82	15.13	10.45	235.27	43.51	3.75	188.00		9.21	178.80	42.73	136.07
Jan -26	0.788	82.44	12.81	10.66	201.46	36.79	3.15	161.52		9.20	152.31	36.48	115.84
Jan -27	0.656	84.09	10.95	10.87	174.21	31.41	2.68	140.13		8.10	132.03	31.78	100.25
Jan -28	0.552	85.77	9.46	11.09	152.22	27.08	2.29	122.84		8.14	114.70	27.82	86.88
Jan -29	0.465	87.48	8.18	11.31	133.14	23.38	1.97	107.80		8.19	99.61	24.42	75.19
Jan -30	0.394	89.23	7.13	11.53	117.45	20.34	1.70	95.40		8.26	87.14	21.62	65.51
Jan -31	0.336	91.02	6.24	11.76	104.07	17.76	1.48	84.81		8.35	76.46	19.12	57.35
Jan -32	0.289	92.84	5.50	12.00	92.82	15.64	1.30	75.89		8.45	67.44	16.86	50.58
Totals (>01-Feb-08):	22.98		317.74		4,704.00	921.02	82.33	3,700.65	329.66	170.71	3,200.28	809.64	2,390.64

PART XVI

THE GLOBAL OFFER

This part should be read in conjunction with Part IV of this Prospectus.

The Global Offer comprises an offer of 66,443,479 New Ordinary Shares, which represent approximately 28.8 per cent. of the enlarged issued share capital of the Company. The New Ordinary Shares being issued by the Company will rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to vote and the right to receive all dividends and other distributions declared, made or paid in respect of the Company's ordinary share capital after Admission. The Ordinary Shares will, immediately following Admission, be freely transferable under the Articles.

The Global Offer is underwritten by the Underwriters on the basis set out in the Underwriting Agreement, further details of which are set out below in paragraph 12.1(a) of Part XVII of this Prospectus.

The Global Offer is being made by means of an offer of Ordinary Shares to certain institutional investors in the United Kingdom and elsewhere outside the United States and by way of an offering of Ordinary Shares in the United States to QIBs pursuant to Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Certain restrictions that apply to the distribution of this Prospectus and the Ordinary Shares being issued under the Global Offer in jurisdictions outside the United Kingdom are described under the heading "Securities laws and restrictions on transfer" in this Part XVI.

Bookbuilding

Indications of interest in acquiring Ordinary Shares have been solicited by the Underwriters from institutional and certain other investors outside the United States in reliance upon Regulation S and in the United States from persons reasonably believed to be QIBs through private placement in reliance upon Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act. Based on indications received the Sole Bookrunner conducted a bookbuilding process pursuant to which they established the price or prices at which there is demand for the Ordinary Shares and the number of Ordinary Shares which may be issued in the Global Offer.

The allocation of Ordinary Shares will be announced on 18 June 2008.

The Offer Price was determined by the Sole Bookrunner and the Company after having regard to the outcome of the bookbuilding process. All Ordinary Shares issued pursuant to the Global Offer will be issued at the Offer Price. Details of the Offer Price are contained in this Prospectus.

Among the facts that were considered in determining the Offer Price were the prevailing market conditions and the demand for Ordinary Shares in the bookbuilding.

Allocation and Pricing

All Ordinary Shares issued pursuant to the Global Offer will be issued at the Offer Price. Allocation of Ordinary Shares under the Global Offer was determined by the Sole Bookrunner after consulting the Company after indications of interest from prospective investors were received.

Immediately following Admission, it is expected that approximately 50.8 per cent. of the Ordinary Shares will be held in public hands.

Ordinary Shares allocated under the Global Offer will be underwritten by the Underwriters as described in paragraph 12.1(a) of Part XVIII of this Prospectus.

Stabilisation and the Over-allotment Option

In connection with the Global Offer, the Stabilising Manager or any of its agents may (but will be under no obligation to) over-allot or effect transactions with a view to supporting the market price of the Ordinary Shares at a level higher than that which might otherwise prevail. Such transactions may be effected on the London Stock Exchange, in over-the-counter markets or otherwise and may be undertaken at any time during the period commencing on the date of publication of the Offer Price (being the date of this Prospectus) and ending 30 days thereafter. However, there is no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and no assurance that stabilising transactions will be undertaken. Such transactions, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price.

In connection with the Global Offer, the Stabilising Manager, pursuant to the Over-allotment Option, may, at any time during the period commencing on the date of publication of the Offer Price (being the date of this Prospectus) and ending 30 days thereafter, purchase, or procure purchasers for, in aggregate up to 9,966,514 Existing Ordinary Shares from the Over-allotment Option Shareholders representing not more than 15 per cent. of the Ordinary Shares available pursuant to the Global Offer and in each case at the Offer Price. Ordinary Shares acquired pursuant to the Over-allotment Option shall be acquired for the purposes, amongst other things, of meeting over-allotments, if any, in connection with the Global Offer and to cover short positions resulting from stabilisation transactions.

Save as required by any legal or regulatory obligations, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

Dealings, Listing and Settlement

Completion of the Global Offer will be subject to the satisfaction of the conditions in the Underwriting Agreement, including the warranties given at the time of entry into the Underwriting Agreement being correct in all material respects, there having been no material adverse change, the Company having performed its obligations under the Underwriting Agreement, Admission occurring and becoming effective by 8.00 a.m. on 23 June 2008 or such later time or date as may be determined in accordance with the Underwriting Agreement and the Underwriting Agreement not having been terminated in accordance with its terms. Further details of the Underwriting Agreement are set out in paragraph 12.1(a) of Part XVIII of this Prospectus.

Admission is expected to take place, and unconditional dealings in the Ordinary Shares are expected to commence, on the London Stock Exchange at 8:00 a.m. (London time) on 23 June 2008. Following Admission, all subsequent settlements of dealings from that date will be on a three-day rolling basis. It is expected that Ordinary Shares allotted to investors in the Global Offer will be delivered in uncertificated form and settlement will take place through CREST on Admission. Investors in the Global Offer will pay the Offer Price in respect of the Ordinary Shares to be received by them in such manner as shall be directed by the Sole Bookrunner.

It is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange at 8.00 a.m. (London time) on 18 June 2008. The earliest date for settlement of such dealings will be 23 June 2008. All dealings between the commencement of conditional dealings and the commencement of unconditional dealings will be on a "when issued" basis.

If the Global Offer does not become unconditional and Admission does not become effective all such dealings will be of no effect. Any such dealings will be at the sole risk of the parties concerned.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced without a certificate and transferred otherwise than by a written instrument. The Articles permit the holding of Ordinary Shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST effective upon Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes.

CREST is a voluntary system, and Shareholders who wish to receive and retain share certificates will be able to do so. Investors applying for Ordinary Shares under the Global Offer may, however, elect to receive such shares in uncertificated form if they are a system-member (as defined in the CREST Regulations) in relation to CREST.

Underwriting arrangements

The Underwriting Agreement will be entered into on the date of publication of the Prospectus, pursuant to which the Underwriters agree, subject to certain conditions, to procure subscribers for, or failing which the Underwriters will subscribe for the Ordinary Shares made available in the Global Offer. All such subscriptions will be at the Offer Price.

Further details of the terms of the Underwriting Agreement are set out in paragraph 12.1(a) of Part XVII of this Prospectus.

Lock-up arrangements

Each of the Company, the Locked-up Shareholders, the Directors and certain senior management have agreed to enter into certain lock-up arrangements in respect of their holdings of Ordinary Shares or options held prior to the Global Offer to subscribe for Ordinary Shares.

Approximately 47.8 per cent. of the Ordinary Shares in issue after the Global Offer (assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full) will be subject to these lock-up arrangements.

Further details of these lock-up arrangements are contained in paragraph 12.9 of Part XVII of this Prospectus.

Costs and expenses

Assuming no exercise of the Over-allotment Option and assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full, the maximum total costs and estimated expenses of or incidental to the preparation of this Prospectus, the Global Offer and Admission (including issue costs, commissions, registration fees, professional fees and the cost of printing and distribution) payable by the Company are estimated to amount to £11.0 million. Based on the Offer Price, net proceeds accruing to the Company from the Global Offer, after settling fees, commission and expenses, are expected to amount to approximately £139.0 million (assuming no exercise of the Over-allotment Option and assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed for in full).

Securities laws and restrictions on transfer

General

The distribution of this Prospectus and the offer of Ordinary Shares in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes must inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdiction. Persons receiving this Prospectus should not distribute or send it into any jurisdiction where to do so would or might contravene local securities laws or regulations.

No action has been taken by the Company or the Sole Bookrunner that would permit, otherwise than under the Global Offer, an offer of Ordinary Shares or possession or distribution of this Prospectus or any other offering material relating to Ordinary Shares in any jurisdiction where action for that purpose is required. No offer is being made to the public in any jurisdiction.

None of the Ordinary Shares may be offered for subscription, sale or purchase or be subscribed, sold or delivered, and this Prospectus and any other material in relation to the Ordinary Shares may not be circulated in any jurisdiction where to do so would violate any securities law or regulation of any

such jurisdiction or, other than in the UK, give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.

United States

The Ordinary Shares offered by this Prospectus have not been and will not be registered under the Securities Act or under the applicable securities laws and regulations of any state of the United States. The Ordinary Shares may not be offered or sold in the United States except in certain transactions exempt from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Underwriters have represented and agreed that they will solicit purchases of Ordinary Shares in the United States only from persons reasonably believed to be Qualified Institutional Buyers through US-licensed affiliates or agents in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or a transaction not subject to, the requirements of the Securities Act. The Underwriters have further represented and agreed that the Global Offer will be made outside the United States in compliance with Regulation S.

In addition, until 40 days after the commencement of the Global Offer, an offer or sale of Ordinary Shares within the United States by a dealer (whether or not participating in this offering of Ordinary Shares) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Among other items, each purchaser of Ordinary Shares offered outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged that it has received a copy of this document, and such other information as it deems necessary to make an investment decision and that:

- (a) It is authorised to consummate the purchase of the Ordinary Shares in compliance with all applicable laws and regulations;
- (b) It acknowledges (or if it is a broker-dealer acting on behalf of a customer, its customer has confirmed to it that such customer acknowledges) that the Ordinary Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state, territory or other jurisdiction of the United States;
- (c) It is purchasing the Ordinary Shares in an offshore transaction, as such term is defined in Rule 902 of the Securities Act, meeting the requirements of Regulation S;
- (d) It will not offer, sell, pledge or transfer any Ordinary Shares, except in accordance with the Securities Act and any applicable laws of any state of the United States and any other jurisdiction;
- (e) Any offer, sale, pledge or other transfer of the Ordinary Shares made other than in compliance with the restrictions imposed by Regulation S or the requirements of US securities law will not be recognised by the Company; and
- (f) The Company, the Over-allotment Option Shareholders, the Underwriters and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agree that if any such acknowledgements, representations or agreements deemed to have been made by virtue of its subscription of the Ordinary Shares are no longer accurate, it will promptly notify us. If it is acquiring any Ordinary Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each purchaser of Ordinary Shares located within the United States will be deemed to have represented, acknowledged and agreed that it has received a copy of this document and such other information as it deems necessary to make an investment decision and as follows (terms defined in Rule 144A or Regulation S shall have the same meaning in this section):

- (a) The purchaser: (1) is a QIB; (2) is aware, and each beneficial owner of such Ordinary Shares has been advised, that the sale of the Ordinary Shares to it is being made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A or another exemption from, or a transaction not subject to, the registration requirements of the Securities Act; and (3) is acquiring such Ordinary Shares for its own account or for the account of another QIB (with respect to whom it has the authority to make, and does make, the representations and warranties set forth herein), as the case may be for investment purposes and not with a view to further distribution of the Ordinary Shares;
- (b) the purchaser understands (or, if it is acting for the account of another person, such person has confirmed to it that such person understands) that the Ordinary Shares are “**restricted securities**” (within the meaning of Rule 144(a)(3) of the Securities Act) and that such Ordinary Shares are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the Ordinary Shares have not been and will not be registered under the Securities Act and that it may not offer, resell, pledge or otherwise transfer any of such Ordinary Shares except: (i) in accordance with Rule 144A or another exemption from, or a transaction not subject to, the registration requirements of the Securities Act to a QIB or to a person that the seller and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of another QIB; (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act; or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if applicable); in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States;
- (c) the purchaser understands that the Company and the Underwriters may not recognise any offer, sale, resale, pledge or other transfer of the Ordinary Shares made other than in compliance with the above-stated sections.
- (d) the purchaser acknowledges that neither the Company, the Underwriters, nor any person representing any of them, has made any representation to it with respect to the Company, or the Global Offer, other than the information contained in this Prospectus, which has been delivered to the purchaser and upon which the purchaser is relying in making its investment decision with respect to the Ordinary Shares offered hereby, and that the purchaser has had access to such financial and other information concerning the Company and the Ordinary Shares offered hereby, including an opportunity to ask questions of and request information from the Company and the Underwriters;
- (e) the purchaser is purchasing the Ordinary Shares offered hereby for its own account, or for one or more investor accounts for which it is acting as fiduciary or agent, in each case, not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell, reoffer or otherwise transfer such Ordinary Shares pursuant to Rule 144A or Regulation S (if available) or another available exemption from registration under the Securities Act; and
- (f) the Ordinary Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE ORDINARY SHARES EVIDENCED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE

144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND (B) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR THE RESALE OF ORDINARY SHARES.

The Company, the Registrar, the Underwriters and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Due to the foregoing restrictions, purchasers of Ordinary Shares should consult legal counsel prior to making any offer for or any resale, pledge or other transfer of the Ordinary Shares in the United States or to a US Person.

Prospective purchasers are hereby notified that sellers of the Ordinary Shares may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A or upon Regulation S.

The Company does not intend to register the Ordinary Shares under the Securities Act or under the Exchange Act. In addition, it is doubtful that sales may be made under Rule 144 under the Securities Act until one year after the closing when the Ordinary Shares become eligible for sale under Rule 144(d) if they are not held by affiliates of the Company. Accordingly, it is unlikely that a liquid US trading market for the Ordinary Shares will ever develop.

United Kingdom

Each Underwriter has represented and agreed that: (i) it has not offered or sold and will not offer or sell any Ordinary Shares to persons in the United Kingdom prior to Admission except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Prospectus Rules or the FSMA, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Ordinary Shares in circumstances in which section 21(1) of the FSMA does not apply to the Company, and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Ordinary Shares in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Directive 2003/71/EC (the “**Prospectus Directive**”) (each, a “**Relevant Member State**”), each of UBS and Fox-Davies has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that “Relevant Member State” (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Shares to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Shares to the public” in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares to be offered so as to enable an investor to decide to purchase or subscribe the Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Australia

This Prospectus does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the “**Corporations Act**”) and will not be lodged with the Australian Securities and Investment Commission. The Ordinary Shares will be offered to persons in Australia only to the extent that such offers of shares for issue “at sale” do not need disclosure to investors under Part 6D.2 of the Corporations Act. Any offer of shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. In particular, offers for the issue or sale of Ordinary Shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by section 708 of the Corporations Act. Any offer of shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. Any person to whom Ordinary Shares are issued or sold pursuant to an exemption provided by section 708 of the Corporations Act must not within 12 months after the issue, offer those Ordinary Shares for sale in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

Japan

The Ordinary Shares have not and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948 as amended) (the “**Securities and Exchange Law**”), and may not be offered or sold, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Ukraine

Under Ukrainian law, the Ordinary Shares are securities of a foreign issuer. The Ordinary Shares are not eligible for initial offering and public distribution in Ukraine. Neither the issue of the Ordinary Shares nor this Prospectus has been, or is intended to be, registered with the State Commission for Securities and Stock Market of Ukraine. The information in this Prospectus is not an offer, or an invitation to solicit offers, to sell, exchange or otherwise transfer the Ordinary Shares in Ukraine.

PART XVII

ADDITIONAL INFORMATION

1 Responsibility Statement

The Company, whose name and registered office appear on page 27 of this Prospectus and the Directors, whose names appear on page 27 of this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

2 The Company

- 2.1 The Company was incorporated in and is domiciled in England and Wales as a private limited company with registration number 5718406 on 22 February 2006 under the Act with the name Hamsard 2994 Limited. On 20 April 2006, it was re-registered as a public limited company and changed its name to Cadogan Petroleum plc.
- 2.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- 2.3 The liability of the members of the Company is limited.
- 2.4 The Company's registered office is at Fifth Floor, 4/5 Grosvenor Place London SW1X 7HJ and its telephone number is +44 (0) 20 7245 0801.
- 2.5 The accounting reference date of the Company is 31 December.

3 Subsidiaries

- 3.1 The Company is the ultimate holding company of the Group.
- 3.2 The Company has 23 subsidiaries as of the date of this Prospectus, the details of which are as follows:

Company	Country of Incorporation	Proportion of ownership interest	Proportion of voting power
Cadogan Petroleum Holdings Limited	England and Wales	100 per cent.	100 per cent.
Cadogan Petroleum Holdings B.V.	Netherlands	100 per cent.	100 per cent.
Cadogan Ukraine	Ukraine	100 per cent.	100 per cent.
Colby Petroleum Limited ⁽¹⁾	British Virgin Islands	100 per cent.	100 per cent.
Industrial Company Gazvydobuvannya LLC	Ukraine	100 per cent.	100 per cent.
Kolomya Oil and Gas Company "Delta"	Ukraine	100 per cent.	100 per cent.
LLC Astro Energy	Ukraine	100 per cent.	100 per cent.
LLC Astro Gas	Ukraine	90 per cent.	90 per cent.
LLC Astroinvest-Energy	Ukraine	90 per cent.	90 per cent.
LLC Astroinvest-Ukraine	Ukraine	100 per cent.	100 per cent.
LLC Mercor	Ukraine	100 per cent.	100 per cent.
LLC USENCO Nadra	Ukraine	90 per cent.	90 per cent.
Momentum Energy International Inc.	Canada	100 per cent.	100 per cent.
Momentum Enterprises Inc.	Canada	100 per cent.	100 per cent.
Momentum Enterprises (Europe) Limited	Cyprus	100 per cent.	100 per cent.
OJSC Agronafttonogastech service	Ukraine	79.9 per cent. ⁽²⁾	79.9 per cent.
Ramet Holdings Limited ⁽¹⁾	Cyprus	100 per cent.	100 per cent.
Rocheftort Ventures Limited ⁽¹⁾	Cyprus	100 per cent.	100 per cent.
Radley Investments Limited	England and Wales	100 per cent.	100 per cent.
Rentoul Limited ⁽¹⁾	Isle of Man	100 per cent.	100 per cent.

Company	Country of Incorporation	Proportion of ownership interest	Proportion of voting power
Stickle Limited ⁽¹⁾	Isle of Man	100 per cent.	100 per cent.
USENCO Ukraine	Ukraine	100 per cent.	100 per cent.
USENCO International Inc.	USA	100 per cent.	100 per cent.

- (1) Companies which are expected to be liquidated or disposed of as part of the Reorganisation, which is expected to be completed by September 2008.
- (2) The other 20.1 per cent. shareholdings are held by local investors.

4 Share Capital

4.1 At the date of incorporation, the authorised share capital of the Company was £100 divided into 1,000 Ordinary Shares of £0.10 each, of which ten shares were issued, fully paid, to the initial subscriber.

4.2 Changes in the amount of the Company's authorised and issued share capital during the period covered by the financial information set out in Part XI of this Prospectus is set out below.

4.3 On 10 March 2006, a written resolution of the Company was passed whereby:

- (a) the ten subscriber shares referred to above constituting the entire issued share capital of the Company were sub-divided into 100 Ordinary Shares of £0.01 each;
- (b) each of 990 Ordinary Shares of £0.10 each constituting the authorised but unissued share capital of the Company was sub-divided into 10 Ordinary Shares of £0.01 each;
- (c) the authorised share capital of the Company was increased to £6,000,000 by the creation of an additional 599,990,000 new Ordinary Shares;
- (d) the Directors were generally and unconditionally authorised, in accordance with section 80 of the Act, to exercise all the powers of the Company to allot relevant securities; and
- (e) the Directors were further empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority described in paragraph (d) above as if section 89(1) of the Act did not apply to the allotment.

4.4 On 10 March 2006, the 100 Ordinary Shares of £0.01 each constituting the entire issued share capital of the Company were transferred to 3Legs Venture Capital plc of 2 Water Street, Ramsey, IM8 IJP, Isle of Man.

4.5 On 13 April 2006, the Directors were authorised pursuant to section 80 of the Act to allot Ordinary Shares with an aggregate nominal amount of £5,999,999 for the period ending on the earlier of the date of the first AGM of the Company and 31 August 2007. The Directors were in addition empowered to allot those shares as if the statutory pre-emption rights provided by section 89 of the Act did not apply.

4.6 On 13 April 2006, the Company allotted 159,801,500 Ordinary Shares to the shareholders of Cadogan Holdings as consideration pursuant to a share for share exchange agreement entered into with each such shareholder to acquire all of their respective shareholdings in Cadogan Holdings.

4.7 On 13 April 2006, 953,600 Ordinary Shares were allotted to investors at an aggregate subscription price of £197,109.

4.8 On 17 May 2006, 3,866,667 Ordinary Shares were allotted to investors at an aggregate subscription price of £799,627.

- 4.9** Between 8 August 2006 and 10 August 2006, 55,903,000 Ordinary Shares were allotted to investors at an aggregate subscription price of £15,261,519.
- 4.10** Between 10 January 2007 and 11 January 2007, 51,619,000 Ordinary Shares were allotted to investors at an aggregate subscription price of £14,091,987.
- 4.11** On 5 March 2007, 16,558,020 Ordinary Shares were allotted to the EBRD, One Exchange Square, London, EC2A 2JN at an aggregate subscription price of £4,520,339.
- 4.12** On 14 March 2007, 10,879,121 Ordinary Shares were allotted to investors at an aggregate subscription price of £2,970,000.
- 4.13** On 11 April 2007, 2,540,293 Ordinary Shares were allotted to investors at an aggregate subscription price of £693,500.
- 4.14** On 4 May 2007, 500,000 Ordinary Shares were allotted to Alliance Trust Pensions Limited, 131 Finsbury Pavement, London, EC2A 1NT, at an aggregate subscription price of £136,500.
- 4.15** On 12 June 2007, 1,465,202 Ordinary Shares were allotted to the EBRD, One Exchange Square, London, EC2A 2JN, at an aggregate subscription price of £400,000.
- 4.16** On 3 July 2007, at the first AGM of the Company, the Directors were authorised pursuant to section 80 of the Act to allot Ordinary Shares with an aggregate nominal amount of £138,000,000 for the period ending on the commencement of the next AGM of the Company. The Directors were in addition empowered to allot those Ordinary Shares as if the statutory pre-emption rights provided by section 89 of the Act did not apply.
- 4.17** Between 6 August 2007 and 18 September 2007, 46,290,375 Ordinary Shares were allotted to investors at an aggregate subscription price of £18,979,054.
- 4.18** On 31 August 2007, 2,740,000 Ordinary Shares were allotted to investors at an aggregate subscription price of £1,123,400.
- 4.19** On 9 October 2007, 8,741,333 Ordinary Shares were allotted to investors at an aggregate subscription price of £3,583,947.
- 4.20** On 5 November 2007, the Directors were authorised pursuant to section 80 of the Act to allot Ordinary Shares with an aggregate nominal amount of £75,000,000 for the period ending on the commencement of the next AGM of the Company.
- 4.21** On 12 November 2007, 15,246,000 Ordinary Shares were allotted to investors at an aggregate subscription price of £6,250,860.
- 4.22** On 11 December 2007, 10,384,980 Ordinary Shares were allotted to investors at an aggregate subscription price of £4,257,842.
- 4.23** On 19 December 2007, 8,264,500 Ordinary Shares were allotted to investors at an aggregate subscription price of £3,338,445.
- 4.24** On 24 December 2007, 20,528,454 Ordinary Shares were allotted to DB UK Holdings Limited, 23 Great Winchester Street, London, EC2P 2AX at an aggregate subscription price of £10,000,000. On 9 April 2008, a further 3,861,788 Ordinary Shares were allotted to DB UK Holdings Limited at £0.01.
- 4.25** On 14 January 2008, 3,731,422 Ordinary Shares were allotted to various investors at an aggregate subscription price of £1,529,833.

4.26 On 19 February 2008, 13,992,335 Ordinary Shares were allotted to investors at an aggregate subscription price of £5,736,857.

4.27 On 25 April 2008, 13,500,000 Ordinary Shares were allotted to investors at an aggregate subscription price of £5,535,000.

4.28 On 12 May 2008, 42,577,076 Ordinary Shares were allotted to investors at an aggregate subscription price of £17,456,601.

4.29 On 10 June 2008, an extraordinary general meeting of the Company was held at which resolutions were passed:

- (a) to consolidate the Company's share capital into shares of nominal value of £0.03 each;
- (b) to adopt new articles of association in the form presented to the meeting;
- (c) to increase the authorised share capital by £24,000,000 by the creation of 800,000,000 Ordinary Shares;
- (d) in substitution for any subsisting authorities to the extent unused, unconditionally to authorise the directors of the Company pursuant to section 80 of the Act to exercise all powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £21,203,690, such authority, unless previously revoked or varied by the Company in general meeting, to expire at the conclusion of the next annual general meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of that offer or agreement as if such authority had not expired; and
- (e) in substitution for any existing authorities to the extent unused, generally to authorise the directors of the Company pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in the preceding paragraph, as if section 89(1) of the Act did not apply to such allotment. This power will expire at the conclusion of the next annual general meeting of the Company, but the Company may make an offer or agreement, which would or may require equity securities to be allotted after expiry of such authority and the directors may allot equity securities in pursuance of that offer or agreement as if the power conferred by such authority had not expired. The power will be limited to:
 - (i) the allotment of equity securities for the purpose of the Global Offer;
 - (ii) the allotment of equity securities in connection with a rights issue or other pro-rata offer to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their respective holdings of such shares; and
 - (iii) allotments of equity securities otherwise than pursuant to the preceding sub-paragraphs up to an aggregate nominal amount of £985,430.

4.30 The Company's authorised and issued fully paid share capital, at the date of this Prospectus is, and immediately following the Global Offer (assuming subscription in full) will be as follows:

	Prior to the Global Offer		Following the Global Offer	
	Amount	Number of Ordinary Shares ⁽²⁾	Amount	Number of Ordinary Shares ⁽²⁾
Authorised.....	£30,000,000	1,000,000,000	£30,000,000	1,000,000,000
Issued and fully paid.....	£4,939,447.65	164,648,255	£6,932,752.02 ⁽¹⁾	231,091,734 ⁽¹⁾

- (1) Assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full.
- (2) These numbers reflect the Share Consolidation.

The par value of Ordinary Shares as at the date of this Prospectus is £0.03 each.

- 4.31** The provisions of section 89(1) of the Act (which, to the extent not disapplied pursuant to section 95 of the Act (as referred to in paragraph 4.29 above) confer on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the authorised but unissued share capital of the Company.
- 4.32** The Company had 257,078,867 Ordinary Shares in issue on 1 January 2007 and 416,282,145 Ordinary Shares in issue on 31 December 2007. Not more than 10 per cent. of the Company's issued share capital has been paid for with assets other than cash during the period covered by the financial information contained in Part XI of this Prospectus.
- 4.33** Other than as set out in paragraph 12.8 of this Part XVII, the Company does not have in issue any securities not representing share capital.
- 4.34** There are no shares in the Company which are held by, or on behalf of, the Company and none of the Company's subsidiaries holds any shares in the Company.
- 4.35** Other than as set out in paragraph 12.8 of this Part XVII, there are no outstanding convertible or exchangeable securities or securities with warrants.
- 4.36** Other than as set out in paragraphs 12.8 and 11.3 of this Part XVII, no person has any right to purchase the authorised but unissued capital of the Company and no person has been given an undertaking by the Company to increase its authorised capital.
- 4.37** No person has any rights over the capital of any of the subsidiaries of the Company and the Company has not agreed conditionally or unconditionally to grant any option over the capital of any of the subsidiaries.
- 4.38** The New Ordinary Shares will be issued free from all liens, charges, encumbrances and other third party rights and will rank *pari passu* in all respects, including the right to receive all dividends and other distributions declared, made or paid on the New Ordinary Shares from the date of issue of the New Ordinary Shares.
- 4.39** On completion of the Global Offer (assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full), the issued share capital of the Company shall be increased by 66,443,479 Ordinary Shares resulting in an immediate dilution of 40.4 per cent.
- 4.40** The Ordinary Shares will be in registered form and may be held either in certificated form or in uncertificated form through CREST.

5 Memorandum and Articles of Association

Memorandum of Association

- 5.1** The Memorandum of Association of the Company provides that the Company's objects are to carry on business as a general commercial company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association which is available for inspection as described in paragraph 25 of this Part XVII.

Articles of Association

- 5.2 The Articles were adopted pursuant to a special resolution of the Company passed on 10 June 2008 and include provisions to the following effect:

(a) Issue of Shares

Subject to the provisions of the Act and the 2006 Act (the “**Companies Acts**”) and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restriction as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine.

Subject to the Articles and to the provisions of the Companies Acts, the shares of the Company (whether forming part of the original or any increased capital) are at the disposal of the Board.

(b) Rights attaching to Shares

(i) Voting rights

Subject to the provisions of the Companies Acts and to any rights or restrictions as to voting attached to any class of shares, at a general meeting of the Company every member who is present in person or by proxy shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

Where, in respect of any shares, any member or any other person appearing to be interested in shares of the Company fails to comply with any notice given by the Company under section 793 of the 2006 Act, then the Board may suspend the voting rights attaching to such shares as described in paragraph (d) below.

(ii) Dividends

Subject to the provisions of the Companies Acts, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. Except as otherwise provided by the rights and restrictions attached to any class of shares, all dividends will be declared and paid according to the amounts paid-up on the shares on which the dividend is paid, but no amount paid on a share in advance of calls shall be treated for these purposes as paid-up on the share. Dividends may be declared and paid in any currency or currencies that the Board shall determine. Subject to the provisions of the Companies Acts, the Board may pay interim dividends if it appears to the Board that they are justified by the financial position of the Company. The Board may also pay at intervals determined by it any dividend at a fixed rate if it appears to the Board that the financial position of the Company justifies the payment.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, unless the Board decides otherwise, be forfeited and cease to remain owing by the Company.

The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares by way of scrip dividend instead of cash in respect of the whole (or some part, to be determined by the Board) of any dividend.

(iii) Distribution of assets on a winding up

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Insolvency Act 1986, divide among the members in specie (excluding any member holding treasury shares) the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he shall determine, but no member shall be compelled to accept any assets on which there is a liability.

(iv) Requirement to disclose interests in shares

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 793 of the 2006 Act and has failed in relation to any shares (the “**default shares**”) to give the Company the information thereby required within the prescribed period from the date of notice, the following sanctions shall apply:

- (A) the member shall not be entitled in respect of the default shares to attend and vote either personally or by proxy at any general meeting of the Company or to exercise any other right conferred by membership in relation to any such meeting or poll; and
- (B) where the default shares represent at least 0.25 per cent. in nominal value of their class the Board may direct that:
 - (1) any dividend or other money payable in respect of the shares shall be retained by the Company without any liability to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and
 - (2) the member shall not be entitled to transfer any of such shares unless by way of an approved transfer, which is a transfer (1) where all the shares that are the subject of the transfer are sold to an unconnected third party, or (2) which results from a sale made through a recognised investment exchange (as defined in FSMA) or any other stock exchange outside the United Kingdom on which the Company’s shares are normally traded, or (3) pursuant to an acceptance of a takeover offer.

The above restrictions shall continue until either the default is remedied or the shares are the subject of an approved transfer. Any dividends withheld shall be paid to the member as soon as practicable after the above restrictions lapse.

(v) Transfer of shares

All transfers of shares which are in certificated form may be effected by an instrument of transfer in any usual form or any other form which the Board may approve, and shall be executed by or on behalf of the transferor and, unless the share is a fully paid share, the transferee. The transferor will be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect of it.

All transfers of shares which are in uncertificated form shall be effected in accordance with the Uncertificated Securities Regulations 2001 (the “**Regulations**”).

The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer (i) is lodged, duly stamped (if stampable), at the place where the register of members of the Company is kept accompanied by the certificate for the share to which it relates and

such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of only one class of shares; and (iii) is in favour of not more than four transferees.

If the Board refuses to register a transfer of a share, it shall send the transferee notice of its refusal within two months after the date on which the instrument of transfer was lodged with the Company or the instructions of the Operator (as defined in the Regulations) were received.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a share.

(vi) Variation of rights

Subject to the provisions of the Companies Acts, if at any time the capital of the Company is divided into different classes of shares, rights attached to any class of shares may be varied or abrogated either with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares.

(vii) Lien and forfeiture

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. The Company may sell, in such manner as the Board determines, any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share, or to the person entitled to it by transmission, demanding payment and stating that if the notice is not complied with the share may be sold.

Subject to the terms of issue, the Board may from time to time make calls upon the members in respect of any amounts unpaid on their shares. Each member shall, subject to receiving at least 14 clear days' notice, pay to the Company the amount called on his shares. In the event of non-payment, the Board may give to the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

(c) Untraced members

The Company shall be entitled to sell at the best price reasonably obtainable any share of a member, or any shares to which a person is entitled by transmission, who has remained untraced for 12 years immediately prior to the date of the publication of an advertisement of an intention by the Company to make such a disposal.

(d) Changes in share capital

The Company may by ordinary resolution:

- (i) increase its share capital by new shares of such amount as the resolution prescribes;
- (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;

- (iii) subject to the provisions of the Companies Acts, sub-divide its shares or any of them and determine that any of them may have any preference or advantage or be subject to any restriction as compared with the others; and
- (iv) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the share capital by the amount of shares so cancelled.

The Company may, subject to the provisions of the Companies Acts, by special resolution reduce its share capital, capital redemption reserve, share premium account or other undistributable reserve in any way. The Company may, subject to the provisions of the Companies Acts, issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the shareholders.

(e) General meetings

All general meetings other than annual general meetings shall be called extraordinary general meetings. The Board may convene an extraordinary general meeting whenever it thinks fit. An extraordinary general meeting may also be convened by members pursuant to sections 303-305 (inclusive) of the 2006 Act.

An annual general meeting shall be convened by not less than 21 clear days' notice in writing and an extraordinary general meeting shall be convened by not less than 14 clear days' notice in writing.

The notice shall specify the day, time and place of the meeting and the general nature of the business to be transacted at the meeting. In the case of a meeting convened to pass a special resolution, the notice shall specify the intention to propose the resolution as a special resolution. The notice shall specify that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and to speak and vote instead of the member and that a proxy need not also be a member. The notice must also be given to the members (other than any who, under the provisions of the Articles or of any restrictions imposed on any shares, are not entitled to receive notice from the Company), to the directors and the auditors. The accidental omission to give notice to, or the non-receipt of notice by, any person entitled to receive the same, shall not invalidate the proceedings at the meeting.

The right of a member to participate in the business of any general meeting shall include without limitation the right to speak, vote on a show of hands, vote on a poll, be represented by a proxy or proxies and have access to all documents which are required by the Companies Acts or the Articles to be made available at the meeting.

A director shall, notwithstanding that he is not a member, be entitled to attend and speak at any general meeting. The Chairman of any general meeting may also invite any person to attend and speak at that meeting if he considers that this will assist in the deliberations of the meeting.

No business shall be transacted at any general meeting unless a quorum is present. Subject to the Articles, two persons (either members, duly authorised representatives or proxies) entitled to vote upon the business to be transacted at the meeting shall be a quorum. The Chairman of the meeting may, with the consent of the meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn the meeting from time to time (or indefinitely) and from place to place as the meeting shall determine. Where a meeting is adjourned indefinitely, the Chairman shall fix a time and place for the adjourned meeting. Whenever a meeting is adjourned for 30 days or more or indefinitely, seven clear days' notice at the least, specifying the place and time of the adjourned meeting and the general nature of the business to be transacted.

A resolution put to a vote of the meeting should be decided on a show of hands unless a poll is duly demanded. Subject to the provisions of the Companies Acts, a poll may be demanded by the Chairman, at least five members having the right to vote on the resolution, a member or

members representing not less than ten per cent. of the total voting rights of all the members having the right to vote on the resolution or a member or members holding shares conferring the right to vote on the resolution, being shares on which an aggregate sum has been paid up equal to not less than ten per cent. of the total sum paid up on all the shares conferring that right.

The Board may, for the purpose of controlling the level of attendance and ensuring the safety of those attending at any place specified for the holding of a general meeting, from time to time make such arrangements as the Board shall in its absolute discretion consider to be appropriate and may from time to time vary any such arrangements or make new arrangements in place thereof. The entitlement of any member or proxy to attend a general meeting at such place shall be subject to any such arrangements as may be for the time being approved by the Board. In the case of any meeting to which such arrangements apply the Board may, when specifying the place of the meeting:

- (i) direct that the meeting shall be held at a place specified in the notice at which the chairman of the meeting shall preside (being the principal place); and
- (j) make arrangements for simultaneous attendance and participation at other places by shareholders otherwise entitled to attend the general meeting or who wish to attend at any of such other places, provided that persons attending at the principal place and at any of such other places shall be able to see, and hear and be seen and heard by, persons attending at the principal place and at such other places, by any means.

Such arrangements for simultaneous attendance may include arrangements for controlling the level of attendance in any manner aforesaid at any of such other places, provided that they shall operate so that any excluded members are able to attend at one of such other places. Any such meeting shall be treated as being held and taking place at the principal place.

The Board may direct that any person wishing to attend any meeting should provide such evidence of identity and submit to such searches or other security arrangements or restrictions as the Board shall consider appropriate in the circumstances and shall be entitled in its absolute discretion to refuse entry to any meeting to any person who fails to provide such evidence of identity or to submit to such searches or to otherwise comply with such security arrangements or restrictions.

(f) Directors

(i) Appointment of directors

Unless otherwise determined by ordinary resolution, the number of directors (other than alternate directors) shall not be less than three nor more than fifteen. Directors may be appointed by the Company by ordinary resolution of shareholders or by the Board. A director appointed by the Board holds office only until the next following annual general meeting and shall not be taken into account in determining the number of directors who are to retire by rotation. If not re-appointed at the next annual general meeting, he shall vacate office at its conclusion.

At each annual general meeting one-third of the directors who are subject to retirement by rotation will retire by rotation and be eligible for re-appointment.

No person other than a director retiring by rotation shall be appointed a director at any general meeting unless (i) he is recommended by the Board; or (ii) not less than seven nor more than 42 days before the date appointed for the meeting, notice given by a member qualified to vote at the meeting (not being the person to be proposed) has been received by the Company of the intention to propose that person for appointment stating the particulars which would, if he were so appointed, be required

to be included in the Company's register of directors, together with notice executed by that person of his willingness to be appointed.

(ii) Removal of Directors

The Company may, by ordinary resolution, remove a director before the expiry of his period of office and may appoint another person who is willing to act to be a director in his place.

(iii) Directors' interests

Subject to the provisions of the Companies Acts, and provided that he has disclosed to the Board the nature and extent of any material interest of his, a director notwithstanding his office (i) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested; (ii) may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director; (iii) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested; and (iv) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit.

For these purposes (i) a general notice given to the Board that a director is to be regarded as having an interest of the nature and extent specified in the notice in any transaction or arrangement in which a specified person or class of persons is interested shall be deemed to be a disclosure that the director has an interest in any such transaction of the nature and extent so specified; and (ii) an interest of which a director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as an interest of his.

Except as set out in paragraphs (A) to (J) below, a director shall not vote at a meeting of the Board or a committee of the Board on any resolution of the Board concerning a matter in which he has an interest (other than by virtue of his interests in shares of, or otherwise in or through, the Company) which (together with any interest of any person connected with him) is to his knowledge material.

However, a director shall, notwithstanding such material interest, be entitled to vote in respect of any resolutions relating to:

- (A) the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;
- (B) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (C) the giving to him or any other indemnity where all other directors are being offered indemnities on substantially the same terms;
- (D) the funding by the Company of his expenditure on defending proceedings or the doing by the Company of anything to enable him to avoid incurring such

expenditure where all other directors are being offered substantially the same arrangements;

- (E) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (F) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- (G) any contract concerning any other company (not being a company in which the director owns one per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
- (H) any contract concerning the adoption, modification or operation of a pension fund, superannuation or similar scheme or retirement, death or disability benefits scheme or employees' share scheme which relates both to directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
- (I) any contract for the benefit of employees of the Company or of any of its subsidiaries under which he benefits in a similar manner to the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom the contract relates; and
- (J) any proposal concerning any insurance which the Company is empowered to purchase and/or maintain for or for the benefit of any directors of the Company or for persons who include directors of the Company.

A director is entitled to vote on the terms of appointment (including without limitation fixing or varying the terms of appointment) of any director other than his own.

(iv) Directors' conflicts of interest

For the purposes of section 175 of the 2006 Act and subject to the Articles, the directors shall have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a director under that section to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the Company. This provision will take effect on 1 October 2008 or on any earlier date on which section 175 of the 2006 Act comes into effect.

(v) Remuneration of directors

The emoluments of any director holding executive office for his services as such shall be determined by the Board, and may be of any description, including without limitation admission to, or continuance of, membership of any scheme (including any share acquisition scheme) or fund instituted or established or financed or contributed to by the Company for the provision of pensions, life assurance or other benefits for employees or their dependants, or the payment of a pension or other benefits to him or his dependants on or after retirement or death, apart from membership of any such scheme or fund.

The ordinary remuneration for the services of the directors who do not hold executive office (excluding amounts payable under any other provision of the Articles) shall not exceed in aggregate £500,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such director shall be paid a fee for their services (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the Board. Any director who does not hold executive office and who performs special services which in the opinion of the Board are outside the scope of the ordinary duties of a director may be paid such extra remuneration by way of additional fee, salary, commission or otherwise as the Board may determine.

The directors may be paid all travelling, hotel, and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

(vi) Powers of the Board

Subject to the provisions of the Companies Acts, the Company's Memorandum of Association and the Articles and to any directions given by special resolution, the business of the Company shall be managed by the Board which may exercise all the powers of the Company, including without limitation the power to dispose of all or any part of the undertaking of the Company. No alteration of the Company's Memorandum of Association or the Articles and no such direction shall invalidate any prior act of the Board which would have been valid if that alteration had not been made or that direction had not been given. A meeting of the Board at which a quorum is present may exercise all powers exercisable by the Board.

The Board may exercise the voting power conferred by the shares in any body corporate held or owned by the Company in such manner in all respects as it thinks fit (including without limitation the exercise of that power in favour of any resolution appointing its members or any of them directors of such body corporate, or voting or providing for the payment of remuneration to the directors of such body corporate).

(vii) Borrowing powers

The Board may exercise all powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures, debenture stock and other securities and to give security, whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party.

(viii) Indemnity of officers

Subject to the provisions of the Companies Acts but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every director, secretary or other officer (excluding an auditor) of the Company or of an associated company shall be indemnified by the Company against any liability incurred by him in the actual or purported exercise of his powers or otherwise in relation to or in connection with his duties, powers or office, and any director of a company that is a trustee of an occupational pension scheme for employees of the Company or of an associated company may be indemnified by the Company against liability incurred in connection with the company's activities as trustee of the scheme.

6 Directors' and Senior Management's Interests

- 6.1 The interests of the Directors and senior management, (all of which are beneficial unless otherwise stated) and persons connected with them in the issued share capital of the Company as at 17 June 2008 (being the latest practicable business day prior to the date of this Prospectus) and immediately following completion of the Global Offer (assuming no exercise of the Over-allotment Option and assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full) were as follows (assuming no dealing by any such persons between the date of this Prospectus and completion of the Global Offer):

	Prior to the Global Offer		Following the Global Offer	
	Ordinary Shares Number ⁽⁵⁾	Per Cent. ⁽⁵⁾	Ordinary Shares Number ⁽⁶⁾	Per Cent. ⁽⁶⁾
Directors and Senior Management				
Mark Tolley ⁽¹⁾	2,675,731	1.63	2,675,731	1.16
Alexander Sawka ⁽²⁾	492,035	0.30	492,035	0.21
Vasyl Vivcharyk ⁽³⁾	1,109,709	0.67	1,109,709	0.48
Peter Biddlestone.....	3,431	0.002	3,431	0.001
Nicholas Corby ⁽⁴⁾	423,333	0.26	423,333	0.18
Vladimir Jovanovic.....	216,666	0.13	216,666	0.09
Simon Duffy.....	0	0	32,609	0.01
Nicholas Hooke.....	0	0	26,087	0.01
Alan Cole.....	0	0	17,391	0.01
Philip Dayer.....	0	0	21,739	0.01

- (1) Of these Ordinary Shares, 2,671,687 are held by Marksman International Limited (South Australia), a company in which Mark Tolley is beneficially interested. 4,044 are held by his son, Sam Tolley.
- (2) All of these Ordinary Shares are held by Ryberg Limited, a company in which Alexander Sawka is beneficially interested.
- (3) Of these Ordinary Shares, 632,829 are held by Vasyl Petrovych Vivcharyk and 476,880 are held by his son, Vasyl Vasylyovych Vivcharyk.
- (4) All of these Ordinary Shares are held by Alliance Trust Pensions Limited designated to Nicholas Corby. Nicholas Corby is a partner and fund manager of Bridge Asset Management LLP which holds 2,713,578 Ordinary Shares through Standard Bank Nominees (Offshore) Limited.
- (5) These numbers reflect the Share Consolidation.
- (6) Assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full.

- 6.2 The Directors and senior management and persons connected with them are also interested in share options held by them as follows:

Directors/Senior Management	Date of Grant	Exercise Price ⁽¹⁾	Number of Ordinary Shares Subject to option ⁽¹⁾	Exercise Period
Mark Tolley ⁽²⁾	11 September 2007	£0.819	8,230,608	11 September 2007 to 10 September 2012
Alexander Sawka ⁽³⁾	11 September 2007	£0.819	2,027,243	11 September 2007 to 10 September 2012
Vasyl Vivcharyk.....	11 September 2007	£0.819	4,024,078	11 September 2007 to 10 September 2012
Vladimir Shlimak ⁽⁴⁾	19 February 2008	£1.23	216,666	19 February 2008 to 18 February 2013

- (1) These numbers reflect the Share Consolidation.
- (2) All of these options were transferred to Marksman International Limited (South Australia), a company in which Mark Tolley is beneficially interested, on 29 May 2008.
- (3) All of these options were transferred to Ryberg Limited, a company in which Alexander Sawka is beneficially interested, on 29 May 2008.
- (4) A description of the incentive scheme pursuant to which these options were granted is described further at paragraph 11.1 of this Part XVII.

- 6.3** Except as disclosed in paragraphs 6.1 and 6.2 of this Part XVII, none of the Directors or the senior management, nor any member of their respective immediate families, nor any person connected with them, hold any related financial product referenced to the Ordinary Shares.

7 Substantial Shareholders

- 7.1** The Company is aware that the following persons have at the date of this Prospectus an interest in three per cent. or more of the issued Ordinary Share capital of the Company:

	Prior to the Global Offer Ordinary Shares		Following the Global Offer Ordinary Shares	
	Number ⁽¹⁾	Per Cent. ⁽¹⁾	Number ⁽⁸⁾	Per Cent. ⁽⁸⁾
Altima Partners ⁽²⁾	17,403,819	10.57	19,617,428	8.49
HBK Master Fund LP ⁽³⁾	16,525,999	10.04	16,525,999	7.15
QVT Financial ⁽⁴⁾	13,216,837	8.03	14,323,641	6.20
European Bank for Reconstruction and Development	11,632,866	7.07	11,632,866	5.03
William Jeffcock ⁽⁵⁾	11,206,950	6.81	11,206,950	4.85
DB UK Holdings Limited	10,569,080	6.42	10,569,080	4.57
JP Morgan ⁽⁶⁾	9,000,000	5.47	9,000,000	3.89
Ingalls and Snyder LLC	7,333,333	4.45	7,333,333	3.17
Hillside Apex Fund Limited	6,977,400	4.24	6,977,400	3.02
Roy Williams ⁽⁷⁾	5,404,472	3.28	5,404,472	2.34

- (1) These numbers reflect the Share Consolidation.
- (2) Of these Ordinary Shares 9,937,153 and 1,018,293 are held by Altima Global Special Situations Master Fund Ltd and 5,840,000 and 608,373 are held by Altima Global Special Opportunities Master Fund Limited.
- (3) Of these Ordinary Shares, 15,859,333 are held by HBK Master Fund LP and 666,666 are held by its subsidiary, HBK Special Situations LP.
- (4) Of these Ordinary Shares 8,295,116 are held by QVT Fund LP, Cayman Islands, 4,273,333 are held by QVT Fund LP, USA and 648,388 are held by Quintessence Fund LP, Cayman Islands.
- (5) Of these Ordinary Shares 241 are held by himself, 9,327,250 are held by 3Legs Resources Plc and 1,879,459 are held by Tomuro Limited, companies in which he is interested.
- (6) All of these Ordinary Shares are held by Chase Nominees Limited.
- (7) Of these Ordinary Shares 4,888,397 are held by himself and 516,075 are held by Mustardseed Estates Limited, a company in which he is interested.
- (8) Assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full.

- 7.2** In connection with the Global Offer Altima Partners has acquired 2,213,609 Ordinary Shares at the Offer Price and QVT Financial has acquired 1,106,804 Ordinary Shares at the Offer Price. Each of these entities is also an Over-allotment Option Shareholder, further details of which are found in paragraph 20 of this Part XVII.

- 7.3** Save as disclosed in this paragraph 7 and paragraph 6 of this Part XVII, and insofar as the Company has the information, the Company is not aware of any person or persons who either alone or, if connected, jointly following the completion of the Global Offer, will (directly or indirectly) exercise or could exercise control over the Company. There are no contractual measures in place to ensure that control is not abused.

- 7.4** The Company's shareholders listed in this paragraph 7 and paragraph 6 of this Part XVII, do not have different voting rights from other holders of Ordinary Shares.

- 7.5** The Directors are not aware of any arrangements in place or under negotiation which may, at a subsequent date, result in a change of control of the Company.

8 Additional Information on the Directors and Senior Management

- 8.1** Other than in respect of the Company, the Directors and the senior management have held the following directorships or been partners in the following partnerships within the five years prior to the date of this Prospectus:

Director / Senior Management	Current	Past
Simon Duffy	Cell C (pty) Limited Oger Telecom Limited mBlox Inc. Modern Times Group MTG AB Imedia Holdings Limited Sybic Capital Limited Sybic Finance Limited Sybic Investments Limited Sybic Limited Sybic Properties Limited Sybic Entertainment Limited Sybic Group Limited Sybic Holdings Limited Sybic Management Limited Sybic Productions Limited Vector Hospitality plc Vector Subco Limited	NTL Inc. Imperial Tobacco Group plc Amteus plc Tradus PLC GWR Group plc
Mark Tolley	Marksman International Limited Marksman International Technology Limited Natural Resources Company Limited Hillview Partnership	
Alexander Sawka	Ryberg Limited	OJSC Liski Sukar
Vasyl Vivcharyk	–	–
Peter Biddlestone	Petroc Holdings Limited Petroc Energy Services Limited Petroc Property Limited	Genesis Energy Limited IEG (Asia Pacific) Limited
Nicholas Hooke	Challenge Energy Limited Challenge Oil & Gas Limited Challenge Gas Trading Limited	
James Donaldson	A/D Holdings L.P. Segway, LLC – Manager Fairway, LLC – Manager Castlegate Resources LLC Siguey, LLC Anderman Oils Utah, Inc. Aquila LLC Arcos LLC	A/D Holdings International Corporation L.L.C. Chernogorskoye Anderman/Smith Overseas, Inc. Anderman/Smith Operating, L.L.C. Anderman International Corporation Anderman Operating Company, Inc. Anderman/Smith International – Chernogorskoye Anderman/Smith International – Lago Mercedes
Nicholas Corby	Bridge Asset Management LLP	Argo Capital Limited
Philip Dayer	Aveva Group plc Aveva Solutions Limited County Contract Centres (UK) Limited County Contract Centres plc Dana Petroleum plc Baltic Oil Terminals plc Arden Partners plc Arden Partners EBT Limited First Choice Films 1 LLP	–

Director / Senior Manager	Current	Past
Alan Cole	NAFFI Incorporated Trustees NAAFI Pension Fund Trustees Hexadex Limited Milles Holdings Limited Notting Hill Developments Limited JPMorgan Income & Growth Investment Trust plc Cannonbury Developments Limited Notting Hill Brentford Limited	JPMorgan Fleming Income & Growth Investment Trust plc Low & Bonar Public Limited Company London International Exhibition Centre Holdings plc London International Exhibition Centre plc Navy, Army and Air Force Institutes, (The) Low & Bonar Pension Trustees Limited Burren Energy plc Hampton Trust plc Hampton Investment Properties Limited Mount Street Properties Limited Parkers Transport Limited
Vladimir Jovanovic	WERP d.o.o. Holdings and Projects Limited	Innovative Quality Products and Services Limited
Vladimir Shlimak	–	CJSC Integra Management Ural Oil & Gas LLP

8.2 Peter Biddlestone was a director of Genesis Energy Limited when it was put into compulsory receivership in August 2001 and subsequently wound up on an insolvent basis in October 2001, with amounts owing to creditors of £700.

8.3 Save as disclosed in paragraph 8.2 of this Part XVII, none of the Directors or the senior management has at any time within the last five years:

- (a) any unspent convictions in relation to indictable offences or convictions in relation to fraudulent offences;
- (b) had any bankruptcy order made against him or entered into any voluntary arrangements;
- (c) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors;
- (d) been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement;
- (e) been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership;
- (f) been subject to any official public incrimination or sanctions or publicly criticised by any statutory or regulatory authority (including recognised professional bodies); or
- (g) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

8.4 Save as disclosed in this Prospectus, no Director or senior management has or has had any interest in any transaction which is or was significant in relation to the business of the Group and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

8.5 As at 17 June 2008 (being the latest practicable date prior the publication of this Prospectus), no Director or member of senior management has any potential conflict of interest between his duties to the Company and his private interest or other duties, and there are no arrangements

or understandings with major shareholders, customers, suppliers or others pursuant to which any person was selected as a member of the administrative, management or supervisory bodies or as a member of senior management.

8.6 There are no outstanding loans granted by any member of the Group to any Director or senior manager, nor has any guarantee been provided by any member of the Group for their benefit.

8.7 There are no family relationships between the Directors and the senior management.

9 Directors' Service Contracts and Remuneration

The services of the Directors are provided to the Company under the following agreements:

9.1 Simon Duffy

On 9 May 2008, Simon Duffy entered into a letter of appointment with the Company to serve as the Non-executive Chairman of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Simon Duffy. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Simon Duffy is £120,000 per annum to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. In addition, if the Company requires Simon Duffy to provide his services for more than 60 working days per annum, an additional fee shall be payable to Simon Duffy of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work).

9.2 Mark Tolley

On 9 August 2007, Mark Tolley entered into a service agreement with Cadogan Holdings (the "**Original MT Service Agreement**"). The service agreement, was for an initial period of two years from 15 February 2006 and may now be terminated by either party giving not less than six months' notice in writing. The service agreement contains provisions for early termination, *inter alia*, in the event of a breach by Mark Tolley. The service agreement makes no provision for any termination benefits except in the event of a change of control of the Company where he is entitled to 12 months' salary on termination by the Company. Mark Tolley is entitled to a basic salary of £30,000 per annum (to be reviewed and determined by the remuneration committee as appropriate) and reimbursement of all expenses reasonably and properly incurred. Mark Tolley is entitled to participate in the Company's death in service benefits scheme. Mark Tolley is also entitled to participate in the Company's private medical expenses insurance scheme for the benefit of himself, his wife and his children who are under the age of 18. The service agreement contains restrictive covenants for a period of 12 months following termination of this employment. On 29 May 2008, Mark Tolley entered into a new service agreement with the Company on materially the same terms as the Original MT Service Agreement save that Mark Tolley is now entitled to a basic salary of £40,000 per annum.

On 9 August 2007, Mark Tolley and Marksman International Limited ("**Marksman**") entered into a consultancy agreement with Cadogan Holdings (the "**Original MT Consultancy Agreement**") in relation to providing the services of Mark Tolley to act as petroleum engineer and Chief Executive Officer of the Company. The consultancy agreement was for an initial period of two years from 15 February 2006 and may now be terminated by any party giving not less than six months' notice in writing. The consultancy agreement contains provisions for early termination, *inter alia*, in the event of a breach by Mark Tolley. The consultancy agreement makes no provision for any termination benefits. Marksman is entitled to a basic fee of £200,000 per annum and reimbursement of all expenses reasonably and properly incurred by Mark Tolley. On 29 May 2008, Mark Tolley and Marksman entered into a new consultancy agreement with the

Company on materially the same terms as the Original MT Consultancy Agreement save that Marksman is now entitled to a basic fee of £230,000 per annum (the “**Basic Fee**”) and if certain operational, financial and strategic targets are met or exceeded up to 100 per cent. and up to 150 per cent. respectively of the Basic Fee. Marksman is also eligible to acquire share options under the share option schemes adopted by the Company from time to time and to participate in the Company’s performance share plan.

9.3 Alexander Sawka

On 9 August 2007, Alexander Sawka entered into a service agreement with Cadogan Holdings (the “**Original AS Service Agreement**”). The service agreement was for an initial period of two years from 15 February 2006 and may now be terminated by either party giving not less than six months’ notice in writing. The service agreement contains provisions for early termination, *inter alia*, in the event of a breach by Alexander Sawka. The service agreement makes no provision for any termination benefits except in the event of a change of control of the Company where he is entitled to 12 months’ salary on termination by the Company. Alexander Sawka is entitled to a basic salary of £20,000 per annum (to be reviewed and determined by the remuneration committee as appropriate) and reimbursement of all expenses reasonably and properly incurred. Alexander Sawka is entitled to participate in the Company’s death in service benefits scheme. Alexander Sawka is also entitled to participate in the Company’s private medical expenses insurance scheme for the benefit of himself, his wife and his children who are under the age of 18. The service agreement contains restrictive covenants for a period of 12 months following termination of this employment. On 29 May 2008, Alexander Sawka entered into a new service agreement with the Company on materially the same terms as the Original AS Service Agreement save that Alexander Sawka is now entitled to a basic salary of £40,000 per annum.

On 9 August 2007, Alexander Sawka and Ryberg Limited (“**Ryberg**”) entered into a consultancy agreement with Cadogan Holdings (the “**Original AS Consultancy Agreement**”) in relation to providing the services of Alexander Sawka to act as Chief Finance Officer of the Company. The consultancy agreement was for an initial period of two years from 15 February 2006 and may now be terminated by any party giving not less than six months’ notice in writing. The consultancy agreement contains provisions for early termination, *inter alia*, in the event of a breach by Alexander Sawka. The consultancy agreement makes no provision for any termination benefits. Ryberg is entitled to a basic fee of £154,000 per annum and reimbursement of all expenses reasonably and properly incurred by Alexander Sawka. On 29 May 2008, Alexander Sawka and Ryberg entered into a new consultancy agreement with the Company on materially the same terms as the Original AS Consultancy Agreement save that Ryberg is now entitled to a basic fee of £140,000 per annum (the “**Basic Fee**”) and if certain operational, financial and strategic targets are met or exceeded up to 100 per cent. and up to 150 per cent. respectively of the Basic Fee. Ryberg is also eligible to acquire share options under the share option schemes adopted by the Company from time to time and to participate in the Company’s performance share plan.

9.4 Vasyl Vivcharyk

On 15 August 2007, Vasyl Vivcharyk entered into a service agreement with Cadogan Holdings (the “**Original VV Service Agreement**”). The service agreement was for an initial period up to 1 January 2008 and may now be terminated by either party giving not less than six months’ notice in writing. The service agreement contains provisions for early termination, *inter alia*, in the event of a breach by Vasyl Vivcharyk. The service agreement makes no provision for any termination benefits except in the event of a change of control of the Company where he is entitled to 12 months’ salary on termination by the Company. Vasyl Vivcharyk is entitled to a basic salary of £24,000 per annum (to be reviewed and determined by the remuneration committee as appropriate) and reimbursement of all expenses reasonably and properly incurred. Vasyl Vivcharyk is entitled to participate in the Company’s death in service benefits scheme. Vasyl Vivcharyk is also entitled to participate in the Company’s private medical expenses insurance scheme for the benefit of himself, his wife and his children who are under the age of 18. The service agreement contains restrictive covenants for a period of 12 months following

termination of this employment. On 29 May 2008, Vasyl Vivcharyk entered into a new service agreement with the Company on materially the same terms as the Original VV Service Agreement save that Vasyl Vivcharyk is now entitled to a basic salary of £40,000 per annum.

On 15 August 2007 Vasyl Vivcharyk entered into a consultancy agreement with Cadogan Holdings (the “**Original VV Consultancy Agreement**”) in relation to providing his services to act as Chief Operating Officer of the Company. The consultancy agreement was for an initial period of six months from 1 July 2007 and may now be terminated by either party giving not less than six months’ notice in writing. The service agreement contains provisions for early termination, *inter alia*, in the event of a breach by Vasyl Vivcharyk. The consultancy agreement makes no provision for any termination benefits. Vasyl Vivcharyk is entitled to a basic fee of £76,000 per annum and reimbursement of all expenses reasonably and properly incurred. On 29 May 2008, Vasyl Vivcharyk entered into a new consultancy agreement with the Company on materially the same terms as the Original VV Consultancy Agreement save that Vasyl Vivcharyk is now entitled to a basic fee of £140,000 per annum (the “**Basic Fee**”) and if certain operational, financial and strategic targets are met or exceeded up to 100 per cent. and up to 150 per cent. respectively of the Basic Fee. Vasyl Vivcharyk is also eligible to acquire share options under the share option schemes adopted by the Company from time to time and to participate in the Company’s performance share plan.

9.5 Peter Biddlestone

On 29 May 2008, Peter Biddlestone entered into a service agreement with the Company. The service agreement was for an initial period of two years from 18 April 2008 and may be terminated by either party giving not less than six months’ notice in writing. The service agreement contains provisions for early termination, *inter alia*, in the event of a breach by Peter Biddlestone. The service agreement makes no provision for any termination benefits except in the event of a change of control of the Company where he is entitled to 12 months’ salary on termination by the Company. Peter Biddlestone is entitled to a basic salary of £180,000 per annum (the “**Basic Salary**”) (to be reviewed and determined by the remuneration committee as appropriate), reimbursement of all expenses reasonably and properly incurred and if certain operational, financial and strategic targets are met or exceeded up to 100 per cent. or up to 150 per cent. respectively of the Basic Salary. Peter Biddlestone is entitled to participate in the Company’s death in service benefits scheme. Peter Biddlestone is also entitled to participate in the Company’s private medical expenses insurance scheme for the benefit of himself, his wife and his children who are under the age of 18. The service agreement contains restrictive covenants for a period of 12 months following termination of this employment.

9.6 Philip Dayer

On 9 May 2008, Philip Dayer entered into a letter of appointment with the Company to serve as the senior independent Non-executive Director of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months’ written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Philip Dayer. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Philip Dayer is £40,000 per annum to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. An additional fee of £5,000 shall be payable to Philip Dayer if he is appointed a chairman of a Board committee. In addition, if the Company requires Philip Dayer to provide his services for more than 20 working days per annum, an additional fee shall be payable to Philip Dayer of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work)

9.7 Alan Cole

On 9 May 2008, Alan Cole entered into a letter of appointment with the Company to serve as a Non-executive Director of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Alan Cole. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Alan Cole is £40,000 per annum to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. An additional fee of £5,000 shall be payable to Alan Cole if he is appointed a chairman of a Board committee. In addition, if the Company requires Alan Cole to provide his services for more than 20 working days per annum, an additional fee shall be payable to Alan Cole of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work).

9.8 James Donaldson

On 2 April 2007, James Donaldson entered into a letter of appointment with the Company to serve as a Non-executive Director of the Company with effect from 2 April 2007. On 17 June 2008, James Donaldson entered into a new letter of appointment with the Company. This letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by James Donaldson. The letter of appointment makes no provision for any termination benefits. The basic fee payable to James Donaldson is £40,000 per annum to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. An additional fee of £5,000 shall be payable to James Donaldson if he is appointed a chairman of a Board committee. In addition, if the Company requires James Donaldson to provide his services for more than 20 working days per annum, an additional fee shall be payable to James Donaldson of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work).

9.9 Nicholas Hooke

On 9 May 2008, Nicholas Hooke entered into a letter of appointment with the Company to serve as a Non-executive Director of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Nicholas Hooke. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Nicholas Hooke is £40,000 per annum to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. An additional fee of £5,000 shall be payable to Nicholas Hooke if he is appointed a chairman of a Board committee. In addition, if the Company requires Nicholas Hooke to provide his services for more than 20 working days per annum, an additional fee shall be payable to Nicholas Hooke of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work).

9.10 Nicholas Corby

On 19 December 2006, Nicholas Corby entered into a letter of appointment with the Company to serve as a Non-executive Director of the Company with effect from 19 December 2006. On 29 May 2008, Nicholas Corby entered into a new letter of appointment with the Company. This

letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Nicholas Corby. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Nicholas Corby is £40,000 per annum to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. An additional fee of £5,000 shall be payable to Nicholas Corby if he is appointed a chairman of a Board committee. In addition, if the Company requires Nicholas Corby to provide his services for more than 20 working days per annum, an additional fee shall be payable to Nicholas Corby of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work).

9.11 In the 12 month period ended 31 December 2007, the total aggregate remuneration paid and benefits-in-kind granted to the Directors and the senior management was £1,133,665. The amount paid to Directors and senior management was broken down as follows:

Name	Fee/Basic Salary (£)	Compensation before			Total (£)
		Bonus (£)	benefits (£)	Benefits (£)	
Mark Clifton Tolley	273,758	–	273,758	4,662	278,420
Alexander Sawka	221,030	–	221,030	7,547	228,577
Vasyl Petrovych Vivcharyk	96,010	–	96,010	–	96,010
Peter Anthony Biddlestone	177,100	–	177,100	–	177,100
James Charles Donaldson	49,833	–	49,833	–	49,833
Nicholas Charles Corby	27,500	–	27,500	–	27,500
William Parkyn Home Jeffcock	55,221	–	55,221	–	55,221
Ian Ronald Baron	61,404	–	61,404	–	61,404
Vladimir Jovanovic	159,600	–	159,600	–	159,600

Note: In addition to fees payable as Directors, certain Non-executive Directors received consultancy fees on an invoice basis. These amounts are included above.

The amounts payable to Directors, and senior management by the Group under the arrangements in force at the date of this Prospectus in respect of the year ending 31 December 2008 are estimated to be £1,555,250 which is broken down as follows:

Name	Fee/Basic Salary (£)	Compensation before			Total (£)
		Bonus (£)	benefits (£)	Benefits (£)	
Simon Patrick Duffy	90,000	–	90,000	–	90,000
Mark Clifton Tolley	256,000	–	256,000	57,000	313,000
Alexander Sawka	179,000	–	179,000	42,000	221,000
Vasyl Petrovych Vivcharyk	153,000	–	153,000	18,000	171,000
Peter Anthony Biddlestone	240,000	–	240,000	18,000	258,000
Philip John Dayer	41,250	–	41,250	–	41,250
Alan Jack Cole	33,000	–	33,000	–	33,000
James Charles Donaldson	33,000	–	33,000	–	33,000
Nicholas John Hooke	33,000	–	33,000	–	33,000
Nicholas Charles Corby	41,000	–	41,000	–	41,000
Vladimir Jovanovic	192,000	–	192,000	–	192,000
Vladimir Shlimak	105,000	–	105,000	24,000	129,000

Note: In addition to fees payable to Directors, certain Non-executive Directors may receive consultancy fees on an invoice basis. An estimate of the consultancy fees for the year ending 31 December 2008 are included in the above figures.

9.12 Except as set out above, there are no liquidated damages or other compensation or benefits payable by the Company upon termination of the Directors' or senior management contracts.

9.13 The total amount set aside or accrued to provide pension, retirement or other benefits to all of the Directors and senior management, in aggregate, in the year ended 31 December 2007 was £0.

10 Pensions

10.1 United Kingdom

On 29 May 2008, the Company approved the adoption of a defined contribution pension scheme for the benefit of its UK employees. The Company will contribute double the amount contributed by each UK employee subject, in each case, to a maximum contribution by the Company of 10 per cent. of the UK employee's salary.

10.2 Ukraine

In accordance with Ukrainian legislation, the Group contributes to a Ukrainian state-administered pension fund in respect of its Ukrainian and foreign national employees. The employer's contribution as at the date of this Prospectus, is 33.2 per cent. and 2 per cent. is withheld from the gross salary of each employee.

11 Incentive Schemes

11.1 Share scheme

The Company has granted options (described at paragraph 6.2 of this Part XVII) over its Ordinary Shares to certain Directors pursuant to the terms of the employee share option scheme (the "Share Scheme").

The Company adopted the Share Scheme on 20 April 2006. The Share Scheme is an unapproved scheme i.e. neither by HMRC nor the tax authority of any jurisdiction in which options may be granted.

The principal terms of the Share Scheme are summarised below:

(a) Eligibility

All employees and directors of any member of the Group may be selected for participation in the Share Scheme at the discretion of the Company's remuneration committee, provided that they are not within two years of their normal retirement date. The Board may also at its discretion grant options to any person (including corporate entities) who is a contractor, or consultant or otherwise provides services or whose services are otherwise provided to any member of the Group (such persons will be referred to as service providers for the purpose of this description of the Share Scheme).

(b) Grant of options

Options may only be granted under the Share Scheme:

- (i) within the period of six weeks beginning on the dealing day immediately following the date on which the Company announces its final or interim results; or
- (ii) within the period of six weeks beginning with the commencement of a person's employment or the commencement of a service provider's contract for services.

(c) Option price

Options will be granted at a price which represents not less than the market value of the Ordinary Shares on the last dealing day before the grant date, or if greater the nominal value of the Ordinary Shares.

(d) Performance criteria and vesting

Options may be granted subject to specified conditions (to be determined by the Board prior to grant). Where performance conditions are set, the options will only be exercisable if such conditions are met. Options may also be granted subject to staged vesting. The Board has exercised its discretion to specify a vesting schedule in respect of the options granted to Alexander Sawka, Mark Tolley, Vasyl Vivcharyk and Vladimir Shlimak, described further at paragraph 6.2 of this Part XVII.

(e) Normal exercise periods

The Board may at its discretion specify when an option becomes capable of exercise by a participant. No option may be exercised more than 5 years after the grant date.

(f) Other exercise periods

Options may be exercised by a participant's personal representatives at any time following the death of a participant. Any options which have not vested at the time of death will immediately vest. When Options have been granted to a company or other entity for whom a person provides services, and the person who provides services dies, such options may be exercised following that person's death. In all other cases, other than serious injury, ill-health or disability, where a participant ceases to be a director, or employee of any member of the Group or where a service provider's contract for services is terminated, the participant's unvested options will lapse immediately. Vested options may be exercised at any time after the termination of the office, employment or engagement. Where a participant's office, employment or engagement ends due to serious injury, ill-health or disability, any unvested options will automatically vest and will remain exercisable. If a participant has committed acts of fraud or gross misconduct, his options will lapse immediately.

Where a person ceases to be an employee or director, but immediately becomes a service provider or provides his services through a service provider, or where a person whose services are provided through a service provider becomes an employee or director, the Board shall exercise their discretion to determine whether the options should lapse.

(g) Limitations on Share Scheme

The maximum number of shares over which options to subscribe may be granted, under the Share Scheme where aggregated with shares issued under any other share option plan operated by the Company, may not in any ten year period exceed 15 per cent. of the issued ordinary share capital of the Company.

(h) Changes in control and winding up

In the event of a change of control of the Company, options may be exercised within one month of such event (or such other period as may be permitted by the Board or as may be appropriate under Chapter 3 of Part 28 of the 2006 Act) or may be released in exchange for options of equivalent value in relation to shares in the acquiring company or another eligible company.

In the event of the reconstruction, amalgamation or change in control of the Company pursuant to section 895 of the 2006 Act, Options may be released in exchange for new options as mentioned above exercised. In the event of the voluntary winding up of the Company, or under section 895 of the 2006 Act the court sanctions a compromise or arrangement for the reconstruction or change in control of the company any options may be exercised within six months and thereafter will lapse.

Where an event of change of control happens, all options granted to a participant shall become capable of exercise irrespective of whether any performance conditions have been met and irrespective of any staged vesting.

(i) Variations of capital

If an increase or variation in the capital of the Company occurs by reason of a capitalisation or rights issue (including an increase or variation having similar effect to a rights issue) or a sub-division, consideration or reduction, then the Board will make appropriate adjustments to the exercise price and/or the number of shares under option and/or the Share Scheme limits, provided that the Board have been independently advised in writing that such adjustments are fair and reasonable.

(j) Overseas participants

Options may be granted to non-UK resident participants. Where such options are granted, the Board may at their discretion make such alterations or additions to the Share Scheme rules as are necessary, having regard to any sanctions, exchange control, or taxation laws or regulations or similar factors which may apply to the participant or the Company.

(k) Amendment and termination

The principal terms of the Share Scheme may only be amended to the advantage of participants or potential participants with the period consent of the Company in general meeting, save that any amendment may be made without such authority if it is to be made to obtain or maintain favourable tax treatment for participants or is a minor change to benefit the administration of the Share Scheme.

(l) Tax indemnity

All participants are required to indemnify and keep indemnified the Group (as far as is legally possible) against any liability to tax arising from the grant, assignment, or exercise of options, the issue of shares or any other event under the scheme which may give rise to a tax liability.

(m) Assignment

A participant may assign or transfer his option to his immediate family, a connected company, or place such option on trust for himself or his family. The assignment on transfer of any option shall be conditional upon the assignee agreeing to indemnify the Company for any tax liability of the Company as set out in paragraph 11.1 of this Part XVII. Following the assignment or transfer of an option, or the placing of any option in any trust, any performance conditions imposed will continue to be those of the original participant.

11.2 Performance Share Plan

On 29 May 2008, the Company adopted the 2008 Performance Share Plan (the “PSP”). The principal features of the PSP are outlined below.

(a) Operation

The PSP is administered by two committees. The Company’s Remuneration Committee (the “Committee”) is responsible for granting awards to and administering the PSP with regard to executive directors and other senior employees of the Group. The Board (or a duly authorised committee of the Board) is responsible for granting awards to and administering the PSP with regard to all other participants in the PSP. The term ‘the Committee’ will refer to the administering body that is responsible for the appropriate award depending on the participant.

The PSP is discretionary and will operate only in those years that the Committee determines. Currently, it is expected that awards will be granted annually.

(b) Eligibility

Any employee or executive director of the Group or an individual engaged in a contract for services who devotes substantially all of his working time to the Group, will be eligible to participate in the PSP at the discretion of the Committee. However, it is currently intended to only offer participation to executive directors and other senior employees of the Group.

(c) Grant of awards

Awards, in the form of conditional awards of shares, share options or restricted shares may be granted within the six weeks following the date of Admission. Thereafter, awards may normally be granted only in the six weeks following the announcement by the Company of its results for any period, or following a change in the legislation relating to share plans or where there are circumstances considered by the Committee to be exceptional. Awards may also be granted outside these periods in connection with the commencement of an eligible participant's employment if this is considered appropriate by the Committee. However, at all times, the grant of awards will be subject to the terms of the Model Code for transactions in securities by directors, as set out in the Listing Rules and other similar applicable local legislation.

No awards may be granted later than ten years after the adoption of the PSP by the Company.

Awards may be granted over newly issued shares, treasury shares (if and to the extent permitted by company law) and shares purchased in the market in conjunction with an employee benefit trust established by the Company.

The Committee may determine that the number of shares subject to an award shall, at vesting, increase by such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on those shares during the vesting period.

No payment will be required for the grant of an award. Awards are not transferable (other than on death) without the consent of the Committee. Participants may, subject to receiving the Committee's consent, transfer their awards to their personal service company or a connected person. Awards will not be pensionable.

(d) Individual limits

No employee may be granted an award under the PSP in any financial year over shares worth more than 200 per cent. of base salary, unless the Committee determines that exceptional circumstances exist which justify exceeding this limit, in which case awards shall not exceed 400 per cent. of base salary. It is currently intended that awards will be made over a maximum of 150 per cent. of base salary.

In applying this limit, no account will be taken of shares representing notional reinvestment of dividends on awards.

(e) Limits on the issue of shares

The PSP is subject to the following overall limits on the number of new Ordinary Shares which may be subscribed:

- in any ten year period not more than ten per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights

acquired under the PSP and any other employees' share schemes adopted by the Company; and

- in any ten year period not more than five per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights acquired under the PSP and under any discretionary executive share plan adopted by the Company, except to the extent that awards are subject to significantly more stretching performance conditions.

For the purposes of these limits, awards or other rights to acquire shares which lapse or have been released, or awards which were granted, under the PSP or any other share incentive plan, on or prior to the Company's listing do not count.

However, shares subscribed by the trustees of an employee benefit trust to satisfy rights granted under any employees' share schemes adopted by the Company do count towards these limits.

While it remains best practice to do so, treasury shares will be treated as newly issued for the purpose of these limits.

(f) Vesting of awards

Subject to the performance conditions having been satisfied, awards will normally vest and (in the case of options) become capable of exercise on the third anniversary of the date of grant.

Thereafter, subject to the participant discharging any relevant tax liability, options may be exercised at any time in part or in full before the tenth anniversary of the date of grant of the award.

(g) Performance conditions

It is normally intended that the vesting of awards will be subject to performance conditions which will determine how many (if any) of the shares or options awarded will vest at the end of the performance period.

It is intended that the initial grant of awards under the PSP will have performance conditions which relate to oil production targets. Such targets will be determined by the Remuneration Committee prior to the date of grant.

The Committee will review the performance conditions for future awards regularly to ensure they are appropriate for the Company and the prevailing recruitment market.

The performance conditions may be varied in certain circumstances following the grant of an award so as to achieve their original purpose, taking into account the interests of the shareholders of the Company, but not so as to make their achievement any more or less difficult to satisfy.

(h) Leavers

If a participant leaves employment of the Group by reason of death, injury, disability, retirement by agreement with the company that employs him or the sale of the business for which he works to a third party the Committee may determine that an award, which has not yet vested, will vest (and in the case of options) become capable of exercise, taking into account the time which has elapsed between the date of grant of that award and the date of leaving and the extent to which performance conditions have been satisfied at that date. Alternatively, the Committee may determine that an award will vest (and in the case of options become capable of exercise) on its original vesting date, depending on the time

which has elapsed between the date of grant of that award and the date of leaving and the extent to which performance conditions have been satisfied at the vesting date. In determining the proportion of an award which vests, in both cases, the Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

If a participant ceases to be an employee of the Group for any other reason, his award will normally lapse unless and to the extent the Committee decides otherwise.

(i) Change of Control

In the event of a takeover, reconstruction or winding up of the Company, the Committee shall have the discretion to determine that an award, which is not yet vested, will vest (and in the case of options become capable of exercise) taking into account the time which has elapsed between the date of grant of that award and the date of change of control and the extent to which performance conditions have been satisfied at that date. Again, in determining the proportion of an award which vests, the Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

Alternatively, awards may (or, if the Committee so determines, shall) be exchanged for new equivalent awards where appropriate. In this case the performance conditions will continue unless the Committee determines otherwise.

(j) Rights attaching to shares

Shares allotted or transferred under the PSP will rank equally with all other Ordinary Shares for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the award). The Company will apply for the listing of any new shares allotted under the PSP.

The Committee may also satisfy awards in cash provided the participant receives the same economic value as would have been provided by an award over shares.

(k) Variation of capital

In the event of any variation of share capital, demerger or other corporate event the Committee may make such adjustments as it considers appropriate to the number of shares subject to awards.

(l) Amendment and termination

The PSP may be altered by the Board so long as the alternation or addition is minor in nature or made to benefit the administration of the PSP, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment to take account of The London Stock Exchange or any other regulatory body. Any alternations or additions to the PSP would require the approval by an ordinary resolution of shareholders at a general meeting of the Company.

The Board may also establish further schemes based on the PSP to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further schemes are treated as counting against any limits on individual or overall participation in the PSP.

The PSP will terminate on the tenth anniversary of its adoption by the Company, or such earlier time as the Committee or the Board may determine, but the rights of existing participants will not be prejudiced.

(m) Contractual implications

Participation in the PSP is discretionary and is not intended to confer on a participant:

- Any legal right to continue to be eligible for awards under the PSP;
- A right to continued employment; or
- A right to damages for loss of the award on cessation of employment.

(n) Governing law

The PSP is governed in accordance with English law and the parties submit to the jurisdiction of the English courts.

11.3 Share Option Plan

On 29 May 2008, the Company adopted the Share Option Plan (the “**2008 Option Plan**”). The principal features of the 2008 Option Plan are outlined below.

(a) Operation

The 2008 Option Plan is administered by two committees. The Company’s Remuneration Committee is responsible for granting options to and administering the 2008 Option Plan with regard to executive directors and other senior employees of the Group. The Board (or a duly authorised committee of the Board) is responsible for granting options to and administering the 2008 Option Plan with regard to all other participants in the 2008 Option Plan. The term ‘the Committee’ will refer to the administering body that is responsible for the appropriate award depending on the participant.

The 2008 Option Plan is discretionary and will operate only in those years that the Committee determines. It is currently anticipated that the 2008 Option Plan will only be used to make awards to executive directors in exceptional circumstances (e.g. recruitment or retention), and to make awards to employees below Board level as appropriate.

(b) Eligibility

Any employee (or executive director in the exceptional circumstances described above) of the Group or an individual engaged in a contract for services who devotes substantially all of his working time to the Group, will be eligible to participate in the 2008 Option Plan at the discretion of the Committee.

(c) Grant of options

Options may be granted within the six weeks following the date of Admission. Thereafter, options may normally be granted only in the six weeks following the announcement by the Company of its results for any period, or following a change in the legislation relating to share option plans or where there are circumstances considered by the Committee to be exceptional. Options may also be granted outside these periods in connection with the commencement of an eligible participant’s employment if this is considered appropriate by the Committee. However, at all times, the grant of options will be subject to the terms of the Model Code for transactions in securities by directors, as set out in the Listing Rules and other similar applicable local legislation.

No options may be granted later than ten years after the adoption of the 2008 Option Plan by the Company.

Options may be granted over newly issued shares, treasury shares (if and to the extent permitted by company law) and shares purchased in the market in conjunction with an employee benefit trust established by the Company.

The Committee may determine that the number of shares subject to an option shall, at vesting/exercise, increase by such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on those shares during the vesting period.

No payment will be required for the grant of an option. Options are not transferable (other than on death) without the consent of the Committee. Participants may, subject to receiving the Committee's consent, transfer their options to their personal service company or a connected person. Options will not be pensionable.

(d) Individual limits

No employee may be granted options under the 2008 Option Plan in any financial year over shares worth more than 200 per cent. of base salary, unless the Committee determines that exceptional circumstances exist which justify exceeding this limit, in which case options shall not exceed 400 per cent. of base salary.

In applying this limit no account will be taken of shares representing notional reinvestment of dividends on options.

(e) Option exercise price

The price per share payable on the exercise of an option will not be less than the higher of:

- the closing middle market quotation for a share for the dealing day immediately preceding the date the option is to be granted or, if the Committee so determines, the average of such quotations for the three dealing days (or such other number of dealing days as the Committee decides) immediately preceding the date the option is to be granted; and
- where shares are to be subscribed, their nominal value.

(f) Limits on the issue of shares

The 2008 Option Plan is subject to the following overall limits on the number of new Ordinary Shares which may be subscribed:

- in any ten year period not more than ten per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights acquired under the 2008 Option Plan and any other employees' share schemes adopted by the Company; and
- in any ten year period not more than five per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights acquired under the 2008 Option Plan and under any discretionary executive share plan adopted by the Company, except to the extent that options are subject to significantly more stretching performance conditions.

For the purposes of these limits, options or other rights to acquire shares which lapse or have been released, or options or awards which were granted under the 2008 Option Plan or any other share incentive plan, on or prior to Admission do not count.

However, shares subscribed by the trustees of an employee benefit trust to satisfy rights granted under any employees' share schemes adopted by the Company do count towards

these limits. Where instead of paying the exercise price, an option exercise is satisfied by the number of shares representing the growth in value of a share between the exercise price and the market value at the date of exercise, only the number of shares actually issued shall count towards these limits.

While it remains best practice to do so, treasury shares will be treated as newly issued for the purpose of these limits.

(g) Exercise of options

Subject to the participant discharging any relevant tax liability, an option will normally be exercisable between the third and ten years following its grant provided that any specified performance condition has been satisfied.

(h) Performance conditions

The exercise of options granted to executive directors will normally be subject to performance conditions. Performance conditions will be determined prior to options being granted.

The Remuneration Committee may also determine that the exercise of options granted to employees may have performance conditions. Any performance conditions will be determined by the Remuneration Committee prior to the date of grant.

There will be no provision for the resetting of performance conditions in respect of options which have been granted.

(i) Leavers

If a participant leaves employment of the Group by reason of death, injury, disability, retirement by agreement with the company which employs him or the sale of the business for which he works to a third party, the Committee shall have the discretion to determine that options, which have not yet vested, will vest and become capable of exercise, taking into account the time which has elapsed between the date of grant of those options and the date of leaving and the extent to which performance conditions have been satisfied at that date. Alternatively, the Committee may determine that options will vest and become exercisable taking into account the time which has elapsed between the date of grant of the options and the date of leaving, on its original vesting date. In determining the proportion of options which vest, in both cases, the Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

If a participant ceases to be an employee of the Group for any other reason, his option will normally lapse unless and to the extent the Committee decides otherwise.

(j) Change of control

In the event of a takeover, reconstruction or winding up of the Company, the Committee shall have the discretion to determine that a proportion of an option, which has not yet vested, will vest and become exercisable, taking into account the time which has elapsed between the date of grant of that option and the date of change of control and the extent to which performance conditions have been satisfied at that date. Again, in determining the proportion of options which vest, the Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

Alternatively, options may (or, if the Committee so determines, shall) be exchanged for new equivalent options where appropriate. In this case any performance conditions will continue unless the Committee determines otherwise.

(k) Rights attaching to shares

Shares allotted or transferred under the 2008 Option Plan will rank equally with all other Ordinary Shares for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the option). The Company will apply for the listing of any new shares allotted under the 2008 Option Plan.

The Committee may also satisfy options in cash provided the participant receives the same economic value as would have been provided by an option over shares.

Alternatively, the Committee may determine that instead of paying the exercise price, an exercise of an option is satisfied by the number of shares representing the growth in value of a share between the exercise price and the market value of a share at exercise.

(l) Variation of capital

In the event of any variation of share capital, demerger or other corporate event the Committee may make such adjustments as it considers appropriate to the number of shares subject to options and the price payable on the exercise of options.

(m) Amendment and termination of the 2008 Option Plan

The 2008 Option Plan may at any time be altered by the Board in any respect. However, any alterations to the advantage of participants to the rules governing eligibility, limits on participation and the number of new shares available under the 2008 Option Plan, terms of exercise and adjustment of options must be approved in advance by an ordinary resolution of the Company's shareholders in general meeting unless the alteration or addition is minor in nature and made to benefit the administration of the 2008 Option Plan, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Group companies.

The Board may also establish further schemes based on the 2008 Option Plan to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further schemes are treated as counting against any limits on individuals or overall participation in the 2008 Option Plan.

The 2008 Option Plan will terminate on the tenth anniversary of its adoption by the Company, or such earlier time as the Committee or the Board may determine, but the rights of existing participants will not be prejudiced.

(n) Contractual implications

Participation in the 2008 Option Plan is discretionary and is not intended to confer on a participant:

- Any legal right to continue to be eligible for the grant of options under the 2008 Option Plan;
- A right to continued employment; or
- A right to damages for loss of the award on cessation of employment.

(o) Governing law

The 2008 Option Plan is governed in accordance with English law and the parties submit to the jurisdiction of the English courts.

11.4 HMRC Approved Share Option Plan

On 29 May 2008 the Company adopted the 2008 Approved Share Option Plan (the “**Approved Option Plan**”).

(a) Form

This Approved Option Plan has been designed to qualify for approval by HM Revenue & Customs under the Income Tax (Earnings & Pensions) Act 2003. Options granted under the Approved Option Plan are referred to as “**Approved Options**”.

The Approved Option Plan is intended to enable options to be granted to UK taxpayers in a tax efficient manner. The terms of Approved Options granted under the Approved Option Plan are broadly identical to the terms of options granted under the 2008 Option Plan (described above in paragraph 11.3) except to the extent necessary to obtain or maintain HM Revenue & Customs’ approval or as set out below.

(b) Eligibility

An individual engaged in a contract for services shall not be eligible for Approved Options.

In addition to the requirements set out in paragraph 11.3(c) above, in order to be eligible for Approved Options, executive directors will additionally have to work a minimum of 25 hours per week for the Group.

(c) Grant of options

Participants, may not transfer Approved Options to their personal service company or to a connected person.

(d) Individual limits

Approved Options are subject to a statutory limit such that no employee may at any one time hold subsisting Approved Options over Ordinary Shares worth more than £30,000 (calculated by reference to the market value of Ordinary Shares at the relevant date of grant) under the Approved Option Plan or any other HM Revenue & Customs approved company share option plan established by a Group company or a company associated with a Group company.

(e) Variation of capital

In the case of Approved Options, any adjustment made in respect any variation of share capital, demerger or other corporate event will only be made to the extent permitted by HM Revenue & Customs.

(f) Amendments and termination of the 2008 Option Plan

Any amendment made pursuant to paragraph 11.3(m), above, to a key feature of the Approved Option Plan will require HM Revenue & Customs approval before it can take effect.

11.5 Bonus Scheme

On 29 May 2008, the Company adopted the 2008 Annual Bonus Scheme (the “**Bonus Scheme**”). The principal features of the Bonus Scheme are outlined below.

Executive directors and employees will be entitled to participate in the Bonus Scheme. It is currently intended that the Bonus Scheme will be focused on executive directors and senior members of management.

Under the Bonus Scheme, participants may receive a cash award shortly after the end of the financial year. The amount of bonus paid is calculated by reference to the extent to which performance targets set for that particular year have been satisfied.

For executive directors, the Committee will be responsible for determining financial, strategic and operational targets in advance of each year. Performance targets will be aligned with the Company's business strategy and shareholder value creation. For other participants, targets will be appropriate for their grade and individual sphere of responsibility.

It is currently intended that the maximum award under the Bonus Plan will be 150 per cent. of base salary. Half of this maximum award will be payable for the achievement of on-target performance. The maximum award will only be paid out when certain levels of performance are exceeded.

12 Material Contracts of the Group

The following contracts, not being contracts entered into in the ordinary course of business, either are material contracts which have been entered into by members of the Group within the two years immediately preceding the date of this Prospectus or are other contracts that contain certain provisions under which a member of the Group has an obligation or entitlement which is material to a member of the Group as at the date of this Prospectus:

12.1 Underwriting Arrangements

(a) Underwriting Agreement

An Underwriting Agreement dated 18 June 2008 between the Company, the Over-allotment Option Shareholders, the Directors and the Underwriters contains, amongst other items, the following provisions:

- (i) The Company has appointed UBS as the Sole Global Co-ordinator, Sponsor, Sole Bookrunner, Stabilising Manager and Underwriter, and has appointed Fox-Davies as Co-lead Manager and Underwriter in relation to the Global Offer.
- (ii) The Company has agreed, subject to certain conditions, to issue the New Ordinary Shares to be issued under the Global Offer at the Offer Price.
- (iii) The Underwriters have agreed, severally, not jointly, subject to certain conditions, to procure subscribers for, or failing which to subscribe for themselves, the New Ordinary Shares to be issued under the Global Offer at the Offer Price.
- (iv) The Over-allotment Option Shareholders have each, subject to certain conditions, undertaken to the Stabilising Manager, that on the relevant over-allotment closing date, they will sell, in accordance with the terms and conditions of the Global Offer, the number of Ordinary Shares as is notified in writing by the Stabilising Manager.
- (v) The Company and the Over-allotment Option Shareholders have each agreed to pay UBS (for itself and as representative of the Underwriters) a commission of 4 per cent. of the aggregate proceeds from the actual Ordinary Shares subscribed for or

purchased, as the case may be, plus up to an additional 1 per cent. of those aggregate proceeds, at the Company's discretion.

- (vi) The obligations of the Company to issue the New Ordinary Shares and the obligations of the Underwriters to procure subscribers for, or failing which, to themselves subscribe for Ordinary Shares are subject to certain conditions including, amongst others, that Admission occurs not later than 8.00 a.m. on 23 June 2008 or such later time and/or date as the Company and UBS may agree. UBS has the right to terminate the Underwriting Agreement in certain circumstances that are typical for an agreement of this nature. These circumstances include the occurrence of material adverse changes in the conditions (financial, operational, legal or otherwise), earnings, management, business affairs, solvency, credit ratings or prospects of the Company or any member of the Group, and certain changes in financial, political or economic conditions.
 - (vii) The Company has agreed to pay any stamp duty and/or stamp duty reserve tax and other tax, charge or duty and any related costs, fines, penalties or interest arising in respect of the issue of the Ordinary Shares under the Global Offer and the Over-allotment Option Shareholders have agreed to pay any such amounts arising in respect of the sale of Over-allotment Shares, if any, pursuant to the Over-allotment Option.
 - (viii) The Company has undertaken to pay or cause to be paid (together with any related value added tax) all of the costs, charges, fees and expenses of, in connection with or incidental to, amongst other items, the Global Offer, Admission and the arrangements contemplated by the Underwriting Agreement.
 - (ix) The Company and the Over-allotment Option Shareholders have severally given certain indemnities and the Company, the Over-allotment Option Shareholders and the Directors have severally given certain customary warranties to the Underwriters. The liabilities of the Company under the Underwriting Agreement are not limited as to amount or time. The liabilities of the Over-allotment Option Shareholders and the Directors under the Underwriting Agreement are limited as to time and amount.
 - (x) The Company, Over-allotment Option Shareholders and the Directors have agreed to certain lock-up arrangements as set out in paragraph 12.9 of Part XVII.
- (b) Description of Stock Lending Arrangements
- In connection with settlement and stabilisation, the Stabilising Manager has entered into a stock lending deed with HBK Master Fund L.P. Pursuant to this deed, the Stabilising Manager will be able to borrow up to a maximum of 15 per cent. of the total number of Ordinary Shares comprised in the Global Offer (excluding the Over-allotment Shares) for the purposes, amongst other things, of allowing the Stabilising Manager to settle, on Admission, over-allotments, if any, made in connection with the Global Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the stock lending deed, it will be required to return equivalent securities to HBK Master Fund L.P. by no later than the fifth business day after the date that is 30 days after the date on which Admission becomes effective.

12.2 Acquisition of Radley

An agreement dated 1 September 2007 between (1) Ribelant Limited and (2) Cadogan Holdings relating to the acquisition of Radley by Cadogan Holdings. The consideration under the agreement was US\$32,600,000.00 payable by Cadogan Holdings to Ribelant Limited. Pursuant to the terms of this agreement, Ribelant Limited has provided certain warranties customary for this type of transaction. The time period for making any warranty claims (other than taxation) expires on 1 September 2010. The time period for making a tax warranty claim expires on 1 September 2014.

12.3 Acquisition of USENCO International

An agreement dated 16 August 2006 between (1) Stickle Limited; (2) SL Acquisition Sub, Inc; (3) USENCO International; (4) UKR Rainbow Ltd; (5) Robert Menasche; and (6) Fred G. Brown pursuant to which Stickle Limited acquired USENCO International as a wholly-owned subsidiary following USENCO International's merger with Stickle Limited's wholly-owned subsidiary SL Acquisition Sub, Inc. The agreement provided for consideration of US\$1.0 million. Taking into account the directly attributable costs of the acquisition, the Group recognised total costs of £1.5 million. See the notes to the Group's financial statements in Part XI of this Prospectus.

12.4 Acquisition of Momentum Energy

An agreement dated 15 February 2007 between (1) Hornbeam Oilfield Services Inc. and (2) 1301466 Alberta Ltd pursuant to which 1301466 Alberta Ltd acquired 50 per cent. of the issued share capital of 1207048 Alberta Ltd (now Momentum Energy) from Hornbeam Oilfield Services Inc. The agreement provided for consideration of US\$4.6 million. Taking into account the directly attributable costs of the acquisition, the Group recognised total costs of £3.8 million. See the notes to the Group's financial statements in Part XI of this Prospectus.

12.5 Acquisition of Ramet

An agreement dated 26 December 2007 between (1) Mark Tolley; and (2) the Company pursuant to which the Company acquired the entire issued share capital of Ramet from Mark Tolley. Ramet holds 79.9 per cent. of the entire issued share capital of Agro. The consideration package under the agreement included initial consideration of US\$5 million in cash and shares, with potential further cash consideration of up to US\$5 million consisting of \$1/boe from the first two producing wells on the Malynovetske licence or, in the alternative, a US\$5 million cash payment upon change in control of Ramet or Agro (less any such payment made for commercial production from the Malynovetske licence).

12.6 Acquisition of LLC Mercor

- (a) An agreement dated 16 January 2008 between (1) Astro-Energy; and (2) Mr. Vyalyi pursuant to which Astro-Energy acquired 99.991 per cent. of the issued share capital of LLC Mercor from Mr. Vyalyi. The consideration under the agreement was US\$4.35 million.
- (b) An agreement dated 16 January 2008 between (1) Astroinvest-Ukraine; and (2) LLC Komfin pursuant to which Astroinvest-Ukraine acquired 0.009 per cent. of the issued share capital of LLC Mercor from LLC Komfin. The consideration under the agreement was US\$490.

LLC Mercor currently holds a 70 per cent. interest in Zagoryanska JIA No.17.

12.7 Joint Activity Agreements

12.7.1 Cheremkhivskoe JAA

Under the JAA dated 16 December 1997 between (1) Momentum Enterprises Inc; (2) ZUG; (3) Agro; and (4) JV Delta, the parties agreed to contribute joint investments for the purpose of establishing the required production capacities to carry out exploitation, further exploration and the construction of a gas pipeline at the Cheremkhivskoe-Strupkivske gas field and conducting joint production and commercial activities on hydrocarbon recovery in the process of exploiting the gas field.

By an agreement dated 18 March 1998 Momentum Enterprises Inc. transferred all its rights and obligations under the JAA to Momentum Enterprises (Europe) Limited.

The programme of joint investment activities is updated every year. The JAA is valid for 20 years from the date of its approval by the State Committee on Geology of Ukraine but can be terminated earlier by the agreement of all of the parties.

Momentum Enterprises (Europe) Limited is obliged to contribute monetary funds, property and equipment. Agro is obliged to contribute monetary funds and to prepare certain project documentation. JV Delta is obliged to contribute monetary funds and to manage the joint activities as the operator of the JAA.

Each party is obliged to comply with the provisions of the JAA and each programme of joint investment activities, to exchange information and not disclose confidential information to third parties and, if necessary, to provide credit and finance on a no-interest and no-fee basis. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.7.2 Debeslavetska JAA

Under the JAA dated 16 December 1997 between (1) Momentum Enterprises Inc.; (2) ZUG; (3) Agro; and (4) JV Delta, the parties agreed to contribute joint investments for the purpose of establishing the required production capacities to carry out prospecting, exploration and industrial exploitation at the Debeslavetska gas field and conducting joint production and commercial activities on hydrocarbon recovery in the process of prospecting, exploration and industrial exploitation of the gas field.

By an agreement dated 7 April 1998 Momentum Enterprises Inc. transferred all its rights and obligations under the JAA to Momentum Enterprises (Europe) Limited. By an agreement dated 22 June 2007 the parties to the JAA agreed that ZUG could withdraw from being a party to the JAA and also agreed the method for the repayment of ZUG's share.

The programme of the joint investment activities is updated every year. JV Delta is the operator. The JAA is valid for 25 years from the date of its approval by the State Committee on Geology of Ukraine but can be terminated earlier by the agreement of all of the parties.

Momentum Enterprises (Europe) Limited is obliged to contribute monetary funds, property and equipment. Agro is obliged to contribute monetary funds and to prepare certain project documentation. JV Delta is obliged to contribute monetary funds and to manage the joint activities as the operator of the JAA.

Each party is obliged to comply with the provisions of the JAA and each programme of joint investment activities, to exchange information and not disclose confidential information to third parties and, if necessary, to provide credit and finance on a no-interest and no-fee basis. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.7.3 Astroinvest-Ukraine JAA

Under the JAA dated 18 April 2001 between (1) State geological company PoltavNaftogasGeologiya ("PNG"); and (2) Astroinvest-Ukraine, as operator, the parties agreed to contribute joint investments for the purpose of geological examination, exploration and industrial/commercial exploitation of the Pirkovskoe gas field and for the sale of the common products for the purpose of receiving a profit.

By an agreement dated 8 August 2007 NAK Nadra became a party to the JAA. By an agreement dated 25 October 2007 Astro Gas became a party to the JAA as the licence holder and the parties agreed that both NAK Nadra and PNG could withdraw from being a parties to the JAA and also agreed the method for the return of money due to PNG.

The joint activity programme is updated every year. The JAA is valid for the term of Astro Gas' licence for geological, exploration and industrial/commercial development of the

Pirkovskoe gas field so long as the special permit for production is obtained. The JAA can be terminated earlier by the agreement of all the parties.

Astro Gas is obliged to contribute monetary funds and to use its field exploration licence for the interests of the joint activity. Astroinvest-Ukraine is obliged to contribute monetary funds and to manage the joint activities as the operator of the JAA.

Each party is obliged to comply with the provisions of the JAA and joint activity programme, to exchange information and not disclose confidential information to third parties. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.7.4 USENCO JAA

Under the JAA dated 10 June 1997 between (1) ZUG; and (2) USENCO International the parties agreed to contribute joint investments for the purpose of exploration and development of oil and gas reserves on territory under the authority of ZUG and to divide and share the oil and gas extracted as a result of the joint activity. The territories the JAA now covers are the Bitlyanske, Monastyrtske and Krasnoyilske gas fields under the respective licences.

By an agreement dated 29 September 2003 USENCO Ukraine became a party to the JAA. By an agreement dated 25 October 2007 USENCO Nadra became a party to the JAA and the parties agreed that ZUG could withdraw from being a party to the JAA.

The work programme is updated every year. The JAA is valid for 25 years but either party can terminate the JAA earlier on 90 days' notice in the event of a major breach by the other party. USENCO International can withdraw from the JAA, after giving notice to and consulting with the other parties, if it considers circumstances do not warrant continuation of the joint activities.

USENCO International is obliged to contribute monetary funds and to execute the joint activities. USENCO Ukraine is obliged to manage the joint activities. USENCO Nadra and USENCO Ukraine are obliged to assist USENCO International in the execution of the joint activities by among other things providing the permits and licences for the exploration and production activities and contributing monetary funds.

Each party is obliged to comply with the provisions of the JAA and work programme, to exchange information and not disclose confidential information to third parties. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.7.5 Zagoryanska JIA No.1

Under the Additional Agreement No 4 dated 17 November 2004 to the JAA No 1 dated 27 September 2000 between (1) PNG; and (2) LLC Profit the parties agreed to contribute joint investments for the purpose of geological exploration including research and industrial development of the wells No 1 and No 2 of Zahoryanske field.

By the Additional Agreement No 6 dated 19 December 2007, Astroinvest-Energy became a party to the JAA as licence holder and operator.

By the agreement dated 18 January 2008 and the Additional Agreement No 7 dated 22 January 2008 Astro-Energy became a party to the JAA, pursuant to which LLC Profit transferred its 99.91 per cent. interest in the JAA to Astro-Energy subject to AMC clearance (obtained on 25 April 2008).

The joint activity programme is updated every year. The JAA is valid for the validity period of the Special permit No 3108 dated 19 October 2007 for geological exploration of Zahoryanske field, and in case of obtainment the Special permit for production – for the validity period of production Special permit. The JAA can be terminated earlier by the agreement of all the parties.

Astro-Energy is obliged to contribute monetary funds for the interests of the joint activity. Astroinvest-Energy is obliged to use its field exploration licence and to manage the joint activities as the operator of the JAA. PNG is obliged to contribute monetary funds.

Each party is obliged to comply with the provisions of the JAA and joint activity programme, to exchange information and not disclose confidential information to third parties. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.7.6 Zagoryanska JIA No.17

Under the Additional Agreement No 3 dated 29 December 2002 to the JAA No 17 dated 15 June 2000 between (1) LLC Mercor and (2) PNG, the parties agreed to contribute joint investments for the purpose of geological exploration including research and industrial development of the well No 8 of Zahoryanske field.

Pursuant to the sale-purchase agreement dated 16 January 2008, Astro-Energy acquired LLC Mercor, whereby Mr. Vyalyi I.V. transferred his 99.991 per cent. of the issued share capital in LLC Mercor to Astro-Energy, subject to AMC clearance, obtained 28 February 2008.

The joint activity programme is updated every year. The JAA is valid for the validity period of the Special permit for geological exploration of Zahoryanske field, and in case of obtainment the Special permit for production – for the validity period of production Special permit. The JAA can be terminated earlier by the agreement of all the parties.

Pursuant to the Additional Agreement No 6 dated 23 January 2008, Astroinvest-Energy became a party to the JAA as licence holder (No 3108 dated 19 October 2007).

LLC Mercor, a subsidiary of Astro-Energy, is obliged to contribute monetary funds for the interests of the joint activity and to manage the joint activities as the operator of the JAA. Astroinvest-Energy is obliged to contribute monetary funds and to use its field exploration licence.

Each party is obliged to comply with the provisions of the JAA and joint activity programme, to exchange information and not disclose confidential information to third parties. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.7.7 JIA Mizhrichenska

Under the JAA dated 17 October 2006 between (1) ZUG; and (2) Agro the parties agreed to contribute joint investments for the purpose of geological exploration including research and industrial development of the Mizhrichenska field.

The joint activity programme shall be updated every year. The JAA is valid for the term of validity of the licence No. 2796 so long as the special permit for production is obtained. The JAA can be terminated earlier by the agreement of all the parties.

Agro is obliged to contribute monetary funds and to manage the joint activities as the operator of the JAA. ZUG is obligated to contribute monetary funds.

Each party is obliged to comply with the provisions of the JAA and joint activity programme, to exchange information and not disclose confidential information to third parties. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.7.8 JIA Malynovetske

Under the JAA dated 20 October 2004 between (1) LLC INTEK Geo; and (2) Agro, the parties agreed to contribute joint investments for the purpose of geological exploration including research and industrial development of Malynovetska field.

The joint activity programme shall be updated every year. The JAA is valid for the term of 25 years after the date of its entry into force. The JAA can be terminated earlier by the agreement of all the parties. Currently this JAA is in the process of termination. If the JAA is terminated, the licence rights remain with Agro.

Agro is obliged to contribute the rights to use the licences and permits required for performance of activities under this JAA and to manage the joint activities as the operator of the JAA.

Each party is obliged to comply with the provisions of the JAA and joint activity programme, to exchange information and not disclose confidential information to third parties. Each party is liable for negligent performance or non-performance of its obligations under the JAA.

12.8 Warrant Agreements

12.8.1 Pursuant to a warrant agreement (the “**FDH Warrant Agreement**”) dated 18 April 2008 between Cadogan and FD Holdings Limited (“**FDH**”), Cadogan granted warrants to FDH to subscribe for 4,562,290 Ordinary Shares as follows:

Ordinary Shares subject to warrants ⁽¹⁾	Exercise price ⁽¹⁾	Expiration date
64,444	£0.621	18 May 2011
931,716	£0.819	31 July 2011
1,659,952	£0.819	1 February 2012
1,053,230	£1.23	30 September 2012
852,948	£1.23	31 December 2012

(1) These numbers reflect the Share Consolidation.

In accordance with the terms of the FDH Warrant Agreement, FDH transferred all of the warrants noted above to Chelsea (Pvt) Limited. Chelsea (Pvt) Limited, or any subsequent holder of such warrants, may exercise its rights of subscription in whole or part at any time or times (in respect of each tranche) before the expiration dates listed above.

12.8.2 Pursuant to a warrant agreement (the “**FDC Warrant Agreement**”) dated 29 May 2008 between Cadogan and Fox-Davies, Cadogan granted warrants to Fox-Davies to subscribe for 514,040 Ordinary Shares as follows:

Ordinary Shares subject to warrants ⁽¹⁾	Exercise price ⁽¹⁾	Expiration date
514,040	£1.23	13 May 2013

(1) These numbers reflect the Share Consolidation.

Fox-Davies, or any subsequent holder of such warrants, may exercise its rights of subscription in whole or in part at any time or times before the expiration date listed above. Fox-Davies is entitled to transfer or assign the warrants (in whole or in part).

12.9 Lock-up Arrangements

Each of the Company, the Locked-up Shareholders, the Directors and certain senior management have agreed to enter into certain lock-up arrangements in respect of their holdings of or options to subscribe for Ordinary Shares held prior to the Global Offer.

In particular, except with the prior written consent of UBS, the Company has agreed not to issue or sell any securities (whether debt or equity) for a period of 180 days from Admission, subject to certain customary exceptions including the issue of new shares in order to satisfy any exercise of options granted prior to or on the date of this Prospectus.

The Executive Directors and senior management have agreed not to sell any Ordinary Shares or options to subscribe for Ordinary Shares held by them for a staggered period of three years from Admission, subject to customary exceptions, such that one third of Ordinary Shares/options held by them will become free of lock-up at each of the following times: a) 12 months from Admission; b) following publication of preliminary results for the year ending 31 December 2009; and c) following publication of preliminary results for the year ending 31 December 2010. The Non-executive Directors have agreed not to sell any Ordinary Shares held by them for a period of 12 months from Admission. The Locked-up Shareholders have agreed not to sell any Ordinary Shares held by them for a period of 180 days from Admission, subject to certain customary exceptions.

Customary “orderly market” obligations apply to Locked-up Shareholders for a further 180 days, following the end of the first 180 days of being locked-up.

13 Related Party Transactions

The following related party transactions have been entered into by members of the Group during the period covered by the financial information set out in Part XI of this Prospectus:

13.1 During 2006 and 2007, Group companies concluded transactions for the provision of various operational and support services totalling £1,404,067 and £1,128,206, respectively, with Agro. At the time Agro was 79.9 per cent. owned by Mark Tolley and Vasyl Vivcharyk. These transactions were conducted at arm’s length and entered into at market price.

13.2 In December 2007, an agreement was concluded between Cadogan, Mark Tolley and Vasyl Vivcharyk for the purchase of their interest in Agro through the purchase of Ramet, which held 79.9 per cent. of the entire issued share capital in Agro.

14 Working Capital

The Company is of the opinion that, taking into account the net proceeds of the Global Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is at least twelve months from the date of this Prospectus.

15 UK Taxation

The following summary, which is intended as a general guide only, outlines certain aspects of current UK tax legislation and what is understood to be the current practice of HMRC in the United Kingdom regarding the ownership and disposal of Ordinary Shares.

The Company is at the date of this Prospectus resident for tax purposes in the United Kingdom and the following is based on that tax status.

This summary is not a complete and exhaustive analysis of all the potential UK tax consequences for holders of Ordinary Shares. It addresses certain limited aspects of the UK taxation position of Shareholders who are absolute beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. This summary does not address the position of certain classes of Shareholders, such as dealers in securities, market makers, brokers, intermediaries, collective investment schemes, pension funds or UK insurance companies or whose shares are held under a

personal equity plan or an individual savings account or are “employment related securities” as defined in section 421B of the Income Tax (Earnings and Pensions) Act 2003. Any person who is in any doubt as to his tax position or who is subject to taxation in a jurisdiction other than the UK should consult his professional advisers immediately as to the taxation consequences of the purchase, ownership and disposition of Ordinary Shares. This summary is based on current United Kingdom tax legislation. Shareholders should be aware that future legislative, administrative and judicial changes could affect the taxation consequences described below.

15.1 UK Withholding tax

Under current UK taxation legislation, no tax is withheld at source from dividend payments made by the Company.

15.2 Taxation of dividends

15.2.1 United Kingdom resident shareholders

(a) Individuals

UK resident individual Shareholders who receive a dividend from the Company will generally be entitled to a tax credit, which can be set off against the individual's income tax liability on the dividend payment. The rate of tax credit on dividends paid by the Company will be 10 per cent. of the total of the dividend payment and the tax credit (the “**gross dividend**”), or one-ninth of the dividend payment. UK resident individual Shareholders will generally be taxable on the gross dividend, which will be regarded as the top slice of the Shareholder's income. UK resident individual Shareholders who are not liable to income tax in respect of the gross dividend will generally not be entitled to reclaim any part of the tax credit. In the case of a UK resident individual Shareholder who is not liable to income tax at the higher rate (taking account of the gross dividend he or she receives), the tax credit will satisfy in full such Shareholder's liability to income tax. To the extent that a UK resident individual Shareholder's income (including the gross dividend) exceeds the threshold for higher rate income tax, such Shareholders will be subject to income tax on the gross dividend at the distribution income upper rate of 32.5 per cent. but will be able to set the tax credit against this liability. An individual Shareholder who is liable to income tax at the higher rate will be liable to income tax at a rate of 22.5 per cent. of the gross dividend (or 25 per cent. of the dividend payment).

(b) Companies

A corporate Shareholder resident in the UK (for tax purposes) should generally not be subject to corporation tax or income tax on dividend payments received from the Company. Corporate Shareholders and UK pension funds (together with other tax exempt funds) will not, however, be able to claim repayment of tax credits attaching to the dividend payment.

15.2.2 Non-residents

Non-UK residents may be liable to tax on dividend income under the tax law of their jurisdiction of residence. They should consult their own tax advisers in respect of their liabilities on dividend payments, whether they are entitled to claim any credit and, if so, the procedure for doing so.

15.3 Capital gains tax

A disposal of the Ordinary Shares by a Shareholder who is resident or, in the case of an individual, ordinarily resident for tax purposes in the UK, may, depending on the Shareholder's circumstances and subject to any available exemption or relief, be subject to UK taxation on capital gains on a disposal of Ordinary Shares.

In addition, any holders of Ordinary Shares who are individuals and who dispose of shares while they are temporarily non resident may be treated as disposing of them in the tax year in which they again become resident in the UK.

For UK corporates, indexation allowance may apply to reduce any such gain.

15.4 Stamp duty and stamp duty reserve tax ("SDRT")

An unconditional agreement to transfer Ordinary Shares held in certificated form for consideration will give rise to a charge of SDRT at the rate of 0.5 per cent. of the amount or value of the consideration for the Ordinary Shares. However, where within six years of the date of the agreement an instrument of transfer is executed and duly stamped and the appropriate stamp duty paid, the SDRT liability will be cancelled and any SDRT which has been paid will be repaid. SDRT is the liability of the purchaser of the Ordinary Shares.

The conveyance or transfer on sale of Ordinary Shares held in certificated form will in principle be subject to ad valorem stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration given (rounded up if necessary to the nearest multiple of £5). It should be possible to certify the instrument as exempt from Stamp Duty where the consideration provided for and in connection with a transfer is £1,000 or less. Stamp duty is normally paid by the purchaser of the Ordinary Shares.

As noted above, SDRT is the liability of the purchaser and stamp duty is normally paid by the purchaser. However, any stamp duty or SDRT payable in relation to the over-allotments will be borne by the Company or the Over-allotment Option Shareholders, as provided for in the Underwriting Agreement.

Where Ordinary Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty (in the case of a transfer only to such person) or SDRT may be payable at a rate of 1.5 per cent. (rounded up if necessary, in the case of stamp duty, to the nearest multiple of £5) of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares. This liability for stamp duty or SDRT is the liability of the depositary or clearance service operator or their nominee, as the case may be, but will in practice generally be reimbursed by participants in the clearance service or depositary receipt scheme.

Paperless transfers of Ordinary Shares within CREST are generally subject to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the system. Deposits of Ordinary Shares in CREST will generally not be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the value of the consideration.

Special rules apply to agreements made by market intermediaries in the ordinary course of their business.

16 US Taxation

16.1 Certain United States federal income taxation considerations

CIRCULAR 230 DISCLOSURE

To ensure compliance with requirements imposed by the US Internal Revenue Service, prospective investors are notified that (a) any United States federal tax advice contained herein is not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties, and (b) any such advice is written to support the promotion or marketing of the transaction or matter addressed herein (within the meaning of Circular 230).

Each prospective investor should seek advice based on such investor's particular circumstances from an independent tax adviser.

The following is a general summary of the principal United States federal income tax considerations relating to the purchase, ownership and disposition of Ordinary Shares by US Holders (as defined below) who purchase Ordinary Shares for cash in this Global Offer and hold such Ordinary Shares as capital assets. This summary is based on the income tax treaty between the United States and the United Kingdom (the "**US Treaty**"), the Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect and available on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretation. This summary is for general information only and does not address all of the US federal income tax considerations that may be relevant to specific US Holders in light of their particular circumstances or to US Holders subject to special treatment under US federal income tax law (such as banks, other financial institutions, insurance companies, tax-exempt entities, retirement plans, regulated investment companies, real estate investment trusts, S corporations, other pass-through entities, traders or dealers in securities or currencies, US expatriates, persons who hold Ordinary Shares as part of a straddle, hedge, "synthetic security" or other integrated investment, risk reduction, or constructive sale transaction, persons that have a "functional currency" other than the US dollar or persons who own (or are deemed to own) 10 per cent. or more (by voting power or value) of the Company's stock). This discussion does not address any US state, local or non-US tax considerations, nor does it address any US federal estate, gift or alternative minimum tax considerations.

As used in this summary, the term "US Holder" means a beneficial owner of Ordinary Shares that is, for US federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for US federal income tax purposes) created or organised in the United States, or under the laws of the United States or of any state, including the District of Columbia, (iii) an estate the income of which is included in gross income for US federal income tax purposes, regardless of the source thereof or (iv) a trust with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more US persons have the authority to control all of its substantial decisions, or a trust that has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

The Company has not obtained, nor does it intend to seek, a ruling from the United States Internal Revenue Service (the "**IRS**") or an opinion of counsel with respect to any of the tax matters discussed herein. Thus, there is no assurance that the IRS would not successfully challenge one or more of the statements made or the conclusions expressed in this discussion.

If a partnership holds Ordinary Shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the status and activities of the partnership. Prospective investors that are partnerships (or other entities treated as partnerships for US federal income tax purposes) should consult their own tax advisers regarding the US federal income tax considerations to them and their partners of purchasing, owning and disposing of Ordinary Shares.

The following summary of certain US federal income tax consequences is for informational purposes only and is not a substitute for careful tax planning and advice.

Prospective investors are urged to seek advice based on their particular circumstances from an independent tax adviser as to the matters addressed in this Prospectus, including the particular tax considerations applicable to them relating to the purchase, ownership and disposition of Ordinary Shares, the applicability of US federal, state and local tax laws or non-US tax laws, any changes in applicable tax laws and any pending or proposed legislation or regulations.

16.2 Distributions

- 16.2.1 Subject to the passive foreign investment company (“**PFIC**”) rules discussed in paragraph 16.4 of this Part XVII, the following rules generally will apply to any cash distribution made by the Company on Ordinary Shares.
- 16.2.2 Any cash distribution made by the Company on Ordinary Shares generally will be treated as a dividend included in the calculation of the gross income of a US Holder to the extent of the Company’s current and/ or accumulated earnings and profits, as determined under US federal income tax principles. To the extent the amount of such distribution exceeds the Company’s current and accumulated earnings and profits as so computed, it will be treated first as a non-taxable return of capital to the extent of such US Holder’s adjusted tax basis in such shares and, to the extent the amount of such distribution exceeds such adjusted tax basis, will be treated as gain from the sale or exchange of such shares.
- 16.2.3 For individuals, dividends are generally taxed at a maximum rate of 35 per cent. Certain “qualified dividends” paid through 31 December 2010 to non-corporate US Holders from “qualified foreign corporations” may be eligible for a reduced rate of tax, so long as specified holding period requirements are met and the US Holder refrains from entering into certain hedging transactions. A non-US corporation generally will be considered to be a qualified foreign corporation if it is eligible for all the benefits of a comprehensive income tax treaty with the United States which the US Treasury Department determines is satisfactory for purposes of this special rule and which includes an exchange of information programme (a “**Qualifying Treaty**”) and if such corporation is not, and was not in the prior taxable year, a PFIC. For this purpose, the US Treaty is considered a Qualifying Treaty. The Company will qualify for benefits under the US Treaty provided that the Ordinary Shares are “regularly traded” on a recognised stock exchange in the United States or United Kingdom, such as the London Stock Exchange. However, no assurance can be given that the Ordinary Shares will be regularly traded for these purposes. In addition, the Company believes that it likely will be a PFIC for the current year and may be a PFIC in future years. Consequently, any dividends paid to a US Holder may not be eligible for this reduced rate of tax. Special rules apply for purposes of determining the treatment of “qualified dividend” income in computing the recipient’s investment income (which limits deductions for investment interest) and foreign source income (which may affect the amount of foreign tax credit) and to certain extraordinary dividends. Each US Holder that is a non-corporate taxpayer is urged to consult its own tax adviser regarding the possible applicability of the reduced rate on dividends paid by the Company and the related restrictions and special rules.

In the case of a US Holder that is a corporation, a dividend from a non-US corporation will generally be taxable at regular corporate rates of up to 35 per cent. and generally will not qualify for the dividends received deduction allowed certain corporate shareholders with respect to dividends received from US corporations.

- 16.2.4 Any dividends paid on Ordinary Shares generally will constitute income from sources outside the United States and be categorised as “passive category income” or, in certain cases “general category income” for US foreign tax credit limitation purposes. In general, a US Holder may elect to claim a US foreign tax credit against its US federal income tax liability, subject to applicable limitations, for foreign tax withheld from dividends received in respect of the Ordinary Shares. A US Holder who does not elect to claim a US foreign tax credit for a taxable year may instead claim a deduction for foreign income tax withheld. A US Holder who elects to claim a foreign tax credit must do so with respect to all foreign income taxes paid or accrued in such taxable year. The rules relating to the determination of the US foreign tax credit and the limitations relating thereto are very complex. Each US Holder is urged to consult its own tax adviser regarding whether it should elect to claim US foreign tax credits or deductions with respect to foreign income taxes paid or accrued, and whether and to what extent it is entitled to claim any US foreign tax credits or deductions.

- 16.2.5 The US dollar value of any distribution made by the Company in a non-US currency (such as Sterling) is calculated by reference to the exchange rate in effect on the date of receipt of such distribution by the US Holder, regardless of whether the non-US currency is in fact converted into US dollars. If the non-US currency so received is converted into US dollars on the date of receipt, such US Holder generally should not recognise foreign currency exchange gain or loss on such conversion. If the non-US currency so received is not converted into US dollars on the date of receipt, such US Holder will have a basis in the non-US currency equal to its US dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the non-US currency generally will be treated as ordinary income or loss to such US Holder and generally will be income or loss from sources within the United States.

16.3 Sale, exchange or other disposition of Ordinary Shares

- 16.3.1 Subject to the discussion of the PFIC rules in paragraph 16.4 of this Part XVII, the following rules generally will apply to any gain or loss upon a sale, exchange or other disposition of Ordinary Shares.
- 16.3.2 A US Holder generally will recognise capital gain or loss for US federal income tax purposes upon a sale, exchange or other disposition of Ordinary Shares in an amount equal to the difference between the amount realised from such sale, exchange or disposition (determined in US dollars) and the US Holder's adjusted tax basis in such shares (determined in US dollars). Such gain or loss generally will be long-term capital gain or loss if, on the date of such sale, exchange or disposition, such shares were held by such US Holder for more than one year. Long-term capital gain is eligible for preferential rates for individuals and certain other non-corporate taxpayers. The deductibility of capital losses by a US Holder is subject to limitations. In general, gain or loss recognised by a US Holder on the sale, exchange or other disposition of Ordinary Shares will constitute gain or loss from sources within the United States for US foreign tax credit limitation purposes. A US Holder that uses the cash method of accounting calculates the US dollar value of the proceeds received on the sale date as of the date that the sale settles, while a US holder that uses the accrual method of accounting is required to calculate the value of the proceeds as of the "trade date," unless such US Holder has elected to use the settlement date to determine its proceeds of sale.
- 16.3.3 A US Holder's basis in an Ordinary Share will generally be its US dollar cost. The US dollar cost of an Ordinary Share purchased with non-US currency will generally be the US dollar value of the purchase price on the date of the purchase or, in the case of Ordinary Shares traded on an established securities market, as defined in the applicable Treasury regulations, that are purchased by a cash basis US Holder (or an accrual basis US Holder that so elects), on the settlement date for the purchase. Such an election by an accrual basis US Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.
- 16.3.4 Generally, if non-US currency is received on a sale, exchange or disposition of Ordinary Shares, the amount realised will be the US dollar value of the non-US currency so received. If the non-US currency is converted into US dollars on the settlement date, the US Holder generally will not recognise foreign currency exchange gain or loss on such conversion. If the non-US currency is not converted into US dollars on the settlement date, such US Holder generally will have a basis in the non-US currency, equal to its US dollar value on the settlement date. Any gain or loss on a subsequent conversion or other disposition of the non-US currency generally will be foreign currency exchange gain or loss. Foreign currency exchange gain or loss generally will be treated as ordinary income or loss to such US Holder and generally will be income or loss from sources within the United States for US foreign tax credit limitation purposes. A US Holder should consult its own tax advisor regarding the US federal income tax consequences of receiving non-US currency from a sale, exchange or other disposition of Ordinary Shares.

16.4 Passive foreign investment company considerations

- 16.4.1 The Directors believe that, for US federal income tax purposes, the Company likely will be a PFIC for the current year and may continue to be a PFIC in future years. However, because this determination is made annually at the end of each taxable year and is dependent upon a number of factors (including the value of the Company's assets and the amount and type of its income), some of which are beyond the Company's control, there can be no assurance regarding whether the Company is or will be a PFIC for any year or that the IRS will agree with the Company's conclusion regarding the Company's PFIC status. If the Company is a PFIC in any year, US Holders could suffer adverse consequences as discussed below.
- 16.4.2 In general, a corporation organised outside the United States will be a PFIC for US federal income tax purposes in any taxable year in which either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the value of its assets (averaged over the year and ordinarily determined based on fair market value) is attributable to assets that produce, or are held for the production of, passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions (other than active business gains from the sale of commodities, if substantially all of the Company's commodities are inventory, stock in trade, depreciable property used in the Company's trade or business, or supplies of a type regularly used or consumed by the Company in the ordinary course of its trade or business). In determining whether a foreign corporation is a PFIC, a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25 per cent. interest (by value) is taken into account.
- 16.4.3 If the Company is a PFIC in any year during which a US Holder owns Ordinary Shares, such US Holder could be liable for additional taxes and interest charges upon certain distributions by the Company or upon a sale, exchange or other disposition of Ordinary Shares at a gain, whether or not the Company continues to be a PFIC. The tax would be determined by allocating such distributions or gain pro rata to each day of the US Holder's holding period. The amount allocated to the current taxable year and any taxable year in the US Holder's holding period before the Company became a PFIC would be included as ordinary income (rather than capital gain) in the US Holder's current taxable year. The amount allocated to other taxable years would be taxed at the highest marginal rates applicable to ordinary income for such taxable years and, in addition, an interest charge would be imposed on the amount of such taxes. In addition, if the Company is a PFIC, a US Holder's tax basis in Ordinary Shares inherited from a decedent would be denied a step-up to fair market value as of the date of such decedent's death but would instead be equal to the decedent's tax basis in the Ordinary Shares, if lower.
- 16.4.4 The above rules do not apply if a "mark-to-market" election is available and a US Holder validly makes such an election. If such election is made, such US Holder generally will be required to take into account the difference, if any, between the fair market value and its adjusted tax basis in Ordinary Shares at the end of each taxable year as ordinary income or (to the extent of any net mark-to-market gains previously included in income) ordinary loss. In addition, any gain from a sale, exchange or other disposition of Ordinary Shares will be treated as ordinary income, and any loss will be treated (to the extent of any net mark-to-market gains previously included in income) as ordinary loss. A mark-to-market election is available to a US Holder only if the Ordinary Shares are considered "marketable stock" for these purposes. Generally, stock will be considered marketable stock if it is "regularly traded" on a "qualified exchange" within the meaning of applicable US Treasury regulations. A class of stock is, in general, regularly traded during any calendar year during which such class of stock is traded, other than in de minimis quantities, on at least fifteen days during each calendar quarter. A non-US securities exchange will constitute a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the market is located and meets certain trading, listing, financial disclosure and other requirements set forth in the Treasury

regulations. Although the IRS has not ruled on whether the London Stock Exchange constitutes a qualifying exchange, it appears that, under the Treasury regulation guidelines, the London Stock Exchange should constitute a qualifying exchange. However, no assurance can be given that the Ordinary Shares will be regularly traded for these purposes.

- 16.4.5 The above rules also would not apply if a US Holder is eligible for and timely makes a valid election to treat the Company as a “qualified electing fund” (“QEF”). If a QEF election is made by a US Holder, such US Holder generally will be required to include in income on a current basis its pro rata share of the ordinary income and net capital gains of the PFIC. In order for a US Holder to be able to make a QEF election, the Company would be required to provide such US Holder with certain information. The Company intends to provide US Holders with the required information. In the event that the Company realizes a net loss for a taxable year, this loss will not be deductible by a US Holder. Amounts previously taxed to US Holders under a QEF election will not be taxable to US Holders upon subsequent distribution to such US Holders.
- 16.4.6 If the Company is determined to be a PFIC and, at any time, it has a non-US subsidiary that is classified as a PFIC, US Holders of Ordinary Shares generally would be deemed to own, and also would be subject to the PFIC rules with respect to, their indirect ownership interests in that lower-tier PFIC. If the Company is a PFIC and a US Holder of Ordinary Shares does not make a QEF election in respect of a lower-tier PFIC, the US Holder could incur liability for the deferred tax and interest charge described above if either (i) the Company receives a distribution from, or disposes of all or part of its interest in, the lower-tier PFIC or (ii) the US Holder disposes of all or part of its Ordinary Shares. Upon request, the Company will endeavour to cause any lower-tier PFIC to provide to a US Holder the information that may be required to make a QEF election with respect to the lower-tier PFIC. The mark-to-market election will not be available with respect to any lower-tier PFIC. Consequently, US Holders of Ordinary Shares could be subject to the PFIC rules with respect to income of a lower-tier PFIC the value of which already has been taken into account indirectly via mark-to-market adjustments to the Ordinary Shares. Similarly, if a US Holder makes a mark-to-market election under the PFIC rules in respect of the Ordinary Shares and makes a QEF election in respect of a lower-tier PFIC, the US Holder could be subject to current taxation in respect of income from the lower-tier PFIC the value of which already has been taken into account indirectly via mark-to-market adjustments. US Holders are urged to consult their own tax advisers regarding the issues raised by lower-tier PFICs.
- 16.4.7 A US Holder who owns Ordinary Shares during a year in which the Company is a PFIC generally will remain subject to rules set forth above in paragraph 16.4.3 of this Part XVII for all taxable years if such US Holder has not made a mark-to-market election or a QEF election for the first taxable year in which such US Holder owns an Ordinary Share and in which the Company is a PFIC. It is, however, possible to avoid this “once a PFIC, always a PFIC” result if the Company ceases to be classified as a PFIC and such US Holder makes an election to be treated for US federal income tax purposes as having sold its Ordinary Shares on the last day of the last taxable year of the Company during which it was a PFIC (a “deemed sale election”). A US Holder that makes a deemed sale election will cease to be treated as owning stock in a PFIC. However, gain recognized by a US Holder as a result of making the deemed sale election will be subject to the adverse rules described above in paragraph 16.4.3 of this Part XVII.
- 16.4.8 The rules dealing with PFICs and with the QEF and mark-to-market elections are very complex and are affected by various factors in addition to those described above, including the Company’s ownership of any non-US subsidiaries. As a result, US Holders of Ordinary Shares are strongly encouraged to consult their tax advisers regarding the potential application of the PFIC rules to their purchase, holding, and disposition of Ordinary Shares and the consequences of making a QEF election with respect to the Company.

16.5 Controlled foreign corporation considerations

In general, for US federal income tax purposes, a foreign corporation is considered a controlled foreign corporation (a “CFC”) if “10 per cent. US Shareholders” own more than 50 per cent. of the total combined voting power of all classes of stock of such foreign corporation, or 50 per cent. of the total value of all stock of such corporation. A “10 per cent. US Shareholder” is a United States person who owns at least 10 per cent. of the total combined voting power of all classes of stock of the foreign corporation entitled to vote. Very generally, each 10 per cent. US Shareholder of a foreign corporation that is a CFC for an uninterrupted period of thirty days or more during a taxable year, and that owns shares in the CFC directly or indirectly through foreign entities on the last day of the CFC’s taxable year, must include in its gross income for US federal income tax purposes its pro rata share of the CFC’s “subpart F income,” even if that subpart F income is not distributed. Gain upon disposition of shares in a foreign corporation by a US Holder that was a 10 per cent. US Shareholder when the foreign corporation was a CFC at the time of sale (or at any time during a 5-year period ending on the date of sale) generally will be treated as a dividend to the extent of the CFC’s earnings and profits (determined under US federal income tax principles) during the period the 10 per cent. US Shareholder held the shares and while the corporation was a CFC (with certain adjustments). The rules dealing with CFCs are very complex and are affected by various factors in addition to those discussed above, including the Company’s ownership of US subsidiaries. US Holders who could qualify as a “10 per cent. US Shareholder” are strongly urged to consult their own tax advisers regarding the potential impact of the CFC rules to their purchase, holding, and disposition of Ordinary Shares.

16.6 Reportable transaction reporting

Under certain US Treasury regulations, US Holders that participate in “reportable transactions” (as defined in the regulations) must attach to their US federal income tax returns a disclosure statement on Form 8886. US Holders should consult their own tax advisers as to the possible obligation to file Form 8886 with respect to the purchase, ownership or disposition of the Ordinary Shares, or any related transaction, including without limitation, the disposition of any non-US currency received as a dividend or as proceeds from the sale of Ordinary Shares.

16.7 Backup withholding tax and information reporting requirements

16.7.1 Under certain circumstances, US federal backup withholding tax (currently, at a rate of 28 per cent.) and/or information reporting may apply to US Holders with respect to payments made on, or proceeds from the sale, exchange or other disposition of Ordinary Shares, unless an applicable exemption is satisfied. Backup withholding is not an additional US federal income tax, but rather an advance payment of US federal income tax that may be refunded to the extent it results in an overpayment of such tax so long as the required information is timely furnished to the IRS. Each US Holder is urged to consult its own tax adviser regarding the possible applicability of US federal backup withholding tax and information reporting rules with respect to payments made on, or proceeds from the sale, exchange or other disposition of Ordinary Shares.

16.7.2 The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of Ordinary Shares. Prospective investors should consult their own tax advisers concerning the tax consequences of their particular situations.

17 Legal and Arbitration Proceedings

17.1 There are no governmental, legal or arbitration proceedings in which any member of the Group is involved or of which any member of the Group is aware, pending or threatened by or against any member of the Group which may have or have had in the twelve months preceding the date of this Prospectus a significant effect on the Group’s financial position or results.

18 Property

18.1 Freehold property

The following table provides summary information about the property owned by the Group and any encumbrances or charges on that property:

Property Description	Location of the Property	Freehold owner	Charges
Services base, office buildings and workshops	Ivano-Frankovsk's oblast', Kolomyia region, Ostapkiivtsi	Agro	None
Plots of land for industrial purposes	Rakivchuk	Agro	None
	Sloboda	JV Delta	None
	Bohorodchany	JV Delta	None
	Borshchiv	JV Delta	None
	Debeslavtsi	JV Delta	None
	Zhykotyn	JV Delta	None

18.2 Leasehold property

The following table provides summary information about the property leased by the Group and any encumbrances or charges on that property:

Property Description	Location of the Property	Tenant	Term	Charges
London office premises	38 Chapel Street, London SW1X 7DD	Company	Rolling	None
London office premises	Fifth Floor, 4/5 Grosvenor Place, London SW1X 7HJ	Company	21 June 2005 to 23 June 2015	None
Regional office premises, Ukraine	Kiev (various)	Gazvydobuvannyaor Astroinvest-Ukraine	Various	None
Regional office premises, Ukraine	Lviv (various)	USENCO Ukraine (also in its capacity as USENCO JAA operator) or USENCO Nadra	Various	None
Regional office premises, Ukraine	Poltava (various)	Gazvydobuvannya	Various	None
Regional office premises, Ukraine	Kolomyia	JV Delta	Until 31 December 2008	None
Plots of land for industrial purposes	Gvizdets Malyi Gvizdets Krychka	Agro	Various	None
Plot of land for industrial purposes	Borynia	USENCO Nadra	Until 11 December 2009	None
Plot of land for industrial purposes	Sloboda	JV Delta	9 January 2003 to 9 January 2028	None
Plots of land for industrial purposes	Borshchiv Debeslavtsi Semakiv Zhykotyn	JV Delta	Various	None
		JV Delta (as JAA operator)		
Plots of land for industrial purposes	Tarasivka and Udovychenky	Astroinvest-Ukraine	Various	None
Plots of land for industrial purposes	Chovno-Fedorivka and Poltava region	Gazvydobuvannya	Various	None

18.3 Fixed Assets

The following table provides summary information about the fixed assets owned by the Group:

Asset	Location	Ownership
Krasnozayarska GTS	Poltava, Ukraine	Astroinvest-Ukraine
Compressor JGJ/2 for pumping of gas into pipeline	Kolomyia, Ukraine	JV Delta
Pipeline from well number 460 Pirkivske to Krasnozayarska GTS GTS	Poltava, Ukraine	Astroinvest-Ukraine
Pipeline from well number 1 Pirkivske to Krasnozayarska GTS GTS	Poltava, Ukraine	Astroinvest-Ukraine
Workshop BM-6 and Workshop CMD-62	Ivano-Frankivsk region, Ukraine	Agro
Drilling mobile rig GVS-3070/2	Kolomyia, Ukraine	JV Delta

19 Employees

As of 31 December 2005, 2006 and 2007, the Group had 13,112 and 332 employees, respectively. As at 31 March 2008, the Group had approximately 357 employees. The following table sets out the number of Group employees by division as at 31 December 2005, 2006 and 2007.

Division	Number of Employees		
	As at 31 December 2005	As at 31 December 2006	As at 31 December 2007
Management	2	6	11
Administration	5	46	111
Finance & legal	2	22	43
Engineering & geology	2	17	35
Production/drilling	1	13	115
HSE	1	8	17
Total	13	112	332

20 Over-allotment Option Shareholders

The following table sets out the interests of each Over-allotment Option Shareholder in the Ordinary Shares immediately prior to and immediately following the Global Offer:

Shareholder	Ordinary Shares owned prior to the Global Offer ⁽²⁾		Ordinary Shares owned after the Global Offer assuming no exercise of the Over-allotment Option ⁽¹⁾⁽²⁾		Ordinary Shares to be sold if the Over-allotment Option is exercised in full ⁽²⁾		Ordinary Shares owned after the Global Offer if the Over-allotment Option is exercised in full ⁽¹⁾⁽²⁾	
	No.	per cent.	No.	per cent.	No.		No.	per cent.
Altima Partners	17,403,819	10.57	19,617,428	8.49	2,047,304		17,570,124	7.60
HBK Capital Management	16,525,999	10.04	16,525,999	7.15	1,944,042		14,581,957	6.31
QVT Financial	13,216,837	8.03	14,323,641	6.20	1,554,767		12,768,874	5.53
DB UK Holdings Limited	10,569,080	6.42	10,569,080	4.57	1,243,298		9,325,782	4.04
Ingalls And Snyder LLC	7,333,333	4.45	7,333,333	3.17	862,659		6,470,674	2.80
Hillside Apex Fund Limited	6,977,400	4.24	6,977,400	3.02	820,789		6,156,611	2.66
William Jeffcock	11,206,950	6.81	11,206,950	4.85	1,318,332		9,888,618	4.28
Robert Jeffcock	1,490,403	0.91	1,490,403	0.64	175,323		1,315,080	0.57

(1) Assuming that all the Ordinary Shares offered pursuant to the Global Offer are subscribed in full.

(2) These numbers reflect the Share Consolidation.

21 Consents

- 21.1** Deloitte & Touche LLP has given and not withdrawn its written consent to the inclusion in this Prospectus of its reports set out in Part XI, Part XII and Part XIV of this Prospectus and the references thereto in the form and context in which they appear and has authorised the contents of those parts of this Prospectus which comprise its reports for the purposes of item 5.5.3(R)(2)(f) of the Prospectus Rules. A written consent under the Prospectus Rules is different from a consent filed with the US Securities and Exchange Commission under Section 7 of the Securities Act. As the Ordinary Shares have not and will not be registered under the Securities Act, Deloitte & Touche LLP has not filed a consent under Section 7 of the Securities Act.
- 21.2** Gaffney, Cline & Associates Limited has given and not withdrawn its written consent to the issue of this Prospectus with the inclusion of its CPR in Part XV of this Prospectus and the references to the CPR and to its name in the form and context in which they appear.
- 21.3** For the purposes of Prospectus Rule 5.5.3R(2)(f), Gaffney, Cline & Associates Limited is responsible for the CPR contained in Part XV of this document and have declared that it has taken all reasonable care to ensure that the information contained in the CPR is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.
- 21.4** Gas Strategies Consulting, a division of Gas Strategies Group Limited, whose registered office is at 35 New Bridge Street, London EC4V 6BW, has given and not withdrawn its written consent to the inclusion in this Prospectus of references to the Gas Strategies Report and to its name in the form and context in which they appear and has authorised the inclusion of such references for the purposes of item 5.5.3(R)(2)(f) of the Prospectus Rules.

22 General

- 22.1** The total expenses of the Global Offer are estimated to amount to approximately £11.0 million.
- 22.2** Save as set out in paragraph 1.3 of Part II, Part VII, paragraphs 5.1.1, 5.4, 5.5 and 5.6 of Part VIII and paragraph 2.3.3 of Part X of this Prospectus, the Group is not dependent on patents or licences or industrial, commercial or financial contracts or new manufacturing processes which are material to its business or profitability.
- 22.3** Save as set out in paragraph 2.6 of Part II and paragraphs 6 and 7 of Part VIII of this Prospectus, as far as the Directors are aware there are no environmental issues that may affect the Company's utilisation of its tangible fixed assets.
- 22.4** Save as disclosed in paragraphs 29 and 32 of Part XI and paragraph 12.2 of Part XVII of this Prospectus, the Company has no principal investments for each financial year covered by the financial information set out in Part XV of this Prospectus and there are no principal investments in progress and there are no principal future investments on which the Board has made a firm commitment.
- 22.5** The Company is not aware of the existence of any takeover bid pursuant to the rules of the City Code, or any circumstances which may give rise to any takeover bid, and the Company is not aware of any public takeover bid by third parties for the Ordinary Shares.
- 22.6** Following Admission, the Takeover Code will apply to the Company. Under the Takeover Code, if an acquisition of Shares were to increase the aggregate holding of an acquirer and its concert parties to Shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending upon the circumstance, its concert parties, would be required (except with the consent of the Panel) to make a cash offer for the outstanding Shares at a price not less than the highest price paid for the Shares in the Company by the acquirer or its concert parties during the previous 12 months. A similar obligation to make such a mandatory offer would also arise on the acquisition of Shares by a person holding (together with its concert parties) Shares carrying between 30 to 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

Under the Companies Act 2006, if an offeror were to acquire or unconditionally contract to acquire, 90 per cent. of the shares to which the offer relates and 90 per cent. of the voting rights attached to those shares, within three months of the last day on which its offer can be accepted, it could compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose shares are compulsorily acquired under the Companies Act 2006 must, in general, be the same as the consideration that was available under the takeover offer.

The Companies Act 2006 would also give minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Shares to which the offer relates, any holder of Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Shares.

The offeror would be required to give any Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a Shareholder exercises his or her rights, the offeror is bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

- 22.7** Where information contained in this Prospectus has been sourced from a third party, the Company confirms that such information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 22.8** Ordinary Shares are issued and allotted in registered form under the laws of England and Wales and their currency is Sterling. No admission to listing or trading of the Ordinary Shares is being sought on any stock exchange other than the Official List.
- 22.9** It is expected that CREST accounts will be credited as applicable on the date of Admission.
- 22.10** Temporary documents of title will not be issued in relation to New Ordinary Shares.
- 22.11** There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.
- 22.12** Pursuant to Chapter 5 of the United Kingdom Listing Authority Disclosure and Transparency Rules (the Disclosure and Transparency Rules) a person must notify the Company of the percentage of its voting rights he holds as a shareholder or through his direct or indirect holding of certain financial instruments (or a combination of such holdings) if the percentage of those voting rights (a) reaches, exceeds or falls below 3 per cent., 4 per cent., 5 per cent., 6 per cent., 7 per cent., 8 per cent., 9 per cent., 10 per cent., and each 1 per cent. threshold thereafter up to 100 per cent. as result of an acquisition or disposal of shares or such financial instruments; or (b) reaches, exceeds or falls below an applicable threshold in (a) as a result of events changing the breakdown of voting rights and on the basis of information disclosed by the Company in accordance with the Disclosure and Transparency Rules. Certain voting rights held by investment managers, unit trusts, OEICS and market makers can be disregarded except at the thresholds of 5 per cent. and 10 per cent. and above.
- 22.13** The International Security Identification Number for the Ordinary Shares is GB00B12WC938.

23 Auditors

The auditors of the Company for the period from 1 January 2005 to the date of this Prospectus have been Deloitte & Touche LLP, chartered accountants, whose registered address is at 2 New Street Square London EC4A 3BZ.

24 No Significant Change Statement

There has been no significant change in the trading or financial position of the Group since 31 December 2007, the date to which the last audited accounts of the Group were published.

25 Documents Available for Inspection

Copies of the following documents will be available for inspection during normal business hours on any weekday (except Saturdays, Sundays and public holidays) at the offices of Denton Wilde Sapte LLP, 1 Fleet Place, London EC4M 7WS while the Global Offer remains open for acceptance:

- (a) the memorandum of association of the Company and the Articles;
- (b) the financial information on the Group set out in Part XI and Part XII of this Prospectus;
- (c) the service agreements and letters of appointment referred to in paragraph 9 of this Part XVII;
- (d) the CPR set out in Part XV of this Prospectus;
- (e) the report from Deloitte & Touche LLP set out in Part XIV of this Prospectus;
- (f) the Gas Strategies Report; and
- (g) this Prospectus.

Dated: 18 June 2008

PART XVIII

DEFINITIONS

2006 Act	the Companies Act 2006
AAPG	the American Association of Petroleum Geologists
Act or Companies Act	the Companies Act 1985 (as amended)
Admission	the admission of the Existing Ordinary Shares and the New Ordinary Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities
Agro	OJSC Agronaftonogastechservice, a company registered in Ukraine with registration number 00904285
AIM	the AIM market operated by the London Stock Exchange
AMC	the Antimonopoly Committee of Ukraine
Articles	the articles of association of the Company
Astro-Energy	LLC Astro-Energy, a company registered in Ukraine with registration number 35193200
Astro Gas	LLC Astro Gas, a company registered in Ukraine with registration number 35193263
Astroinvest-Energy	LLC Astroinvest-Energy, a company registered in Ukraine with registration number 35193237
Astroinvest-Ukraine	LLC Astroinvest-Ukraine, a company registered in Ukraine with registration number 31389304
Board	the board of Directors of the Company from time to time
Cadogan BV	Cadogan Petroleum Holdings B.V., a private limited company incorporated and registered in the Netherlands with registration number 34299186
Cadogan Holdings	Cadogan Petroleum Holdings Limited, a private limited company incorporated and registered in England and Wales with registration number 5255092
CAGR	compound annual growth rate
CIS	the Commonwealth of Independent States
Co-lead Manager	Fox-Davies Capital Limited
Combined Code	the Combined Code on Corporate Governance published by the Financial Reporting Council dated June 2006
Company or Cadogan	Cadogan Petroleum plc, a public limited company incorporated in England and Wales with registration number 5718406
Competent Person	Gaffney, Cline & Associates Limited
CPR	the report prepared by the Competent Person, a copy of which is reproduced in Part XV of this Prospectus

CREST	the relevant system (as defined in the CREST Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form in respect of which Euroclear is the operator (as defined in the CREST Regulations) in accordance with which securities may be held and transferred in uncertificated form
CREST Regulations	the Uncertified Securities Regulations 2001 (SI 2001 No. 3755) (as amended)
Directors	the existing directors of the Company whose names are set out on page 27 of this Prospectus
EEA	the European Economic Area
Enlarged Share Capital	the issued share capital of the Company as enlarged by the issue of the New Ordinary Shares
Exchange Act	the US Securities Exchange Act of 1934, as amended
Existing Ordinary Shares	the Ordinary Shares in issue immediately prior to Admission
EU	the European Union
Euroclear	Euroclear UK & Ireland Limited
Fox-Davies	Fox-Davies Capital Limited, Whitefriars House, 6 Carmelite Street, London EC4Y 0BS
FSA	the Financial Services Authority
FSMA	the Financial Services and Markets Act 2000
GAAP	generally accepted accounting practices
Gas Strategies	Gas Strategies Consulting, a division of Gas Strategies Group Limited
Gas Strategies Report	the Gas Strategies Report dated May 2008 prepared by Gas Strategies
Gazprom	OJSC Gazprom, the Russian state-owned oil and gas company
Gazvydobuvannya	Industrial Company Gazvydobuvannya LLC, a company registered in Ukraine with registration number 31354329
GDP	gross domestic product
Global Offer	the conditional global offer by the Company of the New Ordinary Shares, as more particularly described in Part XVI of this Prospectus
Group	the Company, its subsidiaries and its subsidiary undertakings
HMRC	Her Majesty's Revenue and Customs, the UK tax authority
Hryvnia or UAH	Hryvnia, the lawful currency for the time being of Ukraine
IFRS	the International Financial Reporting Standards
JAA	joint activity agreement or joint investment agreement

JV Delta	Kolomya Oil and Gas Company “Delta”, a company registered in Ukraine with registration number 20568045
Listing Rules	the listing rules made by the UK Listing Authority pursuant to section 74 of the FSMA
Locked-up Shareholders	the Over-allotment Option Shareholders and certain institutional and private investors
LLC INTEK Geo	LLC INTEK Geo, a company registered in Ukraine with registration number 32887584
LLC Mercor	LLC Mercor, a company registered in Ukraine with registration number 30519931
LLC PARI	LLC PARI, a company registered in Ukraine with registration number 31037994
London Stock Exchange	London Stock Exchange plc
Major Fields	those fields in which the Group has a working interest which contain more than 40 MMboe of reserves, contingent resources or prospective resources
Member State	a member state of the EU
Minor Fields	those fields owned by the Group in which the Group has a working interest which contain less than 40 MMboe of reserves, contingent resources or prospective resources
Model Code	the model code on directors’ dealings in securities, as set out in the Appendix to Chapter 9 of the Listing Rules
Momentum Energy	Momentum Energy International Inc., a company registered in Canada with registration number 2013254780
Naftogas	National Joint Stock Company “Naftogas of Ukraine”, a State-owned oil and gas company
NAK Nadra	National Joint Stock Company “NAK Nadra Ukraine”, a State-owned oil and gas company
NCRE	National Electricity Regulation Commission of Ukraine, the governmental body responsible in part for establishing the annual maximum industrial gas sale price
New Ordinary Shares	the Ordinary Shares to be issued by the Company pursuant to the Global Offer
Offer Price	£2.30 per Ordinary Share
Official List	the Official List of the FSA
Ordinary Shares	for any period prior to the date of the Share Consolidation, the ordinary shares of £0.01 each in the capital of the Company and for any period after the date of the Share Consolidation, the ordinary shares of £0.03 each in the capital of the Company
Over-allotment Option	means the option granted by the Over-allotment Option Shareholders to UBS for UBS to purchase Ordinary Shares from the Over-allotment Option Shareholders

Over-allotment Option Shareholders	those Shareholders of the Company who have granted an option to UBS for UBS to purchase Ordinary Shares from them, and who are named under the heading "Over-allotment Option Shareholders" in paragraph 20 of Part XVII of this Prospectus
Over-allotment Shares	the Ordinary Shares to be sold by the Over-allotment Option Shareholders pursuant to the Over-allotment Option
p or pence	one hundredth part of one Sterling
Prospectus Rules	the prospectus rules published by the FSA
Qualified Institutional Buyer or QIB	a qualified institutional buyer as defined in Rule 144A
Radley	Radley Investments Limited, a private limited company incorporated and registered in England and Wales with registration number 6287407
Ramet Holdings	Ramet Holdings Limited, a company registered in the Republic of Cyprus with registration number C202210
Registrar	Capita Registrars Limited
Region	the countries bordering Ukraine
Regulation S	Regulation S promulgated by the SEC under the Securities Act
Reorganisation	the reorganisation of the Company, as described further in paragraph 9 of Part VIII of this Prospectus
Rule 144	Rule 144 promulgated by the SEC under the Securities Act
Rule 144A	Rule 144A promulgated by the SEC under the Securities Act
SEC	the US Securities and Exchange Commission
Securities Act	the US Securities Act of 1933, as amended
Share Consolidation	the share consolidation of the Company pursuant to which every three ordinary shares of £0.01 each in the capital of the Company were consolidated into one ordinary share of £0.03 each, as approved at the extraordinary general meeting of the Company held on 10 June 2008
Shareholders	the holders of Ordinary Shares
Sole Bookrunner	UBS
Sole Global Co-ordinator	UBS
SPE	the Society of Petroleum Engineers
SPPE	the Society of Petroleum Evaluation Engineers
Sponsor	UBS
Stabilising Manager	UBS
Stabilising Regulation	Commission Regulation No. 2273/2003 of 22 December 2003 relating to exemptions for buy-back programmes and stabilisation of financial instruments

State	the national Government of Ukraine
Sterling or £	the lawful currency for the time being of the United Kingdom
Takeover Code	the City Code on Takeovers and Mergers
UBS or UBS Investment Bank	UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP
USENCO Ukraine	USENCO Ukraine, a company registered in Ukraine with registration number 30051913
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UK Listing Authority or UKLA	the FSA, acting in its capacity as the competent authority for the purposes of Part VI of FSMA
Underwriters	UBS and Fox-Davies
Underwriting Agreement	the underwriting and sponsor's agreement entered into by the Company, the Over-allotment Option Shareholders, the Directors and the Underwriters, as further described in paragraph 12.1 of Part XVII of this Prospectus
US dollar, \$ or US\$	the lawful currency for the time being of the United States
US or United States	the United States of America, each state thereof, its territories, possessions and all areas subject to its jurisdiction
USENCO International	USENCO International Inc., a company registered in Delaware with registration number 2667619
USENCO Nadra	LLC USENCO Nadra, a company registered in Ukraine with registration number 35336083
USENCO Ukraine	USENCO Ukraine, a company registered in Ukraine with registration number 30051913
US Holder	a beneficial owner of Ordinary Shares as further described in paragraph 16.1 of Part XVII of this Prospectus
US Person	a "US person" as defined by Rule 902 of Regulation S
USSR or Soviet Union	the Union of Soviet Socialist Republics
WPC	the World Petroleum Council
WTO	the World Trade Organisation
ZUG	Zakhidukrgeology, a State-owned entity
In this Prospectus, all references to times and dates are in reference to those observed in London, England.	

PART XIX

GLOSSARY OF TERMS

\$/bbl	US dollars per barrel
\$/boe	US dollars per barrel of oil equivalent
\$/cm	US dollars per cubic metres
\$/cf	US dollars per standard cubic feet
\$/tonne	US dollars per tonne
1P	Proven reserves
2C	Best estimate value for contingent resources
2D Seismic	Seismic data acquired in a grid that is relatively broad, and is processed in two dimensions
2P	Proven plus probable reserves
3D Seismic	Seismic data acquired in a grid that is relatively close spaced and dense, and is processed in three dimensions
3P	Proven plus probable plus possible reserves
API	American Petroleum Institute
appraisal well	A well drilled as part of an appraisal drilling programme which is carried out to determine the physical extent, reserves and likely production rate of a field
atm.	Pressure in atmospheres
barrel(s) or bbl(s)	A unit of volume measurement used for petroleum and its products (7.3 barrels = 1 tonne: 6.29 barrels = 1 cubic metre)
Bcf	Billion cubic feet
Bcm	Billion cubic metres
Bcm/well	Billion cubic metres per well
boe	Barrels of oil equivalent. One barrel of oil is the energy equivalent of 5,800 cf of natural gas
boepd	Barrels of oil equivalent per day
carbonate	A class of sedimentary rock whose chief mineral constituents (95 per cent. or more) are calcite and aragonite (both CaCO_3) and dolomite $\text{CaMg}(\text{CO}_3)_2$, a mineral that can replace calcite during the process of dolomitization. Limestone, dolostone or dolomite, and chalk are carbonate rocks. Carbonate rocks can serve as hydrocarbon reservoir rocks, particularly if their porosity has

	been enhanced through dissolution. They rely on fractures for permeability.
Carboniferous	A geological period 295 million to 354 million years before present
cf	Standard cubic feet of gas at 60° (F) and atmospheric pressure
clastic	Granular sedimentary rocks like sandstones
Cm/d	Cubic metres per day
CO₂	Carbon Dioxide
commercial discovery	Discovery of hydrocarbons which the company determines to be commercially viable for appraisal and development
completion	The tubing and accessories installed after drilling to facilitate well production
condensate	Hydrocarbons which are in the gaseous state under reservoir conditions and which become liquid when temperature or pressure is reduced. A mixture of pentanes and higher hydrocarbons
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
Cretaceous	A geological period 140 million to 65 million years before present
delta	An area of deposition or the deposit formed by a flowing sediment-laden current as it enters an open or standing body of water, such as a river spilling into a gulf
Devonian	A geological period between 417 million and 354 million years before present
dip	The angle at which a rock stratum or structure is inclined from the horizontal
discovery	An exploration well which has encountered hydrocarbons for the first time in a structure
DST	Drill Stem Test
EMV	Expected Monetary Value. The risk weighed monetary outcome of a success case NPV and the associated cost of failure
Eocene	A geologic epoch that extends from about 55.8 million to 33.9 million years before the present
facies	Sedimentological description of rock

fault/faulting	A displacement (vertical, inclined or lateral) below the earth surface that acts to offset rock layers relative to one another. Faulting can create traps for hydrocarbons
field	A geographical area defined by the boundary of an underlying oil or gas accumulation. Usually used in the context of a producing oil field
formation	A layer or unit of rock. A productive formation in the context of reservoir rock
fracture	A natural crack (open or filled) occurring within rocks
GcoS	Geologic chance of success, or a percentage given to prospective resources reflecting the likelihood of these deposits being discovered
graben	A down-dropped block or basin between two inward-dipping normal faults
hydraulic fracturing	The artificially induced fracturing of reservoir rock to enhance productivity
H₂S	Hydrogen Sulphide
hydrocarbon	A compound containing only the elements hydrogen and carbon. May exist as a solid, a liquid or a gas. The term is mainly used in a catch all sense for oil, gas and condensate
Interdistributary	Deposits dominated by settlements from distributaries
IRR	Internal rate of return
isopach	Equal thickness
Jurassic	A geologic period that extends from about 199 million to 145 million years ago
kilometre or km	Kilometre
km²	Square kilometre
lacustrine	Depositional environment characterised by that encountered in lakes
licence	An exclusive right to search for or to develop and produce hydrocarbons within a specific area. Usually granted by the State authorities and may be time limited
limestone	A sedimentary rock containing at least 50 per cent. calcium or calcium magnesium carbonates
lithofacies	Of sedimentological families rock types
m or metre	Metre
Mcf	Thousand cubic feet

Mcm	Thousand cubic metres
Mcm/d	Thousand cubic metres per day
mD	Millidarcies, a measure of permeability
m TVDss	Metres, true vertical depth subsea
MM	Million (when used to define oil volumes)
MMbbl	Million barrels
MMboe	Million barrels of oil equivalent. For gas, the Group uses the conversion factor of one Bcf equals 0.18 MMboe
MMcf	Million cubic feet
MMcf/d	Million cubic feet per day
MMcm	Million cubic metres
maturation	In this context the time at which source rock generated hydrocarbons
Menilite	A variety of opal
Miocene	A geologic epoch that extends from about 23.03 to 5.33 million years before the present
N₂	Nitrogen
NPV (Net Present Value)	The post tax estimated future net revenues to be generated from the production of reserves after deducting the estimated future cost of development, production and abandonment, using prices and costs of the date indicated
Oligocene	A geologic epoch that extends from about 33.9 million to 23 million years before the present
operator	The company that has legal authority to drill wells and undertake production of hydrocarbons. The Operator may be part of a consortium and acts on behalf of the consortium
P50	Median estimate for prospective resources, or the amount that there is a 50 per cent. or greater chance will be discovered if prospective resources are discovered at all in a particular area
Paleocene	A geologic epoch that lasted from about 65 million years ago to about 56 million years ago
Paralic	Parallel to (for example to an ancient coast line in a depositional context)
pay	A reservoir or portion of a reservoir that contains economically producible hydrocarbons
Permeability	The ability, or measurement of a rock's ability, to transmit fluids, typically measured in darcies or millidarcies

Permian	A geological period 250 million to 295 million years before present
petroleum	A generic name for hydrocarbons, including crude oil, natural gas liquids, natural gas and their products
pinching-out	A layer that thins out and is discontinued laterally
porosity	The percentage of void in a porous rock compared to the total rock volume
POS	Probability of Success (also known as COS – Chance of Success)
possible reserves	Those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves
probable reserves	Those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
proved reserves	Those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations
Prospect	A defined geological structure that has been surveyed and defined, usually by seismic data, that could potentially act as a trap for hydrocarbons
PVT	Pressure, Volume and Temperature (in the context of a testing oil behaviour)
prospective resources	Those quantities of petroleum which are estimated as of a given date to be potentially recoverable from undiscovered accumulations
RFT	Repeat Formation Tester
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, which are defined elsewhere in this glossary
reservoir	A porous and permeable rock formation in which oil and gas has accumulated and can be produced
resources	Quantities of petroleum which include both contingent resources and prospective resources, each defined elsewhere in this glossary
rift	Region in which the Earth's crust is pulling apart and creating normal faults and down-dropped areas or subsidence

risked	A volume or monetary value that has been discounted to reflect the POS
salt dome	A thickening, up-welling, or doming of ductile salt after burial caused by variation in density and overburden pressure
sandstone	A sedimentary rock composed of cemented or compacted detrital minerals, principally quartz grains
SG	Specific gravity of gas
shale	A fine-grained sedimentary rock formed by consolidation of clay- and silt-sized particles into thin, relatively impermeable layers. It is the most abundant sedimentary rock
Siltstone	A sedimentary rock which has a composition intermediate in grain size between the coarser sandstones and the finer mudstones and shales
slabbing	Slicing a rock core in two parallel to the long axis (to aid the description process)
spud	To commence drilling, once the cement cellar and conductor pipe at the well-head have been constructed
stimulation	To improve reservoir productivity by increasing effective well flow capacity
stratigraphic trap	A mode of trapping hydrocarbons which is not dependent on structural entrapment
structural high	An area where rocks have been elevated due to tectonic activity
structural traps	A variety of sealed geologic structure capable of retaining hydrocarbons, such as a fault or a fold
Tectonic	Synonymous with the concept of 'plate tectonics', it is the unifying geologic theory developed to explain observations that interactions of the brittle plates of the lithosphere with each other and with the softer underlying asthenosphere result in large-scale changes in the Earth
Thrust Belt	A geological formation caused by compressional tectonics, a natural process that ultimately results in the formation of large mountain ranges
Tonne or t	Oil: 1 tonne = 7.33 barrels of oil condensate: 1 tonne = 9 barrels of condensate
tcf	Trillion cubic feet
t/d	Tonne per day
Tournaisian	Geological period within the early Carboniferous
Transgression zone	An area marked by the sea's advancement onto land

unrisked	Undiscovered resource volume before discounting by probability of success
Visean	Geological period within the early to middle Carboniferous
Vug	A cavity, void or large pore in a rock that is commonly lined with mineral precipitates
well log	A record of geological formation penetrated during drilling. Also 'electrical log' which is a record of the formation properties and is acquired by running a logging tool in the borehole
workover	The process of performing major maintenance or remedial treatment on an existing oil or gas well

