

CADOGAN PETROLEUM PLC
Half Yearly Report for the Six Months ended 30 June 2010
(Unaudited and Unreviewed)

Highlights

Cadogan Petroleum plc, an independent oil and gas exploration, development and production company with onshore gas, condensate and oil assets in Ukraine, announces its unaudited results for the six months ended 30 June 2010.

- Profit before tax of £0.4 million for first half of year (30 June 2009: loss before tax £17.1 million)
- Commenced commercial production in August from Zagoryanska 3 well at about 50 mcm/day
- Prepared programme for deepening of Pokrovska 1 well by 800 metres
- Commenced development project to increase gas production from Debeslavetska field
- Total capital expenditure of £1 million during the first half of 2010 (30 June 2009: £20.8 million)
- SAE Capital Holdings S.A. became a substantial shareholder
- Alessandro Benedetti and Bertrand des Pallieres of SAE Capital Holdings S.A., appointed to the Board
- Net cash and cash equivalents at 30 June 2010 of £27.1 million

Commenting on the results, Ian Baron Chief Executive Officer said “The work undertaken over the past 12 months has significantly strengthened the Group’s technical and commercial position in Ukraine, although Cadogan still needs to demonstrate its full potential. The Group is poised to further develop its assets in Ukraine and to take full advantage of the attractive growth opportunities available to it.”

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Chairman's Statement

Introduction

Following the recommendation of the Board, the decision taken by shareholders at the Company's Annual General Meeting on 30 June 2010 not to return capital but to build on the work undertaken by the new management team, has allowed the Company to move ahead in developing its assets in Ukraine. As a consequence of this decision, the Board approved several initiatives that are already proving beneficial to the Company. The first of these was the hook up of the Zagoryanska 3 well to the Ukraine gas pipeline network allowing production of gas and condensate to commence on 1 August 2010. The revenue from this well, together with existing production revenue elsewhere, should allow the Group to cover ongoing general and administrative costs (excluding litigation costs) during the latter part of 2010. The Board believes that, as a consequence of the actions taken by the new management team, there remains a significant opportunity for value to be created from the Group's sub-surface assets in Ukraine.

In June 2010, the 29.12% shareholding built up by a US institutional shareholder was purchased by SAE Capital Holdings S.A. ("SAE"). The Board has had discussions with the representatives of SAE and is pleased to announce the appointment of Alessandro Benedetti and Bertrand des Pallieres as directors of the Company with immediate effect. As SAE is the Company's largest shareholder, the Board does not consider them independent in accordance with The UK Corporate Governance Code ("the Code"). However, as a Smaller Company as defined under the Code, the membership of the Board continues to comply with the Code, as the Board will continue to have three independent non-executive Directors. Both appointees have declined to receive fees.

Operations

The re-structuring of the Group's in-house technical team during 2009 has resulted in a much improved understanding of the sub-surface within our licences. The re-analysis of existing and new data, and the consolidation of the Group's data resources in Kiev, has enabled improved analysis, design and planning of commercially viable development projects.

Following extensive testing on Zagoryanska 3, the well was tied in by pipeline to a sales point in the Ukraine gas transportation system. This project cost \$216,000, was completed on time and to budget, and initial production from this well is currently around 50 mcm/day (1.75 million scf/day) of gas and 15 cubic metres/day (120 bb/day) of condensate.

The Pokrovska 1 well which was suspended in March 2009 to conserve cash and enable further seismic analysis, will be deepened by 800 metres to test a target identified on the 3D seismic data. Drilling is planned for September and is budgeted to cost in the region of \$2 million plus a further \$2 million for testing, if warranted. In the event of commercial success, a further \$3.5 million (\$1.5 million of which comes from inventory) will be required for facilities and to tie the well in to a production sales point. This project has very attractive economics and if successful the investment should be recovered within 12 months.

Three new production wells will be drilled on the Debeslavetska field over the next three months at a total cost of \$1.08 million using the Group's drilling rig. Gas production continues from the Group's Cheremkhivska field at the rate of 7 mcm / day.

The Group is preparing for the acquisition of a 2D seismic programme on the Bitylanskya licence, where in 2009 the Bornyna 3 well was drilled. In a limited duration drill stem test Borynya 3 tested gas from a secondary reservoir at a maximum flow rate of 128 mcm/day. This \$1.25 million programme, which is expected to be completed by November 2010 seeks to identify suitable targets for further drilling, and fulfils a licence obligation.

Chairman's Statement (continued)

The Group continues to discuss the possibility of farming out some of its major assets. These discussions were hampered by the uncertainty over the Company's future ownership. This issue has now been resolved. In the interim, there have been material changes to the business, which have encouraged the Board to review the farm-out programme to ensure that it is appropriate. For example, in August 2010 the Zagoryanska 3 discovery was put on commercial production; the Pokrovska 1 well is to be deepened; the Group is now in a position to manage its drilling obligations until the end of 2011 and, has sufficient financial resources to support expenditure on existing fields that will enhance value or generate production revenues. The Board will continue to seek farm out arrangements in order to manage risk on any major drilling obligations.

Political and licence issues

There have been no further developments in the Group's licence disputes (refer to note 2c on page 18). As reported in October 2009 Cadogan has been advised by the Ministry for the Protection of the Environment in Ukraine that there are no grounds for invalidation or annulment, or any doubts as to the validity of the Group's special permits or licences for any of its assets. The Company continues to wait for a further hearing in the Higher Administrative court of Ukraine to reconsider their previous ruling, with no further evidence being taken into account, as instructed by the Supreme Court in June 2009 with regard to the indirect challenge to the Pirkovskoe licence.

The temporary suspension of the Debeslavetska licence remains in place. Earlier in the year minor non-compliance issues were identified and resolved, however, the local authorities did not report this to the State authorities and, as a consequence, the field was shut-in in early June 2010. The Group has received a letter from the Ministry for the Protection of the Environment in Ukraine confirming that the alleged non-compliance had been resolved and that as soon as an inter-departmental committee had been formed, the lifting of the suspension order would be submitted for approval. Prior to shut-in net revenues from the field averaged \$137,000 per month. The Board currently believes that the lost production from this well can be recovered during the year.

Amendments to the Pokrovskoe work programme, the Slobodo – Rungurska work programme, extension of the Pirkovskoe licence which expired in June 2010 (refer to Operations Review on page 6) and extension of the Monastretska licence are also held up by the delay in appointing the inter-departmental committee.

Litigation

Progress continues to be made in the Company's litigation against its former officers and various related parties and the Company has been advised that it has excellent prospects of success. To date the litigation against third parties has secured \$16 million of value. The Board expects the Group to recover a further \$36.5 million in connection with the resale of gas plants manufactured by Global Processing Systems in accordance with the payment schedule agreed with them.

Financial position

At the date of this report, the Group had cash and cash equivalents of approximately £26.4 million. The Directors believe that the capital available at the date of this report is sufficient for the Group to continue operations for the foreseeable future (refer to note 2b on page 19).

Chairman's Statement (continued)

Outlook

The Board strongly believes that there remains a significant opportunity for value to be created from the Group's assets in Ukraine. Going forward it will review and develop plans to build value from its existing assets in 2011 by developing projects that will enhance reserves and generate production revenue. As part of this review the Board will consider the level of farm-out of major obligations that is appropriate for the Group to carry in order to reduce the risk profile.

Simon Duffy

Non-executive Chairman

Operations Review

Reserves and resources

Following the management changes in March 2009, the capital intensive drilling operations of the Group were safely curtailed in a manner that would maintain the licences legally and leave maximum flexibility in the event further studies revealed scope for additional work on the wells. Greater effort was applied to developing and understanding the hydrocarbon potential and the risks on the Group's licences through work carried out by the Group's new subsurface team based in Kiev. Additionally the team focused on building the technical database and developing a farm-out programme designed to balance the risk profile of the asset base through finding partners to fund future work programmes, in return for part of Cadogan's equity in the licences.

At the beginning of 2010 the Group held working interests in eight (2009: eleven) gas, condensate and oil exploration and production licences in the east and west of Ukraine. All these assets are operated by the Group and are located in either the Carpathian basin or the Dnieper-Donets basin, proximal to the Ukrainian gas distribution infrastructure. The Group's primary focus is on the Bitlyanska licence, (Carpathian Basin, west Ukraine), Pokrovskoe, Zagoryanska and Pirkovskoe licences (Dnieper-Donets basin, east Ukraine) where the Group's main reserve and resource potential is located.

Summary of the Group's licences held at 30 June 2010			
Working interest (%)	Licence	Expiry	Licence type ⁽¹⁾
Major licences			
96.5	Bitlyanska ⁽²⁾	December 2014	E&D
100.0	Pokrovskoe	August 2011	E&D
90.0	Zagoryanska	April 2014	E&D
97.0	Pirkovskoe ⁽³⁾	June 2010	E&D
Minor licences			
98.3	Debeslavetska	October 2026	Production
49.8	Cheremkhivska	May 2018	Production
100.0	Slobodo-Rungurska	April 2011	E&D

(1) E&D = Exploration and Development.

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

(3) The Pirkovskoe licence expired in June 2010 and all the necessary paperwork for its extension has been submitted to the State authorities.

Operations Review (continued)

The following are updates to the full Operations Review contained in the Annual Financial Report for 2009:

Bitlyanska licence area

A 2D seismic acquisition programme will commence on this licence area in September 2010. The outcome of this seismic survey will assist with our understanding of the potential of this highly attractive, but geologically complex asset. The programme is budgeted to cost \$1.25 million and is planned to be completed by November 2010.

Pokrosvkoe licence area

The Pokrovska 1 well, which was suspended in March 2009 for 3D seismic evaluation and to conserve cash, will be deepened by 800 metres and deviated so that a target identified on the seismic can be reached. The rig is on site and is being upgraded and it is planned to start drilling in September and reach total depth within 60 days.

Zagoryanska licence

Following the successful testing of the Visean V-18 interval in the Zagoryanska 3 well, the Group has invested \$216,000 to tie the well into a production sales point. The project was completed on time and to budget and commenced commercial production on 1 August 2010. Production from this well is currently averaging 50 mcm/day (1.75 million scf/day) of gas and 15 t/day (120 bb/day) of condensate. It is expected that production will stabilise over time to about 35 mcm/day of gas. The extent of the V-18 reservoir in the Zagoryanska 3 area has still to be fully mapped and confirmed, but it is anticipated that additional wells will be required to exploit fully this discovery.

Although the current focus is on the V-18 discovery, a report from the Ukrainian State Geological Exploration Institute also points out that, despite the previously announced unsuccessful tests on the Tournasian and Lower Visean intervals of the Zagoryanska 3 well, there could also be commercial production from those intervals. This would require utilising proper test procedures, an appropriate completion string and a series of stimulation treatments. Management continues to review this opportunity as well as evaluating the potential for the possible work-over of two previously drilled wells on the Zagoryanska field.

Pirkovskoe licence area

The Pirkovskoe licence expired in June 2010 and all the necessary paperwork for its extension has been submitted to the State authorities. Like many other licences in Ukraine, the recommendation to approve the Pirkovskoe licence extension has been delayed pending the appointment of the ministries Inter-Departmental Work group. This was established in late July after a series of delays due to changes in appointments in the Ministry of Environmental Protection and the first meeting is to be held shortly.

The Board is confident that this licence will be extended and as a result do not consider there to be any impairment to the carrying value of the assets connected with this licence as at the period end.

The amount capitalised within property, plant and equipment ("PP&E") in respect of this licence at period end was £21.9 million. In the event that the extension is not permitted these costs would be impaired.

Operations Review (continued)

Minor fields

Three new shallow production wells will be drilled on the Debeslavetska field over the next three months at a cost of \$1.08 million using the Group's drilling rig. The Debeslavetska field in western Ukraine currently has 9 producing wells and current production is about 27 mcm/ day. Re-analysis of the seismic and geophysical data already available to the Company indicated further potential in this field and accordingly three wells to around 400metres will be drilled between September and December 2010 to increase production. Production also continues from the Cheremkhivska field at about 7 mcm/day.

The Company previously reported that it had allowed the Monaststreytska licence to expire. However following discussions with the Ministry for the Protection of the Environment in Ukraine the licence will be re-acquired on favourable terms and studies are underway to bring one well back to oil production as soon as possible.

There is no production from the Slobodo-Rungurska licence area where six old wells the Group took over are being plugged and abandoned.

Income statement

The income statement of the Group for the six months to 30 June 2010 shows a small profit before tax for the period of £0.4 million, largely deriving from income from out of court settlements and other non-trading income offset by administrative expenses (30 June 2009: loss of £17.1 million; 31 December 2009: loss of £107.2 million).

During the period, the activities of the Group largely remained on stand-by as most exploration and development activities were suspended, and the staff reduction programme was completed. Revenue in the period of £0.8 million (30 June 2009: £1.1 million; 31 December 2009: £2.3 million) comprised sale of gas from the producing wells in the Debeslavetska and Cheremkhivskoe minor fields only. The reduction of revenue on the previous periods arose because these periods also included revenue from the minor fields at Blazhiv and Slobodo, and additionally test production of oil from the field at Pirkovskoe. These sales produced a gross profit of £0.1 million (30 June 2009: £0.1 million; 31 December 2009: £0.3 million).

Administrative expenses of £4.4 million (30 June 2009: £4.1 million; 31 December 2009: £20.7 million) comprised staff costs, Directors' remuneration, legal and professional fees, depreciation charges for the Group's property, plant, equipment and intangible assets, and other operational or administrative costs. In the six months to 30 June 2010, they also included realised losses of £0.9 million on sales of surplus inventories. Expenditure in the period on legal items related to the litigation process was £2.2 million, of which £1.9 million had been accrued as at 31 December 2009 (litigation costs to 30 June 2009: £0.8 million; 31 December 2009: £6.1 million). Professional and consultancy fees of £0.4 million charged in the period mainly related to the farm-out campaign and ongoing corporate costs, while in 2009 the costs charged under this category (30 June 2009: £0.8 million; 31 December 2009: £0.8 million) mainly related to fees incurred to defend the legal challenges indirectly associated with the Pirkovskoe and Zagoryanska licences and to extend the Zagoryanska licence. No reversal of equity-settled share-based payment transactions previously expensed took place in the period (30 June 2009: £0.8 million; 31 December 2009: £0.8 million). These reversals had resulted from certain options being forfeited and a change in the estimated period of vesting for the remaining options.

Other income comprised income from out of court settlements, exchange gains on long-term receivables and movement on the provision against Ukrainian VAT receivable. The income of £2.9 million from out of court settlements represented the income of \$4.5 million which was received under the settlement with Smith Eurasia.. The movement in the VAT provision represented Ukrainian VAT of £1.1 million recovered during the period, less write-off of new VAT of £0.7 million. The recoveries mostly related to sales of inventories. In 2009 the full impairment of Ukrainian VAT receivable resulted in charges of £13.5 million for the period to 30 June 2009, and £13.2 million for the year.

Investment revenue decreased during the six months ended 30 June 2010 to £0.1 million (30 June 2009: £0.3 million; 31 December 2009: £0.4 million) due mainly to a reduction in interest rates.

Cash flow statement

The Consolidated Cash Flow Statement on page 15 shows net cash outflow from operating activities of £3.2 million (30 June 2009: £3.9 million; 31 December 2009: £19.0 million), expenditure of £0.8 million (30 June 2009: £12.0 million; 31 December 2009: £15.9 million) on intangible exploration and evaluation assets and £0.2 million (30 June 2009: £8.7 million; 31 December 2009: £7.6 million) on property, plant and equipment. No asset acquisitions were made in the six months ended 30 June 2010 (30 June 2009: £nil; 31 December 2009: £nil million).

Financial Review (continued)

Balance sheet

As at 30 June 2010, the balance of the unrestricted cash and cash equivalents of the Group was £27.1 million (31 December 2009: £30.5 million). No external borrowings were held by the Group at either date. Intangible exploration and evaluation assets of £1.0 million (31 December 2009: £nil) represent the investment in such assets made in the six months to 30 June 2010 only, due to the full impairment of the net book value as at 31 December 2009. Property, plant and equipment of £32.6 million at 30 June 2010 (31 December 2009: £32.0 million) represents principally the cost of developing fields with commercial reserves to bring them into production. The total receivable of \$36.5 million from the settlement with GPS (£24.2 million as at 30 June 2010, £22.9 million as at 31 December 2009) is apportioned between non-current and current assets in accordance with the relevant periods in which the amounts fall due at each balance sheet date. During the six month period a substantial portion of this amount became receivable within one year. Trade and other payables have reduced from £7.2 million as at 31 December 2009 to £2.1 million as at 30 June 2010 as accrued legal costs and amounts previously disputed, which were taken up as at 31 December 2009 were discharged during the period. Net assets have increased by £3.0 million to £86.6 million at 30 June 2010 from £83.6 million at 31 December 2009 largely as a result favourable exchange movements and from reductions to outgoings and liabilities.

Related party transactions

No material transactions have taken place with related parties during the six months to 30 June 2010. The Board continues to undertake legal actions previously reported against the former Chief Executive Officer, Chief Operating Officer and certain third parties in order to obtain redress for the Company arising from potential irregularities surrounding the procurement of and payment for certain assets and services contracted for by the Group, some of which may have given rise to related party transactions not disclosed in the Financial Statements for the year to 31 December 2009.

Commitments

The Group has not entered into any material commitments during the six months ended 30 June 2010.

Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash and cash equivalents in both \$ and £ held primarily in the UK and holds these mostly in term deposits depending on the Group's operational requirements. Production revenues from the sale of hydrocarbons are received in the local currency in Ukraine ('UAH') and to date funds from such revenues have been held in Ukraine for further use in operations rather than being remitted to the UK. Funds are primarily converted to \$ and transferred to the Company's subsidiaries to fund operations at which time the funds are converted to UAH. Some payments are made on behalf of the subsidiaries from the UK.

Key performance indicators

In the six months to 30 June 2010, the main objectives of the Group were to complete the programme of scaling back activities as previously reported and to improve income from the producing fields such that activities could become self-financing. For this reason, reference was not made to such key performance indicators ('KPIs') as are normally associated with oil and gas activities, but rather to those related to cash flow, cost reduction and numbers employed.

During the six months to 30 June 2010, the average monthly cash outflow from operating and investing activities was £0.6 million (30 June 2009: £3.1 million; 31 December 2009: £3.5 million). The number of staff as at 30 June 2010 was 119 (30 June 2009: 480; 31 December 2009: 153).

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the long-term performance of the Group and which could cause the actual results to differ materially from expected and historical results. Full details are disclosed on pages 13 to 16 of the 2009 Annual Financial Report. There have been no changes to the risk profile during the first half of the year. These are summarised below:

Financial risks

- Validity of the Group's licences
- Recoverability of the Group's assets
- Liquidity risk, management and going concern assumption
- Regulatory and tax compliance risk
- Fraud risk
- Litigation risk
- Budgeting risk
- Procurement and commitment risk
- Foreign exchange risk management
- Inflation risk management
- Credit risk management
- Validity and appropriateness of accounting policies

Non-financial risks

- Operating environment
- Regulatory and licence issues
- Political risk
- Economic environment
- Drilling and work-over activities
- Reserves and resources
- Information system, integrity, access and availability risk
- Health, safety and environment
- Social responsibilities

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the Condensed set of Financial Statements has been prepared in accordance with IAS 34 '*Interim Financial Reporting*';
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).
- (d) the condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R

This Half Yearly Report consisting of pages 1 to 24 has been approved by the Board and signed on its behalf by:

Stefan Bort
Company Secretary
26 August 2010

Cautionary Statement

The business review and certain other sections of this Half Yearly Report contain forward looking statements that have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. However they should be treated with caution due to inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information and no statement should be construed as a profit forecast.

Condensed Consolidated Income Statement

For the six months ended 30 June 2010

		Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Year December 2009 £'000
	Notes			
Revenue		820	1,064	2,342
Cost of sales		(704)	(936)	(2,022)
Gross profit		116	128	320
Administrative expenses - other expenses		(4,387)	(7,840)	(25,299)
- impairment of oil and gas assets		-	-	(63,499)
- impairment of other assets		-	(13,498)	(23,752)
		(4,387)	(21,338)	(112,550)
Other operating income	4	4,621	3,748	4,641
Operating profit / (loss)		350	(17,462)	(107,589)
Investment revenue		63	335	407
Finance costs		(11)	(5)	(8)
Profit / (loss) before tax		402	(17,132)	(107,190)
Tax		162	(269)	(113)
Profit / (loss) for the period/year	5	564	(17,401)	(107,303)
Attributable to:				
Equity holders of the parent		564	(16,868)	(107,303)
Minority interest		-	(533)	-
		564	(17,401)	(107,303)
Profit / (loss) per ordinary share		£	£	£
Basic and diluted	6	0.0024	(0.07)	(0.46)

Condensed Consolidated Statement of Comprehensive IncomeFor the six months ended 30 June 2010

	Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Year December 2009 £'000
Profit / (loss) for the period/year	564	(17,401)	(107,303)
Unrealised currency translation differences	2,465	(11,585)	(11,377)
Total comprehensive profit / (loss) for the period/year	3,029	(28,986)	(118,680)

Condensed Consolidated Balance Sheet

As at 30 June 2010

		Unaudited	
		30 June	31 December
	Notes	2010	2009
		£'000	£'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets		1,040	-
Property, plant and equipment		32,638	32,009
Other non-current receivables	8	6,635	18,835
Restricted cash	9	405	450
		40,718	51,294
Current assets			
Inventories	7	3,175	5,522
Trade and other receivables	8	19,333	5,390
Current tax receivables		16	-
Cash and cash equivalents		27,091	30,505
		49,615	41,417
Total assets		90,333	92,711
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		(839)	(973)
Long-term provisions		(232)	(176)
		(1,071)	(1,149)
Current liabilities			
Trade and other payables	10	(2,061)	(7,237)
Current tax liabilities		-	(16)
Current provisions		(561)	(698)
		(2,622)	(7,951)
Total liabilities		(3,693)	(9,100)
Net assets		86,640	83,611
EQUITY			
Share capital		6,933	6,933
Retained earnings / (accumulated deficit)		94,157	93,593
Cumulative translation reserves		(18,909)	(21,374)
Other reserves		5,093	5,093
Equity attributable to equity holders of the parent		87,274	84,245
Non-controlling interest		(634)	(634)
Total equity		86,640	83,611

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2010

		Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Year December 2009 £'000
Net cash outflow from operating activities	Note 11	(3,174)	(3,924)	(18,952)
Investing activities				
Purchases of property, plant and equipment		(162)	(8,743)	(7,569)
Purchases of intangible exploration and evaluation assets		(832)	(12,011)	(15,896)
Proceeds from sale of property, plant and equipment		615	75	432
Interest received		52	424	501
Net cash used in investing activities		(327)	(20,255)	(22,532)
Net cash from financing activities		-	-	-
Net decrease in cash and cash equivalents		(3,501)	(24,179)	(41,484)
Effect of foreign exchange rate changes		87	(1,920)	(37)
Cash and cash equivalents at beginning of period /year		30,505	72,026	72,026
Cash and cash equivalents at end of period /year		27,091	45,927	30,505

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital £'000	Share premium account £'000	(Accumulated deficit)/ retained earnings £'000	Cumulative translation reserves £'000	Share- based payment £'000	Reorganis- ation £'000	Non- controlling interest £'000	Total £'000
As at 1 January 2009	6,933	250,373	(49,477)	(9,997)	5,357	890	(634)	203,445
Share-based payments	-	-	-	-	(1,154)	-	-	(1,154)
Net loss for the period	-	-	(16,868)	-	-	-	(533)	(17,401)
Exchange translation differences on foreign operations	-	-	-	(11,585)	-	-	-	(11,585)
As at 30 June 2009	6,933	250,373	(66,345)	(21,582)	4,203	890	(1,167)	173,305
Net loss for the period	-	-	(90,435)	-	-	-	533	(89,902)
Capital reorganisation	-	(250,373)	250,373	-	-	-	-	-
Exchange translation differences on foreign operations	-	-	-	208	-	-	-	208
As at 31 December 2009	6,933	-	93,593	(21,374)	4,203	890	(634)	83,611
Share-based payments	-	-	-	-	-	-	-	-
Net profit for the period	-	-	564	-	-	-	-	564
Exchange translation differences on foreign operations	-	-	-	2,465	-	-	-	2,465
As at 30 June 2010	6,933	-	94,157	(18,909)	4,203	890	(634)	86,640

Notes to the Condensed Financial Statements

For the six months ended 30 June 2010

1. General information

Cadogan Petroleum plc (the 'Company', together with its subsidiaries the 'Group' or 'Cadogan'), is incorporated in England and Wales under the Companies Act. The address of the registered office is 5th floor, 4/5 Grosvenor Place, London SW1X 7HJ. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 5 to 7 and the Financial Review on pages 9 to 10.

The financial information for the year ended 31 December 2009 and the period to 30 June 2010 does not constitute Statutory accounts as defined in section 435 of the Companies Act 2006, but is derived from those accounts. Statutory accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report on the 2009 accounts was qualified in respect of the limitation to obtain sufficient appropriate audit evidence regarding the carrying values of assets as at 31 December 2008 and regarding the completeness and accuracy of the disclosures of related party transactions and directors' remuneration (refer to note 2(a) to those accounts). This qualification extends to the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Cash Flow Statements, Consolidated and Parent Company Statement of Changes in Equity and related notes for the year ended 31 December 2009. The report contained a statement under sections 498(2) (accounting records inadequate) and (3) (failure to obtain necessary information and explanations or equivalent preceding legislation) and an emphasis of matter in relation to the current status of legal proceedings surrounding the validity of certain of the Group's licences in Ukraine (refer to note 2(c) to those accounts).

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

A copy of this Half Yearly Report has been published and may be found on the Company's website.

2. Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union ('EU'). These Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as issued by the IASB.

The same accounting policies and methods of computation are followed in the condensed financial statements as were followed in the most recent annual financial statements of the Group, which were included in the Annual Report issued on 27 April 2010, subject to the matter discussed at point (a) below concerning comparative amounts.

(a) Comparative amounts

As reported in the Annual Report issued on 27 April 2010, because of the events and circumstances which occurred in Cadogan during 2009, as set out in the Chairman's Statement on pages 4 to 7 of the Annual Report, the Board took the following actions in the second half of 2009:

- Commissioned a Reserves and Resources Evaluation to support the carrying value of Exploration and Evaluation ('E&E'), Property, Plant and Equipment ('PP&E') and Goodwill assets as at 31 December 2009. This evaluation resulted in significant impairment charges to these categories of assets in the Consolidated Income Statement for the year to that date;
- Evaluated, long-term receivables, inventories and other assets of the Group for impairment, giving rise to further significant impairment charges in the same Consolidated Income Statement;
- Initiated and continued litigation against certain former officials and suppliers of the Group;

Basis of preparation (continued)

(a) Comparative amounts (continued)

- Performed internal investigations into procurement irregularities and adjusted all known payments inappropriately capitalised in the Consolidated Financial Statements of the Group for the years ended 31 December 2006, 2007 and 2008;

As a result of the above actions, significant impairments were made to the carrying values of assets as at 31 December 2009 in the consolidated balance sheet as at that date, which, in accordance with IAS 34 is shown as the comparative to the Condensed Consolidated Balance Sheet as at 30 June 2010. The comparative Condensed Consolidated Statement of Changes in Equity also reflects the above impairments. Under IAS 34, the comparative statements to the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income and the Condensed Consolidated Cash Flow Statement, would normally be the respective statements to 30 June 2009 which were issued on 27 August 2009. However, these statements did not reflect the above impairments (apart from an impairment to VAT recoverable) as they had not been taken up as that time. The statements for the full year to 31 December 2009 are therefore given as comparatives. The Board does not consider that an exercise to restate the statements for the six months to 30 June 2009 to take up the appropriate portions of impairment as at that date would be an effective use of the Group's resources and so such an exercise has not been performed.

(b) Going concern

The Directors have continued to use the going concern basis in preparing these condensed financial statements. The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Operations Review on pages 5 to 7. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 8 to 10.

The Group's unrestricted cash balance as at 30 June 2010 was £27.1 million (31 December 2009: £30.5 million) with no external debt financing to date and the Directors believe that the capital available at the date of issue of these financial statements is sufficient for the Group to manage its business risks successfully despite the current uncertain economic outlook.

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

The uncertainties referred to in the Chairman's Statement on pages 5 to 7 of the Annual Report for the year to 31 December 2009, and again in the Notes to the Financial Statements on page 45 of the same report, concerning proposals by the Company's then largest shareholder to return almost all of the available cash to shareholders were resolved in June by the purchase of the shares of that shareholder by a new investor, as set out in the Chairman's Statement on page 2 of this report.

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

As reported as at 31 December 2009 and in prior years, the Group has been involved in legal proceedings surrounding the validity of the Pirkovskoe and Zagoryanska licences since 12 June 2008, when the Poltava Regional Commercial Court ('Poltava Court') made a ruling in favour of Poltavanaftogazgeology ('PNGG'), a subsidiary of the Group's joint venture partner, the State-owned company NJSC Nadra Ukraine, ('Nadra'), in relation to the licences held formerly by PNGG relating to the Pirkovskoe and Zagoryanska fields. These licences had been re-registered from PNGG to Nadra prior to re-registration to the Group. The court: (a) declared as invalid the re-registration of the licences from PNGG to Nadra; and (b) recognised as valid the earlier licences held by PNGG.

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

The above decision and order were overturned on appeal by the Group to the Kharkiv Appeal Court (the 'Appeal Court') on 29 September 2008 and the licences were confirmed by the Ministry on 7 October 2008. Then in January 2009, the Group received from the Ministry a five year extension for the Zagoryanska licence to April 2014.

However PNGG and Nadra both appealed separately against the decision of the Appeal Court to the High Administrative Court of Ukraine (the 'High Court'). This appeal was heard on 25 February 2009, when the High Court found in favour of PNGG in relation to the transfer of the Pirkovskoe licence to Nadra in June 2007. Cadogan has yet to receive a date for the hearing of the appeal as regards the Zagoryanska licence.

On 23 March 2009, LLC Astro Gas, which is the group company which holds the Pirkovskoe licence, appealed against the High Court decision to the Supreme Court of Ukraine ('the Supreme Court') supported by a claim dated 30 March 2009 by the Prosecutor General Office of Ukraine (the 'Prosecutor General Office'), arguing that the High Court had been mistaken in reaching this decision and that the ruling was therefore invalid.

On 16 June 2009, the Supreme Court upheld the claim made by the Prosecutor General Office and partially upheld the claim of LLC Astro Gas. The resolution of the High Court dated 25 February 2009 was cancelled and the case was returned to the High Court, for further consideration. On 11 December 2009, the High Court commenced the process of reconsidering its earlier ruling regarding the Pirkovskoe licence. An initial hearing is scheduled to take place shortly.

No further developments have occurred in the case concerning the Zagoryanska licence.

The Group's licences remain valid and effective despite the above. The Board remains firmly of the view that the challenges to the licences previously held by PNGG, are wholly unwarranted and, if successful, would result in a curtailment of a significant part of the Group's operations.

As at the date of this financial information, the above outcomes remain subject to court decision.

The Directors have considered the implications of IAS 36 *Impairment of Assets* and IFRS 6 *Exploration for and Evaluation of Mineral Resources*, and have concluded that recognition of impairment in respect of these matters is not appropriate on the basis that the Directors believe that, notwithstanding the uncertainties described above, the validity of the Group's licences is expected to be reconfirmed. However, the ultimate outcome is uncertain and should the Courts in Ukraine ultimately rule that the licences were improperly awarded, and further annul the existing licences, the Group would be required to further impair the value of these assets in Ukraine. The amounts capitalised within intangible exploration and evaluation assets and property, plant and equipment in respect of these licences at 30 June 2010 was £21.9 million (31 December 2009: £22.7 million).

(d) Impairment of E&E, PP&E and Goodwill

Intangible Exploration and Evaluation costs

The Group applies the full cost method of accounting for 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 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 which are ongoing at the balance sheet date, pending determination of whether or not commercial reserves exist and (ii) costs of E&E which, while representing part of the E&E activities associated with adding to the commercial reserves of an established cost pool, did not result in the discovery of commercial reserves.

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

E&E costs include directly attributable overheads including the depreciation of PP&E assets utilised in E&E activities. E&E costs are not amortised prior to the conclusion of appraisal activities.

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.

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 and bringing them into production, together with E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets. The net book values of producing assets are depreciated generally on a field-by-field basis on a unit of production method in proportion 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.

Impairment

Both E&E and development and production assets are assessed for impairment when facts and circumstances suggest that their carrying amounts may exceed their recoverable amounts. In the case of E&E assets, where the assets fall within the scope of an established full cost pool, they are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit. For E&E assets, the Group considers the whole of Ukraine to be one cost pool and therefore aggregates all E&E assets for the purposes of determining whether they have incurred impairment. For development and production assets, the cash generating unit is generally the relevant 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.

Impairment in 2009

Arising from the events of 2009, including poor test results on wells drilled to that time, and the Group's strategy of suspending operations on major licences, the Board commissioned an independent Reserves and Resources Evaluation (the 'Report') to assess the carrying value of the Group's E&E, production and development assets and goodwill. The Report was then used in order to assess impairment as at 31 December 2009. For the purposes of the impairment test, commercial reserves were defined as the Proved and Probable ('2P') reserves identified by the Report. The Report made significant downward revisions to the Group's 2P reserves.

No 2P reserves were assigned by the report to the oil and gas licences included within E&E assets, as the reserves for these areas were reclassified as either prospective ('3P') or contingent. Consequently, E&E assets were impaired in full as at 31 December 2009. The charge for this impairment was £56.3 million.

For Development and Production assets included in PP&E, the aggregate carrying value of each cash generating unit was compared with the expected recoverable amount of the related asset, by reference to the net present value of the future cash flows expected to be derived from the production of 2P reserves from that unit. On that basis, an impairment of £4.9 million was charged against PP&E assets reducing their carrying value to £32 million as at 31 December 2009.

The goodwill of the Group, which had been allocated to the cost of Ukraine, and which had a carrying value of £2.3 million was also impaired in full.

The total impairment charge to the income statement in 2009 was thus £63.5 million. The Board do not consider that any further amounts have become impaired in the six months to 30 June 2010.

(e) Other impairments

In addition to the impairment charges made against goodwill, E&E and PP&E assets, the Group made further impairments in the income statement for the year to 31 December 2009. These were £6.6 million to reduce the carrying value of the inventory of the Group to its net realisable value, £3.9 million to reduce the carrying value of non-current and other receivables relating to the settlement with GPS to recoverable amount, and £13.2 million against the carrying value of Ukrainian VAT receivable. The total charge for other impairments in the income statement for the year to 31 December 2009 was £23.7 million, giving a total charge of £87.2 million for all impairments. The Board does not consider it necessary to make further impairment charges in respect of these or any other items as at 30 June 2010.

(f) Dividend

The Directors do not recommend the payment of a dividend for the period (30 June 2009: £nil; 31 December 2009: £nil).

3. Business and geographical segments

Following the adoption of IFRS 8 Operating Segments with effect from 1 January 2009, the Directors continue to consider there to be only one business segment, the exploration and development of oil and gas revenues and only one geographical segment, being Ukraine.

4. Other operating income

	Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Year December 2009 £'000
Out of court settlements	2,892	-	-
Net foreign exchange gains	1,374	3,748	4,641
Net movement on VAT provision	425	-	-
	4,691	3,748	4,641

Out of court settlements represent income of \$ 4.5 million received in respect of the settlement with Smith Eurasia Ltd. The net movement on the VAT provision comprises Ukrainian VAT of £1.1 million of VAT recovered on the sale of inventories less new provisions of £0.7 million.

5. Profit / (loss) for the period / year

The profit / (loss) for the period/ year is stated after charging/(crediting):

	Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Year December 2009 £'000
Depreciation of property, plant and equipment	520	524	1,135
Loss on disposal of property, plant and equipment	151	45	5,000
Loss on disposal of surplus inventories	890	-	-
Impairment	-	13,498	87,251
Professional and consultancy fees	414	780	785
Staff costs	1,284	1,312	2,748

Included within staff costs is income of £nil (30 June 2009: £0.8 million expense; 31 December 2009: £0.8 million expense) relating to the reversal of equity-settled share-based payment transactions previously expensed due to the forfeiture of options previously recognised and a change in the estimated period of vesting for the remaining options.

6. Profit / (loss) per ordinary share

Profit/(loss) per ordinary share is calculated by dividing the net profit/(loss) for the period/year attributable to Ordinary equity holders of the parent by the weighted average number of Ordinary shares outstanding during the period/year. The calculation of the basic and diluted loss per share is based on the following data:

	Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Year December 2009 £'000
Profit / (loss)			
Profit / (loss) for the purposes of basic profit / (loss) per share being net profit or loss attributable to equity holders of the parent	564	(16,868)	(107,303)
Number of shares	Number '000	Number '000	Number '000
Weighted average number of Ordinary shares for the purposes of basic loss per share	231,092	231,092	231,092
Weighted average number of Ordinary shares for the purposes of diluted loss per share	236,979	231,092	231,092
	£	£	£
Profit/(loss) per Ordinary share			
Basic and diluted	0.0024	(0.07)	(0.46)

7. Inventories

	Unaudited 30 June 2010 £'000	Year December 2009 £'000
Cost	5,447	12,108
Less: impairment provision	(2,272)	(6,586)
	3,175	5,522

The impairment provision is made so as to reduce the carrying value of inventories to net realisable value.

8. Trade and other receivables

Other non-current receivables

	Unaudited 30 June 2010 £'000	Year December 2009 £'000
Receivable from GPS settlement – portion over one year	6,635	18,835
	6,635	18,835

8. Trade and other receivables (continued)

Trade and other receivables

	Unaudited 30 June 2010 £'000	Year December 2009 £'000
Receivable from GPS settlement – portion less than one year	17,583	4,123
VAT recoverable	246	336
Prepayments and other receivables	1,504	931
	19,333	5,390

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

The amounts shown as receivable from the settlement agreement with GPS are stated after impairment of £3.9 million representing the difference between the original prepayment to this company and the amount receivable from it in accordance with the settlement.

VAT recoverable represents UK VAT only. VAT recoverable in Ukraine is impaired in full as the Board considers that such VAT is only recoverable on commencement of significant production, while cash recovery is not considered likely due to Ukrainian budgetary problems. The amount of the impairment provision as at 30 June 2010 is £14.1 million (31 December 2009:£14.5 million).

Prepayments and other receivables as at 30 June 2010 include £1.1 million receivable in respect of sales of surplus inventories. This amount has been received in the period since that date.

The Directors consider that the carrying amount of the remaining other receivables approximates to their fair value.

9. Restricted cash

Restricted cash of £0.4 million represents an amount of Euro 0.5 million held in escrow by the Group's lawyers in Cyprus to support a bank guarantee provided to the Cypriot court in relation to obtaining a freezing order in Cyprus associated with the litigation against one of the former executive Directors. The movement during the period represents the movement in the foreign exchange rate only.

10. Trade and other payables

Trade and other payables as at 31 December 2009 included payables of £1.8 million to LLC Smith Ukraine which were discharged during the six months to 30 June 2010 in accordance with the settlement made with Smith Eurasia, and accrued legal costs of £2.1 million which were also materially discharged during the period.

11. Notes to the cash flow statement

	Unaudited 30 June 2010 £'000	Unaudited 30 June 2009 £'000	Year December 2009 £'000
Operating profit / (loss)	350	(17,462)	(107,589)
Adjustments for:			
Depreciation of property, plant and equipment	520	524	1,112
Impairment of other receivables	-	-	3,925
Impairment of E&E and PP&E assets	-	-	61,241
Impairment of goodwill	-	-	2,258
Movement on provision for impairment of inventories	-	-	6,586
Movement on provision for impairment of VAT recoverable	(424)	-	13,241
Loss on disposal of property, plant and equipment	151	45	5,000
Loss on disposal of inventories	890	-	-
Share-based payments	-	(814)	(814)
Effect of foreign exchange rate changes	498	(599)	(1,693)
Operating cash flows before movements in working capital	1,985	(18,306)	(16,733)
Decrease / (increase) in inventories	1,457	617	(2,065)
(Increase) / decrease in receivables	(1,400)	10,406	(2,316)
(Decrease) / Increase in payables	(5,176)	3,484	2,882
Increase in restricted cash	-	-	(450)
Cash used in operations	(3,134)	(3,799)	(18,682)
Income taxes paid	(40)	(125)	(270)
Net cash outflows from continuing operations	(3,174)	(3,924)	(18,952)

12. Related party transactions

No related party transactions have taken place in the six months ended 30 June 2010 that have materially affected the financial position or the performance of the Group during the period. The Directors believe that all material related party transactions involving the former Chief Executive Officer, Chief Operating Officer and certain third parties against whom litigation is still in progress in order to obtain redress for the Company arising from potential irregularities surrounding the procurement of and payment for certain assets and services contracted for by the Group in 2009, have now been identified.

13. Post balance sheet events

Commercial production from the well at Zagoryanska 3 commenced on 1 August 2010. The related assets which have been included in Exploration and Evaluation costs as at 30 June 2010 will be transferred to PP&E as from that date.

14. Commitments and contingencies

There has not been any change to the commitments and contingencies reported on page 68 of the Annual Report.