

**CADOGAN PETROLEUM PLC**  
**(“Cadogan” or “the Company”)**  
**Half Yearly Report for the Six Months ended 30 June 2011**  
**(Unaudited and Unreviewed)**

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## 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 2011.**

- Major transaction with Eni completed on 6 July 2011
- Pokrovskoe and Pirkrovskoe licences extended by five years
- Continued gas production from the Zagoryanska, Debeslavetska and Cheremkivska licenses at a combined rate of approximately 62 mcm/day
- Pokrovskoe 1 well deepening recommenced
- Board restructuring underway
- Total capital expenditure of £1.8 million during the first half of 2011 (30 June 2010: £1 million)
- Net cash and cash equivalents at 30 June 2011 of £19.3 million (31 December 2010: £23.5 million)
- Net cash and cash equivalents at announcement date of £45.7 million

Commenting on the results, Chief Executive Officer Bertrand des Pallieres said:

“Over the past year much has been accomplished in preparing Cadogan for a sea change in its business operations. Completion of the recent Eni transaction enables the Group to implement a viable development and growth strategy and the changes to the management team, combined with increase to our manpower in Ukraine, gives us the resources for the next stage of growth. The Eni transaction also exemplifies the new business model that we will pursue aggressively, focused on establishing strategic partnerships with a limited group of energy companies and a few selected hydrocarbon-rich nations to which we can bring value. A critical aspect of this strategy will be to restrict our efforts to partnerships and regions where we can be relevant. I am tremendously excited about the potential to expand our joint activities with Eni in Ukraine, and the opportunity we have to contribute to accelerating the transformation of Ukraine towards becoming a more significant energy producing nation.”

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## Board Statement

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### Introduction

During the first half of 2011 the Group continued to focus on developing its assets in Ukraine, with continuing production from one major asset in eastern Ukraine and from three minor assets in western Ukraine. The Group's strategy for 2010 to find a partner to de-risk the Group's investment in its major assets was achieved when the Group announced in April 2011 a significant transaction with the integrated Italian energy group, Eni S.p.A (Eni). Under that agreement, Eni acquired a 30% interest in the share capital of Pokroskvoe Petroleum BV (parent company of the holder of the Pokroskvoe licence), with the option to acquire a further 30% interest in the future. Eni has also acquired a 60% interest in the share capital of Zagoryanska Petroleum BV (parent company of the holder of the Zagoryanska licence). Both licences relate to the Group's operations in eastern Ukraine. The transaction was completed on 6 July 2011. The Group remains the operator on both licences.

The Board has also announced significant Board changes since 30 June 2011. With effect from 2 August 2011 Bertrand des Pallieres, previously a non-executive director, became Chief Executive Officer focusing on strategic development, in particular new acquisitions, key government relationships and industrial partnerships. In view of the increased operational activity in Ukraine, Ian Baron has become Chief Operating Officer responsible for the Group's operations on all its current licences and providing technical support on new business activities. Mr Zev Furst has joined the Board as interim Chairman and will lead the recruitment process for a permanent Chairman and further non-executive Directors. It is anticipated that further appointments will be made by the end of September 2011.

### Operations

During the period to 30 June 2011 the Group continued to operate safely and efficiently. Unfortunately in July 2011, as a consequence of an anomalous weather event at the Pokrovskoe 1 well site during assembly of the Saipem drilling rig, two contractors received minor injuries when a canvas roof was blown down. These have counted as lost time incidents and are the Group's first since August 2008. Following investigations by the local authorities and independent HSE experts, no liability was apportioned to any party. Nevertheless the Group is reviewing its safety procedures to determine if any lessons can be learned from this incident.

On 24 July 2011, the Group recommenced drilling operations on the Pokroskvoe 1 well and on 16 August the well has reached its final depth. The Company expects that preliminary well testing will be completed by the end of September. A work-over drilling unit is on site at the Zagoryanska 1 well to test zones within the Lower Viséan interval which appear to be gas bearing from petrophysical well logs. The new 2D seismic data acquired on the Bitlyanska licence area has been processed and the 3D data sets on Pokrovska, Pirkovska and Zagoranska are near completion.

The Pokrovskoe and Pirkrovskoe licences were both extended, or are in the process of extension, by the Ukraine authorities.

### Litigation

Under the October 2009 settlement with Global Process Systems (GPS), the Group is entitled to a payment of \$37.5 million. To date \$7.5 million has been received but the remaining \$30 million due to the Group in 2011 has not yet been received. As a consequence of this non-payment the Group has rescinded GPS's exclusive right to sell the plants contained within the settlement agreement. The Group is evaluating its options in marketing the plants and recovering the \$30 million outstanding under the settlement agreement. The Group retains legal title to both plants and management continues to expect to recover value of at least \$30 million to the Group.

## Board Statement (continued)

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### **Financial position**

At the date of this report, the Group had cash and cash equivalents of approximately £45.7 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 2(a)).

### **Outlook**

The Board believes that the conclusion of the Group's major transaction with Eni in July 2011 has transformed the Group. Drilling operations using western style equipment are underway and results are expected shortly. This, along with increased financial resources, will allow the Group to take advantage of other significant opportunities in Ukraine. Working in conjunction with both Eni and certain Ukraine state companies, under various co-operation agreements currently in place, the Board hopes to be able to identify future opportunities to further increase the value of the Group's business in Ukraine.

## Operations Review

### Reserves and resources

At the beginning of 2011 the Group held working interests in eight (2010: nine) gas, condensate and oil exploration and production licences in the east and west of Ukraine. All these assets are operated by the Group and are located in either the Carpathian basin or the Dnieper-Donets basin, close to the Ukrainian gas distribution infrastructure. The Group's primary focus is on the Bitlyanska licence, (Carpathian Basin, west Ukraine), and the 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 2011			
Working interest (%)	Licence	Expiry	Licence type <sup>(1)</sup>
<b>Major licences</b>			
96.5	Bitlyanska <sup>(2)</sup>	December 2014	E&D
100.0	Pokrovskoe <sup>(3)</sup>	August 2016	E&D
90.0	Zagoryanska <sup>(4)</sup>	April 2014	E&D
97.0	Pirkovskoe	October 2015	E&D
<b>Minor licences</b>			
98.3	Debeslavetska	October 2026	Production
49.8	Cheremkhivska	May 2018	Production
100.0	Slobodo-Rungurska <sup>(5)</sup>	April 2011	E&D
95.0	Monastyretska	November 2014	E&D

(1) E&D = Exploration and Development.

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

(3) In August 2011 the Company was advised by the State Geological and Subsurface Department of Ukraine that the Pokrovskoe licence would be extended by a further five years to August 2016. In addition on 6 July 2011 the working interest in this licence decreased to 70.0% as the result of the Eni transaction.

(4) On 6 July 2011 working interest in the Zagoryanska licence decreased to 30% as the result of the Eni transaction.

(5) The Slobodo-Rungurska licence, which relates to a minor oil field in West Ukraine, has expired in April 2011. All the necessary paperwork for its extension has been submitted to the relevant authorities in Ukraine.

## Operations Review (continued)

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The following are updates to the full Operations Review contained in the Annual Financial Report for 2010:

### **Bitlyanska licence area**

The 2D seismic data acquired on this licence area in late 2010 has been processed. The data and the resultant interpretation, which will be finalised shortly, will assist the Group's campaign to farm out an interest on this highly attractive, but geologically complex asset. A limited duration drill stem test of the Borynya 3 well in Bitlayanska during 2010 produced almost 130,000 cubic meters of gas per day.

### **Pokrovskoe licence area**

The Pokrovskoe 1 well was suspended in December 2010 due to the onset of winter weather and the complexity of the drilling operations. The sourcing of a suitable all weather rig and the ensuing commercial negotiations delayed the start of operations until 24 July 2011. A 60 day drilling and testing programme using a Saipem rig is now proceeding and drilling was completed on 16 August when the well reached its final depth. After logging the well, the Company will undertake a preliminary testing programme which is expected to conclude by the end of September 2011.

Following the Pokrovskoe 1 drilling programme, the Saipem rig will be relocated to the Pokrovskoe 2 well site, about 5 kilometres to the east. A programme to re-drill or sidetrack the existing Pokrovskoe 2 well is planned to start in October 2011.

Shortly after the reporting period concluded, confirmation was received from the State Geological and Subsurface Department of Ukraine that the Pokrovskoe licence would be extended for a further five year period until August 2016.

Under the terms of the agreement entered into with Eni Ukraine Holdings BV on 6 July 2011, the Group's interest in this field reduced to 70%, in exchange for Eni funding a \$30 million work programme (excluding VAT) on the field. Dependent on the results from the drilling programme on Pokroskvoe 1 and 2, Eni can choose to exercise its option for a further 30% interest in return for an additional payment of \$40 million.

### **Zagoryanska licence**

The Zagoryanska 3 well continues to produce at about 35,000 cubic meters of gas per day with about 10 cubic meters of condensate. Following the conclusion of the settlement agreement entered into with NSJC Nadra Ukraine in September 2010, the Group purchased the Zagoryanska 3 well and four other wells previously drilled on this licence. Operations have commenced on the work-over of one of these, the Zagoryanska 1 well, located about 1 km from Zagoranska 3. A work-over drilling unit was on site in the first week of August to commence operations, which are expected to be completed by the end of Q3. This will be followed by the work-over on Zagoryanska 2 well and further work overs before the year end.

Under the terms of the agreement entered into with Eni Ukraine Holdings BV on 6 July 2011, the Group's interest in this licence was reduced to 30% in exchange for a payment of \$38 million.

### **Pirkovskoe licence area**

The Pirkovskoe licence was renewed in March 2011 and will now expire in October 2015. A work-over plan for the two wells on the field is being considered at present.

## Operations Review (continued)

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### Minor fields

Three new shallow production wells were drilled on the Debeslavetska field at a cost of \$1.08 million using the Group's own drilling rig. One of these is currently being tied in for production, one was abandoned for mechanical reasons and may be re-drilled in future, while the third was abandoned as a dry hole. This field in western Ukraine currently has nine producing wells and current production is about 18 mcm/ day. Re-analysis of the seismic and geophysical data available to the Company indicates further potential in this field, together with the Cheremkhivska field. A wider study of the whole area, possibly including a 2D seismic programme is planned for 2011 and 2012. Production continues from the Cheremkhivska field at about 6 mcm/day.

On the Monaststreytska licence also in the west of Ukraine minor production continues from Blazhiv 1 well at the rate of about 10 bopd. The hydraulic fracturing of the well to increase production is planned during Q4 2011.

The six depleted wells on the Slobodo-Rungurska licence have been permanently decommissioned. The seismic data for the area has been reprocessed and evaluation of the deeper potential is underway. An extension of the licence has been applied for and subject to the evaluation of the deeper potential, an exploration well is planned during the five year extension period.

## Financial Review

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### Income statement

The consolidated income statement of the Group for the six months to 30 June 2011 shows a loss before tax for the period of £3.8 million (30 June 2010: profit of £0.4 million; 31 December 2010: profit of £0.5 million).

Revenue in the period of £2.7 million (30 June 2010: £0.8 million; 31 December 2010: £3.3 million) comprised sale of hydrocarbons from the producing wells in the Zagoryanska, Debeslavetska, Cheremkhivskoe, and Blazhiv fields. These sales produced a gross profit of £0.5 million (30 June 2010: £0.1 million; 31 December 2010: £0.6 million).

- Other administrative expenses of £3.4 million (30 June 2010: £4.4 million; 31 December 2010: £8.4 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 addition to recurring administrative expenses, £0.1 million (30 June 2010: £0.3 million, 31 December 2010: £1.4 million) of professional costs were incurred in relation to litigation, £0.4 million (30 June 2010: £nil, 31 December 2010: £nil) of professional fees in relation to the transaction with Eni on the Group's Pokrovskoe and Zagoryanska licences.
- Other operating loss of £1.2 million (30 June 2010: profit of £4.6 million, 31 December 2010: profit of £7.6 million) relates to exchange loss on revaluation of US\$ denominated receivable from GPS and cash and cash equivalents held by the Group in US\$.
- Reversal of impairment charges of £0.2 million (30 June 2010: £nil, 31 December 2010: £0.6 million) in first half of 2011 comprised of £0.1 million net recoveries of Ukrainian VAT and £0.1 million reversal of provision for inventory.

### Cash flow statement

The consolidated cash flow statement on page 13 shows net cash outflow from operating activities of £2.1 million (30 June 2010: £3.2 million; 31 December 2010: inflow £0.1 million), expenditure of £1.3 million (30 June 2010: £0.8 million; 31 December 2010: £4.0 million) on intangible exploration and evaluation assets and £0.6 million (30 June 2010: £0.2 million; 31 December 2010: £3.8 million) on property, plant and equipment.

### Balance sheet

As at 30 June 2011, the balance of the unrestricted cash and cash equivalents of the Group was £19.3 million (31 December 2010: £23.5 million). Intangible exploration and evaluation assets of £5.2 million (31 December 2010: £4.0 million) represent the cost of exploration and evaluation activities on the Group's exploration licences, mainly Pokrovskoe and Bitlyanske. Property, plant and equipment of £33.2 million at 30 June 2011 (31 December 2010: £34.9 million) represents principally the cost of developing fields with commercial reserves to bring them into production. Of the total trade and other receivables of £22.3 million (£25.0 million as at 31 December 2010) £18.7 million is from the settlement with GPS (£21.3 million as at 31 December 2010). Trade and other payables have reduced from £4.4 million as at 31 December 2010 to £2.7 million as at 30 June 2011. Net assets have decreased by £5.1 million to £79.7 million at 30 June 2011 from £84.8 million at 31 December 2010 largely as a result adverse exchange movements and the loss in the reported period.

### Related party transactions

No material transactions have taken place with related parties during the six months to 30 June 2011. The Board continues to undertake legal actions previously reported against the former Chief Operating Officer 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 2010.

### Commitments

In June 2011 the Group entered into a one year contract with Saipem for the provision of drilling services. Cadogan Petroleum Holdings Ltd has provided a Parent Company Guarantee ('PCG') to Saipem to assure that all contractual commitments will be met.

### Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash and cash equivalent balances in both USD and GBP 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 USD 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

During 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 these 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.

The Group has been monitoring its performance in 2011 against the following KPIs:

- Production: Seek to triple production by the end of 2011 from the commencing position of 479 boepd in December 2010. *The Group has established an active capital programme in 2011 to seek to achieve this on the Pokrovskoe, Zagoryanska, Debeslavetska, Monastreyetska and Cheremkhivskoe licences through various drilling and workover activities.*
- Funding: Seek to ensure sufficient funds are available to maintain an active capital programme in 2011 and 2012 and seek a partner/s to provide additional funds and to mitigate the risk profile of the Group's portfolio. *The completion of the transaction with Eni on the Pokrovskoe and Zagoranska licences in July 2011 has provided the Group with sufficient funds to meet all current financial obligations and also enables the Group to undertake a more comprehensive operational programme in 2011 and 2012 than would otherwise have been the case.*
- Manpower resources: Seek to ensure the Group has an appropriate and qualified level of manpower resources to meet all of its current and future obligations. *The Group has increased its operational capability by approximately 10% in 2011 and through the transaction with Eni the operational team will be further strengthened with the addition of Eni secondees to certain specialist positions.*
- New Business: Seek to expand the Group's sphere of operations within Ukraine through the acquisition of new business opportunities: *The Group is making progress against this KPI and has already signed a co-operation agreement with Eni to jointly seek new business opportunities in Ukraine and has also signed two MoUs with two Ukrainian state companies. A programme of assessment of new business opportunities is ongoing.*
- Reserves and resources: Seek to convert resources to reserves before 2011 year-end. *Through the operational programme, referred to above, and sub surface activities, including new 2D seismic, the reprocessing of existing 2D and 3D seismic and the integration of additional data into our interpretations, the Group plans to undertake an independent reserves update at the end of 2011.*



## Risks and uncertainties

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There are a number of potential risks and uncertainties inherent in the oil and gas sector 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. The Company has taken reasonable steps to mitigate these where possible. Full details are disclosed on pages 11 to 12 of the 2010 Annual Financial Report. There have been no significant changes to the risk profile during the first half of the year. These are summarised below:

### Operational risks

- Health, safety, and environment
- Drilling operations
- Production and maintenance
- Work over and abandonment
- Subsurface risks

### Financial risks

- Recoverability of the Group's assets
- Liquidity risk, management and going concern assumption
- Regulatory and tax compliance risk
- Fraud risk
- Foreign exchange risk
- Inflation risk
- Credit risk
- Commodity price risk

### Corporate risks

- Regulatory and licence issues
- Emerging market risk
- Insurance risk

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## Directors' Responsibility Statement

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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 19 has been approved by the Board and signed on its behalf by:

**Stefan Bort**  
Company Secretary  
24 August 2011

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### 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.

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## Condensed Consolidated Income Statement

For the six months ended 30 June 2011

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		Unaudited 30 June 2011	Unaudited 30 June 2010	Year December 2010 £'000
	Notes	£'000	£'000	
Revenue		2,705	820	3,251
Cost of sales		(2,191)	(704)	(2,683)
<b>Gross profit</b>		<b>514</b>	<b>116</b>	<b>568</b>
Administrative expenses:				
Other administrative expenses		(3,357)	(4,387)	(8,396)
Reversal of impairment of other assets		211	-	608
		<b>(3,146)</b>	<b>(4,387)</b>	<b>(7,788)</b>
Other operating (loss)/income	4	(1,237)	4,621	7,625
<b>Operating (loss)/ profit</b>		<b>(3,869)</b>	<b>350</b>	<b>405</b>
Investment revenue		28	63	130
Finance costs		(4)	(11)	(4)
<b>(Loss)/profit before tax</b>		<b>(3,845)</b>	<b>402</b>	<b>531</b>
Tax		273	162	320
<b>(Loss)/profit for the period/year</b>	5	<b>(3,572)</b>	<b>564</b>	<b>851</b>
Attributable to:				
Equity holders of the parent		(3,572)	564	851
		<b>(3,572)</b>	<b>564</b>	<b>851</b>
<b>(Loss)/profit per ordinary share</b>		<b>pence</b>	<b>pence</b>	<b>pence</b>
Basic and diluted	6	(0.15)	0.24	0.4

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**Condensed Consolidated Statement of Comprehensive Income**For the six months ended 30 June 2011

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	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Year December 2010 £'000
<b>(Loss)/profit for the period/year</b>	(3,572)	564	<b>851</b>
Unrealised currency translation differences	(1,536)	2,465	338
<b>Total comprehensive (loss)/profit for the period/year</b>	<b>(5,108)</b>	<b>3,029</b>	<b>1,189</b>

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## Condensed Consolidated Balance Sheet

As at 30 June 2011

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		Unaudited	
		30 June	31 December
	Notes	2011	2010
		£'000	£'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible exploration and evaluation assets		5,225	3,984
Property, plant and equipment		33,215	34,861
Other financial assets		449	429
		<b>38,889</b>	<b>39,274</b>
<b>Current assets</b>			
Inventories		2,931	2,576
Trade and other receivables	7	22,321	24,993
Other financial assets		232	240
Cash and cash equivalents		19,259	23,545
		44,743	51,354
<b>Total assets</b>		<b>83,632</b>	<b>90,628</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities		(285)	(635)
Long-term provisions		(274)	(293)
		(559)	(928)
<b>Current liabilities</b>			
Short-term borrowings		(232)	(240)
Trade and other payables		(2,680)	(4,375)
Current provisions		(469)	(285)
		(3,381)	(4,900)
<b>Total liabilities</b>		<b>(3,940)</b>	<b>(5,828)</b>
<b>Net assets</b>		<b>79,692</b>	<b>84,800</b>
<b>EQUITY</b>			
Share capital		6,933	6,933
Retained earnings		94,506	98,078
Cumulative translation reserves		(22,572)	(21,036)
Other reserves		1,459	1,459
<b>Equity attributable to equity holders of the parent</b>		<b>80,326</b>	<b>85,434</b>
Non-controlling interest		(634)	(634)
<b>Total equity</b>		<b>79,692</b>	<b>84,800</b>

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## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2011

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		Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Year December 2010 £'000
<b>Net cash outflow from operating activities</b>	Note 8	<b>(2,134)</b>	<b>(3,174)</b>	<b>22</b>
<b>Investing activities</b>				
Purchases of property, plant and equipment		(573)	(162)	(3,808)
Purchases of intangible exploration and evaluation assets		(1,267)	(832)	(3,998)
Proceeds from sale of property, plant and equipment		17	615	407
Interest received		28	52	130
<b>Net cash used in investing activities</b>		<b>(1,795)</b>	<b>(327)</b>	<b>(7,269)</b>
<b>Financing activities</b>				
Proceeds from short-term borrowings		-	-	240
<b>Net cash from financing activities</b>		<b>-</b>	<b>-</b>	<b>240</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(3,929)</b>	<b>(3,501)</b>	<b>(7,007)</b>
Effect of foreign exchange rate changes		(357)	87	47
Cash and cash equivalents at beginning of period /year		23,545	30,505	30,505
<b>Cash and cash equivalents at end of period /year</b>		<b>19,259</b>	<b>27,091</b>	<b>23,545</b>

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## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

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	Share capital £'000	Retained earnings £'000	Cumulative translation reserves £'000	Share- based payment £'000	Reorganis- ation £'000	Non- controlling interest £'000	Total £'000
<b>As at 1 January 2010</b>	<b>6,933</b>	<b>93,593</b>	<b>(21,374)</b>	<b>4,203</b>	<b>890</b>	<b>(634)</b>	<b>83,611</b>
Net profit for the period	-	564	-	-	-	-	564
Exchange translation differences on foreign operations	-	-	2,465	-	-	-	2,465
<b>As at 30 June 2010</b>	<b>6,933</b>	<b>94,157</b>	<b>(18,909)</b>	<b>4,203</b>	<b>890</b>	<b>(634)</b>	<b>86,640</b>
Share-based payments	-	3,634	-	(3,634)	-	-	-
Net profit for the period	-	287	-	-	-	-	287
Exchange translation differences on foreign operations	-	-	(2,127)	-	-	-	(2,127)
<b>As at 31 December 2010</b>	<b>6,933</b>	<b>98,078</b>	<b>(21,036)</b>	<b>569</b>	<b>890</b>	<b>(634)</b>	<b>84,800</b>
Net loss for the period	-	(3,572)	-	-	-	-	(3,572)
Exchange translation differences on foreign operations	-	-	(1,536)	-	-	-	(1,536)
<b>As at 30 June 2011</b>	<b>6,933</b>	<b>94,506</b>	<b>(22,572)</b>	<b>569</b>	<b>890</b>	<b>(634)</b>	<b>79,692</b>

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## Notes to the Condensed Financial Statements

For the six months ended 30 June 2011

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### 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 One Fleet Place, London EC4M 7WS. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 4 to 6 and the Financial Review on pages 7 to 8.

The financial information for the year ended 31 December 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 2010 have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report on the 2010 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 (refer to note 3(b) 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 which formed comparative information for the year ended 31 December 2010. The report contained a statement under sections 498(2) (unable to determine whether adequate accounting records had been kept) and (3) (failure to obtain necessary information and explanations) of the Companies Act 2006 in respect of this limitation. In addition, the auditor's report contained an emphasis of matter in relation to the uncertainty over recoverability of the amounts included within current other receivables in respect of two gas plants being sold by Global Process Systems LLC as set out in note 3(a) 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 21 April 2011.

#### (a) 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 4 to 6. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review on pages 7 to 8.

The Group's unrestricted cash balance as at 30 June 2011 was £19.3 million (31 December 2010: £23.5 million) with no external debt financing to date, in addition on 6 July 2011 the Group received \$38.2 million as part of the transaction on the Group's licenses as well as commitment from Eni to finance work program at Pokrovskoe licence of up to \$36 million, and therefore the Directors believe that the capital available at the date of issue of this financial information 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



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### Basis of preparation (continued)

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.

#### *(b) Dividend*

The Directors do not recommend the payment of a dividend for the period (30 June 2010: £nil; 31 December 2010: £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 2011 £'000	Unaudited 30 June 2010 £'000	Year December 2010 £'000
Out of court settlements	-	2,892	6,003
Net foreign exchange (losses)/gains	(1,237)	1,304	1,622
Net movement on VAT provision	-	425	-
	<b>(1,237)</b>	<b>4,621</b>	<b>7,625</b>

### 5. (Loss)/profit for the period / year

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

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Year December 2010 £'000
Depreciation of property, plant and equipment	(823)	(520)	(1,217)
Loss on disposal of property, plant and equipment	-	(151)	(103)
Reversal of/(impairment) of other assets	211	(890)	608
Professional and consultancy fees	-	(414)	-
Staff costs	(1,054)	(1,284)	(2,989)
Net foreign exchange (losses)/gains	(1,237)	1,304	1,622

## 6. (Loss)/profit per ordinary share

(Loss)/profit per ordinary share is calculated by dividing the net (loss)/profit 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 2010 £'000	Year December 2010 £'000
<b>(Loss)/profit</b>			
(Loss)/profit for the purposes of basic (loss)/profit per share being net profit or loss attributable to equity holders of the parent	(3,572)	564	851
<b>Number of shares</b>	<b>Number '000</b>	<b>Number '000</b>	<b>Number '000</b>
Weighted average number of Ordinary shares for the purposes of basic (loss)/profit per share	231,092	231,092	231,092
Weighted average number of Ordinary shares for the purposes of diluted (loss)/profit per share	231,092	236,979	236,168
	<b>pence</b>	<b>pence</b>	<b>pence</b>
<b>(Loss)/profit per Ordinary share</b>			
Basic and diluted	(0.15)	0.24	0.4

## 7. Trade and other receivables

	Unaudited 30 June 2011 £'000	Year December 2010 £'000
Other receivables	20,155	24,622
VAT recoverable	112	90
Prepayments and other receivables	2,054	281
	<b>22,321</b>	<b>24,993</b>

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

The amounts shown in other receivables as receivable from the settlement agreement with GPS are stated after impairment of £3.9 million in 2009 representing the difference between the original prepayment to this company and the amount receivable from it in accordance with the settlement agreement.

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 against Ukrainian VAT recoverable as at 30 June 2011 is £11.7 million (31 December 2010: £12.2 million).

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

## 8. Notes to the cash flow statement

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Year December 2010 £'000
<b>Operating (loss)/profit</b>	<b>(3,869)</b>	<b>350</b>	<b>405</b>
Adjustments for:			
Depreciation of property, plant and equipment (note 5)	823	520	1,217
Net movement on VAT provision	(110)	(424)	(1,488)
Impairment of inventories	(103)	890	880
Loss on disposal of property, plant and equipment	5	151	103
Effect of foreign exchange rate changes	1,011	498	(59)
<b>Operating cash flows before movements in working capital</b>	<b>(2,243)</b>	<b>1,985</b>	<b>1,058</b>
(Increase)/decrease in inventories	(253)	1,457	2,066
Decrease/(Increase) in receivables	2,116	(1,400)	44
(Decrease) in payables	(1,695)	(5,176)	(2,862)
Increase in restricted cash	-	-	(219)
<b>Cash used in operations</b>	<b>(2,075)</b>	<b>(3,134)</b>	<b>87</b>
Income taxes paid	(59)	(40)	(65)
<b>Net cash outflows from continuing operations</b>	<b>(2,134)</b>	<b>(3,174)</b>	<b>22</b>

## 9. Related party transactions

No related party transactions have taken place in the six months ended 30 June 2011 that have materially affected the financial position or the performance of the Group during the period.

## 10. Post balance sheet events

On 6 July 2011 the Group completed the transaction with Eni, with the conditions precedent to the transaction having been met to the satisfaction of both parties. The transaction, which was announced on 13 April 2011, received shareholder approval at a General Meeting of the Company on 16 June 2011.

Under the agreement Eni have acquired a 30% interest in the share capital of Pokroskvoe Petroleum BV (parent company of the holder of the Pokroskvoe licence), with the option to acquire a further 30% interest in the future. Eni have also acquired a 60% interest in the share capital of Zagoryanska Petroleum BV (parent company of the holder of the Zagoryanska licence). Both licences relate to the Group's operations in eastern Ukraine.

The consideration received on 6 July comprised a cash payment of USD38 million for the Zagoryanska licence, USD0.2 million as the working capital adjustment for both Zagoryanska and Pokrovskoe licences. Eni will also finance the Pokroskvoe appraisal work programme to an amount of up to USD36 million (including VAT).

Subject to successful results from the Pokroskvoe appraisal work programme and award of production licences for both the Pokroskvoe field and the Zagoryanska field, Eni will pay the Group further amounts of up to USD90 million.

Control over the key operational and financial decisions in respect of both Pokrovskoe Petroleum BV and Zagoryanska Petroleum BV will be jointly exercised by the Group and Eni, resulting in the loss of control of these subsidiaries. Accordingly these companies will be accounted for as jointly controlled entities from the completion of the transaction.

## 11. Commitments and contingencies

In June 2011 the Group has entered into one year contract with Saipem for the provision of drilling services. Cadogan Petroleum Holdings Ltd has provided Parent Company Guarantee ('PCG') to Saipem to assure that all contractual commitments will be met.