

CADOGAN PETROLEUM PLC
Half Yearly Report for the Six Months ended 30 June 2019
(Unaudited and unreviewed)

Highlights

Cadogan Petroleum plc (“Cadogan” or the “Company”), an independent, diversified oil and gas company listed on the main market of the London Stock Exchange, is pleased to announce its unaudited results for the six months ended 30 June 2019.

- Average oil production increased to 297 boepd in H1 2019, a 27% increase on the corresponding period in 2018 and a 19% increase over 2018 average production; this result makes the first half of 2019 the sixth consecutive semester of production growth. Average daily oil production in June 2019 was 387 bpd¹.
- Cadogan’s operational excellence was confirmed by another accident-free period and by the drilling of the successful Blazh-10 well. This well set a regional benchmark for drilling and delivered one of the highest initial production rates ever recorded from the Yamna reservoir in the Carpathian basin, at 385 bpd during clean-up.
- Approvals required to file the application for a 20-years production licence for the Monastretska licence were received and the application was filed on 2 July 2019.
- The pilot production scheme on the Vovche-2 well was approved by the authorities and thus all commitments have been fulfilled on the Bitlyanska licence.
- Trading of gas was limited. Gas prices witnessed an unprecedented nosedive, with prices in January and February dipping below the level seen the previous summer; in this scenario, Cadogan sold in January some of its stored gas with a small loss and kept the remaining balance in storage; on this latter volume Cadogan, prudently, booked a \$0.65 million loss on the expectation that prices will recover in the second half of the year when the gas is expected to be sold, though not to the levels seen in 2018.
- Production revenues increased by 15.7% over the the same period in 2018, notwithstanding a 15.6% reduction in the average realised oil price. Overall revenues were down by 37.5% over the the same period in 2018 due to lower volume of gas traded.
- The Company leveraged its cash position during the period, in line with its strategy. The Blazh-10 well was drilled and put on production and a €13.385 million convertible loan agreement was signed with one of the shareholders of the parent company of Proger S.p.A. (“Proger”), an Italian-based international engineering company. The loan, whose principal is secured, carries an entitlement to interest at a rate of 5.5% per year or has an option to convert into an indirect participating interest in Proger S.p.A. of c.25%.
- The Company booked a \$2.56 million profit; this was driven by a €4.21 million (\$4.8 million) increase in the fair value of the €13.385 million convertible loan since its signature in February 2019, as a result of a competitive conversion price and of Proger’s growth of EBITDA over the last year. This confirms that the loan agreement offers Cadogan shareholders exposure to realizable growth.
- As a result of the above initiatives, net cash² at the period-end was \$13.7 million (30 June 2018: \$41.4 million, 31 December 2018: \$35.1 million). This level of cash is more than sufficient to sustain on-going operations. Cash-flow from operating activities, though, was positive, at \$1.2 million.

¹ Gas production was discontinued in January 2019 when the Group finalised the transfer of its participatory interest in Debeslavetske JAA and Cheremkhivsko-Strupkivske JAA to NJSC Nadra. Since then production is only oil and is measured in barrels per day (bpd)

² Cash and cash equivalents less short-term borrowings

Highlights (continued)

Overall, the first half of 2019 saw a robust operational performance and confirmed the positive profitability trend started in 2018, albeit the 2019 performance was partially masked by one-off negative effects, such as the loss in value of the gas inventory. The Company looks with confidence to the second part of the year, which has started on the tail of higher production, should benefit from the seasonality of gas trading and will see renewed efforts to successfully monetize the legacy assets.

Key performance indicators

The Group has monitored its performance in conducting its business with reference to a number of key performance indicators ('KPIs'):

- to increase oil, gas and condensate production measured on the barrels of oil equivalent produced per day ('boepd');
- to decrease administrative expenses;
- to increase the Group's basic earnings per share;
- to maintain no lost time incident; and
- to grow and geographically diversify the portfolio.

The Group's performance during the first six months of 2019, measured against these targets, is set out in the table below, together with the prior year performance data. No changes have been made to the sources of data or calculations used in the period/year. The positive trend in the HSE performances continues with zero incidents.

	Unit	30 June 2019	30 June 2018	31 December 2018
Average production (working interest basis) ^(a)	boepd	297	234	250
Administrative expenses	\$million	2.0	2.0	4.8
Basic profit/(loss) per share ^(b)	cent	1.1	(0.2)	0.5
Lost time incidents ^(c)	incidents	0	0	0
Geographical diversification	new assets	-	-	1 ^(d)

a. Average production is calculated as the average daily production during the period/year

b. Basic profit/(loss) per ordinary share is calculated by dividing the net profit/(loss) for the year attributable to equity holders of the parent company by the weighted average number of ordinary shares during the period

c. Lost time incidents relate to injuries where an employee/contractor is injured and has time off work (IOGP classification)

d. Loan agreement with Proger Management & Partners with its option to convert. The loan was signed in February 2019

An update of the KPI's table will be proposed to the Board in order to better reflect the current status of the Company and its medium-term objectives. The new KPI's will become effective from 2020 if approved by the Board.

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Introduction

The first half of the year witnessed a recovery of the Brent oil price, which peaked at more than 70 \$/bbl in April from a low of 50 \$/bbl towards Christmas 2018. Since then, the Brent price has lost its momentum and declined to 60 \$/bbl. Ukraine increased subsoil use tax (i.e. royalties) for oil by 2% on 1 January 2019 from 29% to 31%. Gas prices in Ukraine, which had started decreasing in October from a peak of 369 \$/thousand m³, continued their decline through the first part of the year and reached 168\$/thousand m³ at the end of the reporting period, a trend which had no precedent. There were no other events of consequence that have affected Cadogan in any of the countries where the Company is active.

The presidential vote in Ukraine resulted in the election of Volodymyr Zelenskyy as the new President of Ukraine, with 73% of the valid votes. The newly-elected President dissolved the Verkhovna Rada shortly after being sworn in and called for a snap parliamentary elections to be held on 21 July 2019.

Ukraine continued with its efforts to attract new investment in its oil and gas sector. In particular, 19 special permits for subsoil use of oil and gas were offered during three licencing rounds by the State Geological Service of Ukraine. The rounds saw limited participation by foreign investors³. In parallel, the Minister of Energy via the Cabinet of Ministers announced PSA tenders for 11 areas, covering a total area of approximately 15,000 sq. km.

In Italy, the election for the European Parliament saw a reversal of the balance of power between the League and the 5 Stars parties, with the former doubling its consensus. This may lead to a less negative Government attitude towards oil and gas operations, given the League's different, more open position.

Operations

E&P activity remained focused on using the assets in Ukraine as a platform for growth by increasing production from the existing field within the Monastyretska licence. At the end of the reporting period, the average gross production rate increased to 297 boepd, which is 27% higher than in the six months ended 30 June 2018 (234 boepd net, 242 boepd gross).

The Company successfully drilled and completed the Blazh-10 well, on the Monastyretska licence. The well was drilled on time but at 10% over budget, due to severe hole instability issues, which were experienced while drilling. The well was put on production at 275 bpd in natural flow. This additional oil production more than off-sets the loss of gas production from Debeslavetska and Cheremkhivska fields, which Cadogan successfully exited in January 2019.

All regulatory approvals required to file the application for a 20-year production licence, for the Monastyretska licence, were received and the application was filed on 2 July 2019, well ahead of the licence expiry date of 18 November 2019.

The Bitlyanska licence has been actively advertised for a farm-out and requests to access the data room have been received at this time. The pilot production scheme for the Vovche's well was approved, thus confirming that the Company has fulfilled all its licence obligations. The preparation of the documents required to apply for a 20-year exploration licence, with further development, has subsequently started.

Lastly, a third party was engaged to prepare an independent Competent Person's Report (CPR) on the Company's reserves and resources, which is expected to be delivered in the second half of the year.

All activities were executed without LTI or TRI⁴, with a total of nearly 1,000,000 manhours since the last incident, which occurred to a contractor, in February 2016.

Emissions to the atmosphere went temporarily up to 89.4 tons of CO₂ equivalent/boe, due to the Blazh-10 well coming on stream with a production rate higher than the three other wells combined. Actions are ongoing to reduce the intensity ratio and bring it back close to the average value for 2018 (i.e. 58.3 tons of CO₂ equivalent/boe). Good progress has already been made and the intensity ratio in July was some 20% lower

³ 15 out of the 19 licenses were awarded to the state company Ukrgasvydobuvannya and the remaining four to local, privately owned companies

⁴ Lost Time Incident, Total Recordable Incident

Summary (continued)

than in June. In parallel, the anticipated third party's audit of the entire measurement and reporting process will be conducted.

In Italy, activity was focused on maintaining liaisons with the local authorities and fulfilling the mandatory licence requirements, given the on-going moratorium in the approval of new licences.

Trading

Volumes of gas trading are normally lower in the first half of the year due to the seasonality of this business and the first six months of 2019 were even lower than normal. The Company only sold a limited volume of gas in January, given the collapse in the gas price, which through the heating season had dipped below the level of the previous summer. Gas unsold at the beginning of February was kept in storage for the following heating season.

Cadogan's gas trading operations continued to take minimum credit risk and also recovered its past receivables.

Financial position

Cash and cash equivalents at 30 June 2019 were \$13.7 million; this represents a \$21.4 million decrease over the value at 31 December 2018. This was driven primarily by the convertible loan granted to Proger in February 2019 and by the drilling of the Blazh-10 well on Monastyretska licence.

The Directors believe that the capital available at the date of this report is sufficient for the Group to continue its operations for the foreseeable future.

Outlook

Cadogan remains in a solid position, with the resources and competences necessary to continue monetizing the value of its Ukrainian assets.

In Ukraine, the Company will seek to further improve the performance of its oil producing assets and to actively pursue the farm-out of the Bitlyanska licence. It will also look to protect the long term sustainability of its operations by securing the 20-year production licences for Monastyretska and Bitlyanska. Renewed efforts will also go towards continuing to monetize the residual value of the legacy assets.

The Company will continue to actively pursue opportunities outside of Ukraine, to leverage its competence and low-cost structure in order to create long term value for its shareholders. In parallel, the Company will work with Proger to exploit potential operational synergies and will use their international footprint to further expand the sourcing of potential investment opportunities.

Operations Review

In H1 2019, the Group held working interests in two (2018: four) conventional gas-condensate and oil exploration licences in the West of Ukraine. These assets are operated by the Group and are located in the prolific Carpathian basin, close to the Ukrainian oil & gas distribution infrastructure. In the East, the Group took all necessary actions to convert the Pirkovska exploration licence, which had expired in 2015. The application was neither accepted nor rejected by the State Geological Service (SGS) of Ukraine within the three-year exclusivity period, with the last communication from SGS being dated 16 January 2019. The company is currently assessing the available options to safeguard its rights and the interest of its shareholders in this regard.

The Group's primary focus during the period continued to be on cost optimisation and enhancement of current production, through the existing well stock and new drilling.

Summary of the Group's licences (as of 30 June 2019)			
Working interest (%)	Licence	Expiry	Licence type ⁽¹⁾
99.8	Bitlyanska	December 2019	Exploration and Development
99.2	Monastyretska	November 2019	Exploration and Development

In January 2019, the Group finalised the transfer of its participatory interest in Debeslavetske JAA and Cheremkhivsko-Strupkivske JAA to NJSC Nadra as part of the 2018 trilateral agreement with Eni and NJSC Nadra on the exit of Eni from the shale gas project.

Below we provide an update to the full Operations Review contained in 2018 Annual Report published on 24 April 2019.

Bitlyanska licence

The Borynya-3 well is routinely monitored, as required by existing regulations for wells which are suspended. The pilot development scheme for the Vovche-2 well was approved by the state authorities and thus fulfilled the only remaining exploration commitment.

The Company has started preparing the document package required to file the application for a new 20-year exploration licence with further development. The Control Department of the State Geological Services of Ukraine confirmed that there were no breaches throughout the exploration period.

In parallel, efforts to farm-out the licence have continued.

Monastyretska licence

The remaining licence commitment was successfully fulfilled by the Blazh-10 well. The well reached TD, at 3394m, with a benchmark drilling time, notwithstanding severe hole instability issues which were experienced while drilling. The perforated interval covered the entire Yamna formation, which proved to be all oil bearing with a net pay of 156 meters. The well was put on production at 275 bpd in natural flow. The Company plans to install a sucker rod pump to improve production and mitigate paraffin deposition problems.

Oil production for the reported period increased by 76% to 289 bpd vs 164 bpd in H1 2018.

Through the reporting period, the Company worked to finalize the documents required to apply for a 20-year production licence. The Company secured approval of the Environmental Impact Assessment study by the Ministry of Ecology and the approval of the Reserves Report by the State Commission of Reserves; it also received a report from the Control Department of the State Geological Services of Ukraine stating that there were no breaches throughout the exploration period.

Operations Review (continued)

Service Company activities

Cadogan's 100% owned subsidiary, Astroservice LLC, continued to pursue opportunities to build a larger portfolio of orders, while serving intra-group operational needs. The multi-well work-over contract awarded by a third party in 2018 remained in force through the first six months of the year and Astroservice was requested to execute two work-overs.

Financial Review

Overview

Income statement

Revenues decreased to \$3.3 million in the first half of 2019 (30 June 2018: \$5.3 million), due to the decrease in gas trading revenues, which were down to \$0.9 million (30 June 2018: \$3.1 million). Revenues from production conversely increased to \$2.3 million (30 June 2018: \$2.1 million) notwithstanding a reduction of the realized price.

The service business was engaged in a multi-well contract with a third party and also offered intra-group services, in particular, for the Monastyretska licence.

The cost of sales consists of \$1.0 million of purchases of gas, and \$1.8 million of production royalties, operating costs (OPEX), depreciation and depletion of producing wells, and direct staff costs for production

Half-year gross profit decreased marginally to \$0.5 million (30 June 2018: \$0.6 million), driven by higher depreciation charges and lower oil prices.

Impairment of other assets of \$0.57 million (30 June 2018: nil) included \$0.65 million of provision for the gas in storage and \$0.08 million of reversal of provision for inventory that have been sold. Reversal of impairment of other assets of \$0.25 million (30 June 2018: \$0.37 million) represents reversal of provision for VAT for the gas that have been sold during reporting period.

The increase of fair value of the convertible loan of \$4.4 million has been presented net of transaction costs of \$0.4 million, which included due diligence on the debtor prior to lending, assessment of the company value and other costs associated with the execution of the transaction.

Other administrative expenses were kept under control at \$2.0 million (30 June 2018: \$2.0 million). They comprise other staff costs, professional fees, Directors' remuneration and depreciation charges on non-producing property, plant and equipment.

Balance sheet

The cash position of \$13.7 million at 30 June 2019 decreased compared with the \$35.1 million at 31 December 2018, because of the convertible loan to Proger provided in February 2019 and the drilling of the successful Blazh-10 well on the Monastyretska licence.

Intangible Exploration and Evaluation ("E&E") assets of \$2.5 million (30 June 2018: \$1.7 million, 31 December 2018: \$2.4 million) represent the carrying value of the Group's investment in E&E assets as at 30 June 2019. The Property, Plant and Equipment ("PP&E") balance of \$11.4 million, at 30 June 2019 (30 June 2018: \$2.7 million, 31 December 2018: \$3.3 million) includes \$10.8 million of development and production assets on the Monastyretska licence and other PP&E of the Group.

Trade and other receivables of \$3.0 million (30 June 2018: \$1.3 million, 31 December 2018: \$2.5 million) include VAT recoverable of \$2.1 million⁵ (30 June 2018: \$0.6 million, 31 December 2018: \$1.9 million), \$0.8 million of trade receivables and prepayments (30 June 2018: \$0.5 million, 31 December 2018: \$0.3 million) and \$0.1 million trading prepayments and receivables (30 June 2018: \$0.1 million, 31 December 2018: \$0.3 million).

The \$2.4 million of trade and other payables, as of 30 June 2019 (30 June 2018: \$1.5 million, 31 December 2018: \$1.3 million) represents \$1.7 million (30 June 2018: \$1.1 million, 31 December 2018: \$0.7 million) of trade payables and \$0.7 million of accruals (30 June 2018: \$0.4 million, 31 December 2018: \$0.6 million).

⁵ Most of the recoverable VAT is VAT paid on drilling services which will be off-set by VAT due on crude sales in future periods under local legislation

Financial Review (continued)

Cash flow statement

The Consolidated Cash Flow Statement shows positive cash-flow from operating activities of \$1.2 million (30 June 2018: inflow \$4.0 million, 31 December 2018: outflow \$0.2 million), notwithstanding the limited contribution from gas trading. Cashflow, before movements in working capital, was an outflow of \$1.3 million (30 June 2018: outflow \$1.2 million, 31 December 2018: outflow \$1.9 million).

Group capital expenditure was \$0.01 million on Intangible Exploration and Evaluation (“E&E”) assets during the six months ended 30 June 2019 (30 June 2018: \$0.1 million) and \$7.0 million (30 June 2018: \$0.7 million) on Property, Plant and Equipment, out of which \$6.9 million related to the Monastyretska licence drilling of the Blazh-10 well.

Commitments

There has been no material change in the commitments and contingencies reported as at 31 December 2018 (refer to page 79 of the Annual Report).

Treasury

The Group continually monitors its exposure to currency risk. It maintains a portfolio of cash and cash equivalent balances, mainly in US dollars (‘USD’) held primarily in the UK, and holds these mostly in call deposits. 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. Funds are transferred to the Company’s subsidiaries in USD to fund operations, at which time the funds are converted to UAH.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim Financial Statements. For further detail refer to the detailed discussion of the assumptions outlined in note 2(a) to the Interim Financial Statements.

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.

Risks and uncertainties

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 12 to 14 of the 2018 Annual Financial Report. There have been no changes to the risk profile during the first half of the year. The risks and uncertainties are summarised below.

Operational risks

- Health, safety, and environment
- Climate change
- Drilling and work-over operations
- Production and maintenance

Subsurface risks

Financial risks

- Changes in economic environment
- Counterparty
- Commodity price

Country risk

- Regulatory and licence issues
- Emerging market

Other risks

- Risk of losing key staff members
- Risk of entry into new countries
- Risk of delays in projects related to local communities dialogue

Director's Responsibility Statement

We confirm that to the best of our knowledge:

- (a) the Interim 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);
- (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); and
- (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 22 has been approved by the Board and signed on its behalf by:

Guido Michelotti
Chief Executive Officer
23 August 2019

CADOGAN PETROLEUM PLC
Consolidated Income Statement
Six months ended 30 June 2019

	Notes	Six months ended 30 June		Year ended
		2019 \$'000 (Unaudited)	2018 \$'000 (Unaudited)	31 December 2018 \$'000 (Audited)
CONTINUING OPERATIONS				
Revenue	3	3,319	5,313	14,730
Cost of sales	3	(2,866)	(4,696)	(12,849)
Gross profit		453	617	1,881
Administrative expenses		(2,051)	(2,002)	(4,762)
Net fair value gain on convertible loan	12	4,421	-	-
Impairment of oil and gas assets		-	-	(56)
Reversal of impairment of other assets		248	368	1,730
Impairment of other assets		(568)	-	(751)
Net foreign exchange losses		(16)	(2)	(58)
Other operating income, net		41	121	2,419
Operating profit/(loss)		2,528	(898)	403
Finance income, net	4	124	476	636
Profit/(loss) before tax		2,652	(422)	1,039
Tax (expense)/benefit		(97)	107	178
Profit/(loss) for the period/year		2,555	(315)	1,217
Attributable to:				
Owners of the Company	5	2,550	(318)	1,220
Non-controlling interest		5	3	(3)
		2,555	(315)	1,217
Profit/(loss) per Ordinary share				
Basic and diluted	5	cents 1.1	cents (0.1)	Cents 0.5

CADOGAN PETROLEUM PLC

**Consolidated Statement of Comprehensive Income
Six months ended 30 June 2019**

	Six months ended 30 June 2019 \$'000 (Unaudited)	2018 \$'000 (Unaudited)	Year ended 31 December 2018 \$'000 (Audited)
Profit/(loss) for the period/year	2,555	(315)	1,217
Other comprehensive profit			
Items that may be reclassified subsequently to profit or loss			
Unrealised currency translation differences	1,367	127	354
Other comprehensive profit	1,367	127	354
Total comprehensive profit/(loss) for the period/year	3,922	(188)	1,571
Attributable to:			
Owners of the Company	3,917	(191)	1,574
Non-controlling interest	5	3	(3)
	3,922	(188)	1,571

CADOGAN PETROLEUM PLC
Consolidated Statement of Financial Position
Six months ended 30 June 2019

	Notes	Six months ended 30 June		Year ended
		2019 \$'000 (Unaudited)	2018 \$'000 (Unaudited)	31 December 2018 \$'000 (Audited)
ASSETS				
Non-current assets				
Intangible exploration and evaluation assets		2,514	1,713	2,386
Property, plant and equipment	6	11,442	2,651	3,297
Convertible loan note	12	20,030	-	-
Prepayments for non-current assets		-	-	1,318
Deferred tax asset		405	431	501
		34,391	4,795	7,502
Current assets				
Inventories	7	3,322	1,067	4,487
Trade and other receivables	8	2,950	1,294	2,472
Assets held for sale		-	-	165
Cash and cash equivalents		13,724	41,371	35,136
		19,996	43,732	42,260
Total assets		54,387	48,527	49,762
LIABILITIES				
Non-current liabilities				
Provisions		(41)	(463)	(39)
		(41)	(463)	(39)
Current liabilities				
Short-term borrowings	9	-	-	-
Trade and other payables	10	(2,388)	(1,480)	(1,271)
Liabilities held for sale		-	-	(140)
Provisions		-	(386)	(276)
		(2,388)	(1,866)	(1,687)
Total liabilities		(2,429)	(2,329)	(1,726)
Net assets		51,958	46,198	48,036
EQUITY				
Share capital		13,525	13,525	13,525
Share premium		329	329	329
Retained earnings		196,612	192,524	194,062
Cumulative translation reserves		(160,449)	(162,043)	(161,816)
Other reserves		1,668	1,589	1,668
Equity attributable to equity holders of the parent		51,685	45,924	47,768
Non-controlling interest		273	274	268
Total equity		51,958	46,198	48,036

CADOGAN PETROLEUM PLC
Consolidated Statement of Cash Flows
Six months ended 30 June 2019

	Six months ended 30 June		Year ended 31 December
	2019 \$'000 (Unaudited)	2018 \$'000 (Unaudited)	2018 \$'000 (Audited)
Operating loss	2,528	(898)	403
Adjustments for:			
Depreciation of property, plant and equipment	355	96	425
Net fair value gain on convertible loan	(4,421)	-	-
Impairment of oil and gas assets	-	-	56
Impairment of property, plant and equipment	-	-	751
Termination fee on exit from WGI	-	-	(1,700)
Reversal of impairment of inventories	568	(102)	(107)
Reversal of impairment of VAT recoverable	(205)	(266)	(1,730)
Gain on disposal of property, plant and equipment	-	(33)	(45)
Effect of foreign exchange rate changes	(88)	2	58
Operating cash flows before movements in working capital	(1,263)	(1,201)	(1,889)
Decrease/(Increase) in inventories	597	1,570	(2,100)
Decrease in receivables	717	3,430	3,651
Increase in payables and provisions	1,081	179	84
Cash from operations	1,132	3,978	(254)
Interest paid	-	-	(130)
Interest received	44	-	230
Income taxes paid	-	-	-
Net cash inflow/(outflow) from operating activities	1,176	3,978	(154)
Investing activities			
Proceeds from termination fee on exit from WGI	-	-	1,700
Purchases of property, plant and equipment	(7,021)	(664)	(3,944)
Purchases of intangible exploration and evaluation assets	(11)	(75)	(857)
Convertible loan advanced	(15,609)	-	-
Proceeds from sale of property, plant and equipment	-	33	58
Interest received	81	476	553
Net cash used in investing activities	(22,560)	(230)	(2,490)
Financing activities			
Proceeds from short-term borrowings	-	-	3,965
Repayment of short-term borrowings	-	-	(3,887)
Net cash from financing activities	-	-	78
Net (decrease)/increase in cash and cash equivalents	(21,384)	3,748	(2,566)
Effect of foreign exchange rate changes	(28)	(17)	102
Cash and cash equivalents held for sale at end of year	-	-	(40)
Cash and cash equivalents at beginning of period/year	35,136	37,640	37,640
Cash and cash equivalents at end of period/year	13,724	41,371	35,136

CADOGAN PETROLEUM PLC

Consolidated Statement of Changes in Equity
Six months ended 30 June 2019

	Share capital	Share premium account	Retained earnings	Cumulative translation reserves	Reor-gani-sation	Equity attributable to owners of the Company	Non-controllin-g interest	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 January 2018	13,525	329	192,842	(162,170)	1,589	46,115	271	46,386
Net profit for the period	-	-	1,220	-	-	1,220	(3)	1,217
Other comprehensive profit	-	-	-	354	-	354	-	354
Total comprehensive profit for the year	-	-	1,220	354	-	1,574	(3)	1,571
Issue of ordinary shares	-	-	-	-	79	79	-	79
As at 31 December 2018	13,525	329	194,062	(161,816)	1,668	47,768	268	48,036
Net profit for the period	-	-	2,550	-	-	2,550	5	2,555
Other comprehensive profit	-	-	-	1,367	-	1,367	-	1,367
Total comprehensive profit for the year	-	-	2,550	1,367	-	3,917	5	3,922
As at 30 June 2019	13,525	329	196,612	(160,449)	1,668	51,685	273	51,958

CADOGAN PETROLEUM PLC

Notes to the Condensed Financial Statements Six months ended 30 June 2019

1. General information

Cadogan Petroleum plc (the 'Company', together with its subsidiaries the 'Group'), is incorporated in England and Wales under the Companies Act. The address of the registered office is 6th Floor, 60 Gracechurch Street, London EC3V 0HR. The nature of the Group's operations and its principal activities are set out in the Operations Review on pages 5 to 6 and the Financial Review on pages 7 to 8.

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 at www.cadoganpetroleum.com.

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 except as noted, which were included in the Annual Report issued on 24 April 2019.

The Group has not early adopted any amendment, standard or interpretation that has been issued but is not yet effective. It is expected that where applicable, these standards and amendments will be adopted on each respective effective date.

The Group has adopted the standards, amendments and interpretations effective for annual periods beginning on or after 1 January 2019. The adoption of these standards and amendments did not have a material effect on the financial statements of the Group, including a specific assessment of the impact of IFRS 16 'Leases'.

(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. The financial position of the Group, its cash flow and liquidity position are described in the Financial Review.

The Group's cash balance at 30 June 2019 was \$13.7 million (31 December 2018: \$35.1 million).

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

The Group continues to pursue its farm-out strategy on Bitlyanska licence with the objective of managing risks and mitigating capital deployment.

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

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(b) Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). The functional currency of the Company is US dollar. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US dollars, which is the presentation currency for the consolidated financial statements.

The relevant exchange rates used were as follows:

1 US\$ = £	Six months ended 30 June		Year ended
	2019	2018	31 Dec 2018
Closing rate	1.2719	1.3218	1.2768
Average rate	1.2943	1.3763	1.3415

1 US\$ = UAH	Six months ended 30 June		Year ended
	2019	2018	31 Dec 2018
Closing rate	26.4487	26.3500	27.7477
Average rate	27.0363	26.9419	27.2324

(c) Dividend

The Directors do not recommend the payment of a dividend for the period (30 June 2018: \$nil; 31 December 2018: \$nil).

(d) Fair value hierarchy

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3. Segment information

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

Segment information is analysed on the basis of the type of activity, products sold or services provided. The majority of the Group's operations are located within Ukraine. Segment information is analysed on the basis of the types of goods supplied by the Group's operating divisions.

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The Group's reportable segments under IFRS 8 are therefore as follows:

Exploration and Production

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

Service

- Drilling services to exploration and production companies
- Construction services to exploration and production companies

Trading

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

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

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

As of 30 June 2019 and for the six months then ended the Group's segmental information was as follows:

	Exploration and Production	Service⁽¹⁾	Trading	Consolidated
	\$'000	\$'000	\$'000	\$'000
Sales of hydrocarbons	2,349	-	916	3,265
Other revenue	-	54	-	54
Total revenue	2,349	54	916	3,319
Other cost of sales	(1,554)	(23)	(976)	(2,553)
Depreciation	(288)	(25)	-	(313)
Other administrative expenses	(234)	(34)	(62)	(330)
Finance income, net	-	-	27	27
Segment results	273	(28)	(95)	150
Unallocated other administrative expenses	-	-	-	(1,679)
Depreciation	-	-	-	(42)
Net fair value gain on convertible loan	-	-	-	4,421
Net foreign exchange loss	-	-	-	(16)
Other income, net	-	-	-	(183)
Profit before tax	-	-	-	2,651

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As of 30 June 2018 and for the six months then ended the Group's segmental information was as follows:

	Exploration and Production	Service⁽¹⁾	Trading	Consolidated
	\$'000	\$'000	\$'000	\$'000
Sales of hydrocarbons	2,030	-	3,270	5,300
Other revenue	-	13	-	13
Sales between segments	108	-	(108)	-
Total revenue	2,138	13	3,162	5,313
Other cost of sales	(1,534)	(4)	(3,098)	(4,636)
Depreciation	(43)	(17)	-	(60)
Other administrative expenses	(197)	(26)	(43)	(266)
Segment results	364	(34)	21	351
Unallocated other administrative expenses	-	-	-	(1,736)
Net foreign exchange loss	-	-	-	(2)
Other income, net	-	-	-	965
Loss before tax	-	-	-	(422)

(1) In the first half 2018 and in the first half 2019 the Service business was focused on internal projects, in particular, providing services to Monastyretska licence.

4. Finance income/(costs), net

	Six months ended 30 June		Year ended
	2019	2018	31 December
	\$'000	\$'000	2018
	\$'000	\$'000	\$'000
Interest expense on short-term borrowings	(9)	-	(135)
Total interest expenses on financial liabilities	(9)	-	(135)
Interest income on receivables, net	27	-	-
Investment revenue	62	315	553
Interest income on cash deposit in Ukraine	44	180	230
Total interest income on financial assets	133	495	783
Unwinding of discount on decommissioning provision	-	(19)	(12)
	124	476	636

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5. 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 profit/(loss) per share is based on the following data:

	Six months ended 30 June		Year ended 31 December
	2019 \$'000	2018 \$'000	2018 \$'000
Profit/(loss) attributable to owners of the Company			
(Loss)/profit for the purposes of basic (loss)/profit per share being net profit/(loss) attributable to owners of the Company	2,550	(318)	1,220
	Number '000	Number '000	Number '000
Weighted average number of Ordinary shares for the purposes of basic profit/(loss) per share	235,729	231,092	235,729
	Cent	Cent	Cent
Profit/(loss) per Ordinary share			
Basic	1.1	(0.1)	0.5

The diluted profit/(loss) per share is equal to the basic profit/(loss) per share owing to the (loss)/profit for the period.

6. Proved properties

As of 30 June 2019 the development and production assets balance which forms part of PP&E has increased in comparison to 31 December 2018 due to the drilling of Blazh-10 well on Monastyrtska licence.

7. Inventories

The Group had volumes of natural gas stored at 31 December 2018 which were only partially sold during the six months ended 30 June 2019; however most of the volume remains unsold and the Group plan to realise it in the second half of the year, as this represents the start of the heating season which typically sees higher prices. No other substantial changes in inventories balances occurred.

8. Trade and other receivables

	Six months ended 30 June		Year ended 31 December
	2019 \$'000	2018 \$'000	2018 \$'000
VAT recoverable	2,115	588	1,874
Prepayments	285	110	-
Trading prepayments	31	99	258
Trading receivables	-	41	39
Receivable from joint venture	-	29	62
Trade receivables	404	-	-
Other receivables	115	427	239
	2,950	1,294	2,472

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

Management expects to realise VAT recoverable through the activities of the business segments.

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9. Short-term borrowings

In 2019 the Group continued to have a revolving credit line drawn in UAH at a Ukrainian bank, a 100% subsidiary of a European bank for its trading activities. The credit line is secured by \$5 million of cash balance placed at a European bank in the UK. The process to renew the credit line was on-going at the date of reporting.

The Group did not use the credit line during the six months ended 30 June 2019 as it has managed to finance its trading activities with its own funds.

10. Trade and other payables

The \$2.4 million of trade and other payables as of 30 June 2018 (30 June 2018: \$1.5 million, 31 December 2018: \$1.3 million) represent \$1.7 million (30 June 2018: \$1.1 million, 31 December 2018: \$0.8 million) of payables and \$0.7 million of accruals (30 June 2018: \$0.4 million, 31 December 2018: \$0.7 million).

11. Commitments and contingencies

There have been no significant changes to the commitments and contingencies reported on page 79 of the Annual Report.

12. Loan issued - Proger

Background and terms

On 26 February 2019 the Group entered into a Euro 13,385,000⁶ loan agreement with Proger Managers & Partners s.r.l. ("PMP"), a privately owned Italian company whose only interest is a 59.6% participation in Proger Ingegneria s.r.l. ("Proger Ingegneria"), a privately owned company which has a 67.9% participating interest in Proger S.p.A. ("Proger").

The loan carries an entitlement to interest at a rate of 5.5% per year, payable at maturity (which is 24 months after the execution date and assuming that the call option described below is not exercised). The principal of the loan is secured by a pledge on PMP's current participating interest in Proger Ingegneria s.r.l., up to a maximum guaranteed amount of Euro 13,385,000.

In exchange for providing the loan, and besides the pledge on PMP's current participating interest in Proger Ingegneria, the Group has secured:

- I. The right to designate two out of the seven directors in each of Proger and Proger Ingegneria's Boards of Directors. One of the two directors designated by the Group will be appointed as Proger's Chairman of the Board, with a supervisory role on financial affairs.
- II. The right to designate one of the three members of Statutory Auditors in each of Proger and Proger Ingegneria Boards.
- III. A call option to acquire, at its sole discretion, 33% of the participating interest that PMP will be holding in Proger Ingegneria as a result of its forthcoming subscription; the exercise of the option would give the Group an indirect 25 interest in Proger. The call option is granted at no additional cost and can be exercised at any time between the 6th (sixth) and 24th (twenty-fourth) months following the execution date of the loan agreement and subject to the Group's shareholders having approved the exercise of the call option as explained further below. Should the Group exercise the call option, the price for the purchase of the 33% participating interest in Proger Ingegneria shall be paid by setting off the corresponding amount due by PMP to the Group, by way of reimbursement of the principal, pursuant to the loan agreement. If the call option is exercised, then the obligation on PMP to pay interest is extinguished.

⁶ Equivalent to \$15,246,000 at the date of issuance and to \$15,237,000 million at the exchange rate of 30 June 2019

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12. Loan issued – Proger (continued)

This exercise of the call option (or the enforcement of the pledge referred to above) would be likely to constitute a reverse takeover for the Group under the Listing Rules.

In that instance, the exercise of the call option would be subject to and require publication of: (i) a shareholder circular and notice to convene a general meeting seeking the Group shareholder approval of the proposed exercise of the call option by the Group; and (ii) a prospectus in connection with the proposed re-admission of the Group's shares to the Standard segment of the Official List and to trading on the London Stock Exchange (as the Group's listing would be cancelled following the consummation of a reverse takeover).

Accounting treatment

Under IFRS 9 'Financial Instruments' the instrument has been classified as a financial asset at fair value through profit and loss as a result of the call option. As such, the loan was initially recorded at fair value and revalued as at 30 June 2019. If the loan is converted to equity under the call option, it is anticipated that the investment would then be held as an equity accounted investment in associate.

At 30 June 2019 carrying amount of the loan approximates to its fair value. Fair value of this financial asset is categorized at Level 3 (note 2 (d)). During H1 there were no transfers between levels of fair value hierarchy.

Valuation of the loan was performed with the assistance of independent valuation experts which used an EV/EBITDA peer multiples valuation model, which included both precedent transaction multiples and trading multiples valuation methods and then averaged the results. The basis of the evaluation were Proger S.p.A.'s EBITDA of 2018 (based on 2018 audited income statement) and the expert's database of multiples for comparable companies and transactions.

In July 2019 Proger released its financial statements for 2018, which showed improved results for the period and in particular a 24% y-o-y increase of the EBITDA. The Board have assessed the fair value of the loan instrument at 30 June 2019, which included consideration of the underlying performance and used the original investment case valuation methodology. The improved performance resulted in a higher implied valuation of Proger and consequently an increase in the fair value of the instrument given the Group's call option. In addition, the Company's indirect participating interest if the call option is exercised increased to some 25% as not all Proger's shareholders subscribed the increase of capital. Based on the fair value assessment the Group has recognised an increase in the fair value of the instrument of \$4.4 million recorded in profit and loss and Directors believe that the \$20 million (EUR 17.6 million) represents the fair value of the loan at 30 June 2019.

Reconciliation: Level 3 fair value measurement

	\$'000
Opening balance as at 26 February 2019	15,246
Fair value gain on convertible loan	4,421
Transaction costs	372
Exchange difference	(9)
Closing balance as at 30 June 2019	20,030

12. Events subsequent to the reporting date

On 2 July the application for a 20-year production licence for Monastyretska, renamed Blazhiv oil field, was filed.