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If you sell or transfer or have sold or transferred all of your Ordinary Shares, please forward this document, with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through or to whom the sale or transfer was effected for delivery to the purchaser or transferee. If you sell or transfer or have sold or otherwise transferred only part of your holding of Ordinary Shares, please consult the bank, stockbroker or other agent through whom the sale or transfer was effected as to the action you should take.

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

Farm-out by way of disposal of up to 60% of Pokrovskoe Petroleum B.V.
and 60% of Zagoryanska Petroleum B.V. to Eni Ukraine Holdings B.V.

and

Notice of General Meeting

A notice convening a General Meeting of the Company to be held at 2.30 p.m. on 16 June 2011 at The Royal Society of Chemistry, Burlington House, Piccadilly, London W1J 0BA (or as soon thereafter as the Annual General Meeting, convened at the same venue on that day, concludes or is adjourned) is set out at the end of this document. Whether or not you attend the General Meeting in person, please complete, sign and return the accompanying Form of Proxy in accordance with the instructions printed on it as soon as possible but, in any event, so as to be received by the Company's Registrar no later than 2.30 p.m. on 14 June 2011, being 48 hours before the time appointed for the holding of the General Meeting. If you are a member of CREST you may be able to use the CREST electronic proxy appointment service. Proxies sent electronically must be sent as soon as possible and, in any event, so as to be received by not later than 2.30 p.m. on 14 June 2011.

No person has been authorised to give any information or make any representations other than those contained in the document and, if given or made, such information or representations must not be relied on as having been so authorised. The delivery of this document shall not, under the circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information in it is correct as of any subsequent time.

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This document contains forward-looking statements which are subject to assumptions, risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that these expectations will prove to have been correct. As these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by those forward-looking statements. Each forward-looking statement is correct only at the date of the particular statement. The Company does not undertake any obligation publicly to update or revise any forward-looking statement as a result of new information, future events or other information, although such forward-looking statements will be publicly updated if required by the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules, the rules of the London Stock Exchange or by law.

Contents

Directors, Company Secretary, Registered Office and Advisers	3
Expected Timetable of Principal Events	4
Part I: Letter from the Chairman of Cadogan Petroleum plc	5
Part II: Principal Terms of the Disposal Agreement	10
Part III: Risk Factors	13
Part IV: Historical Financial Information	17
Part V: Unaudited Pro Forma Statement of Net Assets of the Continuing Group	19
Part VI: Additional Information	22
Part VII: Definitions	26
Notice of General Meeting	28

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Simon Duffy (<i>Non-executive Chairman</i>) Ian Baron (<i>Chief Executive Officer</i>) Gordon Stein (<i>Chief Financial Officer</i>) Philip Dayer (<i>Non-executive Director</i>) Alan Cole (<i>Non-executive Director</i>) Nicholas Hooke (<i>Non-executive Director</i>) Alessandro Benedetti (<i>Non-executive Director</i>) Bertrand des Pallieres (<i>Non-executive Director</i>)
Company Secretary	Stefan Bort
Registered Office	One Fleet Place London EC4M 7WS
Sponsor	BDO Corporate Finance BDO LLP 125 Colmore Row Birmingham B3 3SD
Solicitors	SNR Denton UK LLP One Fleet Place London EC4M 7WS
Auditor	Deloitte LLP 2 New Street Square London EC4A 3BZ
Reporting Accountant	BDO LLP 55 Baker Street London W1U 7EU
Registrar	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of the Disposal	13 April 2011
Date of issue of this document	27 May 2011
Latest time and date for receipt of Forms of Proxy from Shareholders	2.30 p.m. on 14 June 2011
General Meeting (or as soon thereafter as the Annual General Meeting concludes or is adjourned)	2.30 p.m. on 16 June 2011
Expected date of Completion	On or around 30 June 2011

Notes

- 1 All times shown in this document are London time unless otherwise stated.
- 2 If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement through the Regulatory Information Service of the London Stock Exchange.

PART 1: LETTER FROM THE CHAIRMAN OF CADOGAN PETROLEUM PLC

CADOGAN
PETROLEUM PLC

Directors:

Simon Duffy (*Non-executive Chairman*)
Ian Baron (*Chief Executive Officer*)
Gordon Stein (*Chief Financial Officer*)
Philip Dayer (*Non-executive Director*)
Alan Cole (*Non-executive Director*)
Nicholas Hooke (*Non-executive Director*)
Alessandro Benedetti (*Non-executive Director*)
Bertrand des Pallieres (*Non-executive Director*)

27 May 2011

To the holders of Ordinary Shares and, for information only, to the holders of options

Dear Shareholder

**Farm-out by way of a disposal of up to 60% of Pokrovskoe Petroleum B.V. and 60% of Zagoryanska Petroleum B.V.
to Eni Ukraine Holdings B.V.
and
Notice of General Meeting**

1 Introduction

On 13 April 2011, the Company announced that it has conditionally agreed to sell to Eni Ukraine Holdings B.V. (a) up to 60% of the fully diluted share capital of Pok BV; and (b) 60% of the fully diluted share capital of Zag BV, both operating subsidiaries.

The Buyer is a wholly owned subsidiary of Eni S.p.A, a major integrated energy company which is listed both on the Italian Stock Exchange and the New York Stock Exchange. In 2010, Eni S.p.A reported net profit of €6.32 billion.

Pursuant to the terms of the Disposal Agreement, the Buyer will initially acquire a 30% interest in the share capital of Pok BV (the direct parent company of Gazvydobuvannya, the company which is the holder of the Pok Licence), with the option to acquire a further 30% interest in the future. The Buyer will also acquire a 60% interest in the share capital of Zag BV (the direct parent of Astroinvest-Energy, the company which is the holder of the Zag Licence). Both licences relate to the Group's operations in Eastern Ukraine. The initial consideration will comprise a cash payment of USD38 million and 100% of the funding of the Pok Agreed Appraisal Work Programme in an amount of USD30 million (with the Buyer funding the VAT on the work programme of up to USD6 million). At Completion, CPHL will assign to the Buyer 30% of the benefit of the Pok Loan and 60% of the benefit of the Zag Loan. Subject to successful results from the Pok Agreed Appraisal Work Programme and award of production licences for both the Pokrovskoe field and the Zagoryanska field, the Buyer will pay the Group further amounts of up to USD90 million.

The Disposal is of sufficient size relative to that of the Group to constitute a Class 1 transaction under the Listing Rules and is therefore conditional upon, *inter alia*, the approval of Shareholders. A notice of the General Meeting to be held on 16 June 2011, at which your approval will be sought for the Disposal, is set out at the end of this document.

The purpose of this document is: (a) to provide you with information on the Disposal; (b) to explain the background to and reasons for the Disposal and why the Board believes the Disposal is in the best interests of the Company and its Shareholders as a whole; and (c) to seek the consent of Shareholders to the Disposal at the forthcoming General Meeting of the Company.

Shareholders should read the whole of this document and not just rely on the summarised information set out in this letter.

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Registered office: One Fleet Place, London EC4M 7WS
Registration Number: 5718406
Registered in England and Wales

2 Background to and reasons for the Disposal

The Company's strategy is to increase value for Shareholders by establishing commercial reserves from strategic positions in high potential oil and gas fields in Ukraine and to realise that value at the appropriate time. Significant progress has been made in technical analysis of the Company's assets. Following the strategic review undertaken in 2009, the Board developed a strategy to farm out some of its assets in order to de-risk the Company's activities. The Board believes that the Disposal will allow the Continuing Group to significantly de-risk its assets whilst maintaining exposure to the ongoing operations. By retaining an equity interest in the Pok BV Group and the Zag BV Group the Continuing Group will continue to participate and operate both the Pok Licence and the Zag Licence.

The Board believes that the Disposal will deliver positive benefits in line with the Company's strategic goals. The Board intends to utilise part of the initial net proceeds to fund development of the Company's other assets and, specifically, finance any future work programmes relating to the Pok Licence and the Zag Licence. Any future work on the Pok Licence in excess of USD30 million provided by the Buyer will be funded in proportion to the equity interests in Pok BV. If the Buyer subsequently increases its equity interest there is a mechanism for the Seller to be reimbursed. Additional future cash proceeds from the Disposal (which are dependent on successful operational results and the award of production licences) will further strengthen the Company's financial position, enabling it to finance its share of future development activities and to invest in new business opportunities.

Immediately following the Disposal, the Continuing Group will have the following working interests in gas, condensate and oil exploration and production licences in the east and west of Ukraine:

Working interest (%)	Licence	Expiry	Licence type(1)
Major licences:			
96.5	Bitlyanksa ⁽²⁾	December 2014	E&D
70.0	Pokrovskoe ⁽³⁾	August 2011	E&D
36.0	Zagoryanska	April 2014	E&D
97.0	Pirkovskoe	October 2015	E&D
Minor licences:			
98.3	Debeslavtska	October 2026	Production
49.8	Cheremkhiyska	May 2018	Production
100.0	Slobodo-Rungerska	April 2011	E&D
95.0	Monastyretska ⁽⁴⁾	November 2014	E&D
40.0	Mizhrichenska	June 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 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) Discussions are currently underway with the Ministry of Environmental Protection in Ukraine to renew the licence for a further five years in August 2011.

(4) Although this licence expired in December 2009, it was re-acquired by the Group in September 2010 at commercially advantageous terms.

The Group has not commissioned an independent reserves and resources evaluation of the Group's oil and gas assets since 31 December 2009 due to the limited level of drilling and operational activity undertaken during 2010. The summary below, which is on a working interest basis as at 31 December 2010, is based on the Independent Reserves and Resources Evaluation performed by Gaffney Cline and Associates (GCA), an independent energy consultancy, as at 31 December 2009 (updated to reflect actual production of 0.2 bcf of gas during 2010). GCA uses the SPE PRMS as the basis for its classification and categorization of hydrocarbon volumes.

	Gas billion cubic feet ("bcf")	Condensate million barrels ("mmbbl")
Proved and probable reserves	11.3	0.6
Possible reserves	19.5	1.5
Contingent resources	2,488.0	108.1

The breakdown of these amounts by individual licence was set out in GCA's report. For the Pok Licence, where there has not yet been a production test, there was a best estimate of Prospective Resources of 237 bcf of gas and 8.4 mmbbl of condensate. These are not included in the above table as it is inappropriate to aggregate Prospective Resource volumes with other classes of resource. Contingent resources of 394 bcf of gas and 25.5 mmbbl of condensate were attributed to the Zag Licence.

3 Information on the Pok BV Group and Zag BV Group

Pok BV and Zag BV were incorporated in February 2011 as indirect wholly owned subsidiaries of the Company. On 23 March 2011, Pok BV acquired 100% of the issued capital of Gazvydobuvannya. Gazvydobuvannya is the sole registered owner of the Pok Licence. On 29 March 2011, Zag BV acquired 90% of the issued capital of Astroinvest-Energy. Astroinvest-Energy is the sole registered owner of the Zag Licence.

As set out in Part IV of this document, the loss before tax and gross assets of Gazvydobuvannya for the year ended 31 December 2010 were £803,000 and £5.63 million respectively and the profit before tax and gross assets of Astroinvest-Energy for the year ended 31 December 2010 were £344,000 and £3.13 million respectively.

3.1 Pok Licence

The Group has a 100% working interest in the Pok Licence which holds 51.1 mboe of Prospective Resources. The Pok Licence covers 49.5 square kilometres in the Dnieper-Donets basin in Eastern Ukraine and expires in August 2011. Discussions are currently underway with the Ministry of Environmental Protection in Ukraine to renew the licence for a further five years. There is a two well drilling commitment (the wells have been partially drilled) and 3D seismic work commitment. In addition the Group will construct a gas treatment plant if required. Interpretation of the 3D seismic was completed in early 2010 and confirmed the presence of a prospect with four-way closure at the Lower Visean level and

potentially in the deeper Tournasian sediments beneath both the Pokrovskoe 1 and Pokrovskoe 2 well locations, separated by a geological fault.

Deepening of the Pokrovskoe 1 well commenced in October 2010 and supported the Board's revised structural interpretation. The well encountered strong indications of gas during drilling and on the LWD logs over significant sections in the Lower Viséan. Due to the onset of winter weather and the complexity of the drilling operations, it was decided to suspend drilling operations at 5,450 metres.

Pokrovskoe 2 was the first exploration well drilled by the Group on the Pokrovskoe structure and was terminated at a drilling depth of 5,185 metres, with the well suspended for future evaluation and possible deepening. During drilling and coring operations across the Viséan (V17 to V22) formations, there was strong gas influx into the well bore.

The Group intends to award a drilling rig and services contract for a one-year period to a major company operating in Ukraine. The rig will initially deepen the Pokrovskoe 1 well (suspended in December 2010) and subsequently either side-track the existing well or drill a new well at the Pokrovskoe 2 location.

The Buyer will initially acquire a 30% interest in the share capital of Pok BV (the direct parent company of Gazvydobuvannya, the holder of the Pok Licence), with the option to acquire a further 30% interest in the future. The consideration for the initial 30% interest will comprise 100% of the funding of the Pok Agreed Appraisal Work Programme in an amount of USD30 million (with the Buyer funding the VAT on the work programme of up to USD6 million), which will be used to fulfil the work obligations on the licence through the deepening of Pokrovskoe 1 and the deepening or re-drilling of Pokrovskoe 2 in order to test the potential of the Upper and Lower Viséan intervals. Any excess expenditure relating to the work programme will be shared by the Group and the Buyer in their ownership proportions of Pok BV. Should the Buyer exercise its option to acquire an additional 30% of the share capital of Pok BV, the Buyer shall make a cash payment to the Seller of USD40 million. Following the award of a production licence for the Pokrovskoe field, the Buyer will make a further cash payment of USD15 million to the Seller provided it has previously exercised its option to acquire the additional 30% of Pok BV.

3.2 Zag Licence

The Group has a 90% working interest in the Zag Licence area. The Zag Licence holds 96.4 mmbbl of Contingent Resources. The Zag Licence covers 49.6 square kilometres in the Dnieper-Donets basin in Eastern Ukraine and was extended in 2009 until April 2014.

The required work programme includes: a 3D seismic survey (completed); testing of well Zagoryanska 3 (underway); workover of well Zagoryanska 2; the drilling of an appraisal well; and conducting geological and economic estimation of hydrocarbon reserves, which are to be verified by the State Reserves Commission.

The Zagoryanska 3 well had been drilled in 2008 to a target depth of 5,110 metres in the Lower Viséan (V26) and was suspended in order to evaluate the data obtained from testing. In late 2009, additional testing of the well was farmed-out to a local company to test the well at their own expense in return for a share of any future production from the well. The test indicated sufficient gas in the Upper Viséan (V18) for commercially viable production to commence and the well was tied into the Group's Zagoryanska gas treatment plant. Production commenced in August 2010 which generated 0.3bcf of gas and 0.1mmbbl of condensate resulting in total revenue earned from Zag in 2010 of £1.9 million. This production has continued in 2011 with flow rates of approximately 42 mcm per day of gas and 8 tonnes per day of condensate.

As a result of a settlement agreement entered into with NAK Nadra in September 2010, the Group purchased the Zagoryanska 3 well, which it was previously renting, together with four additional wells on the field. The Group intends to work-over some of these wells in 2011 and if successful put them into production.

The Buyer will acquire a 60% interest in the share capital of Zag BV (the direct parent company of Astroinvest-Energy, the holder of the Zag Licence) for a cash payment of USD38 million. Following the award of a production licence for the Zagoryanska field, the Buyer will make a further cash payment of USD35 million to the Seller.

4 Principal Terms of the Disposal

Pursuant to the terms of the Disposal Agreement, the Buyer will initially acquire a 30% interest in the share capital of Pok BV (the direct parent company of Gazvydobuvannya, the holder of the Pok Licence), with the option to acquire a further 30% interest in the future. The Buyer will also acquire a 60% interest in the share capital of Zag BV (the direct parent of Astroinvest-Energy, the holder of the Zag Licence).

The initial consideration will comprise 100% of the funding of the Pok Agreed Appraisal Work Programme in an amount of USD30 million (with the Buyer funding the VAT on the work programme of up to USD6 million), including drilling plus a USD38 million payment. At Completion, CPHL will assign to the Buyer 30% of the benefit of the Pok Loan and 60% of the benefit of the Zag Loan. Subject to successful results from the above programmes and award of production licences, the Buyer will pay the Group further amounts of up to USD90 million. The table below summarises when the Directors expect to receive the various component parts of the aggregate consideration payable by the Buyer under the Disposal Agreement:

	Pok Licence USD million	Zag Licence USD million	Estimated Date
Initial consideration	-	38.0	On or around 30 June 2011
Pok Agreed Appraisal Work Programme - funding	30.0	-	Q3 and Q4 2011
VAT on the Pok Agreed Appraisal Work Programme (up to)	6.0	-	Q3 and Q4 2011
If the Buyer exercises its option to acquire additional 30% of share capital of Pok BV	40.0	-	End Q1 2012
If a production licence is granted for the Pokrovskoe field (after exercise of the Pok option)	15.0	-	End Q4 2012
If a production licence is granted for the Zagoryanska field	-	35.0	Mid-end 2013
Total	91.0	73.0	

If the Ministry of Environmental Protection in Ukraine refuses to grant the five year extension to the Pok Licence by 1 November 2011, then the Seller shall be required to make a capital contribution to Zag BV in an amount equal to 37.5% of the amount funded by the Buyer at that time under the Pok Agreed Appraisal Work Programme divided by 60%.

Completion of the Disposal Agreement is subject to certain conditions being satisfied including, amongst other matters, the Company obtaining the consent of Shareholders to the Disposal at the General Meeting, all regulatory approvals having been granted by any competent governmental entity, including the Ukraine Anti-Monopoly Committee and the liquidation of LLC Mercor.

LLC Mercor is a dormant company and subsidiary of LLC Astro-Energy, which was the parent company of Astroinvest-Energy before that company was transferred to Zag BV. LLC Mercor previously ran a joint activity agreement with a state company in relation to the former Zag 1 well.

The Disposal Agreement contains warranties by the Seller in favour of the Buyer of the kind customarily given in connection with sale and purchase agreements. The Disposal Agreement also contains certain indemnities given by the Seller in favour of the Buyer. The total liability of the Seller for any claim under the Disposal Agreement (including claims under the warranties) shall not exceed 50% of the consideration paid by the Buyer. However, this limitation does not apply to certain indemnities where the total liability of the Seller shall not exceed 100% of the consideration paid by the Buyer.

Upon Completion, the Seller and the Buyer will enter into shareholders' agreements relating to Pok BV and Zag BV, the substantial forms of which are contained in the Disposal Agreement. The shareholders' agreements shall provide for joint control on all material fiscal, corporate and operational matters with respect to Pok BV, Zag BV, Gazvydobuvannya and Astroinvest-Energy.

The principal terms of the Disposal Agreement are described in more detail in Part II of this document.

5 Financial Effects of the Disposal on the Group and use of proceeds

The USD30 million funding of the Pok Agreed Appraisal Work Programme (together with the VAT payment of up to USD6 million) will be used to fulfil the work obligations on the Pok Licence and to test the potential of the Upper and Lower Visean intervals.

The initial cash proceeds of USD38 million arising from the Disposal will be applied to finance any future work programmes on the Zag Licence and fund development of the Group's other assets. Additional future cash proceeds from successful operational results and the award of production licences will further strengthen the Group's financial position, enabling it to finance its share of future development activities and to invest in new business opportunities.

The Board expects the Disposal to be beneficial to the Group's future earnings.

A pro forma statement of net assets, illustrating the effect of the Disposal on the Group's net asset position, is set out in Part V of this document.

6 Current trading and prospects for the Continuing Group

On 27 April 2011 the Company announced its preliminary results for the year ended 31 December 2010, which included the following statements:

"In 2010 the activities of the Group continued to be mainly in the exploration and development stage. However the commencement of production at the Zagoryanska 3 well and the expansion of activities at the Debeslavetske field enabled revenue to increase from £2.3 million in 2009 to £3.3 million in 2010. This increase, together with the continuation of the cost reduction programme initiated in 2009 and the recoveries achieved during the year, enabled the Group to achieve a small profit after tax of £0.9 million for 2010 (2009: loss of £107.3 million of which £87.3 million related to one-off impairments booked in that year). This profit was reflected by a corresponding small increase in the net asset position as at 31 December 2010 to £84.8 million from £83.6 million as at 31 December 2009. The curtailment of cash outflows initiated on the change of management was reflected by the net outflow for the year being reduced to £7.0 million (2009: £41.5 million).

At 21 April 2011 the Group had current cash and cash equivalents of approximately £23.1 million. This is more than adequate to fulfil the Group's current work programmes and the proceeds from the Eni transaction will enable the Group to grow its position in Ukraine.

The Board remain committed to building a successful oil and gas business in Ukraine. Over the past year management have successfully rebased the Company commensurate with its financial resources, whilst completing the total overhaul of its operating procedures, and improved the technical analysis and management of its resource base. The transaction with Eni will, if approved by Shareholders, prove transformational to the prospects of the Group, facilitating the exploitation of the Pokrovskoe and Zagoryanska licences and aligning the interests of a major integrated energy company with Cadogan in Ukraine, a country where the opportunities in oil and gas remain abundant. The Board looks forward to the future with confidence."

7 Risk Factors

Shareholders should consider fully and carefully the risks associated with the Disposal and the Continuing Group. Your attention is drawn to the Risk Factors set out in Part III of this document.

8 General Meeting

The Resolution, which will be proposed as an ordinary resolution, provides for the approval of the Disposal on the terms set out in this document and for the Board or a committee of the Board to be authorised to make non-material amendments, waivers or variations and do all such other things as in each case they consider necessary, desirable or expedient in connection with the Disposal.

The General Meeting has been convened for 2.30 p.m. on 16 June 2011 at The Royal Society of Chemistry, Burlington House, Piccadilly, London W1J 0BA (or as soon thereafter as the Annual General Meeting, convened at the same venue on that day, concludes or is adjourned). The notice of General Meeting is set out at the end of this document. A Form of Proxy to be used in connection with the General Meeting is enclosed. The purpose of the General Meeting is to seek Shareholders' approval for the Disposal.

9 Action to be taken

You will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not you propose to attend the General Meeting in person, it is important that you complete and sign the enclosed Form of Proxy in accordance with the instructions printed thereon and return it to Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU as soon as possible and, in any event, so as to be received not later than 2.30 p.m. on 14 June 2011. The completion and return of a Form of Proxy will not preclude you from attending the General Meeting and voting in person, if you so wish.

10 Further information

Shareholders should read the whole of this document and not just rely on the information contained in this letter.

11 Recommendation

In the Board's opinion, the Disposal is in the best interests of the Company and its Shareholders as a whole.

Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolution set out in the notice of General Meeting, as the Directors intend to do so in respect of their own beneficial holdings of Ordinary Shares which amount to 1,132,816 Ordinary Shares (representing approximately 0.4902% of the existing issued share capital of the Company as at 26 May 2011, being the last practicable day before the publication of this document).

Yours sincerely

Simon Duffy
Chairman

PART II: PRINCIPAL TERMS OF THE DISPOSAL AGREEMENT

1 Document and parties

- 1.1 The Seller is the legal and beneficial owner of 100% of the issued share capital of Pok BV. Pok BV is the legal and beneficial owner of 100% of the charter capital of Gazvydobuvannya. Gazvydobuvannya is the sole registered owner of the Pok Licence.
- 1.2 The Seller is the legal and beneficial owner of 100% of the issued share capital of Zag BV. Zag BV is the legal and beneficial owner of 90% of the charter capital of Astroinvest-Energy. The remaining 10% of the charter capital of Astroinvest-Energy is currently held by NAK Nadra. The Company is currently in negotiations with NAK Nadra regarding the reduction of NAK Nadra's participation interest in Astroinvest-Energy. Astroinvest-Energy is the sole registered owner of the Zag Licence.
- 1.3 The Disposal Agreement was entered into on 12 April 2011 between (1) the Seller; and (2) the Buyer. Under the terms of the Disposal Agreement, the Buyer has conditionally agreed to acquire up to 60% of the issued share capital of Pok BV and 60% of the issued share capital of Zag BV.
- 1.4 The full text of the Disposal Agreement is available for inspection as described in paragraph 11 of Part VI.

2 Sale and Purchase

- 2.1 At Completion, Pok BV shall issue such number of shares to the Buyer so that the Buyer becomes the holder of 30% of the issued share capital of Pok BV and CPHL shall assign 30% of the benefit of the Pok Loan to the Buyer (the **Pok Disposal**).
- 2.2 At Completion and subject to paragraph 2.3 of this Part II, the Seller shall transfer 60% of the issued share capital of Zag BV to the Buyer and CPHL shall assign 60% of the benefit of the Zag Loan to the Buyer (the **Zag Disposal**).
- 2.3 If at Completion the participation interest of NAK Nadra in the charter capital of Astroinvest-Energy has:
 - (a) been reduced to 0.3% (so that Zag BV holds a 99.7% participation interest in the charter capital of Astroinvest-Energy), the Seller shall transfer 60.1805% of the issued share capital of Zag BV to the Buyer; or
 - (b) not been reduced to 0.3%, the Seller shall transfer to the Buyer such number of shares in the issued share capital of Zag BV which equals 60% divided by the percentage of the participation interest in Astroinvest-Energy held by Zag BV. Provided that, if following Completion, the participation interest of NAK Nadra in the charter capital of Astroinvest-Energy is reduced, the Seller shall acquire from the Buyer such number of shares in the issued share capital of Zag BV which equals 60% divided by the percentage of the participation interest in Astroinvest-Energy then held by Zag BV for a consideration equal to the aggregate of the nominal value of the shares in the capital of Zag BV so acquired.
- 2.4 The Pok Disposal and the Zag Disposal are interdependent and must be completed simultaneously.

3 Consideration

- 3.1 As consideration for the Pok Disposal, the Buyer shall fund 100% of the costs of the Pok Agreed Appraisal Work Programme in an amount of USD30 million (plus any applicable Ukrainian VAT up to USD6 million).
- 3.2 As consideration for the Zag Disposal, the Buyer shall pay to the Seller the aggregate amount of USD38 million.
- 3.3 The consideration payable for the Pok Disposal and the Zag Disposal is subject to certain adjustments (including a working capital adjustment calculated as at 1 April 2011) to reflect that costs and revenues associated with the Pok Licence and the Zag Licence are to be shared proportionately between the Seller and the Buyer from 1 April 2011 until Completion.
- 3.4 Following Completion, the Seller will be compensated for the value of the tax benefits of the VAT credits generated by the Pok Agreed Appraisal Work Programme when, and to the extent that, such credits are used in the future by Gazvydobuvannya. Subject to the foregoing, the Seller shall be compensated for the value of the tax benefits of currently existing VAT credits and accrued tax losses, when and to the extent such credits and losses are used in the future by either Gazvydobuvannya or Astroinvest-Energy.

4 Conditions

- 4.1 Completion of the Disposal Agreement is subject to certain conditions being satisfied including, amongst other matters, the following:
 - (a) the Company obtaining the consent of Shareholders to the Disposal at the General Meeting;
 - (b) the Pok Licence and the Zag Licence continuing to be valid, in full force and effect and free from all encumbrances;
 - (c) Gazvydobuvannya having submitted the Pok Agreed Appraisal Work Programme to the competent governmental entity for approval together with a request for a five year extension of the exploration period under the Pok Licence and Gazvydobuvannya not having received a negative reply to such request or such extension request having been suspended;
 - (d) all regulatory approvals having been granted by any competent governmental entity, including the Ukraine Anti-Monopoly Committee;
 - (e) the completion of the liquidation of LLC Mercor;

- (f) the warranties of the Buyer remaining true and accurate; and
- (g) no material adverse event having occurred.

4.2 Completion will take place following the satisfaction of the conditions. Completion is currently expected to occur on or around 30 June 2011.

5 Warranties and Indemnities

- 5.1 The Disposal Agreement contains warranties by the Seller in favour of the Buyer including, amongst other matters, in relation to (a) the organisation, capacity and authority of the Seller, Pok BV, Zag BV, Gazvydobuvannya and Astroinvest-Energy; (b) compliance with laws; (c) permits and licences; (d) no material litigation; (e) insurance; (f) employees; (g) taxes; (h) intellectual property; (i) the environment; (j) contracts; (k) indebtedness; (l) assets and property; (m) material contracts; and (n) no insolvency.
- 5.2 The Disposal Agreement also contains certain indemnities given by the Seller in favour of the Buyer including, amongst other matters, in relation to (a) any defects in title to the shares in the capital of Pok BV and Zag BV to be acquired by the Buyer; (b) any defects in title to the participation interest in the charter capital of Gazvydobuvannya and Astroinvest-Energy held by Pok BV and Zag BV respectively; and (c) compliance with the Pok Licence and the Zag Licence.
- 5.3 The total liability of the Seller for any claim under the Disposal Agreement (including claims under the warranties) shall not exceed 50% of the consideration paid by the Buyer. However, this limitation does not apply to certain indemnities where the total liability of the Seller shall not exceed 100% of the consideration paid by the Buyer. Claims may in general not be made under the Disposal Agreement more than 18 months from Completion. Such limitations do not apply to taxation claims.

6 Option to acquire additional shares in Pok BV

- 6.1 The Seller also grants an option to the Buyer to acquire (by way of a share transfer from the Seller) an additional 30% of the issued share capital of Pok BV (the **Additional Pok Shares**). Simultaneous with the transfer of the Additional Pok Shares, CPHL shall assign an additional 30% of the benefit of the Pok Loan to the Buyer (the **Additional Pok Loan**).
- 6.2 Completion of the acquisition and transfer of the Additional Pok Shares and the Additional Pok Loan is subject to certain conditions being satisfied including, amongst other matters, the following:
- (a) the Pok Agreed Appraisal Work Programme being virtually completed by the delivery of logs and pressure data from wells drilled pursuant to such programme; and
 - (b) the granting by the competent Ukraine authority of a valid five year extension to the Pok Licence.
- 6.3 Subject to certain adjustments, as consideration for the Additional Pok Shares and the Additional Pok Loan, the Buyer shall pay to the Seller the aggregate amount of USD40 million.
- 6.4 If the competent Ukraine authority has refused to grant the five year extension to the Pok Licence by 1 November 2011, then the Seller shall be required to make a capital contribution to Zag BV in an amount equal to 37.5% of the amount funded by the Buyer under the Pok Agreed Appraisal Work Programme divided by 60%.

7 Extension of Licences

- 7.1 Provided that the Buyer has acquired the Additional Pok Shares, if Gazvydobuvannya is granted a production licence for the Pok Licence area the Seller shall pay an additional USD15 million to the Seller.
- 7.2 If Astroinvest-Energy is granted a production licence for the Zag Licence area the Seller shall pay an additional USD35 million to the Seller.

8 Shareholders' Agreements

- 8.1 Upon Completion the Seller and the Buyer shall enter into shareholders' agreements relating to Pok BV and Zag BV - the substantial forms of which are contained in the Disposal Agreement (which is available for inspection as described in paragraph 11 of Part VI). The shareholders' agreements shall provide for joint control on all material fiscal, corporate and operational matters with respect to Pok BV, Zag BV, Gazvydobuvannya and Astroinvest-Energy.
- 8.2 Each of Pok BV and Zag BV shall have a management board made up of four persons: two to be nominated by each of the Seller and the Buyer. The management board shall have the power to make all material corporate decisions, including, *inter alia*, decisions regarding capital structure, dividends, financing, acquisitions and transactions with affiliates of the shareholders. Decisions require the affirmative votes of representatives of both shareholders.
- 8.3 There will also be formed an operating committee of each of Pok BV and Zag BV to be made up of an equal number of representatives of both the Seller and the Buyer. The operating committee shall, in each case, have the power to direct, or recommend in some cases, all matters that relate to the overall direction and supervision of all operational, fiscal and technical matters relating to the Pok Licence and the Zag Licence (as the case may be). Decisions of the operating committee shall be communicated to Astroinvest-Energy and Gazvydobuvannya to be carried out. Each shareholders' agreement contains comprehensive reserved matters of the operating committee which require the agreement of shareholders holding at least 75% of the participating interest in the capital of Pok BV or Zag BV (as the case may be). Such reserved matters include, amongst other matters:
- (a) the review and approval, or disapproval, of all work programmes and budgets;
 - (b) decisions regarding the extension, amendment or termination of the Pok Licence and the Zag Licence (as the case may be);

- (c) the approval of the timing and location of all wells to be drilled;
 - (d) the sale or disposition of any property or assets of Pok BV or Zag BV (as the case may be) having a value of UDS10,000 or more; and
 - (e) entering into any material partnership, joint venture or profit sharing agreement.
- 8.4 If there is a deadlock on any material matter at either the level of the management board or the operating committee, such matter shall be referred to the senior executives of the Seller and the Buyer who shall resolve the matter. For certain technical matters, an expert may be consulted to assist in the resolution of the matter.
- 8.5 It is also recognised that LLC Cadogan Ukraine shall continue to act as the operating services provider for each of Gazvydobuvannya and Astroinvest-Energy under the terms of an operating services agreement. In addition, representatives of the Buyer and the Seller shall be seconded to the operating services provider to supplement and direct operations on the Pok Licence and Zag Licence.
- 8.6 The shareholders' agreements shall contain pre-emption rights on transfer and compulsory share transfer provisions upon a funding default by a shareholder. The shareholders' agreements shall also contain rights for a shareholder to withdraw from the agreement: (i) if such shareholder has voted against extending the Pok Licence or the Zag Licence (as the case may be) or; (ii) the Pok Licence or the Zag Licence (as the case may be) is continued beyond the expiration of the exploration period. Such withdrawing shareholder shall transfer its shareholding to the other shareholders.

9 Termination

The Disposal Agreement may be terminated prior to Completion in certain circumstances, including:

- (a) where the conditions have not been satisfied or waived on or before 12 August 2011 (or such later date as the Buyer and Seller may agree);
- (b) if any party is in breach of any material provision; and
- (c) where the Resolution is not passed by Shareholders at the General Meeting.

PART III: RISK FACTORS

All of the information set out in this document, including, but not limited to, the risks described below, should be carefully considered. If any of the following risks actually materialise, the business, financial condition and prospects of the Continuing Group and the price of the Ordinary Shares could be materially and adversely affected to the detriment of the Company, the Continuing Group and Shareholders, and you may lose all or part of your investment in the Ordinary Shares. The risks described below are those material risks of which the Directors are aware. However, further risks that are not presently known to the Directors, or that the Directors currently deem immaterial, may also have a material and adverse effect on the Company's and the Continuing Groups' business, financial condition and prospects and the market price of the Ordinary Shares.

1 Risks relating to the Disposal

The Disposal is conditional

The Disposal remains conditional on Shareholder approval and on a number of matters specified in more detail in Part II of this document. If any of these conditions is not satisfied or waived, the Disposal will not proceed and the anticipated benefits for Shareholders will not be achieved.

Inability to realise value if the Disposal does not proceed

The Board believes that the Disposal is in the best interest of the Shareholders taken as a whole and that the Disposal provides an opportunity to realise an attractive and certain cash value of the Pok BV Group and the Zag BV Group, whilst retaining upside in these assets and allowing the Continuing Group to focus on the exploration and development of its remaining core assets. If the Disposal does not complete for any reason, the Company's entire interest in the Pok BV Group and the Zag BV Group will be retained by the Company and the Shareholders and the Company would be deprived, for the time being, of the opportunity to realise cash value of the Pok BV Group and the Zag BV Group.

The acquisition of the Pok Additional Shares is conditional

The acquisition of the Pok Additional Share remains conditional, amongst other things, on the granting by the competent Ukrainian authority of a valid five year extension to the Pok Licence. If the Pok Licence is not extended, the Buyer will not proceed with the acquisition of the Pok Additional Shares. In addition, if such extension is not granted by 1 November 2011, the Seller is required, pursuant to the terms of the Disposal Agreement, to make a capital contribution to Zag BV in amount equal to 37.5% of the amount funded by the Buyer under the Pok Agreed Appraisal Work Programme divided by 60%.

Failure to acquire production licences

The Continuing Group, the Pok BV Group and the Zag BV Group have limited control over whether or not necessary approvals or licences (or renewals thereof) are granted or maintained, the timing of obtaining (or renewing) such licences or approvals and the terms on which they are granted. The Pok Licence and the Zag Licence held by the Group may not be converted into production licences. If production licences are not granted the Seller shall have no obligation to pay the additional consideration as outlined in paragraph 7 of Part II of this document.

The Continuing Group will hold minority interests in the Pok BV Group and the Zag BV Group

Following Completion, the Continuing Group will hold a minority interest in the Zag BV Group and, following the acquisition by the Buyer of the Additional Pok Shares, the Continuing Group will hold a minority interest in the Pok BV Group. The shareholders' agreements which are proposed to be entered into in relation to Pok BV and Zag BV will, however, contain certain reserved matters which will require the agreement of shareholders holding at least 75% of the participating interest in the capital of Pok BV or Zag BV (as the case may be) - further details of which are provided in paragraph 8.3 of Part II of this document. The Company believes that both its and the Buyer's interests will continue to be aligned and that the obligations of the directors of the Buyers to act in the best interests of the Buyer and its shareholders as a whole will safeguard the Company's interests. However, there is no guarantee that the Buyer will not act in a manner which is inconsistent or in conflict with the interests of the Company, which could have an adverse effect on the Continuing Group's business, financial condition and prospects.

Potential claims under the Disposal Agreement

The Seller has given certain warranties and indemnities to the Buyer in connection with the Disposal pursuant to the terms of the Disposal Agreement. Should the Buyer be able to pursue a successful claim against the Seller pursuant to the Disposal Agreement, such claim may have a material adverse effect on the Continuing Group's business, financial condition, results of operation and prospects in the longer term.

2 Risks relating to the industry in which the Group operates

Hydrocarbon prices are subject to fluctuations due to a variety of factors beyond the control of the Continuing Group, the Pok BV Group and the Zag BV Group

Historically, hydrocarbon prices have been subject to large fluctuations in response to a variety of factors beyond the control of the Continuing Group, the Pok BV Group and the Zag BV Group. No assurance can be given that hydrocarbon prices will increase, or that existing price levels will be maintained, in the future. Lower prices would adversely affect the cash flow, liquidity and profitability of the Continuing Group, the Pok BV Group and the Zag BV Group.

There are uncertainties inherent in estimating the quantity of the Continuing Group's, the Pok BV Group's and the Zag BV Group's reserves and resources

There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and prospective and contingent resources and cash flows, including many factors beyond the control of the Continuing Group, the Pok BV Group and the Zag BV Group. Estimating the amount of hydrocarbon reserves and resources is a subjective process. The results of drilling, testing and production subsequent to the date of an estimate may result in revisions to original estimates. The reserves and resources data contained in this document are estimates only and should not be construed as representing exact quantities. Reserves estimates contained in this document are based on production data, prices, costs, ownership, geophysical, geological and engineering data and other information assembled by the Group. The estimates may prove to be incorrect and Shareholders should not place undue reliance on the forward-looking statements contained in this document. If the assumptions upon which estimates of hydrocarbon

reserves or resources have been based prove to be incorrect, the Continuing Group, the Pok BV Group and the Zag BV Group may be unable to recover and produce the estimated levels or quality of hydrocarbons set out in this document and their respective businesses, prospects, financial condition or results or operation could be materially and adversely affected.

The oil and gas industry is by its nature an activity which can be seriously impacted by health, safety & environmental incidents. Serious incidents cannot only lead to a financial impact but can also damage reputation in a country and the opportunity to undertake further projects.

Exploration and production operations by the Continuing Group, the Pok BV Group and the Zag BV Group will involve risks normally associated with such activities and may be delayed or adversely affected by numerous factors and risks Exploration and production operations by the Continuing Group, the Pok BV Group and the Zag BV Group will involve risks normally associated with such activities including blowouts, oil spills, gas leaks, explosions, fires, equipment damage or failure, natural disasters, geological uncertainties, unusual or unexpected rock formations and unusual pressure. The occurrence of any of these events could result in injury to persons and loss of life, environmental damage, production delays, failure to produce oil and gas in commercial quantities or an inability to produce fully discovered reserves. Consequent delays to seismic, drilling or production activities and declines from normal field operating conditions can be expected to lead to increased costs or adversely affecting revenue and cash flow to varying degrees. Exploration and production activities may be delayed or adversely affected by numerous factors. These include the performance of joint venture or farm-out partners on whom the Group may be or may become reliant, compliance with governmental requirements, shortages or delays in installing and commissioning plant and equipment or import or customs delays. Problems may also arise due to the quality or failure of locally obtained equipment or interruptions to services (such as power, water, fuel or transport or processing capacity) or technical support which result in failure to achieve expected target dates for exploration or production, anticipated flow rates or result in a requirement for greater expenditure. Drilling may involve unprofitable efforts, not only with respect to dry holes but also to non-commercial wells, that is wells which, though yielding some gas of condensate, are not sufficiently productive to justify commercial development or cover operating and other costs.

Exploration activities are capital intensive and inherently uncertain in their outcome

Exploration activities are capital intensive and inherently uncertain in their outcome. There is a risk that the Continuing Group, the Pok BV Group and/or the Zag BV Group will undertake exploration activities and incur significant costs in so doing with no assurance that such expenditure will result in the discovery of hydrocarbons, whether or not in commercially viable quantities.

The Group operates in a competitive industry

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

Health, safety and the environment

The Continuing Group's, the Pok BV Group's and the Zag BV Group's respective operations are subject to laws and regulations relating to the protection of health and safety as well as the environment. Their respective health, safety and environment policies are to observe applicable legal and regulatory requirements as well as to apply recognised international standards in their respective operations. Failure by the Continuing Group, the Pok BV Group or the Zag BV Group to comply with applicable legal and regulatory requirements or recognised international standards may give rise to significant liabilities. Health, safety and environment laws and regulations may over time become more complex and stringent or subject to increasingly strict interpretation or enforcement. The terms of licences may include more stringent environmental and/or health and safety requirements. The obtaining of exploration, development or production licences and permits may become more difficult or be the subject of delay by reason of governmental, regional or local environmental consultation, approvals or other considerations or requirements. These factors may lead to delayed or reduced exploration, development or production activity as well as to increased costs.

If either the Continuing Group, the Pok BV Group or the Zag BV Group were to fail to meet environmental requirements or to have a major accident or disaster, then it may also be subject to administrative, civil and criminal proceedings which could result in substantial fines, penalties and damages against it as well as orders that could limit or halt or even cause closure of its operations, any of which could have a material adverse effect on its business, results of operations and financial condition. The Continuing Group, the Pok BV Group or the Zag BV Group may be involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to health, safety and environmental matters in the future, the costs of which may be material. Clean-up and remediation costs and related litigation may have a material adverse effect on its reputation, cash flow, results of operations and financial condition.

3 Risks relating to the Continuing Group's, the Pok BV Group's and the Zag BV Group's business

Licensing and other regulatory requirements

The ability of the Continuing Group, the Pok BV Group and the Zag BV Group to develop and exploit oil and gas reserves in Ukraine depends on the Continuing Group's, the Pok BV Group's and the Zag BV Group's respective continued compliance with the obligations of its current exploration and development licences and the Continuing Group's, the Pok BV Group's and the Zag BV Group's ability to convert these licences into production licences. The continuing validity of the licences and their renewal depends on the steps taken by the Continuing Group, the Pok BV Group and the Zag BV Group or their joint activity partners to maintain their good standing. The Continuing Group, the Pok BV Group and the Zag BV Group depend on a number of other approvals, permits, licences and contracts whose grant and renewal are subject to the discretion of the relevant governmental and local authorities in Ukraine. The continued good standing and, where appropriate, renewal of these approvals, permits and licences cannot be assured. In addition, exploration and development licences held by Continuing Group, the Pok BV Group and the Zag BV Group may not be converted into production licences.

The Continuing Group, the Pok BV Group and the Zag BV Group rely upon third party contractors and providers of equipment

In common with many exploration and production companies, the Continuing Group, the Pok BV Group and the Zag BV Group often contract or lease services and equipment from third party providers. Such services and equipment can be scarce and may not be readily available at the times and places required. Scarcity of services and equipment and increased prices may in particular result from any significant increase in regional exploration and development activities, which in turn may be the consequence of increased or continued high hydrocarbon prices. The scarcity of such services and equipment, as well as their potentially high costs, could delay, restrict or lower the profitability and viability of projects which may have an adverse effect on the business, prospects, financial condition or results of operations of the Continuing Group, the Pok BV Group and/or the Zag BV Group.

Successful implementation of strategic goals

There can be no certainty that the Continuing Group, the Pok BV Group or the Zag BV Group will be able to implement its strategic goals successfully. The ability of the Continuing Group, the Pok BV Group or the Zag BV Group to implement its respective strategy in a competitive market requires effective planning and management control systems. There can be no assurances that the Continuing Group, the Pok BV Group and the Zag BV Group will continue to implement their respective strategies successfully and any failure to do so could materially adversely affect the reputation, financial condition and/or operating results of the Continuing Group, the Pok BV Group or the Zag BV Group.

Adverse affect of future litigation

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

The Continuing Group's retained shareholding in Pok BV and Zag BV will represent a significant proportion of its value following Completion

Following Completion, one of the Continuing Group's main assets will be its retained shareholding in Pok BV and Zag BV. Accordingly, following Completion, the value of the Continuing Group may continue to be significantly affected by the performance of the Pok BV Group and the Zag BV Group. Any failure by Pok BV or Zag BV to continue to develop its business and/or the occurrence of any of the risks relating to the Pok BV Group or the Zag BV Group set out in this section 3 of Part III could have a material adverse effect on the value of the Continuing Group's retained interest in Pok BV and Zag BV and, in turn, upon the value of the Continuing Group.

4 Risks relating to the Group's structure

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

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

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

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

5 General risks

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

All of the Continuing Group's, the Pok BV Group's and the Zag BV Group's operations are conducted in Ukraine. Accordingly, the business, prospects, financial condition or results of operations of the Continuing Group, the Pok BV Group and/or the Zag BV Group are substantially dependent on the economic and political conditions prevailing in Ukraine. Emerging markets, such as Ukraine, are generally subject to greater risks, including legal, regulatory, economic and political risks, than more developed markets. Specific risks include, among other things, local currency instability, changes in exchange controls, changes in energy price tariffs, taxes, royalty rates, anti-monopoly legislation, nationalisation or expropriation of property, political constraint of growth in market share and interruption or blockages of exports, including minerals, hydrocarbons and other strategic materials. The occurrence of any of these events could have a material adverse effect on the Continuing Group's, the Pok BV Group's and/or the Zag BV Group's business, results of operation or financial condition.

Foreign exchange risks

The Group reports its financial results in Sterling whilst the Group's sales of oil and gas are made in Hryvnia (UAH), which is currently pegged to the US dollar. As a result, the Group is potentially exposed to adverse fluctuations in the exchange rates between Sterling, US dollar and Hryvnia. It continues to be the Group's policy not to hedge foreign currency exposures. To the extent that the Group's currency exposure remains unhedged, these currency risks could have a material adverse effect on the Group's business, financial condition or results of operation.

Insurance

Ukrainian law requires companies in the upstream oil and gas industry to insure against certain risks. The Continuing Group, the Pok BV Group and the Zag BV Group carry these mandatory types of insurance and also consider it appropriate to maintain cover on certain other risks. However, there may be circumstances where such insurance will not

cover or be adequate to cover the consequences of an event or where the Continuing Group, the Pok BV Group or the Zag BV Group may become liable for pollution or operational hazards against which it either cannot insure or may have elected not to have insured (whether on account of high premium costs or otherwise). There can be no assurance that the Continuing Group, the Pok BV Group or the Zag BV Group will be able to obtain insurance at reasonable rates (or at all) or that any coverage it obtains will be adequate and available to cover any such claims. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could materially adversely affect the business, results of operations or financial condition of the Continuing Group, the Pok BV Group or the Zag BV Group.

PART IV: HISTORICAL FINANCIAL INFORMATION

The financial information set out below comprises income statements for each of the three years ended 31 December 2010 and a balance sheet as at 31 December 2010 for both Gazvydobuvannya and Astroinvest-Energy, the trading subsidiaries of, respectively, Pok BV and Zag BV. The financial information has been extracted, without material adjustment, from the consolidation schedules that form the basis of the audited accounts for Cadogan for each of the three years ended 31 December 2010. Since Pok BV and Zag BV were only incorporated in March 2011, no financial information has been drawn up in respect of these companies.

The financial information has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union and under the historical cost convention.

GAZVYDOBUVANNYA

Income statements

For the three years ended 31 December 2010

	2008 £'000	2009 £'000	2010 £'000
CONTINUING OPERATIONS			
Revenue	-	-	-
Cost of sales	-	-	-
Gross profit/(loss)	-	-	-
Administrative expenses:			
Other administrative expenses	(1,538)	(5,694)	(971)
Impairment charges	(85)	(20,797)	(30)
Operating loss	(1,623)	(26,491)	(1,001)
Investment revenue	8	11	9
Finance costs	(11,145)	(3,202)	189
Loss before tax	(12,760)	(29,682)	(803)
Tax	42	(29)	9
Loss for the year	(12,718)	(29,711)	(794)

Balance sheet

As at 31 December 2010

	2010 £'000
ASSETS	
Non-current assets	
Intangible exploration and evaluation assets	3,369
Property, plant and equipment	647
Long-term financial assets	-
	4,016
Current assets	
Inventories	1,253
Trade and other receivables	153
Cash and cash equivalents	209
	1,615
Total assets	5,631
LIABILITIES	
Non-current liabilities	
Long-term borrowings	39,289
Deferred tax liabilities	2
Long-term provisions	28
	39,319
Current liabilities	
Trade and other payables	7,336
Current provisions	133
	7,469
Total liabilities	46,788
NET LIABILITIES	(41,157)
EQUITY	
Statutory fund	3,370
Unpaid share capital	(7)
Cumulative translation reserve	1,424
Accumulated deficit	(45,944)
TOTAL EQUITY	(41,157)

ASTROINVEST-ENERGY

Income statements

For the three years ended 31 December 2010

	2008 £'000	2009 £'000	2010 £'000
CONTINUING OPERATIONS			
Revenue	106	7	1,940
Cost of sales	(116)	(7)	(1,588)
Gross profit/(loss)	(10)	-	352
Administrative expenses:			
Other administrative expenses	(3,358)	(67)	(185)
Impairment charges	-	(7,735)	71
Operating profit/(loss)	(3,368)	(7,802)	238
Investment revenue	4	1	4
Net finance income/(costs)	(2,684)	(1,180)	102
Profit/(loss) before tax	(6,048)	(8,981)	344
Tax	(38)	29	(4)
Profit/(loss) for the year	(6,086)	(8,952)	340

Balance sheet

As at 31 December 2010

	2010 £'000
ASSETS	
Non-current assets	
Intangible exploration and evaluation assets	-
Property, plant and equipment	2,526
Long-term financial assets	1
	2,527
Current assets	
Inventories	98
Trade and other receivables	208
Cash and cash equivalents	301
	607
Total assets	3,134
LIABILITIES	
Non-current liabilities	
Long-term borrowings	10,842
Deferred tax liabilities	-
Long-term provisions	38
	10,880
Current liabilities	
Trade and other payables	5,115
Current provisions	19
	5,134
Total liabilities	16,014
NET LIABILITIES	(12,880)
EQUITY	
Statutory fund	1,005
Unpaid share capital	(97)
Cumulative translation reserve	939
Accumulated deficit	(14,727)
TOTAL EQUITY	(12,880)

PART V: UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE CONTINUING GROUP

The following unaudited pro forma statement of net assets of the Continuing Group has been prepared to illustrate the effect of the disposal of 60% of Zag BV and disposal of 30% of Pok BV on the consolidated net assets of the Group as if the disposals were completed on 31 December 2010. The information, which has been prepared for illustrative purposes only, by its nature addresses a hypothetical situation and therefore does not represent the actual financial position of the Group. The pro forma financial information has been prepared under International Financial Reporting Standards and on the basis set out in the notes below.

	Adjustments					Pro forma net assets of the Continuing Group £m
	60% disposal of Zag BV Group		30% disposal of Pok BV Group			
	Group as at 31 December 2010 (note 1) £m	Proportionate consolidation of Zag BV Group (note 2) £m	Disposal consideration and recognition of balances with Zag BV Group (note 3) £m	Proportionate consolidation of Pok BV Group (note 4) £m	Disposal consideration and recognition of balances with Pok BV Group (note 5) £m	
Non-current assets						
Property, plant and equipment	34.9	(1.5)	-	(0.2)	-	33.2
Intangible exploration and evaluation assets	4.0	-	-	(1.0)	-	3.0
Other financial assets	0.4	-	-	-	-	0.4
Loans receivable from joint controlled companies	-	-	2.6	-	8.3	10.9
	39.3	(1.5)	2.6	(1.2)	8.3	47.5
Current assets						
Trade and other receivables	25.0	(0.1)	-	-	-	24.9
Inventories	2.6	(0.1)	-	(0.4)	-	2.1
Other financial assets	0.2	-	-	-	16.2	16.4
Other receivables from jointly controlled companies	-	-	0.3	-	0.8	1.1
Cash and cash equivalents	23.5	(0.2)	24.5	(0.1)	-	47.7
	51.3	(0.4)	24.8	(0.5)	17.0	92.2
Total assets	90.6	(1.9)	27.4	(1.7)	25.3	139.7
Current liabilities						
Trade and other payables	(4.4)	0.2	-	0.4	-	(3.8)
Short-term loans	(0.2)	-	-	-	-	(0.2)
Current provisions	(0.3)	-	-	-	-	(0.3)
	(4.9)	0.2	-	0.4	-	(4.3)
Non-current liabilities						
Deferred tax liabilities	(0.6)	-	-	-	-	(0.6)
Long-term provisions	(0.3)	-	-	-	-	(0.3)
Long-term borrowings	-	-	(2.6)	-	(8.3)	(10.9)
	(0.9)	-	(2.6)	-	(8.3)	(11.8)
Total liabilities	(5.8)	0.2	(2.6)	0.4	(8.3)	(16.1)
Net assets	84.8	(1.7)	24.8	(1.3)	17.0	123.6

Notes:

Opening net asset position:

- The net assets of the Group at 31 December 2010 have been extracted without material adjustment from the audited financial statements of the Group for the year ended 31 December 2010.

Adjustments:

- Recognition of the Continuing Group's remaining 40% share in Zag BV as a jointly controlled undertaking, resulting in the elimination of 60% of the net assets of the Zag BV Group, calculated from the financial information on Astroinvest-Energy for the year ended 31 December 2010, set out in Part IV of this document. This excludes intercompany balances within the Zag BV Group, comprising:
 - £4.8 million included within trade and other payables. Of this £4.3 million has been foregone as part of the transaction.
 - £10.8 million included within long term borrowings. 60% of this has been assigned to the Buyer.
- This adjustment reflects:
 - The consideration payable by the Buyer for its acquisition of 60% of the share capital of Zag BV is £24.5 million. This has been recognised in cash and cash equivalents.
 - Intercompany balances between the Continuing Group and Zag BV.

4. Recognition of the Continuing Group's remaining 70% share in Pok BV as a jointly controlled undertaking, resulting in the elimination of 30% of the net assets of the Pok BV Group calculated from the financial information on Gazvydobuvannya for the year ended 31 December 2010, set out in Part IV of this document. This excludes intercompany balances within the Pok BV Group, comprising:
 - a. £6.1 million included within trade and other payables. Of this £3.3 million has been foregone as part of the transaction.
 - b. £39.3 million included within long term borrowings. 30% of this has been assigned to the Buyer.
5. This adjustment reflects:
 - a. The consideration payable by the Buyer for its acquisition of 30% of the share capital of Pok BV is £23.1 million (which includes payments to cover VAT up to £3.8 million); however this is to be paid into Pok BV directly, which results in 30% being eliminated on consolidation. This has been recognised in other financial assets.
 - b. Intercompany balances between the Continuing Group and Pok BV.
6. No account has been taken of the financial performance of the Group or of the companies being disposed of since 31 December 2010, nor of any other event, except as disclosed above.

Impact of additional considerations:

7. The above pro forma information does not reflect the potential impact on consolidated net assets of the exercise by the Buyer of its option to purchase a further 30% of the share capital in Pok BV, nor does it reflect the potential additional consideration to be received by the Continuing Group should it obtain production licences for both Zag BV and Pok BV. The impact of these events would be to increase consolidated net assets by a further £57.5 million, reflecting the receipt of additional cash proceeds of £58 million less the element of intercompany loans excluded from consolidation of £0.5 million.



BDO LLP
55 Baker Street
London
W1U 7EU

27 May 2011

The Directors
Cadogan Petroleum plc
One Fleet Place
London
EC4M 7WS

Dear Sirs

**Cadogan Petroleum plc (the "Company")
Pro forma financial information**

We report on the unaudited pro forma statement of net assets (the "Pro Forma Financial Information") set out in Part V of the class 1 circular dated 27 May 2011 (the "Circular") which has been prepared on the basis described in the notes thereto, for illustrative purposes only, to provide information about how the Disposal might have affected the financial information presented on the basis of accounting policies adopted by the Company in preparing the financial statements for the year ended 31 December 2010.

This report is required by paragraph 13.3.3R of the listing rules made by the Financial Services Authority for the purposes of part VI of the Financial Services and Markets Act 2000 (the "Listing Rules") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro Forma Financial Information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No. 809/2004 as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

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

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

BDO LLP
Chartered Accountants

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

PART VI: ADDITIONAL INFORMATION

1 Responsibility

The Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 Directors' Interests

2.1 As at 26 May 2011 (being the latest practicable date prior to the publication of this document), the interests of the Directors (all of which are beneficial unless otherwise stated), their immediate families and those of any connected person (within the meaning of the Disclosure and Transparency Rules), the existence of which is known to, or could with reasonable diligence be ascertained by, that Director whether or not held through another party, in the share capital of the Company were as follows:

Director	Number of Ordinary Shares	Percentage of Ordinary Shares
Simon Duffy	32,609	0.0141
Ian Baron	650,000	0.2813
Gordon Stein	193,685	0.0838
Philip Dayer	21,739	0.0094
Alan Cole	17,391	0.0075
Nicholas Hooke	17,392	0.0075
Alessandro Benedetti	-	-
Bertrand Des Pallieres	200,000	0.0865

2.2 The Directors are also interested in share options held by them as follows:

Director	Date of Grant	Exercise Price	Number of Ordinary Shares subject to option	Exercise Period
Ian Baron	3 February 2011	35p	1,600,000	3 February 2014 to 2 February 2021

3 Major interests in Ordinary Shares

So far as the Company is aware, as at 26 May 2011 (being the latest practicable date prior to the publication of this document), the following persons (other than the Directors) were, directly or indirectly, interested in 3% or more of the issued Ordinary Share capital of the Company:

Shareholder	Number of Ordinary Shares	Percentage of Ordinary Shares
SPQR Capital Holdings SA (formerly SAE Capital Holdings S.A.)	67,298,498	29.12
Lloyds TSB Group	21,007,309	9.09
Jean Benaim	18,787,886	8.13
European Bank for Reconstruction and Development Limited	11,632,866	5.03

4 Service Agreements

The services of the Directors are provided to the Company under the following agreements:

4.1 Simon Duffy

On 9 May 2008, Simon Duffy entered into a letter of appointment with the Company to serve as the Non-executive Chairman of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Simon Duffy. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Simon Duffy is £40,000 per annum (reduced, by verbal agreement, in June 2010 from £120,000 per annum) to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. In addition, if the Company requires Simon Duffy to provide his services for more than 60 working days per annum, an additional fee shall be payable to Simon Duffy of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work). Mr Duffy is not seeking re-election at the Annual General Meeting scheduled for 16 June 2011.

4.2 Ian Baron

On 24 March 2011, Ian Baron entered into a service agreement with the Company to serve as Chief Executive Officer of the Company with effect from 1 April 2011. The service agreement may be terminated by either party giving not less than six months' notice in writing. The service agreement contains provisions for early termination, *inter alia*, in the event of a breach by Ian Baron. The service agreement makes no provision for any termination benefits. However, if the Company terminates his appointment or Ian Baron terminates his appointment due to a fundamental breach by the Company of the service agreement, within 12 months following a change of control of the Company, the notice period to be given by the Company shall be increased to 12 months. Ian Baron is entitled to a basic salary of £220,000 per annum (the **Basic Salary**) (to be reviewed and determined annually), reimbursement of all expenses reasonably and properly incurred and if certain operational, financial and strategic targets are met or exceeded up to 100% of the Basic Salary. Ian Baron is entitled to participate in the Company's private medical expenses insurance scheme for the benefit of himself and his

wife and life assurance for Ian Baron will be provided by the Company. The service agreement contains restrictive covenants for (i) a period of 6 months following termination of his employment if such employment terminates prior to 1 September 2011; and (ii) a period of 9 months following termination of his employment if such employment terminates on or after 1 September 2011.

4.3 Gordon Stein

On 2 November 2010, Gordon Stein entered into a service agreement with the Company to serve as Chief Financial Officer of the Company with effect from 1 November 2010. The service agreement may be terminated by either party giving (i) if prior to 1 May 2011, not less than three months' notice in writing; and (ii) if on or after 1 May 2011, not less than six months' notice in writing. The service agreement contains provisions for early termination, *inter alia*, in the event of a breach by Gordon Stein. The service agreement makes no provision for any termination benefits. However, if the Company terminates his appointment or Gordon Stein terminates his appointment due to a fundamental breach by the Company of the service agreement, within 12 months following a change of control of the Company, the notice period to be given by the Company shall be increased to (i) six months if such termination occurs prior to 1 May 2011; and (ii) 12 months if such termination occurs on or after 1 May 2011. Gordon Stein is entitled to a basic salary of £180,000 per annum (the **Basic Salary**) (to be reviewed and determined annually), reimbursement of all expenses reasonably and properly incurred and if certain operational, financial and strategic targets are met or exceeded up to 100% of the Basic Salary. Gordon Stein is entitled to participate in the Company's private medical expenses insurance scheme for the benefit of himself, his wife and his children who are under the age of 18 and life assurance for Gordon Stein will be provided by the Company. The service agreement contains restrictive covenants for, generally, (i) a period of 9 months following termination of his employment if such employment terminates prior to 1 August 2011; and (ii) a period of 12 months following termination of his employment if such employment terminates on or after 1 August 2011.

4.4 Philip Dayer

On 9 May 2008, Philip Dayer entered into a letter of appointment with the Company to serve as the senior independent Non-executive Director of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Philip Dayer. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Philip Dayer is £25,000 per annum (reduced, by verbal agreement, in June 2010 from £40,000 per annum) to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. An additional fee of £5,000 shall be payable to Philip Dayer if he is appointed a chairman of a Board committee. In addition, if the Company requires Philip Dayer to provide his services for more than 20 working days per annum, an additional fee shall be payable to Philip Dayer of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work). The Board resolved on 12 May 2011 that, as Simon Duffy is not seeking re-election at the Annual General Meeting scheduled for 16 June 2011, Philip Dayer be appointed as interim Chairman from 16 June 2011. Philip Dayer will enter into a new letter of appointment with the Company to serve as the interim Chairman with effect from 16 June 2011 on the same terms as his existing letter of appointment, save that the basic fee payable to Philip Dayer will be £100,000 per annum.

4.5 Alan Cole

On 9 May 2008, Alan Cole entered into a letter of appointment with the Company to serve as a Non-executive Director of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Alan Cole. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Alan Cole was initially £25,000 per annum (reduced, by verbal agreement, in June 2010 from £40,000 per annum) to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. An additional fee of £5,000 shall be payable to Alan Cole if he is appointed a chairman of a Board committee. In addition, if the Company requires Alan Cole to provide his services for more than 20 working days per annum, an additional fee shall be payable to Alan Cole of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work). Mr Cole is not seeking re-election at the Annual General Meeting scheduled for 16 June 2011.

4.6 Nicholas Hooke

On 9 May 2008, Nicholas Hooke entered into a letter of appointment with the Company to serve as a Non-executive Director of the Company with effect from 9 May 2008. The letter of appointment is for an initial period of three years but terminable on not less than three months' written notice given by either party to the other at any time. Upon expiry the appointment may be extended by agreement for a further term of three years. Continuation of the appointment is contingent on satisfactory performance and re-election at future annual general meetings. The letter of appointment contains provisions for early termination, *inter alia*, on the event of a breach by Nicholas Hooke. The letter of appointment makes no provision for any termination benefits. The basic fee payable to Nicholas Hooke was initially £25,000 per annum (reduced, by verbal agreement, in June 2010 from £40,000 per annum) to be reviewed annually by the Board and reimbursement of all expenses reasonably and properly incurred. The Board resolved on 12 May 2011 that the basic fee payable to Nicholas Hooke be increased to £35,000 per annum with effect from 16 June 2011. An additional fee of £5,000 shall be payable to Nicholas Hooke if he is appointed a chairman of a Board committee. In addition, if the Company requires Nicholas Hooke to provide his services for more than 20 working days per annum, an additional fee shall be payable to Nicholas Hooke of £1,500 for each complete working day spent on Company business (other than Board committee meetings or associated work).

4.7 Alessandro Benedetti

At the request of the Company's largest shareholder, SPQR Capital Holding SA, Alessandro Benedetti was appointed as a Non-executive Director of the Company with effect from 26 August 2010. Alessandro Benedetti has not entered into a letter of appointment with the Company and receives no fee for being a Non-executive Director of the Company. The Company reimburses all expenses reasonably and properly incurred by Alessandro Benedetti. The Board resolved on

12 May 2011 that Alessandro Benedetti should receive a basic fee of £35,000 per annum with effect from 16 June 2011. Mr Benedetti will also enter into a letter of appointment on the same terms as Mr Hooke with effect from 16 June 2011.

4.8 Bertrand des Pallieres

During 2010 at the request of the Company's largest shareholder, SPQR Capital Holding SA, Bertrand des Pallieres was appointed as a Non-executive Director of the Company with effect from 26 August 2010. Bertrand des Pallieres has not entered into a letter of appointment with the Company and receives no fee for being a Non-executive Director of the Company. The Company reimburses all expenses reasonably and properly incurred by Bertrand des Pallieres. The Board resolved on 12 May 2011 that Bertrand des Pallieres should receive a basic fee of £35,000 per annum with effect from 16 June 2011. Mr des Pallieres will also enter into a letter of appointment on the same terms as Mr Hooke with effect from 16 June 2011.

5 Material Contracts

5.1 The Continuing Group

The following contracts (other than contracts entered into in the ordinary course of business) have been entered into by members of the Continuing Group (i) within the two years immediately preceding the date of this document which are, or may be, material to the Continuing Group; or (ii) which contain any provision under which a member of the Continuing Group has any obligation or entitlement which is material to a member of the Continuing Group as at the date of this document.

5.1.1 The Disposal Agreement

The Disposal Agreement - a summary of the principal terms of which are set out in Part II of this document.

5.1.2 Settlement Agreement with Global Process Systems

A settlement agreement dated 15 October 2009 between (1) the Company; (2) CPHL; (3) LLC Astroinvest-Ukraine; (4) Usenco Ukraine; (5) Global Process Systems LLC (GPS); (6) Global Process Systems Inc; (7) Clint Elgar; and (8) Anthony Wright relating to the settlement of certain litigation concerning contracts for the fabrication and delivery of two gas treatment plants. Pursuant to the settlement agreement GPS is granted exclusive rights to market the gas treatment plants for a 10 month period and, if a sale is achieved, for CPHL to receive in staged payments an aggregate cash consideration of USD38,500,000. If the gas treatment plants are not sold within this 10 month period, then GPS has agreed to take the gas treatment plants to stock and CPHL will receive in staged payments an aggregate cash consideration of USD37,500,000. The settlement agreement also provides for the release by GPS of a USD11,000,000 contractual claim against CPHL for what would otherwise have been the balance of the consideration for the gas treatment plants.

5.2 Pok BV Group

There are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by members of the Pok BV Group (i) within the two years immediately preceding the date of this document which are, or may be, material to the Continuing Group; or (ii) which contain any provision under which a member of the Pok BV Group has any obligation or entitlement which is material to a member of the Pok BV Group as at the date of this document.

5.3 Zag BV Group

There are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by members of the Zag BV Group (i) within the two years immediately preceding the date of this document which are, or may be, material to the Continuing Group; or (ii) which contain any provision under which a member of the Zag BV Group has any obligation or entitlement which is material to a member of the Zag BV Group as at the date of this document.

6 Related Party Transactions

6.1 Save as set out below, no related party transactions have been entered into by members of the Group during the period covered by the financial information set out in Part IV of this document and up to 26 May 2011 (being the last practicable date prior to the date of this document).

6.2 The related party transactions for the purposes of the standards adopted according to Commission Regulation (EC) No. 1606/2002 which the Company entered into during the financial years ended 31 December 2010, 31 December 2009 and 31 December 2008 are included in this document through the incorporation by reference of the annual reports and accounts of the Company for the financial years ended 31 December 2010, 31 December 2009 and 31 December 2008.

6.3 The information incorporated by reference for the period ended 31 December 2010 can be found in note 30 on pages 82 and 83 of the annual report and accounts of the Company for the period ended 31 December 2010.

6.4 The information incorporated by reference for the period ended 31 December 2009 can be found in note 30 on page 68 of the annual report and accounts of the Company for the period ended 31 December 2009.

6.5 The information incorporated by reference for the period ended 31 December 2008 can be found in note 32 on page 64 of the annual report and accounts of the Company for the period ended 31 December 2008.

7 Litigation

7.1 In June 2009, the Group commenced litigation in the High Court in London against the former Chief Executive Officer, Chief Operating Officer and certain third parties, including individuals and suppliers. The action was initiated to seek a return of funds to the Company associated with the procurement of, and payment for, certain assets and services. For the year ended 31 December 2010 the Company has incurred costs of £1.4 million in respect of such litigation (2009: £6.1 million). The litigation has yet to come to trial, but the Company has secured a number of settlements with the various parties in the case. The litigation continues against the former Chief Operating Officer but the amount of the claim is not currently quantifiable. Save as set out in this paragraph 7.1 of this Part VI, there are no governmental, legal or arbitration

proceedings and the Company is not aware of any such proceedings pending or threatened during the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Continuing Group.

7.2 Save as set out in paragraph 7.1 of this Part VI, there are no governmental, legal or arbitration proceedings and the Company is not aware of any such proceedings pending or threatened during the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Pok BV Group.

7.3 Save as set out in paragraph 7.1 of this Part VI, there are no governmental, legal or arbitration proceedings and the Company is not aware of any such proceedings pending or threatened during the 12 months preceding the date of this document which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Zag BV Group.

8 Significant Change

8.1 There has been no significant change in the financial or trading position of the Continuing Group since 31 December 2010, being the date to which the Group's most recent financial information was published.

8.2 There has been no significant change in the financial or trading position of the Pok BV Group since 31 December 2010, being the date to which the Group's most recent financial information was published.

8.3 There has been no significant change in the financial or trading position of the Zag BV Group since 31 December 2010, being the date to which the Group's most recent financial information was published.

9 Working Capital of the Continuing Group

The Company is of the opinion that, taking into account the net proceeds of the Disposal, the Continuing Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

10 Consents

10.1 BDO Corporate Finance has given and has not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear.

10.2 BDO LLP has given and has not withdrawn its written consent to the inclusion of its letter in Part V of this document in the form and context in which it appears.

11 Documents on display

Copies of the following documents will be made available for inspection at the offices of SNR Denton UK LLP, One Fleet Place, London EC4M 7WS, during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the date of this document until the conclusion of the General Meeting:

- (a) the memorandum of association of the Company and the Articles;
- (b) the letter from BDO LLP set out in Part V of this document;
- (c) the written consents referred to in paragraph 10 in this Part VI;
- (d) this document and the Form of Proxy;
- (e) the Disposal Agreement; and
- (f) the report and accounts of the Company for the years ended 31 December 2010, 31 December 2009 and 31 December 2008.

PART VII: DEFINITIONS

2006 Act	the Companies Act 2006
Annual General Meeting	the annual general meeting of the Company to be held at The Royal Society of Chemistry, Burlington House, Piccadilly, London W1J 0BA at 2.00 p.m. on 16 June 2011
Articles	the articles of association of the Company
Astroinvest-Energy	LLC Astroinvest-Energy, a company registered in Ukraine with registration number 35193237
BDO Corporate Finance	BDO Corporate Finance, a division of BDO LLP which is authorised and regulated in the UK by the FSA to carry on investment business and is sponsor to the Company
BDO	BDO LLP, which is authorised and regulated in the UK by the FSA to carry on investment business and is reporting accountant in connection with the Disposal
bpd	barrels per day
Board	the board of Directors of the Company from time to time
Buyer	Eni Ukraine Holdings B.V., a private company incorporated in The Netherlands with registration number 52496031, a wholly owned subsidiary of Eni S.p.A
Carboniferous	geological period 295 million to 354 million years before present
Company or Cadogan	Cadogan Petroleum plc, a public limited company incorporated in England and Wales with registration number 5718406
Completion	completion of the Disposal Agreement in accordance with its terms
Contingent Resources	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
Continuing Group	the Group following the Disposal
CPHL	Cadogan Petroleum Holdings Limited, a private company incorporated in England and Wales with registration number 5255092
CREST	the relevant system (as defined in the CREST Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form in respect of which Euroclear is the operator (as defined in the CREST Regulations) in accordance with which securities may be held and transferred in uncertificated form
CREST Regulations	the Uncertified Securities Regulations 2001 (SI 2001 No.3755) (as amended)
Directors	the existing directors of the Company whose names are set out on page 3 of this document
Disclosure and Transparency Rules	the disclosure and transparency rules made by the FSA under Part VI of FSMA
Disposal	the sale of the Pok BV Group and the Zag BV Group to the Buyer on the terms of the Disposal Agreement
Disposal Agreement	the conditional sale and purchase agreement between the Seller and the Buyer relating to the Disposal and described in detail in Part II of this document
Form of Proxy	the form of proxy accompanying this document for use by Shareholders at the General Meeting
FSA	the Financial Services Authority
FSMA	the Financial Services and Markets Act 2000
Gazvydobuvannya	Industrial Company Gazvydobuvannya LLC, a company registered in Ukraine with registration number 31354329
General Meeting	the general meeting of the Company to be held at 2.30 p.m. at The Royal Society of Chemistry, Burlington House, Piccadilly, London W1J 0BA on 16 June 2011 (or as soon thereafter as the Annual General Meeting, convened at the same venue on that day, concludes or is adjourned) convened by the Notice of General Meeting and at which the Resolution will be proposed
Group	the Company and each of its subsidiary undertakings (within the meaning of the 2006 Act) at the date of this document
Listing Rules	the listing rules made by the FSA under Part VI of FSMA
LLC Mercor	LLC Mercor, a company registered in Ukraine with registration number 30519931
London Stock Exchange	London Stock Exchange plc
LWD	logging while drilling
mcm	thousand cubic metres

mmboe	million barrels of oil equivalent
NAK Nadra	National Joint Stock Company "NAK Nadra Ukraine", an oil and gas company owned by the national Government of Ukraine
Official List	the Official List of the FSA
Ordinary Shares	ordinary shares of 3 pence each in the capital of the Company
Pok Agreed Appraisal Work Programme	the programme of appraisal activities to be commenced as soon as practicable following the date of the Disposal Agreement which are designed to assess the hydrocarbon reserves of the discovery made within the Pokrovskoe Licence area
Pok BV	Pokrovskoe Petroleum B.V., a private company incorporated in The Netherlands with registration number 52073440
Pok BV Group	Pok BV and each of its subsidiary undertakings (within the meaning of the 2006 Act)
Pok Licence	collectively the Special Permit on Subsurface Use with respect to the Pokrovskoe licence area having registration number 1727 and issued on 10 August 2001 to Gazvydobuvannya and the related Agreement on Conditions for Subsoil Use dated 28 February 2006 (including any amendments and supplements thereto)
Pok Loan	means the intra-company loans made by CPHL (as lender) to Gazvydobuvannya (as borrower) (the principal outstanding pursuant to which was the aggregate of £3,817,000 and USD 57,878,300 as at 31 March 2011)
Possible Reserves	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves
Probable Reserves	those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves
Prospective Resources	those quantities of petroleum which are estimated as of a given date to be potentially recoverable from undiscovered accumulations
Prospectus Rules	the prospectus rules made by the FSA under Part VI of FSMA
Proved Reserves	those additional reserves which analysis of geoscience and engineering data can be estimated with reasonable certainty to be commercially recoverable from a given date forward, from reservoirs and under defined economic conditions, operating methods and government regulations
Resolution	the resolution set out in the Notice of General Meeting
Reserves	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves include Proved, Probable and Possible Reserve categories
scf	standard cubic feet
Seller	Cadogan Petroleum Holdings B.V., a private company incorporated in The Netherlands with registration number 34299186, a wholly owned subsidiary of the Company
Shareholders	holders of Ordinary Shares
SPE PRMS	Petroleum Resources Management System published by the Society of Petroleum Engineers, the World Petroleum Congresses, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers in March 2007
Sterling or £	the lawful currency for the time being of the United Kingdom
t/day	tonne per day
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
USD or \$	the lawful currency for the time being of the United States of America
VAT	Ukrainian value added tax
Visean	geological period within the early to middle Carboniferous
Zag BV	Zagoryanska Petroleum B.V., a private company incorporated in The Netherlands with registration number 52073106
Zag BV Group	Zag BV and each of its subsidiary undertakings (within the meaning of the 2006 Act)
Zag Licence	collectively the Special Permit on Subsurface Use with respect to the Zagoryanska licence area having registration number 3108 and issued on 19 October 2007 to Astroinvest-Energy and the related Agreement on Conditions for Subsoil Use dated 26 December 2008 (including any amendments and supplements thereto)
Zag Loan	means the intra-company loans made by CPHL (as lender) to Astroinvest-Energy (as borrower) (the principal outstanding pursuant to which was USD16,773,420 as at 31 March 2011)

CADOGAN PETROLEUM PLC

(Incorporated and registered in England and Wales under number 05718406)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a General Meeting of Cadogan Petroleum plc (the **Company**) will be held at 2.30 p.m. on 16 June 2011 (or, if later, immediately following the conclusion or adjournment of the Annual General Meeting convened for 2.00 p.m. on the same day, and at the same place) at The Royal Society of Chemistry, Burlington House, Piccadilly, London W1J 0BA to consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

THAT the proposed disposal of up to 60% of Pokrovskoe Petroleum B.V. and 60% of Zagoryanska Petroleum B.V. by Cadogan Petroleum Holdings B.V. (the **Disposal**) pursuant to and on the terms and subject to the conditions of an agreement dated 12 April 2011 between Cadogan Petroleum Holdings B.V. and Eni Ukraine Holdings B.V. (the **Disposal Agreement**) as more particularly described in the circular to the Company's shareholders dated 27 May 2011 of which this notice forms part (the **Circular**), be and is hereby approved, and that the directors of the Company (the **Directors**) (or any duly constituted committee thereof) be and are hereby authorised to make such non-material amendments, waivers or variations to the terms and conditions of the Disposal or to the Disposal Agreement and any agreements incidental to or forming part of the Disposal Agreement which the Directors (or any duly constituted committee thereof) consider necessary, expedient or desirable to complete or give effect to or otherwise in connection with the Disposal and/or any agreement executed to give effect thereto and to do all such other things as they may consider necessary, desirable or expedient in connection with the Disposal.

By order of the Board

Stefan Bort
Company Secretary
27 May 2011

Notes

- 1 A shareholder is entitled to appoint another proxy as his proxy to exercise all or any of his rights to attend, speak and vote at the meeting convened by this note. A shareholder can only appoint a proxy using the procedures set out in these notes and the notes to the Form of Proxy enclosed with this document. A proxy need not be a shareholder of the Company, but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the Form of Proxy are set out in the notes to the Form of Proxy.
- 2 A shareholder may appoint more than one proxy to attend on the same occasion, provided each proxy is appointed to exercise rights attached to different shares. If you wish to do this, each proxy must be appointed on a separate Form of Proxy. Additional Forms of Proxy may be obtained from Capita Registrars by telephoning 0871 664 0300 (calls to this number cost 10p per minute from a BT landline; other providers' costs may vary) or +44 (0) 20 8639 3399 from outside the UK. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday. Alternatively, you may photocopy the enclosed Form of Proxy the required number of times before completing it. When appointing more than one proxy you must indicate the number of shares in respect of which the proxy is appointed. You may not appoint more than one proxy to exercise rights attached to any one share.
- 3 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- 4 The Form of Proxy is pre-paid and addressed. It should be sent, in accordance with its instructions, so as to be received by the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 2.30 p.m. on 14 June 2011. Alternatively members can appoint proxies electronically by logging on to the website www.capitashareportal.com. For an electronic proxy appointment to be valid, the appointment must be received by no later than 2.30 p.m. on 14 June 2011.
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting to be held on 16 June 2011 and any adjournment(s) of such meeting by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- 6 In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 7 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The CREST Manual can be viewed at www.euroclear.com/CREST.
- 8 The Company may treat a CREST Proxy Instruction as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 9 A Form of Proxy must be executed by or on behalf of the shareholder making the appointment. A corporation may execute a Form of Proxy either under its common seal or under the hand of a duly authorised officer.
- 10 Shareholders who return a Form of Proxy will still be able to attend the meeting and vote in person if they so wish. If you have appointed a proxy and attend the meeting in person, your proxy appointment will be automatically terminated.
- 11 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 and for the purposes of section 360 of the Companies Act 2006, the Company gives notice that the time by which a person must be entered on the register of members in order to attend or vote at the meeting or adjourned meeting (and for calculating the number of votes such a person may cast) is 6.00 p.m. on 14 June 2011 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting or adjourned meeting.
- 12 To change your proxy instructions, simply submit a new proxy appointment using the methods set out in notes 2 to 6 above. Where you have appointed a proxy using the hard-copy Form of Proxy and would like to change the instructions using another hard-copy Form of Proxy, please contact Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. If you submit more than one valid proxy appointment, the appointment last received before the latest time for the receipt of proxies will take precedence.

- 13 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this Notice of General Meeting or in any related documents (including the Chairman's letter and the Form of Proxy).

The revocation notice must be received by Capita Registrars no later than 2.30 p.m. on 14 June 2011.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the immediately following paragraph, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

- 14 Any person to whom this notice is sent who is a nominated person under section 146 of the Companies Act 2006 to enjoy information rights (a **Nominated Person**) may have a right under an agreement between him and the member by whom he was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such right or does not wish to exercise it he may have a right under such an agreement, to give instructions to the member, as to the exercise of voting rights.
- 15 A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the General Meeting. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations 2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
- 16 The quorum for the meeting will be two persons entitled to vote upon the business to be transacted, each being a shareholder or a proxy for a shareholder or a duly authorised representative of a corporation which is a shareholder.
- 17 On 26 May 2011 (being the last practicable date before publication of this notice of General Meeting) the Company's issued share capital comprised 231,091,734 ordinary shares of 3 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 26 May 2011 is 231,091,734.
- 18 Except as provided above, members who wish to communicate with the Company in relation to the General Meeting should do so using the following means: (1) by writing to the Company Secretary at the Registered Office address; or (2) by writing to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this Notice of General Meeting or in any related documents (including the Chairman's letter and the Form of Proxy).
- 19 In accordance with section 311A of the Companies Act 2006, the contents of this Notice of General Meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the General Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice of General Meeting will be available on the Company's website (www.cadoganpetroleum.com).
- 20 Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the General Meeting any question relating to the business being dealt with at the General Meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

SHAREHOLDER INFORMATION

Security

Persons who are not shareholders of the Company will not be admitted to the General Meeting unless prior arrangements have been made with the Company. Investors holding ordinary shares through nominees are welcome to attend provided that they bring proof of their holding with them to the General Meeting.

We ask all those present at the General Meeting to facilitate the orderly conduct of the meeting and reserve the right, if orderly conduct is threatened by a person's behaviour, to require that person to leave.

Shareholders should note that the doors to the General Meeting will open at 1.00 p.m.

Shareholder Enquiries

The Company's ordinary share register is maintained by Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Telephone: 0871 664 0300 (calls to this number cost 10p per minute from a BT landline: other providers' costs may vary) or +44 (0)20 8639 3399 from outside the UK. Lines are open 8.30 a.m. to 5.30 p.m., Monday to Friday.

Email: ssd@capitaregistrars.com

Enquiries about the administration of holdings of ordinary shares, such as change of address, change of ownership or dividend payments, should be directed to Shareholder Services Department at the address and telephone number above.

