



**AURELIAN**

Aurelian Oil & Gas PLC  
Interim Report 2009

# HIGHLIGHTS

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- Board of Directors restructured with appointment of new Chief Executive Officer, Chief Financial Officer and oil industry-experienced non executive director
- Equity placing raises €13.4 million
- Successful commissioning of compression facilities and tying in of two extra wells increases production from the Bilca gas processing plant in Romania by 60%
- Voitinel-1 exploration well encounters gas in the Sarmatian sands
- Completion of the interpretation of the Siekierki 3D seismic in Poland increases the contingent resource estimate to 243 BCF (218 BCF net to Aurelian)
- Six new exploration blocks being awarded in the prospective Carpathian region of Poland
- Encouraging preliminary results from seismic surveys on Bieszczady in Poland and on the Slovakian concessions
- Farm out of 20% of our project in Bulgaria to Sorgenia
- Gross profit of €342,000 and net cash from operating activities of €1,861,000, loss before tax for the six months of €694,000 after exploration costs and administrative expenses

## OUTLOOK

- Strategy update outlining the principles and vision for the business moving forward to be released in October
- Review of exploration portfolio and detailing of the prospect inventory and drilling program for the Carpathians and Rotlegendes businesses
- Options for refinancing of Siekierki to be finalised in the coming weeks
- Gas off-take agreement for Siekierki near finalisation
- Test results for the gas bearing sands in the Voitinel-1 Well
- Early cash flow action plan for our gas discoveries, Dornesti, Liliéci and Boistea, in Romania
- Execution of seismic programs on the Polish and Slovakian concessions within the next twelve months

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# CHIEF EXECUTIVE OFFICER'S STATEMENT

In the last six months, Aurelian has moved its projects forward with two exploration discoveries in Romania and an increase of 60% in production. We now need to build on this momentum and focus on the major projects, on delivering greater exploration success and on building early production and cash flow whilst maintaining low cost operations.

We are changing the way the business operates. From now on the top priority will be the acceleration of the process of identifying, analysing and converting the many prospects and leads from our large, highly prospective land position, into executed monetised activities to create shareholder value in a much more regular, efficient and disciplined manner. We will also maintain a strong focus on cost control in managing both our operations and our capital projects.

There are three key elements to this approach:

## 1. Enhancing Aurelian's management team

- The first steps in this process have been the introduction of new skills and greater experience in upstream oil and gas management, operations and financing with my appointment as Chief Executive Officer, the appointment of Mark Reid as Chief Financial Officer and the strengthening of the oil industry expertise of the non-executive membership of the Board with the appointment of David Walker.
- After the changes the Board will consist of three executive directors, three non-executive directors and three directors representing larger shareholders.
- The appointment of Michael Seymour as Exploration Director now enables him to focus solely upon the identification of prospects and leads from Aurelian's large and highly prospective land position. This appointment

will free Michael from the day to day responsibilities of managing Aurelian and thus give him additional time to carry out this most critical of roles.

## 2. Improving Aurelian's operating practices

- A project ranking system is being established to accelerate shareholder value creation across our entire portfolio. At any one time, all of Aurelian's ongoing projects and leads will be appropriately valued and risked, enabling management to take decisions based on these metrics that have a clear and measurable impact on enhancing shareholder value. We are confident that this key new discipline will improve decision making within Aurelian. We are currently applying this approach to the Siekierki gas project in Poland and hope to make an announcement of our preferred refinancing strategy and wider conclusions in the coming weeks.
- The two clear areas of focus for the business will be the Rotliegende region in North West Poland and the prolific Carpathian region stretching from Southern Poland through Slovakia, Romania and Bulgaria. We are now looking to intensify our efforts to exploit their prospectivity and accelerate the development and monetisation of our positions in the region thereby driving the growth of our business.

## 3. Outlining a clear strategy going forward

- In the 60 days since my appointment, I have conducted a portfolio review, held discussions with major shareholders, partners and customers and restructured and strengthened the Senior Management and Board. In October, I will outline a clear strategy for the company which will align the ambitions of our various shareholders and set out a timetable for the execution of our Polish gas project and our Carpathian exploration programs.

## CHIEF EXECUTIVE OFFICER'S REVIEW OF THE PERIOD

### Review of period

So far this year we have been extremely active with progress on all our projects in Central Europe:

- In Romania we have brought on stream the Vicsani and Fratauti-1 wells and in doing so achieved record production levels with production 60% higher than in the same period last year and already at nearly 90% of the full year production in 2008. We have successfully and safely drilled and completed the Lilioci-1 well. The testing of Lilioci-1 has produced intriguing results which leave us hopeful for commercial success in the Bacau area. The main target in Voitinel-1 proved a disappointment but we still hope to commercialise the gas found in the upper Sarmatian sands;
- In Poland we have captured six blocks in the Carpathians, expanding our footprint in this highly prospective area. On our significant Siekierki tight gas project we have completed the interpretation of the 3D seismic, increasing our understanding and refining our contingent resource estimate to 243 BCF for the most likely case. We have also started a seismic survey on Poznan North and commenced pre-engineering work on the development;
- In Slovakia we have completed a 130km seismic survey with our partners JKC and Romgaz;
- In Bulgaria we have successfully farmed out 20% of our project to Sorgenia; and
- We have also raised €13.4 million in new equity to fund our exploration programme.

### Results

The Company generated a gross profit of €342,000 and operational cashflow of €1,861,000. After exploration costs and administrative expenses, the loss before tax for the six months was €694,000.

The Company has €13.1 million cash in hand as at 25 September 2009. This is sufficient to fund our exploration programme until the end of 2010 on a dry well basis. The next stage in the development of Siekierki will require further funding.

### Operational Highlights Poland and Slovakia

Progress in Poland has been delayed by the untimely withdrawal of Canamens from the Siekierki Project. Considerable management effort was devoted to the Canamens negotiations and there have been consequent delays in the necessary appraisal and development programmes. Ultimately Canamens' withdrawal was driven by a change in their internal investment criteria which required them to focus on smaller projects with a faster payback than Siekierki. We have been negotiating a gas off-take agreement for the field which is close to finalisation. We have strengthened our Polish team with the appointment of a locally based project manager and the recruitment of support staff.

The seismic survey on the northern area incorporating the recently awarded Poznan North licence looks like establishing a case for the extension of the Siekierki reservoir under the suburbs of Poznan City. This is potentially a significant upside to the project.

We are currently finalising the selection of locations which will be permitted for our appraisal drilling campaign in early 2010. We still plan to put the well or wells on long term production test and we expect test production into the local grid in mid 2011.

Elsewhere in the Polish Central Lowlands, we are preparing for seismic surveys in both our Kalisz and our Cybinka/Torzym concessions. The latter, a 3D survey, will cover 220 square kilometres following up the Zechstein oil play which is generating much interest in Poland.

In the Polish and Slovakian Carpathians, we have participated in seismic surveys on both sides of the border. The data is still being processed but early results suggest the areas to be very exciting. We anticipate the first well in Bieszczady to be drilled in the second half of 2010. Our large Svidnik, Medzilaborce and Snina licences are still in the early stages of evaluation and more seismic data will be acquired next year. We were also very pleased to be awarded the Karpaty blocks in the Western Polish Carpathians covering large areas of the highly prospective Carpathian thrust belt and we are currently holding discussions with potential partners who will help us to maximise the potential of this under-explored area.

## Romania

On the Brodina concession, the commissioning of the compression facilities and the tying in of the Vicsani-1 and Fratauti-1 well have enabled us to establish production through the Bilca facilities at around the 5 million cubic feet per day level. It is too early to come to definitive conclusions about the recently completed Voitinel-1 well. The main target was disappointingly dry but we hope that tests in October will demonstrate the commerciality of one of the shallower sands.

On the Bacau concession, there was further testing of Lilieci-1 which has established minimum levels of reserves which should provide a platform for commercial development in the area particularly if we are successful in the follow-up programme which seems to be justified by the detailed analysis of the well results.

Our Suceava block is located close to our Bilca facilities and we have identified a new prospect which we plan to drill in early 2010. This will be a low risk test which can be tied in very quickly after drilling is completed and is part of our strategy to further increase production through the facility towards approximately 11 million cubic feet per day capacity.

## Bulgaria

Again the prevailing difficult financial conditions interrupted the plans of our original farm-out partner but we were delighted when Sorgania agreed to join us in the Golitza permits. The interpretation of the 3D seismic acquired at the beginning of the year is progressing and we hope to drill at least one well targeted at relatively shallow gas along the Black Sea coast in 2010.

## Outlook

The global recession and the dramatic fall in commodity prices created an extremely difficult environment for upstream oil and gas companies. We remain vigilant in managing our costs and are pleased that the net revenues from our current production are expected to continue to be more than sufficient to cover our total G&A costs. We have acquired two new top-class Board members and restructured the organisation and Board of Directors. Shortly we will outline a revised strategy for the company which will describe in detail our plans for the phased execution of our Polish gas project and our Carpathians exploration program.



## Rowen Bainbridge

Chief Executive Officer

The technical information and opinions contained in this announcement have been reviewed by Roy Hartley B.Sc (Hons) (Imperial College), FEI, FGS, C. Eng, Aurelian's Chief Operations Officer who has 40 years of experience in the oil exploration and production industry. He has consented to the inclusion herein of such technical information and opinions.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Unaudited Six months to 30 June 2009 €'000	Unaudited Six months to 30 June 2008 €'000	Audited Year to 31 Dec 2008 €'000
<b>Revenue</b>	<b>1,404</b>	1,042	1,850
<b>Cost of sales</b>	<b>(1,062)</b>	(567)	(4,143)
<b>Gross profit</b>	<b>342</b>	475	(2,293)
Other administrative expenses	<b>(1,041)</b>	(1,002)	(2,842)
Exchange gain	<b>229</b>	1,981	1,604
Share based payment costs	<b>(183)</b>	(172)	(1,079)
Exploration costs written off	<b>(2)</b>	(243)	(339)
<b>Total administrative expenses</b>	<b>(997)</b>	564	(2,656)
<b>Other operating income</b>	<b>9</b>	2	10
<b>Operating (loss)/profit</b>	<b>(646)</b>	1,041	(4,939)
<b>Finance income</b>	<b>42</b>	500	703
<b>Finance expense</b>	<b>(90)</b>	(265)	(174)
<b>(Loss)/profit before tax</b>	<b>(694)</b>	1,276	(4,410)
<b>Taxation</b>	<b>-</b>	-	-
<b>(Loss)/profit for the period attributable to equity shareholders</b>	<b>(694)</b>	1,276	(4,410)
	<b>€ cents</b>	€ cents	€ cents
<b>Basic (loss)/earnings per 5p ordinary share</b>	<b>(0.48)</b>	0.94	(3.26)
<b>Diluted (loss)/earnings per 5p ordinary share</b>	<b>(0.48)</b>	0.87	(3.26)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	€'000	€'000	€'000
<b>(Loss)/profit for the period</b>	<b>(694)</b>	1,276	(4,410)
<b>Other comprehensive income:</b>			
<b>Exchange differences on translating foreign operations</b>	<b>(2,490)</b>	(6)	(7,231)
<b>Total comprehensive income for the period attributable to equity shareholders</b>	<b>(3,184)</b>	1,270	(11,641)

**CONDENSED CONSOLIDATED BALANCE SHEET**  
AS AT 30 JUNE 2009

	<b>Unaudited</b> <b>30 June 2009</b> <b>€'000</b>	Unaudited 30 June 2008 €'000	Audited 31 Dec 2008 €'000
<b>Non-current assets</b>			
Oil & gas costs pending determination	<b>35,555</b>	34,074	34,563
Other intangible assets	<b>28</b>	38	23
Property, plant and equipment	<b>4,258</b>	8,334	5,453
	<b>39,841</b>	42,446	40,039
<b>Current assets</b>			
Inventory	<b>6</b>	6	6
Trade & other receivables	<b>5,691</b>	4,880	7,269
Cash & cash equivalents	<b>17,218</b>	18,021	6,019
	<b>22,915</b>	22,907	13,294
<b>Total assets</b>	<b>62,756</b>	65,353	53,333
<b>Current liabilities</b>			
Trade and other payables	<b>(4,829)</b>	(3,390)	(4,794)
Financial liabilities	<b>(603)</b>	(957)	(609)
<b>Non-current liabilities</b>			
Financial liabilities	<b>(1,679)</b>	(3,050)	(1,979)
<b>Net assets</b>	<b>55,645</b>	57,956	45,951
<b>Capital &amp; reserves</b>			
Called up equity share capital	<b>15,458</b>	9,892	9,892
Share premium account	<b>65,768</b>	58,639	58,639
Equity share options reserve	<b>1,913</b>	824	1,730
Exchange translation reserve	<b>(11,445)</b>	(1,730)	(8,955)
Other reserves	<b>3</b>	3	3
Retained deficit	<b>(16,052)</b>	(9,672)	(15,358)
<b>Total shareholders' equity</b>	<b>55,645</b>	57,956	45,951

**CONDENSED CONSOLIDATED STATEMENT  
OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**

	Share capital €'000	Share premium €'000	Share option reserve €'000	Exchange translation reserve €'000	Other reserves €'000	Retained earnings €'000	Total equity €'000
<b>Balance at</b>							
<b>31 December 2007</b>	<b>9,833</b>	<b>58,549</b>	<b>652</b>	<b>(1,724)</b>	<b>3</b>	<b>(10,948)</b>	<b>56,365</b>
Total comprehensive income for the period	–	–	–	(6)	–	1,276	1,270
Share capital issued	59	90	–	–	–	–	149
Share based payments	–	–	172	–	–	–	172
<b>Balance at</b>							
<b>30 June 2008</b>	<b>9,892</b>	<b>58,639</b>	<b>824</b>	<b>(1,730)</b>	<b>3</b>	<b>(9,672)</b>	<b>57,956</b>
Total comprehensive income for the period	–	–	–	(7,225)	–	(5,686)	(12,911)
Share based payments	–	–	906	–	–	–	906
<b>Balance at</b>							
<b>31 December 2008</b>	<b>9,892</b>	<b>58,639</b>	<b>1,730</b>	<b>(8,955)</b>	<b>3</b>	<b>(15,358)</b>	<b>45,951</b>
Total comprehensive income for the period	–	–	–	(2,490)	–	(694)	(3,184)
Share capital issued	5,566	7,793	–	–	–	–	13,359
Share issue costs	–	(664)	–	–	–	–	(664)
Share based payments	–	–	183	–	–	–	183
<b>Balance at</b>							
<b>30 June 2009</b>	<b>15,458</b>	<b>65,768</b>	<b>1,913</b>	<b>(11,445)</b>	<b>3</b>	<b>(16,052)</b>	<b>55,645</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months to 30 June 2009 €'000	Unaudited Six months to 30 June 2008 €'000	Audited Year to 31 Dec 2008 €'000
<b>Cash flows from operating activities</b>			
Cash flow generated from/(expended on) operating activities	1,883	(2,443)	(4,754)
Finance income	47	467	702
Finance expense	(69)	(276)	(168)
Taxes paid	–	–	(94)
<b>Net cash generated from/(used in) operating activities</b>	<b>1,861</b>	<b>(2,252)</b>	<b>(4,314)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(76)	(1,251)	(3,540)
Purchase of intangible non-current assets	(2,677)	(8,398)	(14,903)
<b>Net cash used in investing activities</b>	<b>(2,753)</b>	<b>(9,649)</b>	<b>(18,443)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares	13,359	149	149
Ordinary share issue costs	(664)	–	–
Repayment of Gemini loan	(270)	–	(290)
<b>Net cash flow from financing activities</b>	<b>12,425</b>	<b>149</b>	<b>(141)</b>
Increase in cash and cash equivalents in the period	11,533	(11,752)	(22,898)
Cash and cash equivalents at start of period	6,019	29,300	29,300
Foreign exchange translation difference	(334)	473	(383)
<b>Cash and cash equivalents at end of period</b>	<b>17,218</b>	<b>18,021</b>	<b>6,019</b>

## NOTES TO THE CONDENSED CONSOLIDATED (UNAUDITED) CASH FLOW STATEMENT

	Six months to 30 June 2009 €'000	Six months to 30 June 2008 €'000	Year to 31 Dec 2008 €'000
<b>Reconciliation of (loss)/profit after tax to net cash flow from operating activities</b>			
(Loss)/profit after tax for the period	(694)	1,276	(4,410)
Adjustments for:			
Finance income	(42)	(500)	(703)
Finance expense	90	265	174
Share based payments	183	172	1,079
Expensing of exploration costs	2	243	339
Depreciation, depletion, amortisation and impairment charge	1,049	523	3,804
Exchange differences	(282)	(1,986)	(1,581)
(Increase)/decrease in trade and other receivables	1,573	(963)	(3,385)
Increase/(decrease) in trade and other payables	4	(1,473)	(71)
<b>Cash (expended on)/generated from operations</b>	<b>1,883</b>	<b>(2,443)</b>	<b>(4,754)</b>

# NOTES TO THE ACCOUNTS

## 1. Accounting policies

The condensed consolidated unaudited interim financial information set out in this report is based on the consolidated financial statements of Aurelian Oil & Gas PLC and its subsidiary companies (together referred to as the 'Group'). The accounts of the Group for the 6 months ended 30 June 2009 were approved and authorised for issue by the Board on 16 September 2009. These accounts have been prepared in accordance with the accounting policies that are expected to be applied in the Report and Accounts of Aurelian Oil & Gas PLC for the year ending 31 December 2009 and are consistent with International Financial Reporting Standards adopted for use in the European Union.

The presentation applied to the interim report is in line with the new IAS 1 ('Presentation of Financial Statements') in respect of the primary statements presentation.

### *Basis of preparation*

The financial information for the six months ended 30 June 2009 and 30 June 2008 is unreviewed and unaudited and does not constitute the Group's statutory financial statements for those periods. The comparative financial information for the full year ended 31 December 2008 has, however, been derived from the statutory financial statement for that period. The statutory accounts for the year ended 31 December 2008 have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified, however because of the existence of material uncertainty which cast significant doubt on the Group's ability to continue as a going concern, the Independent Auditors' Report contained an emphasis of matter to this effect. The Independent Auditors' report did not include any references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

The financial statements are presented in Euros and all values are rounded to the nearest thousand Euros (€'000) except where otherwise indicated.

The financial statements have been prepared under the historical cost convention, except for financial assets, which are carried at fair value.

The Company has certain contractual agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Company includes its share of assets, liabilities and cash flows in joint arrangements, measured in accordance with the terms of each arrangement.

## 2. (Loss)/earnings per share

The basic loss per share is calculated on a loss of €694,000 (2008: interim profit of €1,276,000) and on 145,758,626 (2008: 135,371,249) ordinary shares, being the weighted average number of ordinary shares in issue during the period. The diluted loss per share is calculated on 145,758,626 (2008: 146,950,203) ordinary shares in accordance with the provisions of IAS 33.

## 3. Going concern

With the raising of new equity of €13.4 million in June and on the basis of the latest cash flow forecast the Directors consider that the Group is adequately funded to satisfy its exploration commitments and administrative costs over the next twelve months.

## 4. Interim statement

Copies of this Interim report for the six months ended 30 June 2009 will be available on the company's website [www.aurelianoil.com](http://www.aurelianoil.com).



**Aurelian Oil & Gas PLC**  
13/14 Hanover Street  
London W1S 1YH  
Tel: +44 (0)207 629 7986  
[www.aurelianoil.com](http://www.aurelianoil.com)

