

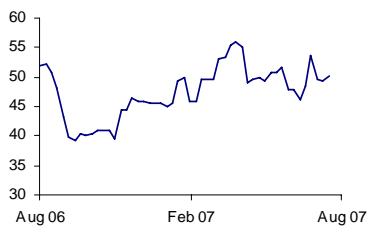
Initiation

Aurelian Oil and Gas

BUY

Share Price

Price	49.95p
Target Price	80p
Upside/downside	60%



Source: ProQuote

Market Data

Stock code	AUL.L
Listing	AIM
Sector	Oil and Gas Producers
Market Cap	£66m
Enterprise Value	£42m
12-month high/low	61p / 36.8p
Next results	Sept 2007

Focus on Central Europe

Aurelian Oil and Gas has a balanced portfolio focused on Central Europe an area that has not benefited from western drilling and completion technology until recently. Aurelian is well positioned being adequately funded into 2009 for its current operations. Near term exploration drilling and appraisal news due in September, if successful, should really drive the share price forward.

Balanced Portfolio

With assets spread from Poland to Bulgaria, Aurelian has a diverse portfolio including production in Romania, exciting deep appraisal in Poland and equally exciting and value driving wildcat exploration in Bulgaria, supported with medium term upside from assets in Poland and Romania, Aurelian presents a balanced portfolio. A growing need to increase domestic gas production in these countries plus under utilisation of modern western drilling and completion techniques places Aurelian in an excellent position to grow and deliver on its current asset base.

Experienced Management

With equal ability to operate or be an active partner on its asset base, Aurelian has a proven and capable management team, with direct experience of the region over many years. With an estimated cash balance for the 2007 year end of £23.4mn Aurelian is adequately funded to fulfil its planned work commitments into 2009. Although increased liquidity in the shares would be helpful any fundraising event would have to have a specific story.

Excellent Buying Opportunity Ahead Of News Flow.

We determine the core value of Aurelian to be around the 20p level, although already trading at a premium we feel a higher target of 80p is justified on the basis of potential 2P reserve size in excess of 200bcf for either Poznan East in Poland or Goltiza in Bulgaria in the next few years. Although poor results from both news items will depress the price, probably into the high 30p's, further downside is protected by the current portfolio including adequate cash funding, production and planned work into 2009 plus the proven ability of the company to acquire assets.

What's changed - comment

- Near term news flow offers excellent buying opportunity for what could be game changing appraisal and exploration drilling.

Company Statistics

Shares in Issue	134m
Net debt	£0m
Gearing	Cash
Interest cover	n/a
NAV per share	n/a

Company Description

Oil and Gas exploration, development and production in Central and Southern Europe

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Figures	12/05A	12/06A	12/07E	12/08E
Turnover (€m)	0	0.38	2.7	2.5
EBITDA (€m)	-0.9	-2.9	-1.7	-2.3
DS&C PBT (€m)*	-1.4	-2.3	-2.0	-3.1
Tax (€m)	0	0	0.5	0.5
DS&C EPS (p) **	-14.24	-1.44	-1.23	-1.74
CFPS (p)	33.2	33.0	-10.2	-10.0
DPS (p)	0.0	0.0	0.0	0.0
Ratios	12/05A	12/06A	12/07E	12/08E
P/E (x)	n/a	n/a	n/a	n/a
EPS Growth (%)	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	n/a	n/a	n/a
Cashflow yield (%)	n/a	n/a	n/a	n/a
Yield (%)	n/a	n/a	n/a	n/a

* pre-exceptional items and goodwill

** diluted, pre-exceptional items and goodwill

Source: DS&C

EUROS (€)	2005A	2006A	2007E	2008E
Total revenues and other income	0	380,000	2,709,854	2,535,103
EDITDA	-896,000	-2,944,000	-1,728,841	-2,333,453
Retained Profit	-1,377,000	-2,273,000	-2,600,765	-3,673,996
Fully Diluted EPS	-14.24	-1.44	-1.23	-1.74
Net cash provided by operating activities	-863,000	-1,278,000	-2,236,412	-2,850,090
Capital expenditures - Exploration	-548,000	-6,163,000	-19,270,073	-18,248,175
Capital expenditures - Development	-1,081,000	-2,427,000	-240,876	0
Net cash used in financing activities	0	5,703,000	61,751,000	0
Free Cashflow	0	-2,492,000	-9,868,000	-21,747,361
Fixed Assets	0	7,554,000	15,152,000	35,027,302
Cash and cash equivalents	4,612,000	56,495,000	34,747,639	13,649,374
Net Assets	0	3,926,000	65,394,000	69,650,922

Source: DS & C

Investment Case

Currently capitalised at £65mn, Aurelian, floated on AiM in August of 2006 raising £12mn. Its focus is on new and accession EU states in Central and South Eastern Europe, its key selling point is being able to apply modern exploration and development techniques on proven hydrocarbon areas that have not had the benefit of this technology previously. Exciting September news flow could transform the company into the next league if positive.

Aurelian currently has assets in new EU or EU accession countries namely Poland, Romania, Slovakia and Bulgaria. This geologically complex but extensively explored and proven area includes a number of discrete basins. In addition the fiscal environment has remained stable, and also favourable, to oil and gas exploration for a long time. Under investment in many of the countries, plus a growing desire to increase domestic production, has allowed Aurelian to grow its asset base since floating.

Aurelian is well placed to develop its portfolio, being adequately funded with an estimated £23.4mn for year end 2007, up to the beginning of 2009.

Growing demand for gas within the operated countries, and also further afield in Western Europe, should ensure adequate commercial prospects for producible gas. Although central and south-eastern Europe currently price gas at a discount to western European prices; this is being redressed through rising import prices from Russia and EU legislation requiring liberalisation of gas markets. Aurelian therefore will benefit in the longer term from these rises.

Aurelian has small scale production from the Bilca field in Romania, although the first two development wells have been unsuccessful small scale upside exists in nearby fields that can be monetised readily through existing facilities. A 10 year gas off take contract is in place with a Romanian subsidiary of Wintershall.

Two near term operations present genuine upside for Aurelian, and represent company transforming potential if either or both are successful. Poznan East has already been shown to contain gas but the reservoir, as expected, has poor permeability and must be artificially fractured to demonstrate commercial production rates. The reservoir may also be compartmentalised and thus horizontal wells will be the most likely development scenario, although expensive it will allow a more efficient development. Initial news will be in September declaring the results of the fracking and short term test, further 3D seismic is planned in 1Q08 to further assess the commercialisation of the asset which could be bankable in twelve to eighteen months.

Golitz-Solnik is a wildcat well that is also due to be announced in September when it is planned to reach its 5,000m target depth. The well, operated by JKC, in which Aurelian have a 50% working interest is a wildcat well but could demonstrate the presence of a very significant deposit of oil or gas. Again this prospect represents a game changing scenario if successful.

Longer term upside will be delivered by drilling in Romania, more wildcat exploration in Bulgaria and seismic and drilling in southern Poland. Aurelian has also demonstrated it can build its portfolio with corporate deals, at the asset level, and also in auction/licensing rounds. Corporate level M&A is obviously not ruled out but in our opinion we feel Aurelian will continue its current growth strategy as it is unnecessary to get involved in currently expensive, even value destroying M&A transactions.

We determine the core NAV of Aurelian to be around the 20p level on a fully diluted basis. Already trading at around a 30p premium we feel a higher target, of 80p is justified on the basis of the upcoming news from Bulgaria and Poland in September could add in excess of 150-200 bcf at the 2P level each over the coming year or so utilising a very conservative in the ground 2P price of US\$1/mcf. Although there risk exists in both these assets; where failure could see the share price depressed into the 30p area until further news brings it back up, success on either will represent a game changing scenario for Aurelian.

Given the short timescales to news flow this represents a great buying opportunity to capitalise on a potential share price rise but also buy into longer term upside. We initiate on Aurelian with a Buy recommendation and target of 80p.

Growing asset base and adequately funded into 2009. Aurelian is well placed to add value.

We determine core value of 20p and set a 12 month target of 80p

Risks

Oil and gas exploration is of course a risky business; here we present what we feel are specific micro and macro risks to Aurelian Oil and Gas

Most risks are technical although the growing influence of Gazprom throughout Europe may restrict activities going forward.

Technical

Poznan East is tight and fracking is not guaranteed to establish sustainable economic flow rates. In addition there is evidence the reservoir is compartmentalised and as such high quality 3D seismic to identify targets for horizontal wells will be required to develop the field. Even with a successful short term well test in 2008 the results of the 3D seismic could show the reservoir is too heavily compartmentalised even for horizontal wells. Costing around US\$30mn each correct placing of these wells is critical for commercial success.

Commercial

Although the current fiscal regimes in the countries in which Aurelian operates are favourable being tax/royalty based they are subject to change at short notice. However given the stated desire of these countries to diversify energy supplies and increase domestic production we see this as unlikely at this stage.

Political

There is concern within Europe of the rapidly growing influence of Gazprom. The Russian state controlled gas player already imports the largest proportion of gas into Europe with 65% of Russian exports going to the EU, the stand off with Ukraine in early 2006 highlights the power Russia could wield over Europe.

Although the export routes pass through the countries in which Aurelian holds its assets this in itself is not the major issue potentially affecting Aurelian. Of greater concern is the extending influence Gazprom is building across Europe, mostly through corporate transactions in national and regional oil companies, as well as local transmission, distribution and retail companies. These include Hungary's MOL, Germany's Wingas, Austrian OMV, Bulgargaz and Romgaz; as well as publicly declaring an interest in pursuing BG or Centrica.

This growing influence of Gazprom, and thus the Russian State, in the countries Aurelian operates could affect Aurelian by restricting its access to new acreage, curtailing the access to distribution systems or restricting the gas price paid at the wellhead regardless of EU legislation. Although not an immediate threat it is one investors and Aurelian will have to monitor.

Central Case

Founded in 2002, Aurelian floated on AiM at 53p in August 2006 having raised £12mn, capitalising the company at £73.8mn. Its focus is on Central and South Eastern Europe, in particular the Carpathian Mountains, with the strength being able to apply modern exploration and development techniques on proven hydrocarbon areas that have not had the benefit of this technology previously.

Central and South Eastern European Oil and Gas

Aurelian is focused on either new EU or EU accession states with assets currently in Poland, Romania, Slovakia and Bulgaria. This geologically complex but proven and extensively explored area includes the Carpathian-Balkan Basin, the Transylvanian Basin, the Pannonian Basin, and the North Carpathian basin.

These basins have had significant historical production; in particular, the Carpathian-Balkan Basin Province has reserves plus cumulative production in excess of 7.2 billion boe and the Transylvanian Basin in excess of 5.0 billion boe. Whilst the area is a proven hydrocarbon province the geology is very complex and the reservoirs often have poor permeabilities and porosities, in addition the deposits are often over pressurised due to significant faulting and tectonic movement in the region.

Due to these technical issues, historic exploration and production in the region, mostly undertaken by Soviet companies, was hampered with not only drilling problems but also production sustainability issues, as well as not having access to western technology. In addition the majority of discoveries in the region are predominantly gas and as such routes to market become a critical element of the commercialisation of any discoveries.

The opening up of the region following the collapse of the Soviet Union and the more recent rise in commodity prices, especially gas, has led to a number of Western oil and gas companies, including BG, Shell, JKC and Tullow amongst others, entering the region with the view to applying modern drilling and completion techniques.

Existing and growing gas markets in the operating areas helps monetisation of assets

Gas Market

The market for gas is growing across Europe, and it is widely accepted that it will continue to do so over the next 5-10 years. The International Energy Agency (IEA) predicts that gas will overtake coal as a primary energy source by 2020; being driven by the increased availability and deliverability of gas as a natural resource but also environmental legislation requiring "greener" fuels.

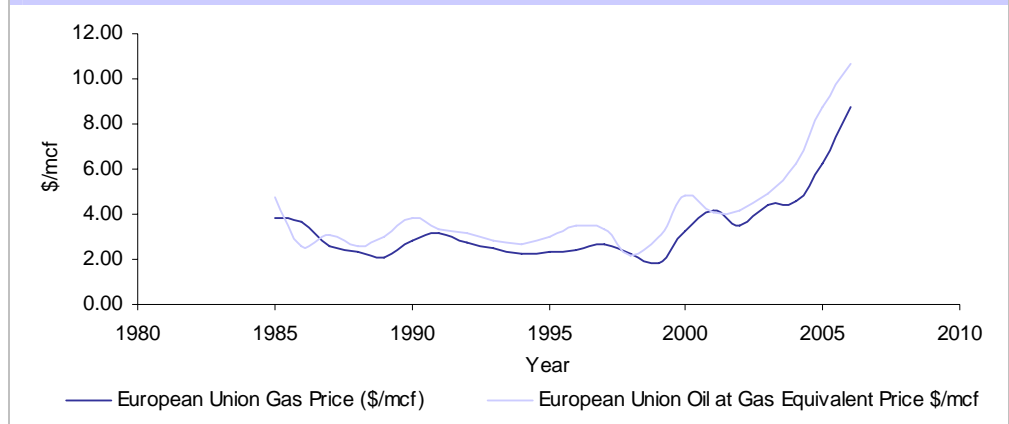
Global gas reserves are sufficient for 66 years without another molecule being discovered however of concern for Europe is the growing need to import gas to meet rising demand. By 2030 Europe will need to import 500bcm of gas, as predicted by the IEA, twice the level of 2003. As gas can only be transported economically across continents by pipeline the continued rise in demand for gas has seen the constraint in the transportation network growing, especially in export routes from Russia.

This, amongst other factors has led to the increase in prices and liquidity of the European gas market and as such the pricing differentials across the continent are converging towards the higher Western European prices and indeed gas prices in general are trending to follow the oil price.

The route to monetising a gas discovery for Aurelian will most likely be one of two options.

1. Entering the network of pipelines that cross the Central Eastern European region on their way from Russia to western markets.
2. Supplying local power/industry and population centres via independent gas companies

Figure 1. European Gas Prices



Source: BP Statistical Review of World Energy 2007

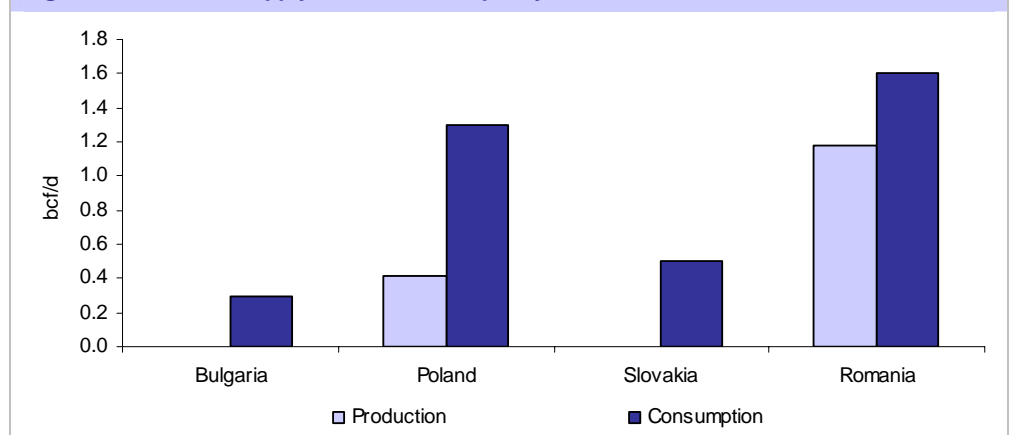
Option 1, where economically and technically viable, will open up wider markets to Aurelian and also possibly higher prices but will also expose the company to wider issues such as negotiating pipeline capacities and entry locations. Option 2 will possibly mean higher capital costs but would help Aurelian develop local relationships, enabling it to build its business on a strong local footing if successful.

Option 2 is supported by the demand/supply scenario for the countries in which Aurelian currently holds acreage and clearly demonstrates a local demand for gas, in particular Poland.

Currently the main, sometimes exclusive, source for gas imports for the countries in which Aurelian is active is Russia and as such they are exposed to geopolitical pressures and it therefore seems reasonable that any company endeavouring to help bolster domestic production will be welcomed.

This rise in demand; increase in commodity prices and use of modern exploration techniques enables gas exploration to be an economic proposal in many areas where it wasn't previously and places Aurelian in a strong position going forwards.

Figure 2. 2006 Gas Supply/Demand Discrepancy

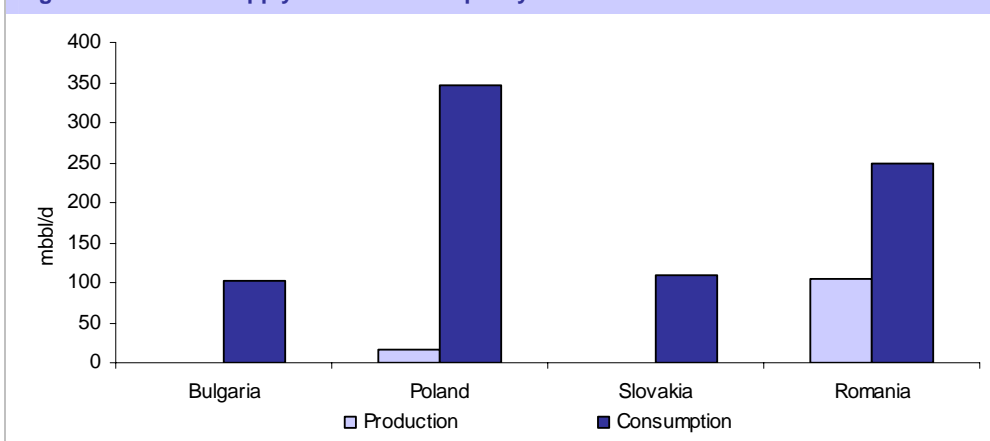


Source: BP Statistical review of World Energy 2007

Oil Market

The market for oil in the region is strong showing a similar picture for the supply demand balance as gas supply did, with the predominant demand coming from refineries and the import balance, almost exclusively coming from Russia.

Figure 3. 2006 Oil Supply/Demand Discrepancy



Source: International Energy Agency

Aurelian is predominantly looking for gas, given that is the regions predominant underexploited hydrocarbon, however if oil is discovered in its exploration blocks it will be relatively easily monetised given the established international transit pipelines in the region and also the local refineries.

Aurelian Oil and Gas

Originally called Falcon Oil and Gas, Aurelian was founded in 2002 with the strategy to acquire, explore and develop oil and gas properties. The company raised £30.6mn in March of 2006 in a private placement, floating on AiM in August of 2006 raising a further £12.3mn.

The company has not rested on its cash reserves and has already grown rapidly from the acreage position it held on listing:

- Established production on the Bilca gas field in Romania,
- Farmed into additional acreage in Romania,
- Increased its acreage position in Poland,
- Drilled five wells
 - A wild cat on Golitza, Bulgaria. Target depth to be reached in September 2007
 - Uncommercial wells at Radauti East and Arbore-1 in Romania plus another operated by Europa Oil and Gas
 - Trzek-1 on the Poznan licence in Poland which has encountered a gas column and will go on test once fraced in September.

The company's strategy is to develop new discoveries through further seismic acquisition and aggressive drilling programmes on its exploration acreage as well as acquire interests in exploration or producing assets where the company perceives there to be upside potential.

Adequately funded for its programme into 2009 Aurelian has a balanced portfolio of production and development drilling as well as some exciting high impact, albeit high risk, exploration drilling. We see Aurelian building its asset base through licensing rounds and tenders, as well as small deals in the region.

We don't expect any major M&A activity for the company in the near term given managements time is fully occupied in developing its wide spread asset base on which the current cash balance is committed. As such any M&A deal will have to be highly leveraged and this would mean buying production or very late stage development, deals like this are not only hard to come by but also very expensive, thus value creating M&A deals are very difficult to achieve in the current pricing environment and as such, in our opinion, wont be contemplated by management

Assets

Figure 4. Aurelian Asset Base



Source: Aurelian

The following details the current asset base

Aurelian Asset base – August 2007

Country	Licence	Interest	Operator
Romania	Bilca Production	62.54%	Yes
	Brodina Block EIII-1	33.75%	Yes
	Cuejdiu Block EIII-3	45.00%	Yes
	Bacau Block EIII-1	82.50%	Yes
	Suceava EIV-1	50.00%	Yes
	Brates EPI 3	6.80%	No
Poland	Poznan East Block	90.00%	Yes
	Bieszczady	25.00%	No
	Cybinka	90.00%	Yes
	Kalisz	90.00%	Yes
	Torzym	90.00%	Yes
Bulgaria	Golitza Block B	50.00%	No
	Golitza Block B1	50.00%	No
Slovakia	Medzilaborce	100.00%	Yes
	Snina	100.00%	Yes
	Svidnik	100.00%	Yes

Source: Aurelian

Romania

As a new EU member Romania has opened up its gas market and as such the price between the international and domestic gas prices will narrow over the coming years. The natural gas market, the largest in central Europe, is controlled by ANRE, the state controlled energy agency.

According to the agency it is liberalising the market in line with EU requirements, however to shelter domestic consumers from rapid price rises between the Russian import price and the old domestic supply prices an average price is employed, currently this is around \$4.8/mcf.

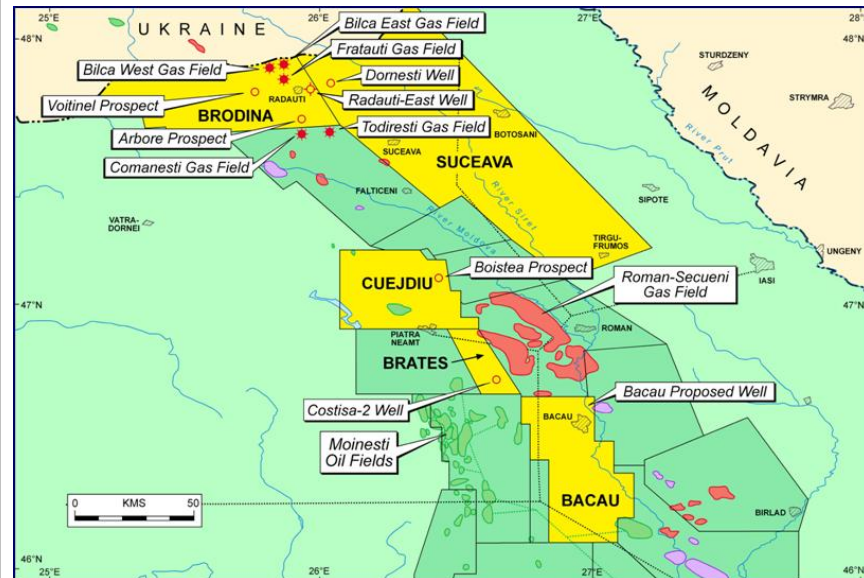
Brodina and Bilca Production

The Brodina Block is situated on the eastern margin of the East Carpathians, on the Ukraine border. The resources and prospectivity of the block are mainly found within the Miocene gas accumulations in the foredeep and also within large subthrust structures.

Bilca/Fratauti, in which Aurelian holds a 62.5% interest, commenced production in 3Q 2006 at around 6 mmscf/d. A 10 year Gas Sales Agreement (GSA) has been signed and is in place with a local gas supplier, a Wintershall subsidiary. In addition there are nearby low risk prospects which will be drilled with the intention of adding to current reserves and eventual production at the existing facilities.

Of all the identified prospects to date, Voitinel, offers greater upside (unrisked 2C Contingent Resource of 55 bcf) than the shallower prospects on the block, the potential is much deeper and thus more expensive to drill and therefore carries higher risk but is intended to be drilled in early 2008.

Figure 5. Romanian Asset Base



Source: Aurelian

Brates

Brates was farmed into in May 2007 and is operated by Europa Oil and Gas (AIM:EOG). The intention is to re-drill a previous well, Costisa-1, that encountered shallow gas on the way to targeting a deeper gas potential which turned out to be dry.

The well, then operated by Tullow was abandoned but subsequently taken over by Europa. The well, Costisa-2 was spudded in early June and was intended to be a 40 day well but as yet no announcement has been made. As such we feel little focus should be placed on this concession especially given Aurelian only currently have a 6.8% working interest.

Suceava

Aurelian farmed into this block, which was previously 100% owned and operated by the much maligned Regal Petroleum (AIM:RPT). Aurelian have taken 50% and operatorship of the block and have subsequently acquired 2D seismic and identified a number of potential gas shows, one of which will be drilled in 3Q 2007.

Cuejdiu

Aurelian operates this concession on which many high amplitude seismic returns have been analysed. Although structural definitions are complex in this block and the status of the trap is uncertain these risks should be reduced with the current seismic program which may lead to subsequent drilling.

A summary of the CPR determined reserves and prospective resources are shown at the end of this chapter.

Romania – Fiscal regime

As with all the countries in which Aurelian operates the fiscal regime is both favourable and stable. There are no special petroleum taxes and the CRT rate is 25%, royalties are payable on a sliding scale, based on production volumes, for oil these are from 3.5%-13.5% and 3.3%-13% for gas. The state company (RomPetrol/Romgaz) is involved with Aurelian on Brodina and Cuejdiu. Whilst these are of course subject to short term change we are of the opinion that this is unlikely given the need to encourage domestic exploration and production to reduce the dependency on imports.

Romania – Our opinion

There exists some potentially lucrative upside for Aurelian in Romania as it forms the largest component of its acreage, and whilst the production from Bilca is small it services a small debt and helps contribute to G&A expenditure, above all it provides valuable experience as an operator.

The operating regime with the country is being deregulated, albeit to large multinationals as is witnessed by the involvement of Wintershall, E.On and Gazprom. However on the smaller local scale we feel there is plenty of opportunity for a technologically focused and cost conscious operator like Aurelian.

The potential prospects with significant size, namely Voitinel, whilst being higher risk, deeper and more expensive to develop do offer good upside. It should also be stressed that although some of the smaller prospect, if proven of course, could be uncommercial on a stand alone basis given the limited access and export infrastructure in some of the remoter parts of the country, they could be monetised as grouped units. Any significant discovery in Romania, given local demand, should be commercial given the favourable fiscal regime and reasonable operating environment.

Poland

As an established EU state possessing a skilled workforce plus a strong local market demand coupled with existing infrastructure makes it an interesting area for exploration and development. Use of modern 3D seismic and improvements in deep drilling technology has led to new commercial discoveries being made in deeper reservoir horizons reviving what was once considered an industry in decline.

Polish oil and gas exploration is certainly not in its infancy and it is often claimed to have started in the country when in 1854 Ignacy Lukaszewicz drilled the world's first oil well in Bobrka near Krosno; Poland is also one of the worlds leading Amber producers and a leading exporter of coal.

The Polish Government has recently part privatised both the national oil and gas companies but retains a majority stake in them, other companies active in the country include RWE, FX Energy, CalEnergy and Apache, the largest foreign holder of licences.

The predominant reservoir rock in the country is the Rotliegendes Sandstone, the prolific producer of the Southern North Sea gas basins and the Netherlands, and as such is relatively well understood geologically. The rock however in Poland is a lot less porous and permeable than in the Southern North Sea and as such good fraccing, where the rock is broken apart by applying high pressure fluids, and good completion techniques, to control sand influx into the wells, are almost always required in gas and oil exploration in Poland.

As with the other countries in which Aurelian holds its asset base, the majority of Poland's imported gas comes from Russia as it serves as one of the main transit routes into Germany. However Poland will soon be bypassed by the Nord Stream pipeline that will travel along the Baltic Sea straight into Germany from Russia and as such potentially removing Poland's direct source of imports, therefore the Polish government is very keen to encourage domestic exploration and production

Poznan East Concession

This concession contains one gas field; Siekierki, on which four successful wells were drilled in the 1970's, all had gas shows but at very low, sub-commercial, rates. Examination of the cores by Aurelian has led it to believe that the reservoir has poor permeability (tight) due to its location off the main Rotliegendes reservoir, and that the technology used to drill the well, namely the mud density, was completely inadequate.

In reviewing the CPR it would appear that Gas/Water Contact (GWC) in one of the historic wells is 100m lower than in the other three which leads us to believe the reservoir is most likely compartmentalised as well; it has also been shown that the reservoir conditions improve with depth. The reservoir at nearly 4,000m is certainly deep, even by modern standards; however the belief that nearly 1tcf of gas could be in place certainly justifies the appraisal drilling.

Aurelian's well, Trezk-1, spudded in early March and reached target depth at the end of July. Hydrocarbons were encountered and indicate good gas saturation in the reservoir, the porosity was better than expected but the permeability; as expected, was low. The well will be fraced by

Halliburton in September over a two week period and if successful put on extended well test for a period of at least 6 months to establish if the field produces commercial flowrates.

Due to the depth, drilling is expensive with traditional vertical wells costing up to US\$10m and horizontal wells, most likely the choice of producer if the reservoir is shown to be compartmentalised, costing between US\$30 and 40mn. However 3D seismic that is being planned for early 2008 will allow these to be optimally placed and field development to be progressed.

Figure 6. Polish Concessions



Source: Aurelian

On the downside the gas sampled to date has a low calorific value and as such cannot be injected into the grid but needs to be mixed first and also attracts a discounted price of around \$4/mcf.

Alternatively the field, if recoverable reserves are sufficient, could be developed on a stand alone basis and the gas exported the short distance to the city of Poznan. Once fully operational the CPR predicts that the flow rates could be around 100mmcf/day.

This project is what has focused us on Aurelian and could add significantly to the core NAV of the company over the next year as the field is proved up. Total capex on the field is anticipated to be around US\$150mn of which a good portion, around 80-85% will be a reserve based lending facility or similar.

Cybinka, Torzym and Kalisz

These blocks were conditionally awarded to Aurelian in July 2007 and will be confirmed at the end of the year. Aurelian has a 50% stake in each of the blocks and is the operator. 3D and 2D seismic is planned across the blocks in 2008.

Poland – Fiscal regime

As previously discussed the region has favourable fiscal terms with Poland having no special petroleum taxes and a CRT rate of 19%. Polish royalties are also very favourable at \$1.21/bbl of oil and \$0.042/mcf Gas.

In addition to the currently favourable terms the Polish Government has stated the wish to meet 1/3rd of demand from domestic production to help diversify its sources of supply, as such this presents a good operating environment for Aurelian.

Poland – our opinion

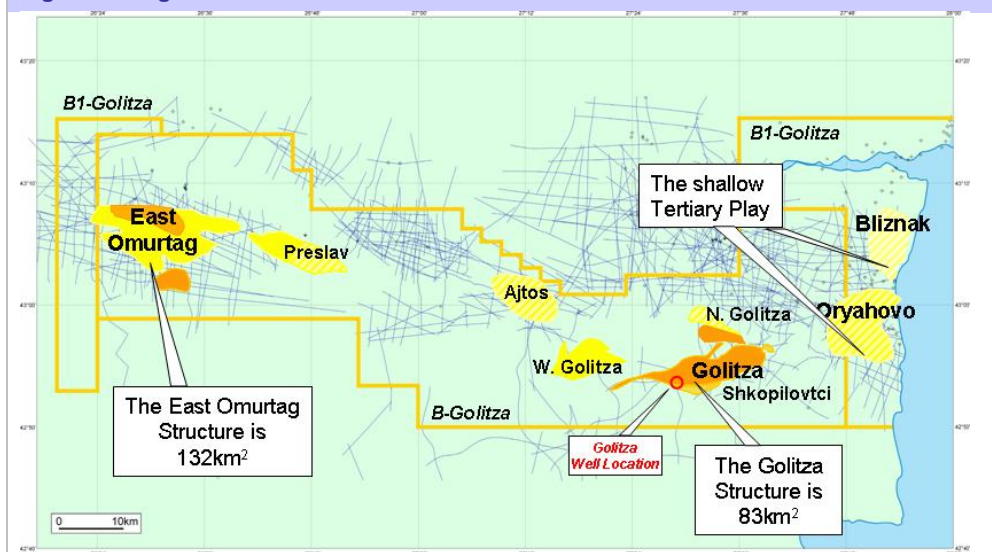
As discussed Poznan East is a focal point in the future fortunes of Aurelian, it is certainly not without appraisal and development risk and has a high Capex price ticket. That said the potential size of the reserve and the technology available to day makes this a very exciting prospect for Aurelian.

Success on this project, which will be significantly de-risked after the fracking in September, should push Aurelian to the next level as an oil and gas company. The short time scale to completion of early testing on this hydrocarbon proven reservoir and the current share price lead us to conclude that this is an excellent buy opportunity.

Bulgaria

Bulgaria, unlike Poland and Romania, has little in the way of indigenous oil and gas apart from a few developments in the north of the country and in the Black Sea. Like the other nations it imports the balance from Russia, as such Bulgaria is also seeing a rise in domestic gas prices as Russian import prices increase and as it aligns itself to EU legislation.

Figure 7. Bulgarian Concessions



Source:

Golitzia

Until 1998 this prospect was held by British Gas, who undertook seismic work and identified four known potential reservoirs, these are two Triassic limestone reservoirs and two deeper Jurassic sandstones. Aurelian reprocessed this seismic in 2005 and identified the location for the Solnik well which spudded in April 2007 and is due to reach its very deep target, in excess of 5,000m in September.

Aurelian holds a 50% interest in the block, which is operated by JKN following their farm in in 2005. The target is stated to hold around 2.5tcf as a best case unrisks prospective resource by Scott Pickford and could indeed even hold oil of around 1 billion barrels in place.

Bulgaria– Fiscal regime

Like the other countries Bulgaria has favourable terms including a 15% CRT rate and a royalty, based on production, between 2.5-30%.

Bulgaria – our opinion

The Solnik well, which will reach target depth in September, is without a doubt a high risk high reward venture. However should it prove up a reserve base, or at least contingent resources it could again be a game changing scenario for Aurelian. The short time scale to news and the current share price lead this to be another good buying indicator in the stock.

Slovakia

The 3 blocks in Slovakia and the Bieszczady block in Poland all bound each other in the South East of Poland, on the Slovak border. Although in a proven hydrocarbon area where shallow gas fields have been exploited (some being utilised for storage) it is an under explored and remote region. The seismic that does exist indicates some deep structures but further seismic work needs to be undertaken prior to any drilling activities. It is anticipated that seismic will be acquired in early 2008 and as such no value is attributable to these assets currently.

Management

As with all small oil companies the success, in some part, comes down to the experience of the management team. Not only in the technical competences it can demonstrate regional geology and environment in which it operates but also the non-technical skills, in particular establishing and maintaining proper and transparent relationships with service providers, local and regional legislature and even national where appropriate.

Whilst an experienced and motivated management team is not guaranteed to find oil and gas it certainly helps investors differentiate a potential growth company.

Michael Denys Seymour, Executive Managing Director

Mr. Seymour, the founder of Aurelian, is a geologist with 35 years of experience in the oil industry. He has industry experience with Burmah Oil Company, Conoco-Philips, Inc. and Kerr-McGee Corporation.

He has founded two oil companies previously, Teredo Oils Limited in 1984 which was subsequently acquired by Cairn Energy plc in 1993, and Medusa Oil Limited in 1992 which was acquired by Ramco in 1997 where he and he became exploration director of Ramco.

Following a change in corporate strategy at Ramco in 2002, Mr. Seymour entered into an agreement to leave Ramco.

Francis (Frank) Paul Jackson, Executive Commercial Director

Mr. Jackson joined Aurelian on its formation in 2002 as a non-executive Director and assumed executive responsibilities from April 2005. He has over 30 years' experience in funding and developing projects in the natural resources sector. He has worked with Rio Tinto and Anglo American Corporation, among others, in the mining sector in Africa.

Starting in 1982, Mr. Jackson began managing and funding projects in the oil, mining and water industries in Europe and, particularly Eastern Europe, living in Poland from 1989 until 1995. He was the founding chairman of the British Chamber of Commerce in Poland. Mr. Jackson was also the chairman of the Medusa Group of Companies until its sale to Ramco in 1997.

Roy Hartley (aged 58), Executive Operations Director

Mr. Hartley is a chartered petroleum engineer with a career of more than 30 years in the oil industry. He worked for 13 years with Shell mainly in operations and in research and development before working as a consultant specialising in reserves evaluation, mature field development and production technology problems.

He joins the Company from Helix RDS Limited where he worked closely with Aurelian on the development of the Romanian and Polish licences. Mr. Hartley is a Fellow of the Geological Society of London and a Fellow of the Energy Institute. He is a member of the Society of Petroleum Engineers and is a long standing Technical Editor for which he has three times received recognition for outstanding technical contribution and exceptional effort.

David Gifford Leathes Prior (aged 51), Non-executive Chairman

Mr. Prior is a barrister with experience in investment banking with Lehman Brothers, Lazard Freres and Dillon Read and in the commercial sector with British Steel, GEI International plc and a number of private industrial companies. In 1997, he became a Member of Parliament and subsequently Deputy Chairman and Chief Executive of the Conservative Party.

After the 2001 General Election he went into the private equity business and became chairman of the Norfolk and Norwich University Hospital.

In addition to the directors above, Aurelian have a number of senior managers that have direct experience and ongoing exposure to the areas of operation.

Shareholders and Share Price Performance

Shares

Aurelian's position as of August 2007 was

Description	Source	Number
Normal Shares Outstanding	Proquote	134,700,000
Dilutive Shares		
Options in the money (<50p) warrants	2006 Annual Report Listing Document	4,102,180 4257167
	Fully Diluted	143,059,347

Source: Aurelian Listing Document, Proquote

Shareholders over 3%

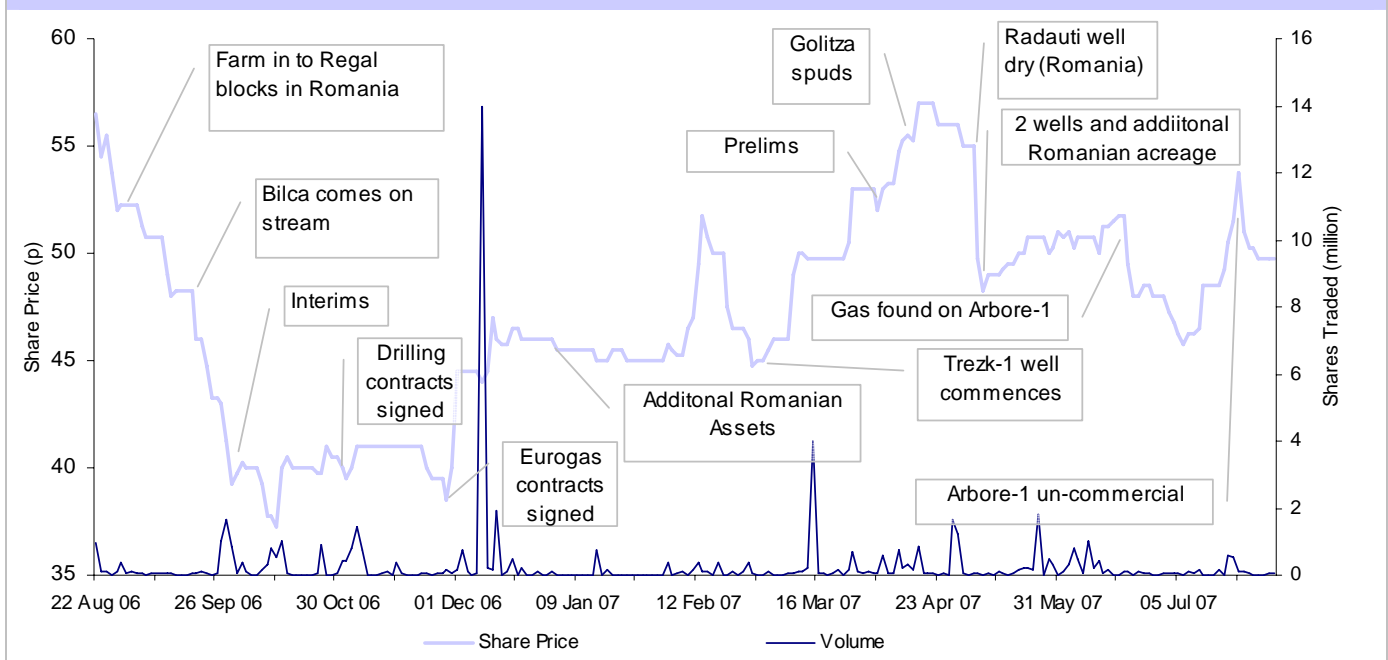
Shareholder	Percentage Holding
Ospraie Management LLC	12.61%
Blue Ridge Capital	9.67%
Millennium Partners	9.39%
The Ospraie Portfolio Limited	4.74%
Lord Sainsbury of Preston Candover	4.53%
M D Seymour	3.41%

Source: Hemscott

The stock is quite tightly held and the free float is around 20%.

Share Price Performance

Figure 8. Share Performance, Volume and News flow



Source: Daniel Stewart

Shares fell heavily after listing but have since recovered ground reacting to news flow.

The stock is however tightly held and lacks good liquidity.

The shares had a fairly rocky ride after floatation and have only regained a value close to their listing price. However, in the last few months the price has reacted to news flow.

Of interest is the reaction in the share price to the Radauti and Arbore uncommercial wells; the wells on the Brodina block, Romania, were drilled to appraise the area around the Bilca production field and although would have improved the core NAV of the company were not high impact and certainly not of a value representative of the drop in market value that was seen.

This "dry hole arbitrage" represents an excellent entry point for investors in oil and gas stocks post poor drilling results provided there is future news flow to drive the prices forward. At present the key value drivers for Aurelian are the outcome of the fracturing and short term test at Poznan East testing and also the Bulgarian wildcat well on Golitza, both to be announced in September.

Success in either of these will transform the company, the one holding greater value in our opinion being Poznan East, as the lead times to monetisation are shorter. As they represent the very near time upside for Aurelian and are announced at more or less the same time a dry hole arbitrage opportunity may not exist and we recommend buying the stock now, ahead of the September news flow, to capitalise on positive announcements. Downside is protected by the current portfolio including adequate cash funding, production and planned work into 2009 including Romanian development and longer term work in Bulgaria and Poland.

The risks should not be ignored however, the Bulgarian well being a wildcat and the potential delays surrounding the technical and off take issues on Poznan East; failure in both these ventures could see Aurelian share prices fall into the 30p range.

Competent Persons Report

The competent persons report, undertaken for the listing, by Scott Pickford, summarises the reserves, contingent and prospective resources of Aurelian at the time of floatation.

These are summarised below, the reserves information forms part of our core valuation whilst the contingent and prospective resources don't form part of our core value but help assess news flow and stock price upside.

We have updated the classification to correspond with the new "Petroleum Resource Management System" prepared by the Society of Petroleum Engineers and recommended by AiM.

2P Reserves

	Net 2P Reserves	Net NPV(10) (Scott Pickford)	In Ground Value
Poland			
Bilca / Fratauti	2.80 bcf	US\$ 06.4 mn	2.29 \$/mcf
	2.80 bcf	US\$ 06.4 mn	

Source: Scott Pickford

Contingent Resources

	Net 2C Contingent Resource	Net Risked Value (Scott Pickford)	In Ground Value
Poland			
Poznan East	500.00 bcf	US\$ 130.1 mn	0.26 \$/mcf
	500.00 bcf	US\$ 130.1 mn	

Source: Scott Pickford

Prospective Resources

	Best Estimate Prospective Resource	Net Risked Value (Scott Pickford)	In Ground Value
Romania			
Brodina Block	77.10 bcf	US\$ 16.3 mn	0.21 \$/mcf
Cuejdiu Block	87.50 bcf	US\$ 23.9 mn	0.27 \$/mcf
Bacau Block	23.20 bcf	US\$ 10.6 mn	0.46 \$/mcf
Bulgaria			
Golitzia	2316.00 bcf	US\$ 187.8 mn	0.08 \$/mcf
	2503.80 bcf	US\$ 238.6 mn	

Source: Scott Pickford

It is assumed the CPR will be updated once the outcomes of the drilling in Poland and Bulgaria are known.

News Flow Timeline

Oil and gas stocks trade a lot on general sector sentiment and global macro issues as well as company specific news flow. The following attempts to attach a timeline to anticipated

Short Term

- September 2007. Results from fracking and short term production testing on Poznan East block well, Trezk-1. This will help determine the commerciality of the project and could signal a real shift in the further fortunes of Aurelian.
- September 2007. Golitza Block, wildcat well Solnik, reaches target depth. Evidence of whether hydrocarbons are present will give indication that block could be viable. Further work will be necessary to determine commerciality. Although a wildcat success on this block will see Aurelian promoted into the next league of oil and gas companies.
- 4Q 2007. Results from lower risk Romanian shallow wells. Although these wells have smaller upside in terms of value than the previous two wells they are lower risk and will help improve short term cashflow.

Genuine upside exists in the near term for Aurelian. Although high risk and certainly not guaranteed success in either Poland or Bulgaria will transform Aurelian

Longer Term

- Early 2008. Production test of the Poznan East field, will enable a field development plan to be formulated and reserves to be firmed up. An extended well test leading to production could also mean that debt could be sourced and utilised early on in the project. This will be clearer after 3D seismic is shot and processed.
- 2008. Seismic acquisition across deeper Polish/Slovak prospects possibly leading to drilling in late 2008.
- Given the track record so far it is likely that further acreage will be obtained either through bidding rounds or corporate actions, although we feel the latter is the least likely option.

Valuation

We consider the 2P Reserves and Cash as core values for Aurelian and take consideration of the near term upside to arrive at a target price based on fully diluted share numbers.

Core value

Cash – We predict Cash at the end of 2007 to be £23mn

2P Reserves – We have run our own DCF cash flow model on the Bilca development. We consider gross 2P gas reserves of 9.8 bcf, an initial production of 6 mmcf/day declining over a 10 year field life and consider a minor element of ongoing Capex and Opex in the region of \$0.5/mcf and \$200k/year escalating at 2.5%. We consider the long term Gas Sales Agreement and price the sales at \$4.5/mcf without escalation.

We take into consideration royalty at 3.5% and corporation tax after allowable expenses of 25% for the duration of the field. We discount the cashflows at an industry norm of 10% to arrive at our PV(10) number at core NAV for the share price on a fully diluted basis of 143mn shares.

Core value

Core NAV	Net Reserves	PV(10)	In Ground Price \$/mcf	Pence/share p
Cash (est Dec 2007)		£23.4m		16.4 pence
Bilca	2.77 bcf	\$5.94m	2.14	2.1 pence
				18.5 pence

Source: Daniel Stewart

We determine a 20p core NAV for Aurelian with significant near term upside potential to be delivered in September

Upside

We consider the absolute limit of core value to be 2P reserves and cash, attaching a firm value to Contingent and Prospective resources is too speculative driven in part by the extended timescales and risks to reclassification as reserves. We see the near term upside in Aurelian being driven by the Poznan East appraisal and the Goltiza wildcat well.

Whilst we attribute no direct value to the upside assets we utilise the Scott Pickford calculated 2C contingent resource level with a view to helping us formulate a reasonable uplift NAV to determine a share price target.

The 2C contingent resource on Poznan East is determined to be 500 bcf net to Aurelian and the more conservative gas scenario Best Estimate Prospective Resource for Goltiza Solnik reservoir is 1.26 tcf.

By considering the asset locations, in addition to the low calorific value of the Poznan gas countered by its near term probability of a reasonable recategorisation from 2C to 2P or 3P reserve category we would place a nominal \$1.0/mcf in the ground value on future 2P reserves.

Comparing this on a transactional basis on a global scale this is equivalent to \$6/boe, and represents a 50% discount to the \$12/boe 2P 2006 transaction value in Europe and is equivalent to the 2P transaction value in Russia in 2006 according to the most recent global M&A handbook published by Herold and Harrison Lovegrove

Considering the current share price, at around 50p, already trades at a 30p premium to our core NAV, representing around US\$86mn (£43mn) in value. Utilising our above assumption this would indicate that new 2P reserves, on a fully diluted basis, would have to equal or exceed 86bcf.

Conservative 2P reserves from the success of either well could mean in excess of 150-200bcf being added to the core 2P NAV over the next few years and thus we feel a target of 80p should be set for the next twelve months.

We judge this target to be a sensible balance between upside risk but also on the downside from either Poznan-Trezk or Goltiza-Solnik being uncommercial. This will be reviewed on the outcomes of both the Poznan and Goltiza news announcements.

The timing is excellent, although obviously carries high risk, to buy this stock before the two main announcements around September. Aurelian have achieved excellent organic growth in the short time they have been listed, coupled with excellent long term upside in a stable fiscal regime with strong local markets and an experienced and motivated management team we feel Aurelian is well placed to progress.

We initiate coverage of Aurelian Oil and Gas with a Buy recommendation with a twelve month price target of 80p.

*Adequately funded into 2009
Aurelian's downside is protected.*

Numbers

The following shows our headline numbers up to 2009. As with all oil and gas companies these are subject to short term alteration dependent on exploration success and also M&A activity.

P&L (Euros, Year Ending December 31st)	FY 2005	FY 2006	FY 2007	FY 2008
Total revenues and other income	0	380,000	2,709,854	2,535,103
Direct cost of sales	0	159,000	438,695	468,556
Depreciation, depletion and amortization	0	0	364,353	823,906
Exploration expense written off	429,000	406,000	0	0
General and Administration expenses	875,000	2,936,000	4,000,000	4,400,000
Profit before interest and taxation from continuing operations (EBIT)	-1,325,000	-3,350,000	-2,093,194	-3,157,359
EDITDA	-896,000	-2,944,000	-1,728,841	-2,333,453
Finance Costs	0	0	0	0
Interest Receivable	83,000	1,365,000	0	0
Interest Payable	137,000	304,000	0	0
Profit before taxation from continuing operations	-1,379,000	-2,289,000	-2,093,194	-3,157,359
Taxation	0	0	507,571	516,637
Goodwill/Exceptionals	0	0	0	0
Profit from continuing operations	-1,379,000	-2,289,000	-2,600,765	-3,673,996
Profit (loss) from other operations	2,000	16,000	0	0
Profit for the year	-1,377,000	-2,273,000	-2,600,765	-3,673,996
Dividends	0	0	0	0
Retained Profit	-1,377,000	-2,273,000	-2,600,765	-3,673,996
Earnings per share – cents				
Profit for the year attributable to shareholder				
Basic	-21.12	-2.14	-1.93	-2.74
Diluted	-21.12	-2.14	-1.82	-2.58
Earnings per share – pence				
Profit for the year attributable to shareholder				
Basic	-14.24	-1.44	-1.30	-1.85
Diluted	-14.24	-1.44	-1.23	-1.74
Number Shares				
Basic	6,519,362	106,111,525	134,700,000	134,200,000
Fully Diluted	0	0	8,359,347	8,359,347
Total	6,519,362	106,111,525	143,059,347	142,559,347

Source: DS&C Estimates and Aurelian

Balance Sheet (Euros, Year Ending December 31st)	FY 2005	FY 2006	FY 2007	FY 2008
Fixed Assets	7,554,000	15,152,000	35,027,302	54,099,383
Current Assets	0	0	0	0
Cash and cash equivalents	4,612,000	56,495,000	34,747,639	13,649,374
Total Assets	13,593,000	73,140,000	71,268,100	67,748,916
Current Liabilities	1,228,000	1,090,000	1,597,571	516,637
Non-current Liabilities	8,439,000	6,656,000	19,607	19,607
Net Assets	3,926,000	65,394,000	69,650,922	67,212,672

Source: DS&C Estimates and Aurelian

CASHFLOW (Euros, Year Ending December 31st)	FY 2005	FY 2006	FY 2007	FY 2008
Net cash provided by operating activities	-863,000	-1,278,000	-2,236,412	-2,850,090
Investing activities	0	0	0	0
Capital expenditures - Exploration	-548,000	-6,163,000	-19,270,073	-18,248,175
Capital expenditures - Development	-1,081,000	-2,427,000	-240,876	0
Acquisitions/Disposals, net of cash acquired	0	0	0	0
Investment in jointly controlled entities	0	0	0	0
Net cash used in investing activities	-1,629,000	-8,590,000	-19,510,949	-18,248,175
CFPS - cents	49.25	48.89	-15.20	-14.80
CFPS - pence	33.22	32.97	-10.25	-9.98
Financing activities	0	0	0	0
Net repurchase of shares	0	0	0	0
New Shares/Equity Raising	-9,000	60,960,000	0	0
New Debt	3,496,000	791,000	0	0
Repayment of debt	0	0	0	0
Net cash used in financing activities	5,703,000	61,751,000	0	0
Increase (decrease) in cash and cash equivalents	3,211,000	51,883,000	-21,747,361	-21,098,265
Cash and cash equivalents at end of period	4,612,000	56,495,000	34,747,639	13,649,374
Free Cashflow	-2,492,000	-9,868,000	-21,747,361	-21,098,265
Debt Adjusted Free Cashflow	-2,355,000	-9,722,000	-21,747,361	-21,098,265

Source: DS&C Estimates and Aurelian

Appendix – Terminology

GLOSSARY OF TERMS

“2P”	proved plus probable reserves
“3P”	proved plus probable plus prospective reserves
“bbl”	barrel(s)
“bcf”	billion cubic feet
“bopd”	barrels of oil produced per day
“Bscf”	billion standard cubic feet (of gas)
“contingent resources”	those hydrocarbon volumes which have been discovered, but will require some degree of delineation. They will be short of the reserve status because of being deemed contingent on other factors, e.g. favourable economics, the availability of nearby infra-structure, the development of a key technology etc
“GWC”	gas-water-contact
“Hydrocarbon”	oil and/or gas and/or condensate
“mbbl”, “mmbbl”, “mmscf”	thousands, millions (barrels) respectively
“NPV”	million standard cubic feet
“Prospect”	Net Present Value and is the total present value of a series of cash flows discounted at a specified rate, to a specified date
“prospective resources”	a structure that has been technically evaluated to a state where it is ready to be drilled
“reserves”	those hydrocarbon volumes, which it is estimated may be potentially recoverable from as yet undiscovered accumulations. Prospective resources can be quoted as either unrisks or risks volumes
“resources”	potential volume of hydrocarbon that could be commercially produced from a field
“structure”	those volumes of hydrocarbons either yet to be found (prospective) or if found the development of which depends upon a number of factors being resolved (contingent)
“spudded”	the sub surface morphology at a particular horizon
“wildcat”	The commencement of drilling usually by driving a wide diameter caisson into the seabed or surface used as a guide for the drill string and casing.
	The first well drilled in a area that has not been drilled before

Disclosure checklist

COMPANY	CODE	DISCLOSURE
Aurelian Oil and Gas	AUL.L	3

1. Within the past twelve months Daniel Stewart & Co plc and/or its affiliates has managed or co-managed a public offering for this Company, for which it received fees or the promise of fees
2. Daniel Stewart & Co plc and/or its affiliates act as corporate broker or nominated advisor to this Company
3. Daniel Stewart & Co plc and/or its affiliates regularly hold/may hold in future trading positions (which may include options) in this Company
4. Daniel Stewart & Co plc and/or its affiliates holds more than 5% of the securities of this Company
5. The Company holds more than 5% of the securities of Daniel Stewart & Co plc and/or its affiliates
6. Daniel Stewart & Co plc and/or its affiliates may currently be providing, expects to provide within the next three months or may have provided within the previous twelve months, investment banking services to this Company, which have given rise to payment or the promise of payment
7. The author and/or an individual responsible for production of this report has direct ownership of stock in this Company
8. The author and/or an individual responsible for production of this report received or purchased shares in the issuer prior to a public offering of shares

The Daniel Stewart recommendation structure is based on relative upside/downside to target price. The target price is set on a rolling 12 month view. Upside or downside of 10% or more is categorised as Buy or Sell respectively, and less than 10% a Hold.

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