

Aurelian Oil & Gas

Exhibit 1: Aurelian drilling Trzek-1 well in Poznan East block



Source: FDC

Site Visit

In April 2007, Fox-Davies Capital visited both the Romanian and Polish exploration and production sites.

The Raduati East-1 exploration well has an estimated 50% chance of success. The well will reach a total depth of approximately 1,000m and results are anticipated at the end of April. The drilling of the well is expected to cost €1mn.

Fox-Davies Capital also visited the gas metering station, central processing unit (CPU) and river crossing for gas pipeline linking the production well to the CPU. These facilities are all onstream and the company has started to receive revenues for from the Bilca project which is producing at an average rate of 180,000m³/d. The cost for the construction of these facilities was approximately €10mn.

Aurelian also allowed access to the Trzek-1 well in Poland. The well is estimated to take three and a half months to complete and should reach total depth by mid-June. Should the well prove to be successful Aurelian will place it on long term test, whilst acquiring further seismic to assess the whole field. It will take up too thirty months to fully develop the field. Aurelian is also identifying additional exploration areas in Poland.



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Upside

The company has shown that it is capable of successfully identifying exploration targets and bringing fields onstream in Romania. Aurelian also stated that it will drill six wells during 2007 and the shallow wells have a good chance of success. These shallow wells, if successful will provide the company with incremental increases in its reserve base. It is possible that the reserves are of a size which may not be economic. The deeper wells have a lower chance of success, but are targeting larger reserves. These wells will provide larger upside for Aurelian's Romanian operations.

Aurelian's operation in Poland is another source of short-term upside. Should the Trzek-1 be a commercial discovery, Aurelian will bring the field onstream. The company will also continue with exploration of other prospects in Poland.

Longer term sources of upside may be found in the company's Bulgarian and Slovakian acreage. The company has spudded the Golitza-1 exploration well located in Bulgaria. This well will take approximately three months to drill and results are expected in July / August. Aurelian has identified other exploration targets on this license which are unrelated to the Golitza geology, which it may drill in late 2007 or 2008. The acreage in Slovakia has historically seen very little exploration activity and the company have stated that its acreage is very prospective. Aurelian will need to undertake significant exploration in order to develop this acreage in the future.

Finally, Aurelian has stated that it may acquire mature field in the region. It is possible for companies to extract additional value from such field by utilising advanced western technology, such as fracturing and reservoir stimulation, to prolong the field life and extract additional reserves. It will also consider farming into other projects.

Risks

The Fratauti-1 production well in the Bilca development has started to water early and this has impacted production. Aurelian will undertake remedial work in order to resolve this issue. There is a risk that this remedial work will not be successful and that additional development well will need to be drilled in order to maintain production and satisfy gas contracts.

The company is using trucks to dispose of production water at a remote location. This activity is costly and reduces the effectiveness of the project. Aurelian is aiming to drill a well to dispose of the water locally, but it is possible that a suitable site or regulations regarding disposal of water may prevent disposal.

The gas price in Romania is currently constrained at approximately 60% of the European gas price. This constraint is due to be removed in 1Q09, but the government has already stated that this target may be pushed back and this will impact future revenues for Aurelian.

Whilst the company is currently cash rich, it has already allocated its spending program out to mid-2009. Should it make significant discoveries it would probably be in the position to fund these developments using debt and does not plan to come back to the market for another E&P fund raising. The company has been successful so far in raising capital, but will it be able to raise sufficient debt?



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The key risk for investors in Aurelian is associated with exploration activities. The company has been very successful in Romania, but its extensive drilling program will inevitably see some failures in the future. The deep wells in Romania and Poland will have the biggest impact for the future of the company and the outcome of the Trzek-1 will be an important event for the company in the near future.

Conclusion

Aurelian has proved that it is capable of identifying successful exploration targets and that it can execute the development of production projects in Romania, as well as operating in other countries in the region.

We believe that given the company's strong management and attractive portfolio of assets Aurelian offers significant upside and maintain our Buy recommendation with a 75.0p target price.



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Zarko Stefanovski – Head of oil & gas research

Prior to joining Fox-Davies Capital, Zarko was senior oil & gas analyst at Aton Capital's equity research team in Moscow, and an oil & gas analyst for CA IB International Markets.

Zarko trained as a geologist and engineer, and spent numerous years working in the natural resources industry at projects in the North Sea, Africa and Russia. He entered the Investment banking sector in 1996, as an analyst with T.Hoare & Co. Stockbrokers (Canaccord Europe) and later joined ABN Amro Equities in their oil & gas research division.

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Research disclosure as of April 30, 2007

Company: Aurelian Oil & Gas

Disclosure: 1, 2, 8, 9

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Sell recommendation means that expected total return expected over 12 months between current and analysts' target price is negative.

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Disclosure charts

Exhibit 2: Aurelian share price chart



Source: FDC

Recommendation Summary

Date	Recommendation	Target Price (p)
Oct 3, 2006	Initiate at Buy	n.a.
Mar 8, 2007	Set target price	75.0



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