



07 July 2008

Daniel Stewart
& Company

Aurelian Oil and Gas

Exploration and Production
AUL.L (AIM)

Operations Update

Buy ^{Upside} **90%**

Postę

Very busy first half of year sets scene for the coming months

Investment Case

- Siekierki development, under the city of Poznan, plus the acquisition of new adjoining acreage is core to the near term success of Aurelian,
- Farm outs have demonstrated inherent value in the portfolio and have strengthened Aurelian's position in a number of key focus areas,
- Although the price has responded to the positive news of late, we still note liquidity in London needs improving,
- With the share price 30% below IPO price and with solid news flow expected over the coming months, especially Romanian drilling, it is an excellent time to buy.

Price **42p**
Target Price **80p**

Source: Proquote

Shares in issue	135.6m
Net Debt (Cash)	€10mn (est. year end 08)
Market Cap	£57m
Enterp. Value	£50m
Next Event	Romanian Drilling Results

Forecasts	08/06A	08/07	08/08E	08/09E
Turnover (€m)	0.4	2.8	3.5	3.2
EBITDA (€m)	(2.6)	3.2	2.0	1.8
Net inc. (€m)	(2.3)	(6.9)	(2.3)	(2.8)
DSC EPS (p)	(1.7)	(4.1)	(1.3)	(1.7)
DPS (p)	n/a	n/a	n/a	n/a

Company Description

Aurelian Oil and Gas is an E&P company focused on central Europe. It has small production in Romania the future growth will come from excellent development prospects in Poland and exploration drilling across its asset base.

Investment Case

Aurelian has had an exceptionally busy first half of the year with farm outs and new licences across its asset base. Siekierki continues to be the major focus and the addition of the adjoining licence to the North West is a very interesting development.

Aurelian's farm outs have greatly reduced capital requirements but protected investor upside on the key assets. In particular we note that the Romgaz farm out has certainly strengthened Aurelian's strategic position in Romania for future bid rounds.

The development/appraisal drilling on the Bilca concession is also of note, especially the Fratauti discovery and imminent tie in to the production facilities. This increases the core value of Aurelian, adds operational cash flow, is low cost to operate and provides vital operational expertise to the group.

During the initial assessment of the Siekierki structure it was assessed to extend into the city limits, it is therefore very interesting to note the recent award to Aurelian of the acreage covering this area. Whilst there is definite upside in this acreage, we stress the complex nature of the reservoir, essentially deep and requiring intervention techniques, plus the added complication of assessing and developing an oil field in an urban area. That being said the Siekierki discovery and the additional upside offers excellent prospects for Aurelian.

Funding, of some description, will be required for the horizontal test/production wells on Siekierki, plus the processing facilities. A number of options are available to Aurelian including a farm out, which would have to be on favourable terms but is an obvious choice at this stage. However, the rising share price makes equity an increasingly attractive option, especially over a convertible or even debt, especially as the liquidity in the stock remains poor.

We expect news flow over the coming months from other areas of Aurelian's portfolio including the three remaining wells of the four well programme in Romania, the most interesting prospect, the Voitinel well, being the last.

Slovakia seismic results should add further upside, if positive, towards the end of the year. The farm out of the Bulgarian assets reduces the capital requirements of Aurelian on what we view as interesting but not particularly core assets. We expect further licence awards across its focus area in coming months, especially Romania, but importantly, we expect development news of the Siekierki project.

We maintain our 80p target and highlight that the current stock price, currently trading 30% below the IPO price, is an excellent entry level into this promising, well managed E&P play in Central/Eastern Europe.

Activity has been very positive in the first half of the year

Romanian drilling to provide newsflow over coming months

Siekierki provides major upside to Aurelian especially given the award of the surrounding acreage.

Growing core value.

Operations Update

Activity is accelerating across the asset base. 2008/9 will be a busy year for Aurelian and we anticipate solid newsflow during this period to support and drive the share price.

Since our last major note at the end of 2007, Aurelian has continued to strengthen its strategy principally with a major farm out of assets to Romanian national gas company, Romgaz; but most interestingly, in our view, it has also recently acquired acreage adjacent to its principal asset in Poland.

Poznan North

At the beginning of July, Aurelian announced that it had been awarded the Poznan Polnok (Poznan North) exploration concession by the State Treasury of Poland.

Poznan Polnok is adjacent and to the west of the Poznan Wschod (Poznan East) concession, where Aurelian drilled the successful Trzek-1 gas well in 2007. Of note is the fact that the awarded concession area mainly lies within the northern and eastern suburbs of the City of Poznan.

During the initial seismic interpretation on Poznan East it was thought that the Siekierki structure trended towards and under the City towards the North West, naturally, the award will permit the evaluation of this probable extension.

Our Opinion – Poznan North

It is clear from the announcement that the collection of 3-D seismic has already begun across this new Poznan North block, however we note 3D acquisition in urban areas is almost impossible due to the practicalities of setting up seismic lines through buildings and detonating sound pulses in an urban setting. However, selective 2D acquisition is possible, and whilst it will be some time before results will be processed, it will provide important technical input into the potential of the North block.

The company believes the Poznan Polnok area will hold additional gas resources which will be commercial, given the success on the structure to date. The prospectivity risk in this new area is very much decreased given the proximity to the Trezk-1 well and the high likelihood that the structure is continuous.

The enlargement of the block is of course excellent news; however, its location under the city of Poznan will make this a very complex exploration and development problem. It is already known that the Siekierki structure is a complex field requiring deep horizontal drilling and fracturing, however development across the new block will be even more complex, given its location under the city. For example, 3-D acquisition will be hampered by the suburbs and exploration and development drilling locations will have to be carefully selected to avoid conflict.

However the potential within the block could certainly justify the complex workload.

Poznan North is a very interesting acquisition and points to additional upside as the structure extends into the City

Activity on this new licence will not be easy as acquisition of 3D seismic in urban areas is almost impossible.



Fratauti Discovery and Romania Upside

July also saw the announcement of the successful appraisal/exploration drilling on the Brodina Concession in Romania, where Aurelian currently gets its small scale production. The Fratauti-2 well was successfully drilled and completed as a producer. It is expected to be tied into the Bilca production facilities and is expected to produce at a rate of 3mmscf/d (million standard cubic feet/day) by September.

The rig will now move to drill the Vicsani-1 exploration well, located approximately 200 metres from the pipeline between Fratauti and Bilca. The well has been planned to test a seismic anomaly in the Sarmatian sands and is anticipated to spud on or around 14 July.

Following the Romgaz deal interests in the Fratauti-2 and Vicsani-1 wells and the Bilca gas project are: Aurelian (operator) 62.5%, Romgaz 37.5%.

The focus will then move to the Bacau concession, where the Lilieci-1 well, scheduled for spudding on 1 August 2008 will evaluate the Sarmatian sands down to a depth of 2,900 metres.

Of greatest interest in this campaign, in our opinion, is final well in the series of four, the Voitinel-1 in the Brodina concession. This well will target a large sub-thrust prospect with potential in the Sarmatian, Badenian and Cretaceous. The planned total vertical depth is 1,900 metres. Interests in Voitinel will be Aurelian (Operator) 33.75%, Romgaz 37.50% and Europa Oil & Gas 28.75%

Fratauti and Romania Upside– Our Opinion

The additional, albeit relatively small, production will be added at low cost and add operational cashflow for Aurelian. Whilst it has effect on the 2P core value, this figure is minimal currently for Aurelian.

However, it certainly shows there is low cost upside within the area surrounding the Bilca facility and probably most importantly for its current stage of growth, Bilca provides operational experience that is essential for further portfolio expansion.

The four well campaign has already met with success and Vicsani and Lilieci wells will provide additional near term news flow. Our focus however is on the last well of the four, and the largest target, the Voitinel.

Romgaz Farm Out

Aurelian has always had a good relationship with the Romanian gas concern, Romgaz, this relationship was formalised with a farm in agreement in June involving assets across Romania, Slovakia and Poland.

Of note within this agreement is that the deal gives Romgaz its first assets outside Romania, whilst it primarily strengthens Aurelian's position within Romania for future deal flow.

Slovakia

- Romgaz will earn a 25% interest in Aurelian's three licences (Svidnik, Medzilaborce and Snina) by paying a 50% share of the US\$5 million seismic programme which is due to start in the next couple of weeks.
- Participating interests after the farm-out will be Aurelian (operator) 50%, JKX 25% and Romgaz 25%.

Poland

- Romgaz will earn a 15% interest from Aurelian and a 15% interest from GB Petroleum in the Cybinka and Torzym concessions awarded in February 2008.

Active Romanian drilling campaign. The last well, the Voitinel, has excellent potential.

Romgaz farm out has reduced capital expenditure across asset base and strengthened Aurelian's Romanian upside.

The concessions, located in the west of Poland, adjacent to the Polish border, are prospective for oil in the Zechstein and 3D seismic is planned for 2009.

- Romgaz will pay a 45% share of the cost of this survey. The participating interests after the farm-in will be Aurelian (Operator) 35%, GB 25%, Romgaz 30% and Avobone Poland B.V. 10%.

Romania

- Romgaz will earn a 40% interest in the Bacau concession by paying 66.67% of the Liliaci-1 well, expected to spud around 1 August.
- After the farm-in, participating interests will be Aurelian (Operator) 41%, Romgaz 40% and Europa Oil & Gas plc 19%.
- Aurelian and Romgaz have also agreed to work together to evaluate the next tender round of concessions to be offered around the end of 2008.

Romgaz- Our Opinion

The immediate effect of this farm out is to reduce Aurelian's 2009 capital expenditure across many of its assets. This frees up capital for Siekierki whilst providing new upside within Romania giving Aurelian an optimum strategic position to secure quality acreage in upcoming licencing rounds.

Further Polish Assets

Aurelian announced in early 2008 the award of three additional blocks in Poland, to compliment its growing position in the country.

Figure 1: Aurelian - New Polish Assets



Source: Aurelian

The Cybinka, Torzym and Kalisz Concessions were awarded as part of the last licencing round and add to the potential upside for Aurelian in country.

The Kalisz concession (Block 249) is located in the Polish Central Lowlands and is a Rotliegendes gas play, similar to, and on trend with, the Siekierki structure. To the immediate North West of this licence lies the POGC/FX Energy Fences licence on which discoveries have been made and early stage production is underway.

New Polish assets strengthen position in country

Planned 2D seismic in 2008 will indicate potential



Much of the Kalisz block has yet to be covered by modern seismic technology and Aurelian undertake a 2D seismic acquisition programme over the block during this year.

The Cybinka (202/222) and Torzym (203/223) Blocks are contiguous concessions in the western part of the Polish Central Lowlands. They are adjacent to the German border and are prospective for Zechstein oil, analogous to the oil accumulations discovered by POGC in their nearby Lubiatow and Sulecin fields.

The existing 2D seismic will be reprocessed and re-interpreted during 2008 with new 3D seismic planned over the blocks during 2009.

Aurelian Oil & Gas Poland Sp. z o.o. is operator of these new concessions and holds a 50% interest, with GB Petroleum plc 40% and Avobone Poland B.V. 10%.

New Polish Assets- Our Opinion

The Kalisz block is certainly the most prospective of the three, lying on trend with Aurelian's Siekierki structure and FX Energy's Fences licence, both of which have discovered commercial gas accumulations. The knowledge of this area will be greatly enhanced by the activities of Aurelian on the Siekierki structure and the award of this licence, on trend with Siekierki, lends credence to the company's strategy.

Drilling is certainly not imminent in our opinion however the seismic interpretation should give indication of the potential within the block, which is certain to be deep focused and require intervention to produce, like Siekierki.

Slovak Assets

In April 2008 Aurelian farmed out interest in its Slovak licences, Svidnik, Medzilaborce and Snina to JKX. JKX will acquire a 25% interest in each of these three licences, whilst Aurelian will retain the remaining 75%, as well as the operatorship.

Slovak 2008 seismic will help delineate potential

JKX will reimburse a 25% share of the historical costs borne by Aurelian and meet 50% of the first €3.2 million of the cost of the seismic programme planned for the summer of 2008.

Aurelian will be responsible for the balance of the cost of the programme up to a maximum of a further €3.2 million. Thereafter JKX will bear 25% of all costs and Aurelian will bear 75%.

Slovak farm out - our opinion

The licences, against the Polish Border, are known for oil accumulations and production on the Polish side. The Slovak side remains under explored and assessed, although oil has been produced from a small shallow oilfields on the licences.

No seismic has been acquired to date and therefore the results from this years survey should help reveal the potential within the licences.

Bulgarian Assets Farm Out

Aurelian announced in July that it had farmed out 10% interest in the Golitza permits in eastern Bulgaria to Gold Point Energy Corp, a TSX listed Canadian junior.

Gold Point has agreed to pay 40% of the costs of a 250 square kilometre 3D seismic survey, expected to commence in September, and has the option subsequently to pay 40% of the cost of two shallow test wells to earn a 20% working interest in the block.

JKX remains the operator with 40% (Operator), Aurelian 40% and Gold Point 20%.

Bulgaria farm out - our opinion

We carry no value for the Bulgarian assets and following the dry well in 2007 give little upside to this area currently. However this farm out reduces Aurelian's exposure and we understand the technical input from the new partner is world class in this type of play environment.

Not core in our opinion but new technical input could provide upside

Siekierki Update

The Trezk Well/Siekierki structure remains the key asset in Aurelian's portfolio. The Siekierki gas accumulation has been classified as a Contingent Resource, with the following breakdown as determined by RPS.

Table 1: Siekierki Contingent Resources – Net to Aurelian

	Low 1C	Best 2C	High 3C
Sales gas (BCF)	105.5	190.1	305.9
NPV(10%) €mn	124.0	263.3	449.0

Source: RPS/Aurelian

Sales Gas expected to plateau at 55 MMscf/d in 2012 in the best estimate case with an 11 well development plan, it is important to note that this excludes the additional acreage acquired to the North West.

Because the Rotliegende has low permeability, development of the accumulation will require horizontal wells and fracturing to provide sustainable commercial gas flow rates. In order to prove up the Siekierki structure, Aurelian is acquiring 300km² of 3D seismic in order to correctly place the horizontal test well, which with an estimated cost of around \$15mn will need to be accurately placed.

Funding will be required to progress Siekierki

Negotiations are ongoing to secure a gas offtake agreement for the long term test and also future longer term production. It is currently understood that a process facility will be installed and tied back to local infrastructure allowing gas sales from September 2009.

Siekierki - our opinion

This is without doubt the key asset in Aurelian's portfolio. Whilst funding will most likely be required, in some shape or form, for the horizontal wells the potential within the mapped structure and the upside from the new acreage is considerable.

Given the recent rise in the stock price an equity raise is an option, as it is not overly dilutive of the founder shareholders, and offers more flexibility than a convertible or debt issue.



Valuation

Aurelian continues to develop and use its portfolio as a negotiating instrument. The farm outs have reduced the capital requirement on its asset base without overly affecting the equity stake and have also provided shareholders additional upside, especially the Romgaz deal.

The major near term funding requirement remains Siekierki, where horizontal wells and process equipment is required. One of the funding options remains a farm in, but whilst a viable option, any farm out would have to be on competitive terms as not to dilute Aurelian's stake too much. To this end we would expect the costs, or a very high proportion of them, of the long term test well and process facilities to be met by a farm in partner.

Siekierki remains the core project in Aurelian's portfolio but requires funding.

Core 2P Value

We determine a 2P core value for the Bilca development only, including the new Fratauti tie in from September 2009, at a gross production rate of 3mmscf/d.

We assume the following:

- 62.5% ownership – 12.3bcf net to Aurelian on 2P basis.
- Field life of 15 years
- Production from mid 2008 of 3.5mmscf/d net to Aurelian.
- Equivalent sales price of \$5.5/mcf
- Over the life of the project an average Capex of \$1/boe, Opex of \$7.5/boe and Tax of \$5/boe.
- NPV(10) of \$21mn.

Table 2: Core 2P Value

Core NAV	Net Reserves	PV(10)	In Ground Price (\$/mcf)	pence/share
Net Cash (end 08 est)		£8.5mn		6.3 pence
Bilca (incl Fratauti tie in)	12.30 bcf	\$21.0mn	1.71	7.8 pence
			Total	14.1 pence

Core value increasing

Source: Daniel Stewart

Upside and target

On a basic calculation Siekierki, once fully commercial, could add up to £2/share to the core 2P value; however, many conditions have to be met prior to this event.

First and foremost the cost of drilling horizontal wells and the facilities will be in the order of \$50mn gross. Aurelian could pursue a number of options to fund and accelerate this program including equity/debt options and also farm out options. Until we know the adopted strategy we cannot really comment on potential dilutive affects.

However, we stress that activity is certainly picking up and recognise this as a good time to buy the stock, as it currently still trades just below IPO price, ahead of future drilling and development news.

We currently maintain our buy recommendation and 80p target.

Disclosure Checklist

Company	Code	Disclosure
Aurelian Oil and Gas	AUL.L	3

Source: Daniel Stewart

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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 responsible for the production of this report received or purchased shares in the issuer, prior to a public offering of the shares.
9. Daniel Stewart and Company is party to an agreement with this company for the publication of research on it
10. This research note has been disclosed to the Company, with resulting amendments, prior to its dissemination

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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Distribution of Ratings

	All Companies	Of which are Investment Banking Clients in the last 12 months
Buy	72%	40%
Hold	20%	9%
Sell	8%	0%

data as of 31 March 2008

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Authorised and Regulated by the Financial Services Authority. April08

Key Assumptions

- Conservative gas price assumptions
- Trezk/Siekierki major focus

Income	08/06A	08/07A	08/08E	08/09E
Sales (€m)	0.4	2.8	3.5	3.2
EBITDA (DSC)	(2.6)	3.2	2.0	1.8
EBIT (DSC)	(3.3)	(7.7)	(3.1)	(2.3)
Net income (DSC)	(2.3)	(6.9)	(2.3)	(2.8)
EPS (DSC)	(1.7)	(4.1)	(1.3)	(1.7)
DPS(p)	n/a	n/a	n/a	n/a

Cash Flows (€m)	08/06A	08/07A	08/08E	08/09E
Op. CF	(0.8)	2.5	4.2	2.5
Investing CF	(8.3)	(28.6)	(23.5)	(51.5)
FCF	(9.1)	(26.1)	(19.3)	(49.0)

Balance Sheet (£m)	08/06A	08/07A	08/08E	08/09E
Fixed Assets	14.9	32.1	52.7	102.3
Current Assets	57.9	33.1	16.4	(30.1)
Current Liabilities	1.5	5.8	9.3	12.7
Net Assets	65.5	56.4	56.8	56.3
Net Cash	56.5	29.3	10	-30

Recent News / Events

Poznan North Licence
Romania Drilling Success
Bulgarian Farm Out

Management Team

David Prior- NEC
Michael Seymour – CEO
Frank Jackson – Commercial Director

Major Shareholders

Ospraie Management	18.16%
Blue Ridge	9.58%
Millennium	9.24%
AXA	7.44%
Ingalls and Snyder	7.07%
M Donnelly	6.33%
M Seymour	5.18%