

# Aurelian Oil & Gas PLC

## (“Aurelian” or the “Company”)

### Preliminary Results for the year ended 31 December 2007

Aurelian, the exploration and production company focused on Central Europe, is pleased to announce its preliminary results for the year to 31 December 2007.

#### **2007 Achievements -**

- Confirmation of major gas accumulation in Poland
- Contingent Resources of 190 Bscf of sales gas identified in this Siekierki accumulation by independent expert
- Seven exploration wells drilled in 2007
- Continued production from a solid income producing base in Romania
- New concessions at Kalisz, Torzym and Cybinka in Poland
- Thrust belt play in Slovakia confirmed by field work
- New potential gas targets identified in Bulgaria

#### **2008 and 2009**

##### **Current activity and future plans**

###### **Poland:**

- Siekierki appraisal and development moving ahead
- 3D seismic acquisition currently under way on Siekierki
- Long-term production test in late 2009 for Trzek-1 vertical well
- First horizontal well on Siekierki planned for early 2009
- Gas sales discussions progressing with several parties
- Financing options for Siekierki being evaluated with potential partners.
- Seismic to be conducted by PGNiG on the Bieszczady concessions in the heart of the producing zone of the Polish Carpathians and on Kalisz in the Central Lowlands

###### **Romania:**

- Wells with considerable upside potential to be drilled at Voitinél and Liliéci
- Production and sales in the Bilca area to be optimised

###### **Bulgaria:**

- 3D seismic programme planned to evaluate encouraging Tertiary gas play on Black Sea margin

###### **Slovakia:**

- 2D seismic to be acquired on the highly prospective Svidník, Medzilaborce and Snina blocks

**Michael Seymour, Managing Director of Aurelian, commented:**

***" 2007 has been dominated by our major project in Poland. This is a very exciting project and the success of the Trzek well means that the next two years will be similarly dominated by our efforts to bring the Siekierki accumulation into production. We have also been pleased with progress on our other exploration areas and even the unsuccessful well at B1-Golitz in Bulgaria has generated data that has pointed us towards further potential targets at lesser depths in the east of our Bulgarian blocks."***

4 April 2008

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## **Chairman's Summary**

### **Introduction**

I am delighted to present my first review since I took over from John Lippitt as Chairman of the Company at the Annual General Meeting last May. I am pleased to report that John remains an active member of the Board and still serves as Chairman of our Remuneration Committee. His enthusiasm and commitment to the Company is undiminished.

I have been an investor in Aurelian since its inception and was a subscriber for additional shares at the time of the Public Offer nearly two years ago. My reasons for investing then are the same as today; an outstanding management team with experience and integrity; a focus on a politically stable and economically dynamic part of the world; and a growing portfolio of highly prospective exploration licences with an exciting development programme.

### **The year under review**

Eight wells was the demanding target we set for 2007 and it is a credit to our small team that seven wells were drilled with no significant technical problems.

Poland and Bulgaria were our "elephants" this year - sadly, Bulgaria did not work out but nonetheless has left us with interesting possibilities at shallower levels in the east of the block close to the Black Sea. The drilling of our well on the Siekierki structure was technically demanding and we were all on a daily rollercoaster of hope and despair. Eventually hope prevailed and we have now confirmed a major gas discovery. However it will not be an overnight success - the next stage requires 3D seismic data which is currently being acquired, to enable us to plan the next two wells and maximise their chances of producing gas in significant quantities. It will be some 18 months from now before we will have our first gas sales and, in my view, it is the length of this wait that has had such a disappointing effect on our share price which we felt should have risen in recognition of the success that we have achieved.

Financing the Siekierki development is now our main focus and we are examining a variety of options. Our aim is to preserve the maximum interest in the project for our shareholders whilst at the same time securing funding for the first two wells expected to cost about €30 million. We expect to announce detailed plans later this year.

Whilst the main focus of our resources has been Poland, we have continued to make progress in the other two main areas of activity. In Romania, we drilled four wells with mixed results and now have a solid income producing platform. Bulgaria, whilst the initial results were, as I have already mentioned, disappointing, has left us with some interesting possibilities.

### **Financial**

The industry's standard accounting policies do not permit the recognition of the value of our success with the drill-bit while requiring immediate recognition of exploration failure. We are therefore recording a loss before tax of €6.8 million. At the operational level, the gross profit of €0.9 million in Romania was affected by water ingress and problems at one of the wells - these are being resolved and we expect to be able to maintain production levels through 2008 and benefit from the Romanian government's recently announced further step towards convergence between domestic gas prices and the European open market. The total exploration

write-off amounted to €9.4 million of which the lion's share was attributable to Bulgaria

The Company held cash balances at the year end of €29.3 million which gives us considerable breathing space to arrange funding for the Siekierki development

### **Management and staff**

The loyalty and hard work of our employees, country managers, consultants and directors has been outstanding. The exploration business, by its nature has its ups and downs and their ability to treat, in Kipling's words, those two impostors, 'triumph and disaster', just the same has been instructive and remarkable. For those of you who have seen "There will be Blood", I am happy to confirm any comparison between Michael Seymour and Daniel Day Lewis (at least in this rôle) is very wide of the mark.

### **Outlook**

I am in no doubt that the underlying value of Aurelian has grown this year: Poland has been a success with a major discovery: Romania is developing a stable cash flow and has considerable upside in the proposed wells on Voitinel and Liliéci: new licences have been awarded in Poland and Slovakia: only Bulgaria was a disappointment.

Our press release on 13 March highlighted our independent expert's assessment giving a 72% chance of a contingent value of £1.42 per share just for the Siekierki interest and, against this background, it is disappointing that our share price has been so weak. There is a gulf between the stock market valuation of Aurelian and the underlying value of the Company's assets and prospects. I am confident that, as the Company continues its exploration programmes and as Siekierki becomes better understood, this gulf will narrow.

The next twelve months are going to be a period of hard work with less obvious highlights. However, the planned Voitinel exploration well in Romania is an exception which is designed to test a large structure. Furthermore, our efforts to maximise production and sales in the Bilca area will hopefully be rewarding, as will the results of the Siekierki 3D seismic survey and the gradual negotiation of the agreements needed to underpin the development.

On the "blue sky" front, we hope to make progress with the appraisal of our other concessions in Poland and Slovakia and we continue to hope for success in the eastern part of Bulgaria

David Prior  
Chairman

## MANAGING DIRECTOR'S REPORT

### Introduction

This time last year, after successfully commissioning our gas fields in Romania, we were eagerly anticipating the results of our 2007 drilling programme. This report is mainly dedicated to describing the outcome.

### Poznan East Blocks, Poland

The centrepiece of the drilling programme was always going to be the Trzek-1 well on our Poznan East Blocks in Central Poland and, in terms of results, it did not disappoint. The old wells drilled by the Polish state company had established the presence of some gas but, at the time, technology was not available to make the reservoir flow at commercial rates. Because the drilling results had indicated that the reservoir was tight, we had accepted that horizontal wells would be needed to develop the accumulation. These could only be effectively located on the basis of information obtained from the first vertical well and ensuing 3D seismic. Trzek-1 was drilled during 2007 as the vertical well.

After the minimal gas flows recorded in the old wells, it was good to report that Trzek-1 flowed gas at rates of up to 7.5 MMscfd. While the tight nature of the reservoir precludes the maintenance of the gas production rates achieved during the test, satisfactory data were obtained indicating that the well will be capable of sustained production, albeit at lower rates, in vertical hole and at commercially attractive rates in horizontal wells.

Trzek-1 established a 90-metre gas column which, based on the overall very large size of the structural trend (called Siekierki), indicates a large gas resource to be present. A Competent Person's Report has now been prepared by RPS Energy and reports Contingent Resources (defined as the estimated volume anticipated to be potentially recoverable from a known accumulation where commercial development is dependent on one or more contingencies) of 190 Bscf of sales gas net to Aurelian's 90% share in the Polish subsidiary which holds the concessions.

Such estimates are based on the seismic data currently held. To locate the next wells more definitive seismic is essential and a 3D seismic survey is currently in progress. While the detailed configuration of the Siekierki trend may change, it is not anticipated that the overall dimensions and the consequent calculation of the volumes of gas in place will be materially affected.

Such a resource located on the outskirts of Poland's fourth largest city represents a major project in the making and Aurelian is forging steadily ahead with its development. Current plans determine that the 3D seismic programme in process will lead to the drilling of our first horizontal well, probably from the Trzek-1 wellsite, in early 2009. Both this horizontal well and the existing vertical Trzek-1 well will be tied into a local pipeline. There is a shortage of gas for the local market which Aurelian's discovery should help to meet: changes to the infrastructure will probably be required and September 2009 is therefore the target date for first production.

Further horizontal wells, possibly up to ten in number, will then be drilled as the second phase of the development.

The tie-in point to the local grid is only some 4.2 kms from the Trzek-1 wellsite. Several distributors are interested in buying the gas and current Polish gas prices in excess of \$8 per Mcf for high methane gas are very attractive.

The appraisal and development of this large gas accumulation is a major project that we expect will be generating significant cash flows after first sales in 2009: production should then increase over the following two or three years to levels which will transform the Company's financial profile.

#### **Other Concessions, Poland**

*Bieszczady* - During the year, the necessary agreements for the operation of the concession were completed and plans for 2D seismic were drawn up. Shooting of the seismic, effectively the first to be acquired on this large block located in the heart of the oil and gas producing zone of the Polish Carpathians, is expected to commence in May 2008.

*Kalisz, Cybinka and Torzym* - The Polish Ministry of Environment offered these concessions in the 2007 licensing round. Despite significant competition, our bids were successful. The contracts were signed in August 2007 and the concessions formally granted in February 2008.

Kalisz lies on trend with the Siekierki structural trend and the Rotliegendes discoveries made immediately to the south of our Poznan blocks. There is little modern seismic data available and the block has potential for Rotliegendes discoveries. Cybinka and Torzym are Zechstein oil plays. In both areas, the existing data is being collated and will be reprocessed where appropriate. 2D seismic is planned for Kalisz this summer.

#### **Romania**

The Bilca gas fields continued to produce steadily, if unspectacularly, during 2007. Current production is some 2.8 MMscfd but is anticipated to increase during the year as compression is installed and two new wells (Fratauti-2 and Vicsani-1) are drilled.

During 2007, two exploration wells (Radauti East-1 and Arbore-1) were drilled for Bilca-type Sarmatian targets in the Brodina block. Both found the reservoir water-wet. A third well (Boistea-1) on the Cvejdiu block found a thin gas-charged sand, but tested at only minor rates, as did Dornesti-Sud-1 on the Suceava block. Both these wells are being evaluated to see if they can be tied in commercially.

Exploration wells are planned in 2008 for the Bacau block (Lilieci-1) and the Brodina block (Voitinel -1). The latter represents a large structure with potential for significant reserves and will be drilled in late summer, subject to final interpretation of the seismic.

During the year, Aurelian also participated with Europa Oil & Gas in the Costisa-2Z well on the Brates block which was a re-drill of the shallow section of the Costisa-1 well, which found gas shows just below 1,000 metres. The new well failed to flow at significant rates due to tight reservoir and Aurelian has since terminated its participation in the Brates block.

#### **Slovakia**

During the year, field work was conducted over our three large licences (Svidnik, Medzilaborce and Snina), confirming the validity of the thrust belt play. A regional seismic grid of 2D seismic will be shot in 2008.

The licences are located in the heart of the Carpathians in an area where there is almost no seismic data, although three deep wells with excellent gas shows were drilled some 20 to 30 years ago. The blocks, given good modern seismic are considered highly prospective.

**Bulgaria**

Two plays were recognised in our blocks in Bulgaria, the first a deep Mesozoic play developed throughout the main part of the B-Golitzza licence and the second a shallower Tertiary gas play in the B1-Golitzza licence adjacent to the Black Sea coast and onshore from the highly productive Galata gas field.

Golitzza-1 was drilled on the first high risk play during 2007 and failed to find hydrocarbons. In contrast, evaluation of the shallow gas play has encouragingly highlighted the nature of the shows recorded in old wells drilled over 40 years ago. A 3D seismic programme is being planned for 2008.

**Summary**

The year 2007 was a highly active year for a small company like Aurelian and it is pleasing to note that we delivered our operated programme efficiently, safely and largely within budget.

The year 2008 will see us drill four more wells in Romania - two shallow potentially gas productive wells which can be tied-in to the Bilca facilities, and two larger exploration prospects, of which Voitinell in particular could establish sizeable reserves. However, the main emphasis for 2008 and the future will be on the Siekierki project in Poland. Our best efforts will be directed towards achieving the drilling of the first horizontal well and first sales of gas in September 2009.

Michael Seymour  
Managing Director

**Consolidated income statement****Year ended****31 December 2007**

	<b>Notes</b>	<b>Year to 31-Dec-07 €'000</b>	<b>Year to 31-Dec-06 €'000 as restated</b>
Revenue		2,805	380
Cost of sales		(1,895)	(159)
Gross profit		910	221
Administrative expenses		(1,965)	(1,859)
Exchange gain/(loss)		3,057	(1,069)
Share-based payment costs		(384)	(229)
Exploration costs written off		(9,365)	(406)
Other operating income		25	-
Operating loss		(7,722)	(3,342)
Finance income		1,764	1,365
Finance expense		(870)	(296)
Loss on ordinary activities before taxation		(6,828)	(2,273)
Taxation on ordinary activities		(94)	-
Loss for the year after taxation		(6,922)	(2,273)
		<b>Year to 31-Dec-07 € cents</b>	<b>Year to 31-Dec-06 € cents as restated</b>
Loss per share – basic loss per 5p ordinary share	2	5.15	2.14
<b>Statement of recognised gains and losses</b>		<b>Year to 31-Dec-07 €'000</b>	<b>Year to 31-Dec-06 €'000 As restated</b>
Loss for the period		(6,922)	(2,273)
Foreign currency translation (loss)/gain		(2,670)	858
Loss attributable to equity shareholders		(9,592)	(1,415)

**Balance Sheet**  
**As at 31 December 2007**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>31-Dec-07</b>	<b>31-Dec-07</b>	<b>31-Dec-06</b>	<b>31-Dec-06</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
			As restated	
<b>Non current assets</b>				
Intangible	24,325	667	9,048	701
Tangible	7,792	1,733	5,852	2,888
Investments	-	40,726	-	15,487
	<u>32,117</u>	<u>43,126</u>	<u>14,900</u>	<u>19,076</u>
<b>Current assets</b>				
Inventory	6	-	-	-
Trade and other receivables	3,883	489	1,444	1,707
Cash and cash equivalents	29,300	24,912	56,493	53,063
	<u>33,189</u>	<u>25,401</u>	<u>57,937</u>	<u>54,770</u>
<b>Total assets</b>	<u>65,306</u>	<u>68,527</u>	<u>72,837</u>	<u>73,846</u>
<b>Current liabilities</b>	(5,852)	(1,644)	(1,507)	(728)
<b>Non current liabilities</b>	(3,089)	(3,072)	(5,846)	(5,816)
<b>Net assets</b>	<u>56,365</u>	<u>63,811</u>	<u>65,484</u>	<u>67,302</u>
<b>Capital and reserves</b>				
Called up equity share capital	9,833	9,833	9,798	9,798
Share premium account	58,549	58,549	58,495	58,495
Equity share options reserve	652	652	268	268
Exchange translation reserve	(1,724)	(4,960)	946	545
Other reserves	3	3	3	3
Retained earnings	(10,948)	(266)	(4,026)	(1,807)
	<u>56,365</u>	<u>63,811</u>	<u>65,484</u>	<u>67,302</u>

## Consolidated cash flow statement

	Notes	Group 31-Dec-07 €'000	Group 31-Dec-06 €'000 As restated
<b>Cash flows from operating activities</b>			
Cash generated by/(expended on) operations	3	1,583	(1,954)
Finance income		1,832	1,289
Finance expense		(924)	(146)
Net cash used in operating activities		<u>2,491</u>	<u>(811)</u>
<b>Cash flows from investing activities</b>			
Purchase of tangible non current assets	4	(4,181)	(2,427)
Purchase of intangible non current assets		(24,474)	(5,829)
Net cash used in investing activities		<u>(28,655)</u>	<u>(8,256)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		88	64,913
Ordinary share issue costs		-	(4,605)
Net cash flows from financing activities		<u>88</u>	<u>60,308</u>
Translation difference		<u>(1,117)</u>	<u>644</u>
<b>(Reduction)/increase in cash and cash equivalents in the period</b>		<u>(27,193)</u>	<u>51,885</u>
Cash and cash equivalents at 1 January		<u>56,493</u>	<u>4,608</u>
<b>Cash and cash equivalents at 31 December</b>	5	<u>29,300</u>	<u>56,493</u>

## Notes to the preliminary accounts

### 1. Basis of accounting and presentation of financial information

The unaudited results have been prepared applying accounting policies which are consistent with those adopted for the accounts for the year ended 31 December 2006 except for one change in accounting policy in the current year related to the treatment of joint venture entities. The Company now accounts for jointly controlled entities using the proportional consolidation method whereas previously these were accounted for using the equity method. Comparatives have been restated where applicable. The effect of the restatement is not considered material to the Group. The full statutory accounts that will be published in due course disclose in greater detail the changes to the comparative figures from those previously reported.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore comply with Article 4 of EU IAS Regulation. However, this announcement does not in itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS later this month.

The unaudited financial information does not constitute statutory financial statements as defined in section 240 of the Companies Act 1985. The financial information for the year ended 31 December 2007 has been extracted from the unaudited accounts of Aurelian which will be delivered to the Registrar of Companies in due course. The financial information for the year ended 31 December 2006 has been extracted from the audited accounts of Aurelian which have been delivered to the Registrar of Companies and amended for the restatement mentioned above. The auditors reported on those accounts and their report was unqualified and did not contain a statement under s.237(2) or (3) Companies Act 1985.

### 2. Earnings per share

	31 Dec 07 €'000	31 Dec 06 €'000 as restated
Earnings for the purposes of basic earnings per share (loss for the period attributable to equity holders)	6,922	2,273
	Number	Number
Basic weighted average number of 5p shares	134,513,557	106,111,525
	€Cents	€Cents
Loss per 5p share in Euro Cents	5.15c	2.14c

The diluted earnings per share have been calculated in accordance with the provisions of IAS 33 and are the same as the basic earnings per share for the period.

### 3. Cash flow from operating activities

#### Reconciliation of operating profit to net cash flow from operating activities

	Group 31 Dec 07 €'000	Group 31 Dec 06 €'000 as restated
Operating loss for the period	(7,722)	(3,342)
Adjustments for:		
Expensing of exploration costs	9,365	406
Depreciation, depletion and amortisation	1,565	315
Exchange differences	(2,940)	23
Increase in inventory	(6)	-
(Increase)/decrease in trade and other receivables	(2,507)	41
Increase in trade and other payables	3,444	374
Share based payments	384	229
Cash generated by/(expended on) operations	€1,583	€(1,954)

### 4. Purchase of tangible non-current assets

During the year the Group acquired tangible non-current assets with an aggregate cost of €4,188,945 of which €7,735 was acquired by means of finance leases. Cash payments of €4,181,210 were made to purchase tangible non-current assets.

### 5. Cash and cash equivalents

	Group 31 Dec 07 €'000	Group 31 Dec 06 €'000 as restated
Represented by:		
Cash at bank	€29,300	€56,493