

# Aurelian Oil & Gas PLC

## (“Aurelian” or the “Company”)

Final results for the year ended 31 December 2010

Aurelian, the European focussed E&P Company, is pleased to announce its final results for the year ended 31 December 2010.

### Key highlights

- Siekierki appraisal project advanced. First Multi Frac Horizontal Well (“MFHW”) produced stabilised rate of 3.0mmscf/d, despite mechanical problems. Well to be sidetracked and re-fraced in Q4 2010 to achieve target stabilised flow rate of 8.0mmscf/d.
- Second MFHW encounters 140 metre gas column. Horizontal section, frac and flow test to be completed by early July. Gas processing facility approvals progressing, first gas targeted H2 2012.
- First Carpathian Thrust Fold Belt well, targeting prospective resources of up to 100 mmbbls (gross) encounters potentially commercial oil and gas zones above primary targets. Wider portfolio prospect inventory matured and broadened.
- Voitinel discovery in Romanian Carpathians. Further appraisal well planned for 2011. 2D seismic survey in Cujejdiu concession identifies three separate 50-100 million barrel oil leads. One to be drilled in 2012.
- 926 km of 2D Seismic and 220 km<sup>2</sup> of 3D acquired successfully across our concessions.
- Two new businesses established. Zechstein oil venture in Permian Core Area in western Poland. Carpathian Conventional Gas business in southern Poland targeting first gas in H2 2012.
- Tight Gas strategic relationships strengthened in Poland with MOUs with PGNiG and FX Energy.
- Strategic option review of Romanian business results in sale of non-core assets, retaining core Carpathian assets and Voitinel discovery. Significant management resources redirected to Core Areas. €6.0 - €7.0 million proceeds expected May 2011.
- Two equity placings completed raising €139.0 million (€132.4 million net of fees). Cash available for continuing operations at year end of €114.7 million fully funds business plan to end of 2012. Terms obtained for €75.0 million credit facility provides additional funding options.
- Net assets increase to €175.1 million (2009: €58.2 million).
- €16.9 million loss for year (2009: loss of €0.4 million) mainly driven by ‘one off’ items; €7.2 million loss on discontinued non-core Romanian operations and €4.6 million of provisions for other non Core Area assets. Ongoing Administration costs of €4.3 million and a net Finance cost of €0.7 million account for remainder of loss for the year. Cash outflow from operating activities €8.3 million (2009: inflow of €1.5 million).
- Organisational transformation advanced. Board and senior management strengthened with appointments of John Conlin as Chairman, John Matthews as Non-executive Director and, from May 2011, John Smallwood as member of the Board, and Exploration Director.

**Rowen Bainbridge, CEO of Aurelian commented:**

***"We have achieved a great deal in 2010 and now with our significantly strengthened human resource base and financial position, together with our strong partner relationships and outstanding asset portfolio, I am confident that 2011 can be even better as we move Aurelian forward as an exploration and production company."***

**21 April 2011**

**Enquiries:**

<b>Aurelian</b>	Rowen Bainbridge, CEO Mark Reid, CFO	020 7629 7986
<b>Ambrian Partners Limited</b>	<b>Nominated adviser</b> Richard Swindells Jen Boorer	020 7634 4700
<b>Macquarie Capital (Europe) Limited</b>	<b>Joint broker</b> Paul Connolly John Dwyer	020 3037 2000
<b>Oriel Securities</b>	<b>Joint broker</b> David Arch	020 7710 7600
<b>College Hill</b>	<b>Investment relations adviser</b> Nick Elwes Simon Whitehead	020 7457 2020

## **Chairman's statement**

### **Introduction**

Eighteen months ago Aurelian set out its strategy to become a leading European focussed E&P company with the core purpose of creating shareholder value through the application of conventional technologies to underexplored proven hydrocarbon systems. 2010 has been the year when these words have been put into actions and this strategy has started to be delivered.

A number of strategic milestones were set out at that time. The last year has seen the Company deliver against these challenges. This progress, in our two Core Areas, is a tribute both to the technical capabilities and sheer hard work of the whole Aurelian team.

The last year has seen Aurelian grow from being one of many aspirational AIM listed oil and gas companies into a business recognised as a leading player in Central Europe with the funds, team and technical ability to deliver its strategy.

We are delighted that all our efforts have been reflected in our share price which has outperformed the FTSE AIM All Share index and the Oil and Gas Producers index over the period, thus delivering significant value to our shareholders.

### **The year under review**

This has been one of the most exciting and significant years in the Company's history. Although the ongoing development work at the Siekierki tight gas project has continued to be the main focus of our activities, we have also made significant progress across our exploration portfolio.

In Siekierki, the Company successfully drilled Trzek-2, the first Multi-Fraced Horizontal Well ("MFHW") in Poland. Spudded on 30 June 2010, the vertical pilot well encountered a 100 metre gas column, before being drilled horizontally for a distance of some 1,418 metres. The hydraulic fracturing operations on the horizontal section were completed in early 2011. Mechanical issues resulted in six of the ten well bore sleeves not flowing resulting in stabilised production rates of 3 mmscf/d. The mechanical issues are now fully understood and are not expected to reoccur. As such our plan is to side track the Trzek-2 well and to re-frac it to achieve our target flow rate of 8.0mmscf/d, a process which we have the technical skills and funding to carry out successfully. The second MFHW, Trzek-3, is now drilling the horizontal section after encountering a 140 metre gas column, with the horizontal section expected to be completed by late May. Hydraulic fracturing operations will then follow, with stabilised flow test results expected in July. We are also making progress with the development of the gas processing facilities having received the required positive environmental decisions and planning approvals and we look forward to commencing construction with first production targeted for the second half of 2012.

One of the key achievements of the last year has been the successful application of both innovative and conventional technology in our business. In our tight gas business this means employing horizontal drilling and fracture stimulation processes, and in our exploration business we are improving reservoir imaging by the combination of modern 2D and 3D seismic with highly creative geophysical and geological interpretation technology and expertise.

On the exploration side, the Company has continued to make significant progress. Aurelian has successfully completed nine seismic surveys in three countries, acquiring 926 km of 2D seismic and 220 km<sup>2</sup> of 3D seismic. While interpretation of this data is ongoing, we are encouraged that a number of attractive prospects have already emerged as candidates for drilling in 2011 and 2012. Moreover, two new businesses have also been established in our Permian and Carpathian Core Areas, one targeting an exciting oil play in the Zechstein, which is part of the Permian Basin and overlies the Rotliegendes in

western Poland and the second covering conventional gas opportunities within our West Karpaty concession in our Carpathian Core Area. We have also been able to immediately grow this new Carpathian Conventional Gas business as result of being awarded a 100% interest and operatorship of the adjacent Poreba concession. This additional acreage award results in the business now covering 2,562 km<sup>2</sup>, enabling us to create scale and additional prospectivity. We look forward to producing first gas and cash flow in business from our Lachowice Work Over project in West Karpaty during 2012. Aurelian is also encouraged by the first well on the highly prospective Bieszczady concession targeting prospective oil resources of up to 100 million barrels (gross). Although we have not yet reached our primary targets on this well, we have to date noted excellent oil and gas shows and flowed oil, gas and condensate in three short term drill stem tests, all of which indicates the existence of an active oil and gas system above the primary targets.

We continued to have exploration success in the shallow Sarmatian play in Romania with the 2bcf (gross) Climauti-1 discovery, which was tied into the Bilca production facilities in Q1 2011. We are also encouraged with the potential of the Carpathian Fold Belt play demonstrated by the 2.5mmscf/d flow test of Voitinel-1 and plan to drill a second appraisal well on the structure in 2011 to test the commercial viability of this 400 bcf (gross) gas field. Furthermore, the early interpretation of the 2D seismic survey acquired in the Cujeziu Thrust Fold belt concession highlighted three 50 to 100 million barrel oil leads, one of which we hope to drill in 2012.

After undertaking a strategic review of our Romanian business, Aurelian has now reorganised and refocused its Romania operations. Through a newly established subsidiary, Aurelian Petroleum SRL, the Company will concentrate on the greater potential in the Carpathian area of its Romanian licences; i.e. the Exploration Area of the Brodina concession, including appraising the Voitinel discovery and the Cujeziu concession. Through a share purchase agreement, the Company is disposing of Aurelian Oil and Gas (Romania) SRL ("AOGR"), its wholly owned subsidiary to Raffles Energy Netherlands B.V. ("Raffles"). Raffles is ultimately owned by large energy focussed Private Equity investor called The Raphael Group. AOGR holds the remainder of the Company's Romanian interests, namely the Bilca Gas Project Area of the Brodina concession, the Suceava concession, and the Bacau North Areas (A and B) of the Bacau concession.

## **Financial**

During the year we also significantly enhanced the Company's financial position. In addition to two Equity Placings which raised €139.0 million (€132.4 million after fees), the Company obtained terms for a €75.0 million Credit Facility. Aurelian now has the funds to develop its key Siekierki tight gas project through to first gas in 2012 and to undertake a comprehensive exploration and appraisal drilling program in its two Core Areas through 2011/2012. As well as significantly improving the Company's cash available for continuing operations (2010: €114.7 million, 2009: €14.0 million) and net asset position (2010 €175.1 million, 2009: €58.2 million), the Equity Placings have also had the added benefit of significantly broadening the Company's shareholder base, and I am delighted to welcome a number of new investors as shareholders of the Company.

Furthermore, as a result of the pending disposal of AOGR, the Company is now be able to redirect a significant amount of human resource and management time, a major positive of the deal. The Company has also completed the process of restructuring its balance sheet to take account of the non-core elements of its business and as such, has made provisions against any capitalised exploration costs relating to non Core Areas which are unlikely to be commercial. The loss for the period relating to the discontinued operations of AOGR together with these non Core Area provisions have contributed €11.8 million to the Company's reported loss after tax of €16.9 million (2009: €0.4 million). A more detailed analysis of the Company's performance is provided in the Financial Review section of this Annual Report.

Aurelian is in excellent financial shape and is now fully funded to the end of 2012, by which time we also expect to have achieved first production from our two Core Areas; the Siekierki Tight Gas project in our

southern Permian Poznan concessions, and the Lachowice Gas project in our Carpathian, West Karpaty concession.

## **Relationships**

Building and maintaining excellent relationships with our partners and key contractors forms an intrinsic part of our strategy. During the year we have continued to work closely with; Polish Oil & Gas ("PGNiG"), Romgaz, Halliburton, Schlumberger, Avobone and Kulczyk Investments.

In particular we are delighted to have entered into MOU agreements with PGNiG and FX Energy for the technical evaluation of tight gas in central Poland. Our expertise, regional understanding and technical capability continue to make us the partner of choice in the region and we look forward to developing our existing and new relationships further, in the year ahead.

I would also like to thank the local community in Poznan for its continued support in the last year as we have moved from the concept towards the execution phase of the Siekierki Tight Gas Project.

## **Board and employees**

During the year, Aurelian has continued to add technical strength and depth at all levels of the Company. I hope that my arrival as Chairman and the 34 years experience I have gained with Shell and other companies in the industry will add to the existing technical strength of the Board and I know that John Matthews' appointment as Non- executive Director will bring with it significant financial and commercial capability. The Board now contains a deep and varied mix of relevant technical and financial experience, to support Aurelian as it enters the next stage of its development. In March 2011, I was delighted that we were able to announce that John Smallwood has agreed to join us from Hess Corporation as Exploration Director and a member of the Board. John's appointment completes an excellent management team at Aurelian and I very much look forward to working with him.

There has also been an emphasis on improving corporate governance and on creating a real performance culture. As such, the Company has appointed Robin Storey as General Counsel and Company Secretary. With Robin's support the Board will continue to focus on these areas so as to ensure that the highest standards are maintained.

At an executive level the Company has significantly strengthened its internal capability on both the operational and corporate fronts. We have added twelve new staff in the year to the 31st December 2010 and plan to continue growing our business by making further appointments throughout 2011. In addition, we have opened a new office in Krakow to create a regional hub and support our Carpathians exploration programme in that region.

I would like to take this opportunity to thank all our employees, contractors and consultants for their outstanding efforts this year, and to recognise the supportive contribution through Aurelian's formative years, of Miles Donnelly, Malcolm Pattinson and Nick Coates who left the Board in 2010. We are also saying goodbye and thank you to Ray Godson who retired as Company Secretary during the year and who has been an excellent servant to the Company since its inception. I would also like to express my sincerest thanks to Michael Seymour who retires at this year's Annual General Meeting on the 25th of May 2011. Without a doubt, Michael's vision and leadership in founding and developing the Company, has been fundamental in Aurelian achieving its position today.

## **Outlook**

2010 has been Aurelian's busiest year to date. We have continued to build momentum on our Siekierki Tight Gas Project, whilst further developing our exploration portfolio. The key achievement however has been the successful positioning of the Company, both financially and technically, to carry out its plans.

In 2011 the Company faces a point of inflection; success in either Core Area will lead to significant value creation and a re-rating of the value of our equity.

We look forward to the year ahead and the promise that it holds.

**John Conlin**

Chairman

## **Chief Executive's review**

### **Unlocking value through technology**

In last year's annual report I forecast that 2010 was set to be the most exciting year in the Company's history. It is with great pleasure that I now report that this has indeed been the case. We have delivered against the plan we set out, drilling our first Multi Fracced Horizontal Well ("MFHW") in Siekierki, commencing the first high impact fold belt well in Bieszczady, launching two new businesses, a Zechstein Oil exploration play and a Carpathian Conventional Gas business and conducting nine seismic surveys, in three countries, in Central Europe. We have high graded our portfolio with asset sales in Romania and MOUs for Tight Gas alliances in Poland, pushed the boundaries of oil field technology application in the business, and in doing so, created significant shareholder value over the period.

Our strategy remains the appraisal and development of onshore hydrocarbon resources, through application of conventional technologies to underexplored proven hydrocarbon systems. In our tight gas business, this means employing horizontal drilling and fracture stimulation processes, and, in our new Zechstein Oil play, we are employing 3D Seismic. In the thrust fold belt exploration play, we are applying modern 2D seismic and the latest thinking in structural geology and geoscience. Our advantage remains our first mover acreage position, approximately twenty years of Central European operating experience and the special relationships that we have developed in the region during this time.

### **Sustainability**

In 2010 we revised our approach to health, safety, environment and community and renamed it "Sustainability". This was done because we recognised the importance of taking a longer term approach to sustainable development. Although we are a small company, the oil and gas industry in which we operate, can have a significant impact in the area of Sustainability and we have made the strategic choice to deal with this issue in line with industry best practice. We are committed to ensuring that we operate at all times in a safe and responsible manner to achieve our stated goal of Zero Harm.

Our health and safety performance throughout the year was good with no lost time incidents or injuries and no fatalities. We have continued to improve our policies with progress made in all areas. We received accreditation under ISO 9001:2008 and OHSAS 18001:2008 in Romania and plan to apply for this in Poland. Also in Poland, we have worked closely with all the Government agencies to successfully execute 3D seismic programs in the Natura 2000 regions and the fracking of the Trzek-2 MFHW near the city of Poznan. In 2011 we will conduct an urban 3D seismic campaign in Poznan using wireless geophones, a first in Poland and a real example of technology application driven by the desire to minimise our environmental footprint.

We remain committed to maintaining strong relationships with the communities in all the countries in which we operate.

### **Economic review and the European hydrocarbon revolution**

The Central European energy market continues to have compelling economic fundamentals. High reliance on imports results in strong local demand for indigenously produced hydrocarbons. Fiscal terms remain some of the most attractive in the world and gas prices in Poland remain robust. With these fundamentals, the market has seen significant new entrants, creating intense competition for new licences and concessions, as well as the services required to carry out the necessary drilling and exploration programmes. Aurelian with its first mover advantage and technical and regional expertise is an ideal partner for any new entrants into this market.

## **Our Core Areas**

Our strategy focusses on two "Core Areas". A "Core Area" for Aurelian is one that has the potential to deliver over \$500 million of value or 50 mmbœ of reserves net to Aurelian. The two Core Areas for Aurelian are the Permian Basin, particularly the Rotliegendes and Zechstein plays in central and western Poland and the Carpathian Thrust Fold Belt in southern Poland, Slovakia and central Romania.

### **Core Area 1**

#### **The Permian Basin – the Rotliegendes tight gas and the Zechstein Reef oil plays**

The main area of focus has continued to be the Company's Rotliegendes tight gas project, Siekierki. The first half of the year was taken up with preparation and groundwork to ensure the on-schedule spudding of the Trzek-2 well. This happened on 30 June and was the first MFHW to be drilled in Poland. The well was successfully drilled to a total depth of 4,079 metres and was followed by the drilling of the horizontal section which encountered approximately 1,380 metres of Rotliegendes Gas with potential sweet spots and porosities of up to 15%. Since the year end the hydraulic fracturing operations have been also been completed with ten separate zones being fracture stimulated along the horizontal section of the well. Despite encountering mechanical issues which resulted in six of the ten well bore sleeves not flowing, the Trzek-2 well still produced a stabilised production rate of 3 mmscf/d. The mechanical issues are now fully understood and a new completion methodology will be applied going forward such that they do not reoccur. We will now side track Trzek-2, complete with a cemented liner and re-frac it, with a view to have it flowing later this year at our original target rate of circa 8mmscf/d to generate between 16bcf and 28bcf recoverable.

The Trzek-3 well, which was spudded in January 2011, is now commencing the drilling of the horizontal section after encountering a 140 metre gas column. The vertical pilot hole and the horizontal section are expected to be completed by late May or early June 2011. The hydraulic fracturing operations will then follow, with stabilised flow test results expected by late June or early July. Trzek-3 is targeting a separate high in the Siekierki structure with a recoverable resource estimated at between 16bcf and 28bcf.

Based upon the above we are planning for first production from the Siekierki project during H2 2012.

During the year good progress has been made on the Siekierki gas processing facility to ensure that the project remains on target to deliver first gas in H2 2012. The key environmental approvals have been received, we have signed the contract to permit tie in to the national gas transmission line, and our work on the development of the pilot plant and flow lines continues. A Letter of Intent has also been signed with BCCK Engineering Inc. a Texas based natural gas engineering company for the major long lead item, a Nitrogen Removal Unit, which has now progressed to the finalisation of a Sale and Purchase Agreement. Progress on the final planning and approvals process continues, and we look forward to commencing construction after receipt of the final construction approval which is expected later in 2011.

In the summer of 2011, we will drill the Krzesinki exploration prospect which, if successful, will significantly increase the potential GIIP in the Siekierki structure with a mid-case resource estimate of 45bcf and a high case of 465bcf. This well, together with our two MFHWs and an additional well in our Poznan North concession planned for early 2012 will provide us with the data we need to optimally design our Siekierki field development plan and also provide us with a path to first production and cash flow in H2 2012. This early production will also enable us to apply for a production concession for the field which is what we require to validate our intention to move forward to a "Full Field" development programme of up to 20 wells.

The progress and results that we have achieved on our Siekierki project to date have been an example of the expertise within the Aurelian technical team, working with specialist contractors using advanced, yet proven technology, to achieve significant results.

## **Zechstein Reef play**

Over the last year, Aurelian has created a new business focussing on the proven Zechstein Reef play of Aurelian's Permian Basin Core Area in the West of Poland. The unexplored Zechstein oil play, across Aurelian's Cybinka and Torzym licences, is adjacent to a number of recent oil discoveries, including the prolific BMB area. Both concessions may also contain analogues to one of the largest oilfields in the Central Lowlands of Poland, the Lubiatow complex. Lubiatow is currently being developed with reserves quoted of 54 million barrels of oil and 194 bcf of gas. In August 2010 Aurelian successfully completed a 220 km<sup>2</sup> 3D seismic survey over the concessions. This is currently being interpreted and it is anticipated that two wells will be drilled in late 2011 and early 2012 and will each be targeting approximately 12 mmbbls of prospective oil resources net to Aurelian.

## **Core Area 2**

### **The Carpathian Thrust Fold Belt in southern Poland, Slovakia and central Romania**

During the year Aurelian has continued to develop its second Core Area and has executed its strategy of applying modern 2D seismic to explore thrust fold areas. During 2010 the Company successfully acquired 776 km of 2D seismic across its acreage in this Core Area.

In the Polish Carpathians, the first of a three well programme in the Company's Bieszczady concession, Niebieszczany-1, was spudded in October 2010. The well is being drilled to TD of 4,800 metres targeting an oil prospect of up to 100 million barrels (gross). A number of reservoirs, all of which are proven producers in the region, are being targeted by this well and there are several other similar sized prospects on trend, which would be de-risked in the event of a successful outcome. Using existing 2D seismic data covering approximately 20% of the concession area, prospects totalling up to 680 million barrels of un-risked prospective resources have been mapped. The acquisition phase of a second 300 km 2D survey covering a further 20% of the concession size was completed in March 2011. The future work programme for the concession is to complete the processing and interpretation of this second 2D survey, and then, following the drilling and testing of Niebieszczany-1 and the reprocessing of the first 2D survey, prepare a revised prospect inventory and drill two further wells.

At East Karpaty the acquisition of 136 km of 2D seismic has been completed. This survey will cover approximately 25% of the concession and the results of the survey are expected in Q2 2011. There is a two well, fully funded, programme planned for the concession, with the wells being targeted for late 2011 and 2012. It is also anticipated that the Company will seek further farm-outs on this acreage, after the drilling of the first or second well in the programme.

Also in the Polish Carpathians we are delighted to have been recently awarded a 100% interest in the Poreba concession which is adjacent to our West Karpaty concession. This new concession gives us the additional scale and prospectivity to launch a new Carpathian Conventional Gas business covering 2,562 km<sup>2</sup> which will target shallow gas that we can quickly commercialise. Our Lachowice Gas project on the West Karpaty concession is our first project in this new business where we will carry out a relatively low cost "Work Over" process targeting a prospect of 20bcf (gross) and target first gas by the end of 2012.

In the Slovakian and Romanian Carpathians we are continuing to make excellent progress. In particular in the Svidnik concession in Slovakia, a further 150 km of 2D seismic was acquired during the year, with the interpretation of the results of this expected early in Q2 2011. Further seismic is planned in our Slovakian Medzilaborce and Snina concessions during 2011 and 2012. This is a highly prospective area

with surface oil seeps evident and we plan to drill one well in H2 2011 and then two further wells in 2012 and 2013. We believe that there is significant exploration potential in this area and in addition to the 816 bcf (gross) prospect that we are looking to drill in the second half of 2011, further leads totalling 750 bcf (gross) have already been identified.

On Cvejdiu in Romania, 130 km of 2D seismic was acquired during the year and early interpretation has identified three 50 -100 mmbbls (gross) oil leads. The final interpretation of this seismic should be complete by Q2/Q3 2011 with one well to be drilled on the concession in H1 2012. On our Brodina concession in Romania an appraisal well is planned for 2011 to help us better understand the extent of our existing Voitinel discovery.

In 2010 Aurelian has acquired significant quantities of modern 2D seismic in order to gain a greater understanding of this prolific region. 2011 and 2012 will see us acquire further seismic and drill further exploration wells across our concessions in this region.

### **Other assets and operational highlights**

After undertaking a strategic review of our Romanian business, the Company is now reorganising and refocussing its Romania operations towards its Carpathian Thrust Fold Belt Core Area. The review has resulted in the establishment of a new subsidiary, Aurelian Petroleum SRL, to focus on the Voitinel discovery and exploration activities in the Carpathian Thrust Fold belt and our new subsidiary will assume Operatorship of these two assets under the relevant agreements. The strategic review has also facilitated the decision to dispose of Aurelian's remaining Romanian non-core interests, which are held within Aurelian Oil and Gas (Romania) SRL ("AOGR"). As such, Aurelian has also signed a Share Purchase Agreement to dispose of AOGR to Raffles Energy Netherlands B.V., a subsidiary of the Raphael Group, a large Private Equity investor. The disposal of our non-core interests has been achieved at a value, €6.0 - €7.0 million, that we are pleased with, and which has the potential for further upside based upon the future exploration success of AOGR. Furthermore, the deal now enables us to redirect significant management time and resources towards our Core Areas.

In Bulgaria, whilst the JV group is disappointed with the lack of success of both the Golitza wells, it believes that the co-venturers can integrate the information from these wells with the existing 3D seismic to high grade further exploration targets within the Avren Formation in the Golitza licence. The significant gas shows from the Shkorpilovtci South West R-01 exploration well were encouraging and we will take this into account, together with the information gained from the first well on the programme, in arriving at a decision as to the extent of any future financial investment in this area. Bulgaria is not however a Core Area for Aurelian and these two wells ends the Company's current drilling commitment in the country.

### **Our people and values**

As we grow, we continue to enhance the technical depth and project execution skills at all levels of the Company. At executive level, Joel Price has made a significant contribution as Chief Petroleum Engineer. Critically, we have also added capability in exploration with the appointment of John Smallwood as Exploration Director and are in the process of building our subsurface team of UK and Poland based senior Geologists and Geophysicists. We have also now opened our Krakow office, to create a regional hub and support the exploration activities in the Carpathians area, where we are building deep expertise in structural geology and thrust fold belt exploration.

On our flagship Siekierki Project, we have assembled a team of outstanding professionals with deep technical understanding of tight gas reservoirs and the knowledge and experience to apply this intellectual property, to deliver commercial success. A key objective for 2011/12 is to further establish the team as a Centre of Excellence for tight gas and to use this knowledge to further enhance the competitive advantage for the Company.

We have an exceptional team of people working for Aurelian. Our people are creating a new way of working together and are building a distinct culture, which we are proud of. We call it the "Aurelian DNA" and it links a set of values; Integrity, Courage, Resilience, Acting Like Owners and most of all a Winning Mentality, which defines who we are.

I would also like to add to the Chairman's remarks and thank our employees, contractors, consultants and their families for all their hard work during the year. We are putting the right people in the right places to deliver our programme and strategy.

## **Our relationships**

We have strengthened our strategic relationships with all of our key partners; oil companies and service providers alike. In Poland, we have concluded MOU's with PGNiG and FX Energy to cooperate on the technical evaluation of tight gas. We also continue to work with Avobone to grow our business in our Tight Gas Core Area and Romgaz in our Carpathian Thrust Fold Belt Core Area. Our experience, regional understanding and capability makes us the partner of choice for national oil companies and new operators alike. We look forward to further developing these relationships as well as those with our key Service Providers, Nafta Pila, Halliburton, Schlumberger and Geofyzika Krakow, Geofyzika Torun, ILF and BCKK.

## **2010 results**

As a result of raising €139.0 million (€132.4 million after fees) of new equity during the year, Aurelian has achieved one of its key objectives of having sufficient equity funding to develop its key Siekierki tight gas project through to first gas in 2012 and to undertake a comprehensive exploration drilling programme in its two Core Areas. As at 31 December 2010, Aurelian had Cash and Cash Equivalents available for continuing operations on its balance sheet of €114.7 million, a €100.7 million (720%), increase from the €14.0 million Cash and Cash Equivalents figure as at 31 December 2009.

During the year the Company also undertook a thorough review of its portfolio culminating in the expected disposal of the non-core elements of its Romanian business. Provisions have also been made against capitalised exploration costs that do not relate to Core Areas and which are unlikely to be commercial. The loss from the discontinued non-core Romanian operations together with the provisions against other non-core assets have contributed €11.8 million to the Company's reported loss after tax of €16.9 million (2009: €0.4 million). As a result of the discontinuance of our non-core Romanian operations, the consolidated statement of comprehensive income does not show a breakdown of revenues our costs for these non-core operations, albeit the Financial Review and the Notes to the accounts provides further details.

The €116.9 million increase in net assets in the year to 31 December 2010 to €175.1 million reflects the €132.4 million net proceeds from the two placings during the year, the impact of the €16.9 million retained loss, a €1.2 million positive movement on a foreign exchange translation reserve and a €0.2 million increase on share based payment reserves. A more detailed commentary on the Company's financial performance over the last year and its financial position at the year end is contained in the Financial Review section of the Annual Report.

## **Summary and outlook**

2010 was an incredibly exciting and successful year for Aurelian. Next year promises to be even more exciting. On Siekierki we will carry out the testing of the first two MFHWs, sanction and construct the Pilot Facilities and conduct long term production tests. In the Lachowice project, in our Carpathian Conventional Gas business, we will carry out a Work Over process. First gas production from each of these projects is targeted for the second half of 2012.

In the coming year, we will be acquiring 1,455 km of 2D and 3D seismic, across eight surveys, across our Core Areas. These surveys will aim to increase the size of the Siekierki Tight Gas project, and, in the Carpathian Thrust Fold Belt, firm up our 2011/12 drilling prospects, together with identifying new drilling targets for 2013 and beyond.

We are also looking to further develop our Reef Oil business and Carpathian Conventional Gas business and look forward to the potential that those businesses will provide. We will continue to build upon the relationships and strategic alliances that we have in place with a view to developing further growth opportunities that will come with these. We are also looking to set up Centres of Excellence around our areas of expertise such as Tight Gas – Engineering/Completions, and Thrust Fold Belts – Structural Geology/Seismic. These are Aurelian's areas of expertise and we believe we can gain competitive advantage through the establishment of these Centres of Excellence.

Technology and capability development will remain at the forefront of our strategy, as we look to continue to push these boundaries, to ensure that we have the best and most modern technology, which is most suited to unlock the potential of our portfolio. Most significantly for the business, however, is that we are building capability so that when we do encounter any problems, we have the talent, experience, funding and intellectual rigour to overcome them.

We have a great portfolio of assets, a strong financial base and a talented team of people. In the next two years we will look to obtain first production in both our Siekierki Tight Gas project and our Lachowice Carpathian Conventional Gas project. We will also execute a comprehensive exploration and appraisal program which, if successful, will transform Aurelian into a mature Exploration and Production company.

**Rowen Bainbridge**

Chief Executive Officer

**Consolidated statement of comprehensive income**

Year ended December 31, 2010

	<b>Notes</b>	<b>Year to 31-Dec-10 €'000</b>	<b>Year to 31-Dec-09 €'000</b>
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Other administrative expenses		(3,763)	(2,251)
Transaction related professional costs		(14)	659
Exchange loss		(399)	74
Equity settled share-based payments		(170)	(394)
		(4,346)	(1,912)
Exploration costs impaired		(4,620)	(33)
Total administrative expenses		(8,966)	(1,945)
Other operating income		14	42
Operating loss		(8,952)	(1,903)
Finance income		1,055	73
Finance expense		(1,782)	(493)
Loss before tax		(9,679)	(2,323)
Taxation		-	-
Loss from continuing operations		(9,679)	(2,323)
(Loss)/profit from discontinued operations, net of tax	2	(7,202)	1,894
Loss for the year attributable to owners of the parent		(16,881)	(429)
<b>Other comprehensive income</b>			
Foreign currency translation gain/(loss)		1,166	(524)
Total comprehensive income attributable to owners of the parent		(15,715)	(953)
		<b>Year to 31-Dec-10 € cents</b>	<b>Year to 31-Dec-09 € cents</b>
Loss per share – basic and diluted loss per 5p ordinary share	3	(4.94)c	(0.23)c

## Statement of changes in equity

Year ended December 31, 2010

	Share capital €'000	Share premium €'000	Share based payment reserve €'000	Exchange translation reserve €'000	Other reserves €'000	Retained deficit €'000	Total equity €'000
At 1 January 2009	9,892	58,639	1,730	(8,955)	3	(15,358)	45,951
Loss for the year	-	-	-	-	-	(429)	(429)
Foreign currency translation loss	-	-	-	(524)	-	-	(524)
Share capital issued	5,606	7,881	-	-	-	-	13,487
Share issue costs	-	(664)	-	-	-	-	(664)
Share based payments	-	-	394	-	-	-	394
At 31 December 2009	15,498	65,856	2,124	(9,479)	3	(15,787)	58,215
Loss for the year	-	-	-	-	-	(16,881)	(16,881)
Foreign currency translation gain	-	-	-	1,166	-	-	1,166
Share capital issued	14,852	124,725	-	-	-	-	139,577
Share issue costs	-	(7,175)	-	-	-	-	(7,175)
Share based payments	-	-	171	-	-	-	171
At 31 December 2010	30,350	183,406	2,295	(8,313)	3	(32,668)	175,073

### Share capital

Amounts subscribed for share capital at nominal value.

### Share premium account

The share premium account represents the amounts received by the Company on the issue of its shares which was in excess of the nominal value of the shares.

### Share based payment reserve

The balance held in the Share based payment reserve relates to the fair value of the share options and deferred shares that have been charged to the Statement of Comprehensive Income since adoption of IFRS 2.

### Exchange translation reserve

The exchange translation reserve includes movements that relate to the retranslation of the subsidiaries whose functional currencies are not the Euro.

### Retained deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income net of amounts recognised directly in equity.

**Statement of financial position**

Year ended December 31, 2010

	<b>Group As at 31-Dec-10 €'000</b>	<b>Group As at 31-Dec-09 €'000</b>
<b>Non current assets</b>		
Oil & Gas costs pending determination	56,511	40,210
Other intangible assets	16	23
Property, plant and equipment	178	4,999
Investments	-	-
	<u>56,705</u>	<u>45,232</u>
<b>Current assets</b>		
Inventory	-	3
Trade and other receivables	10,977	4,650
Cash and cash equivalents	114,729	13,989
Assets in Disposal Groups Classified as Held For Sale	9,020	-
	<u>134,726</u>	<u>18,642</u>
<b>Total assets</b>	<u>191,431</u>	<u>63,874</u>
<b>Current liabilities</b>		
Trade and other payables	(13,163)	(3,403)
Loans and borrowings	(1,241)	(635)
Liabilities directly associated with Assets in Disposal Groups Classified as Held For Sale	(1,954)	-
<b>Non current liabilities</b>		
Loans and borrowings	-	(1,621)
<b>Net assets</b>	<u><u>175,073</u></u>	<u><u>58,215</u></u>
<b>Capital and reserves</b>		
Called up equity share capital	30,350	15,498
Share premium account	183,406	65,856
Share based payment reserve	2,295	2,124
Exchange translation reserve	(8,313)	(9,479)
Other reserves	3	3
Retained deficit	(32,668)	(15,787)
	<u>175,073</u>	<u>58,215</u>

The financial statements were approved and authorised for issue by the Board of Directors on 20<sup>th</sup> April 2011 and were signed on its behalf by:

R H Bainbridge

Director

## Statement of cash flows

Year ended December 31, 2010

	Notes	Group Year ended 31-Dec-10 €'000	Group Year ended 31-Dec-09 €'000
<b>Cash flows from operating activities</b>			
Cash (used in)/ generated from operations	4	(8,266)	1,540
Interest paid		(92)	(487)
Tax paid		(3)	(6)
<i>Net cash (used in)/ generated from operating activities</i>		<u>(8,361)</u>	<u>1,047</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(349)	(238)
Purchase of intangible non current assets		(19,912)	(8,242)
Contribution to past exploration costs		-	2,417
Interest received		397	92
<i>Net cash used in investing activities</i>		<u>(19,864)</u>	<u>(5,971)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares net of issue costs		132,402	12,823
Repayment of Gemini loan		(509)	(247)
Finance arrangement costs		(500)	-
<i>Net cash generated from financing activities</i>		<u>131,393</u>	<u>12,576</u>
Increase in cash and cash equivalents in the year		103,168	7,652
Cash and cash equivalents at start of year		13,989	6,019
Foreign currency translation differences		(766)	318
Cash and cash equivalents at end of year		<u>116,391</u>	<u>13,989</u>

Cash and cash equivalents at 31 December 2010 include €1.7 million classified as held for sale in the Group Statement of Financial Position. €114.7 million relates to continuing operations.

## Notes to the accounts

### 1. Segmental information

The group has five reportable segments as set out below. The operating results of each of these segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance.

During the year revenue of €2.317 million (2009 €2.977 million) was recognised by the discontinued Romanian segment in respect of customers comprising 10% or more of the Group's total revenue for the year.

2010	Romani		Slovaki		Corporat e	Total	Adjustments *	Total
	Poland	a Bulgaria	a					
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	-	2,317	-	-	-	<b>2,317</b>	(2,317)	-
Cost of sales	-	(1,303)	-	-	-	<b>(1,303)</b>	1,303	-
Other operating costs (net)	(584)	(412)	(10)	(63)	(3,675)	<b>(4,744)</b>	412	<b>(4,332)</b>
Impairments and provisions	(304)	(9,004)	(3,117)	(2)	(15)	<b>(12,442)</b>	7,822	<b>(4,620)</b>
Segment result (operating loss)	(888)	(8,402)	(3,127)	(65)	(3,690)	<b>(16,172)</b>	7,220	<b>(8,952)</b>
Finance income	8	23	-	1	1,046	<b>1,078</b>	(23)	<b>1,055</b>
Finance expense	(1)	(2)	-	-	(1,781)	<b>(1,784)</b>	2	<b>(1,782)</b>
Loss before tax	(881)	(8,381)	(3,127)	(64)	(4,425)	<b>(16,878)</b>	7,199	<b>(9,679)</b>
Taxation	-	(3)	-	-	-	<b>(3)</b>	3	-
Loss for the year	(881)	(8,384)	(3,127)	(64)	(4,425)	<b>(16,881)</b>	7,202	<b>(9,679)</b>

\* Adjustments relate to Romanian discontinued operations (see note 2)

2010	Poland		Romania		Slovakia		Corporate		Romania (Discontinued)		Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
Segment assets	58,958	3,693	2,457	5,236	112,067	9,020	<b>191,431</b>				
Segment liabilities	(8,340)	-	(2,533)	(1,184)	(2,347)	(1,954)	<b>(16,358)</b>				
Cost in year to acquire property, plant and equipment and intangible fixed assets	23,522	1,347	956	1,508	(200)	1,654	<b>28,787</b>				
Depreciation, depletion and impairment of property, plant and equipment and intangible fixed assets	(17)	-	(10)	-	(113)	(711)	<b>(851)</b>				

2009	Poland		Romania		Slovakia		Corporate		Total		Adjustments *	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000		
Revenue	-	2,977	-	-	-	<b>2,977</b>	(2,977)	-				
Cost of sales	-	(780)	-	-	-	<b>(780)</b>	780	-				
Other operating costs (net)	(414)	(249)	(52)	(106)	(1,298)	<b>(2,119)</b>	249	<b>(1,870)</b>				
Impairments and provisions	-	(59)	-	(28)	(5)	<b>(92)</b>	59	<b>(33)</b>				
Segment result (operating (loss)/profit)	(414)	1,889	(52)	(134)	(1,303)	<b>(14)</b>	(1,889)	<b>(1,903)</b>				
Finance income	7	13	-	1	65	<b>86</b>	(13)	<b>73</b>				
Finance expense	-	(2)	-	-	(493)	<b>(495)</b>	2	<b>(493)</b>				
Loss before tax	(407)	1,900	(52)	(133)	(1,731)	<b>(423)</b>	(1,900)	<b>(2,323)</b>				
Taxation	-	(6)	-	-	-	<b>(6)</b>	6	-				
Loss for the year	(407)	1,894	(52)	(133)	(1,731)	<b>(429)</b>	(1,894)	<b>(2,323)</b>				

\* Adjustments relate to Romanian discontinued operations (see note 2)

2009	Poland	Romania	Bulgaria	Slovakia	Corporate	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Segment assets	27,485	18,071	3,172	2,492	12,654	<b>63,874</b>
Segment liabilities	(227)	(543)	(984)	(600)	(3,305)	<b>(5,659)</b>

Cost in year to acquire property, plant and equipment and intangible fixed assets	4,036	2,711	1,448	298	199	<b>8,692</b>
Receipts in respect of farm-out arrangements	-	-	(2,417)	-	-	<b>(2,417)</b>
Depreciation, depletion and impairment of property, plant and equipment and intangible fixed assets	(12)	(325)	(10)	-	(182)	<b>(529)</b>

## Notes to the accounts (continued)

### 2. Discontinued operations

In 2010 the Board announced its intention to rationalise Aurelian's Romanian operations, focussing its attention on its Core Areas of operation.

In February 2011, the Company announced the signature of a Share Purchase Agreement for the sale of the whole share capital of its Romanian subsidiary, Aurelian Oil & Gas (Romania) S.R.L. (AOGR) to Raffles Energy Netherlands B.V., a subsidiary of the Raphael Group. The sale will include the AOGR corporate entity, the Bilca Gas Production Asset and the Suceava and Bacau concessions. The Aurelian Group has carved out and retained two of the licences held by AOGR being the Cujdiu licence and exploration portion of the Brodina licence, which are to be transferred to a newly formed Group entity, Aurelian Petroleum S.R.L. The Board expects to announce the completion of the sale in the second quarter of 2011.

The consideration to be paid on completion of the deal will comprise €5.3 million for the oil and gas assets plus payments for working capital and the repayment of capital injected into AOGR since the effective date of the deal, being 30 June 2010. The total consideration to be received is expected to be approximately €7.1 million.

The corporate assets of AOGR, and the non-current assets relating to the licences to be sold are classified in the Statement of Financial Position as held for sale.

The following are the totals for the major classes of assets and liabilities relating to these operations :

	31-Dec-10
	€'000
Oil & Gas costs pending determination	2,275
Other intangible assets	29
Property, plant and equipment	4,090
Inventory	4
Trade and other receivables	960
Cash and cash equivalents	1,662
	<u>9,020</u>
Trade and other payables	(1,943)
Loans and borrowings	(11)
	<u>(1,954)</u>

The loss on discontinued operations on the Statement of Comprehensive Income can be analysed as follows:

	31-Dec-10
	€'000
Gas sales	2,317
Costs of sale	(1,303)
Other net operating expenses	(398)
Loss recognised on measurement of assets to fair value less costs to sell	(7,815)
Profit before tax	(7,199)
Tax payable	(3)
Total loss recognised on discontinued operations	(7,202)

The Group Statement of Cash Flows contains the following elements related to Discontinued operations:

	31-Dec-10 €'000
Net cash flows attributable to operating activities	2,065
Net cash flows attributable to investing activities	(1,632)
Net cash flows attributable to financing activities	-

## Notes to the accounts (continued)

### 3. Loss per share

	31-Dec-10 €'000	31-Dec-09 €'000
Loss for the period related to continuing operations	(9,679)	(2,323)
(Loss)/earnings for the period related to discontinued operations	(7,202)	1,894
	<u>(16,881)</u>	<u>(429)</u>
	No.	No.
Basic weighted average number of shares	<u>341,658,297</u>	<u>189,500,889</u>
	Cents	Cents
Loss per 5p share in Euro Cents related to continuing operations	(2.83)c	(1.23)c
Loss per 5p share in Euro Cents related to discontinued operations	(2.11)c	-
Diluted earnings per 5p share in Euro Cents related to discontinued operations	-	0.97c

Exercise of the share options and warrants would lead to dilution of future earnings per share.

The diluted loss per share has been calculated in accordance with the provisions of IAS 33 and is the same as the basic loss per share for the period.

For continuing operations the effect of all potential ordinary share issues arising from the exercise of options going forward is considered to be anti-dilutive. 10,143,365 (2009: 12,677,987) potential ordinary shares have been excluded from the above calculation for continuing operations as they are anti-dilutive.

### 4. Cash flow from operating activities

	31-Dec-10 € 000	31-Dec-09 € 000
Loss after tax	(16,881)	(429)
<i>Adjustments for:</i>		
Finance income	(1,078)	(86)
Finance expense	1,784	495
Other operating income	(66)	(43)
Tax charge for the year	3	6
Share based payments	170	394
Exploration costs impaired	4,627	92
Provision on measurement of assets held for sale to fair value less costs to sell	7,815	-
Depreciation, depletion and amortisation	851	1,522
Credit of impairment of oil and gas development costs	-	(1,005)
Provision against diminution in value of subsidiary loan receivables	-	-
Exchange differences	258	(210)
Decrease in inventory	-	3
(Increase)/decrease in trade and other receivables	(7,290)	2,614

(Decrease)/increase in trade and other payables	1,541	(1,411)
Waiver of loan on settlement of exit of farm-in partner	-	(402)
Cash generated (used in)/from operations	(8,266)	1,540

## 5. Publication of non-statutory accounts

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the company's statutory accounts for 2009 or 2010. Statutory accounts for the year 31 December 2010 and 31 December 2009 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for both years was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2009 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2010, prepared under IFRS, will be delivered to the Registrar in due course.

## 6. Annual Report

The Company's Annual Report will be posted to shareholders in early May, following which it will be available on the Company's website at [www.aurelianoil.com](http://www.aurelianoil.com).