

## **Mediterranean Oil & Gas Plc (AIM: MOG)**

### **Preliminary Group Results for the year ending 30 June 2007**

The Directors of Mediterranean Oil & Gas Plc are pleased to present the Company's preliminary report and financial statements for the year ending 30 June 2007.

#### **Highlights within the reported period**

- July – September 2006. New Italian exploration permits Torrente La Vella (40%) and Monte Marciano (50% and operator) awarded. Increased production after successful side track wells at San Mauro and Santa Caterina gas fields.
- 5 October 2006 – Serra San Bernardo exploration permit (MOG:23%) joint venture approves Monte Grosso well.
- 18 April 2007 - Leni Gas & Oil agrees to fund USD 5 million exploration campaign for 20% of Malta offshore Exploration Study Agreement (ESA).
- 18 May 2007 - Agreement with ENI on a drilling window for an ENI contracted Jackup Rig to drill appraisal development well on MOG's 100% owned Ombrina Mare oil & gas discovery
- 18 May 2007 - MOG as operator secures a services agreement with ENI, on behalf of JV partners, to drill the Monte Grosso well. Agreement with ENI on a drilling window for an ENI contracted Rig to drill Monte Grosso Prospect in Serra San Bernardo Permit
- May- June - Acquisition of 1,000 kilometres of 2D seismic in Malta offshore Area 4. This new survey was designed to increase the understanding of some of the large prospects in the area covered by our ESA.

#### **Post Period Highlights**

- 12 July 2007 - Convertible bond Restructuring. The Company renegotiated convertible bond terms with the bondholder in lead up to project financing for upcoming projects.
- 30 July 2007 - Drilling permit for Grenade 3 Well.
- 17 September 2007 - Changes in Executive Management. New appointments. Board of Directors expanded.

Chairman Michael Bonte-Friedheim stated:

*“The Company is investing in a diverse and well balanced portfolio of assets located in the Mediterranean region where we have significant technical expertise. It is anticipated that this strategy will enable the Company to make great strides towards achieving its goal of becoming a medium sized oil and gas player with a significant oil and gas reserve base.”*

## **Qualified Person and Compliance with SPE Standard**

Giovanni Catalano (a director of the Company) holds a masters degree in geology and has had over twenty-five years in the upstream oil and gas industry. His last position held was with Woodside Energy Pty Ltd, Perth, Western Australia as Business Development Manager – Far East. Prior to Woodside (seven years), Mr Catalano was with AGIP (nine years) and LASMO International (eleven years). He is a former director of Woodside Energy UK and AGIP Mauritania BV companies and former chairman of Woodside Energias SA in Spain. Mr Catalano is an Associate Councillor of Assomineraria. He has compiled, read and approved the technical disclosure in this announcement and in the Preliminary Annual Report and Financial Statements. The technical disclosure in this announcement and the Report complies with the SPE/WPC Standard.

## **Glossary**

Bbls/month	stock tank barrels of oil per month
BBstb	Billion stock tank barrels
MMstb	Million stock tank barrels
MMscf/month	Million standard cubic feet per month
Bcf	Billion cubic feet
scm/Mscm	Standard cubic metres /Million standard cubic metres
scm/month	Standard cubic metres per month
SPE/WPC	Society of Petroleum Engineers/World Petroleum Congress
STOIIP	stock tank oil initially in place

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## **Mediterranean Oil & Gas Plc**

### **CHAIRMAN'S STATEMENT**

Dear Shareholder,

During the year the Company maintained its rapid momentum in its quest to fast track development and advanced exploration of its major assets. In an industry climate of increasingly scarce drilling hardware and experienced technical personnel, the Company has scored major breakthroughs on several fronts.

After protracted negotiations the Company has successfully concluded agreements with ENI for the Galloway jack-up rig to drill the Ombrina Mare appraisal well and for a highly specialised rig to drill the Monte Grosso exploration well. In addition, in light of upcoming operational activity, the Company has substantially strengthened its technical work force, which now stands at around thirty.

The expansion of our technical management, the recruiting of a highly qualified London based CFO, the renegotiation of the convertible bonds; this and much more is all part of the Company's road map in its transition to become a substantial market participant.

These achievements were put in place to prepare us for a significant capital investment programme focused on our major assets. We are investing heavily in a number of different projects attempting to balance and diversify the technical risk with the potential returns in a manner which the board believes is rare amongst independent E & P companies. Planned for coming months are:

- Monte Grosso prospect - Onshore Basilicata Region. MOG operator. Spudding during the fourth (current) quarter 2007 (best case prospective oil resources net to MOG of 64 million barrels and high case 109 million barrels).
- Teboursouk prospect – Medjerda Block, northern Tunisia. Range operator spudding during the fourth (current) quarter 2007 (best case prospective oil resources net to the Company of 26.8 million barrels and high case of 95.2 million barrels).
- Grenade 3 appraisal well - Onshore France, Egdon operator. Spudding in the fourth (current) quarter 2007 (best case contingent oil resources net to the Company of 1.3 million barrels and high case of 6.3 million barrels).
- Ombrina Mare 2 appraisal well – Italian Adriatic coast. MOG operator. Spudding first quarter 2008 (best case contingent oil resources net to the Company of 27.5 million barrels and high case of 64 million barrels).
- Processing and interpretation of recently acquired seismic on Area 4 offshore Malta (best case prospective oil resources net to the Company of 1.3 billion barrels and high case of 3.6 billion barrels).
- Ongoing enhancement of the Company's current onshore Italy production.

The next year will be a very busy period as these investments proceed.

## **Management**

The Company has strengthened its management and board. Our inaugural CEO, Mr Giovanni Catalano, managed the Company since its listing and will shortly handover responsibilities as Chief Executive Officer. He has expanded our Italian and international operations and overseen the Company as it built up its technical capability. Giovanni is warmly thanked for his efforts and will continue his involvement with our Company as an exclusive consultant focused on business development and as a non-executive director.

The Company was fortunate to be able to engage the services of Mr Sergio Morandi who is ideally placed to take the Company to its next level with his very strong management background with Shell (Netherlands) and as Head of Exploration for Shell Italia. Sergio has a particular knowledge of the geology in the areas of interest of our Company and was directly involved in the discovery of Ombrina Mare and evaluation of Monte Grosso during previous employment with the Elf Group (now part of Total) and Enterprise Oil Ltd.

Finally, in June, Mr Fabio Bortolotti was appointed Chief Financial Officer. He is based in London where an administrative office has been opened. Mr Bortolotti comes with a background in audit and investment banking. His appointment and base in London will be important as the Company steps up its activities and seeks development finance next year.

## **Financial Position and Results**

The Company re-negotiated the terms of its convertible bonds to eliminate the interest payments on the debt and extended the term by 12 months. This step was important, providing a stronger platform for debt funding against the Company's gas reserves to fund Guendalina and the Ombrina Mare development.

Group turnover increased to €4,922,000 from €4,486,000 in the previous year. The increase is attributable to increased production and better than average prices over the course of the year.

The increased consolidated loss of €2,508,000 is largely attributable to write downs of the San Teodoro and Masseria Petrilli concessions. These concessions contributed insignificant production during the course of the last two years and production has now ceased at both sites. Whilst these 2 concessions have significant remaining gas resources their carrying value has been written down by a total of €2.2 million.

Positive net cashflow from operating activities was a strong €2,753,000 with our Italian operations funding the Group's overhead and contributing to our capital investment funding. The Group's cash reserves at the end of the financial year were €14,878,000 after the expenditure of €4,141,000 on purchasing property, plant and equipment and intangible investments. Trade creditors were higher at 30 June 2007 due to capital expenses incurred towards the end of the financial year which fell due for payment after the 30 June 2007 and now have been paid.

## **Promotion**

After a relatively quiet news period as we prepared for the forthcoming drilling campaign, we now expect regular updates as the projects progress. In anticipation of

this Tristone Capital Ltd has initiated research coverage this month and we expect others will also increase their coverage of the stock.

### **Strategy**

The Board continues to look for organic and corporate opportunities to expand our reach of operations.

The Company is investing in a diverse and well balanced portfolio of assets located in the Mediterranean region where we have significant technical expertise. It is anticipated that this strategy will enable the Company to make great strides towards achieving its goal of becoming a medium sized oil and gas player with a significant oil and gas reserve base.

I would like to congratulate our management and employees on their excellent performance throughout the year and thank shareholders for their on-going support of the Company.

**Michael Bonte-Friedheim**  
Chairman

## **OPERATIONS REPORT**

The Company is pleased to report that during this year it has significantly increased its resources by maturing its assets, expanded its Italian operational and technical teams and executed agreements with specialised drilling rig contractors to drill two of its most important assets.

We have established good relations with Italian authorities to ensure approvals are obtained in as timely a fashion as possible. The latter is in no small part due to the excellent health, safety and environment outcomes since the Company acquired its Italian operations. This will stand us in good stead as we continue to grow our operations in Italy.

### **Ombrina Mare**

The GH Galloway jack up rig has been secured to drill an appraisal/development well on our Ombrina Mare oil and gas field. Subject to a successful appraisal, the Company anticipates being able to convert contingent resources to reserves and fast track the development of the field.

Securing the jack up rig has been a major challenge. In an already tight market for jack-up rigs we were hampered by the fact very few jack-ups are approved to work in Italian waters and those few are under long term contract. We were able to negotiate the use of the GH Galloway rig as a result of our excellent relationship with ENI. We are on schedule with procuring the necessary materials and approvals for drilling to commence during the agreed drilling window in the first quarter 2008.

### **Monte Grosso**

An ENI operated onshore high capacity rig has been engaged and is expected to spud an exploration well on the Monte Grosso prospect in December this year. The prospect is located on a similar trend to the Italian southern Apennines major producing oil fields Monte Alpi, Tempa Rossa and Cerro Falcone. ENI operates the Monte Alpi field which produces approximately 100,000 barrels per day. The drilling team has significant experience in the area from drilling on these nearby fields to similar depths and through similar geology to our proposed well.

### **Malta**

1000 line kilometres of 2D seismic has been shot over the exploration study area which covers Area 4, blocks 4,5,6 and 7 Malta Offshore. That seismic is currently being processed together with the reprocessing of some older 3D seismic. Following these results the Company may soon be in a position to seek to convert the Exploration Study Agreement to a Production Sharing Contract.

During the year, the Company was able to secure a farm out of 20% of the ESA ground to Leni Gas and Oil Plc in consideration of the latter agreeing to fund the first US \$5 million of expenditure on the permit.

As a result of these developments we are now able to maximise the value from these large and exciting prospects whilst balancing the risk involved in offshore drilling in a relatively under explored region.

## **Guendalina**

Development of Guendalina Gas Field is expected to double the Company's gas reserves and more than double our Italian gas production when it comes on stream. ENI is developing the Guendalina Field by constructing a tie back to the Tea gas production platform in a nearby ENI concession. The production platform for the Tea field is under construction and is anticipated to be moved to location upon the completion of the current Tea production wells. The tieback to Guendalina is then planned to follow in 2008.

## **Tunisia**

Compagnie Tunisienne de Forage's CTF Rig 6 has been contracted to drill the Teboursouk 1 well (TEB-1) in the Teboursouk Prospect. CTF RIG 6 is expected to spud TEB-1 in current quarter 2007 after finishing a drilling commitment presently underway nearby.

The Teboursouk Prospect is located in the Domes zone in the southern part of the Medjerda Block. The operator has advised MOG that the Teboursouk Prospect best estimate prospective resources are 80 MMbbls and 27 MMbbls for the Aptian Sandstones and Carbonate Complex objectives respectively.

The operator has already procured all material needed for the drilling and the drilling stage area is ready for a November spud.

## **Grenade**

A COFOR MAS3000 rig has been secured to drill the Grenade 3 appraisal well and the drilling site is under construction. Long lead items are being procured to spud the well in the current quarter 2007. Following the acquisition and interpretation of 3D and 2D seismic delineation surveys within the Grenade Field's area, the joint venture has re-evaluated the best estimate STOIP for the field to 300 MMbbls oil (range 95 to 945 MMbbls).

The Grenade 3 well is designed to confirm the oil column and subsequently, with a horizontal sidetrack through the main reservoir, to confirm the well deliverability via a production test.

With success at Grenade 3, a pilot production project is planned using Quadrise Fuels plc's MSAR process with options for a range of possible enhanced recovery methods, including CO<sub>2</sub> injection and sequestration.

## **Onshore expansion**

Whilst the drilling at Ombrina Mare and Monte Grosso and the development of our Maltese permits capture the imagination in terms of size and the ability to transform the Company, we have not lessened our focus on ensuring that the cash generating production in Italy is maintained. During the year successful sidetracks were conducted at the San Mauro and Santa Catarina.

In addition to our production concessions, the Company now has interests in ten exploration permits (and operates seven) and has also interests in a further seven pending exploration permit applications in Italy. The Cup 2A sidetrack well disappointingly did not produce commercial gas flows. We have improved our

understanding of this complex field and production has been recommenced whilst we re-examine how to best target the significant remaining gas resources in the concession.

We continue to actively explore our onshore Italy ground. The relatively large prospective resources in the Scanzano, Lucera and Monte Marciano permits are of particular interest because of the potential to bring any discovery into production relatively quickly.

## Gas Reserves and Resources

	Net Gas Reserves and Resources in Bcf				
	Reserves Proven Plus Probable	Contingent Resources Best Estimate	Contingent Resources High Estimate	Prospective Resources (unrisked) Best Estimate	Prospective Resources (unrisked) High Estimate
1 July 2006	12	21	50	20	44
30 June 2007	11	25	61	70	138

The Company's net proven plus probable gas reserves declined slightly as a result of production during the course of the year. We anticipate the Company will reverse this position next year as we continue our exploration and development efforts.

The Company increased its contingent and prospective gas resources during the year. The contingent resources have been increased as a result of the Ombrina Mare BS3 structure now being classified as contingent resources. The prospective resources have greatly increased as a result of the work we have done on our new Monte Marciano permit, some prospective upside from the Guendalina field and further exploration reviews of the Scanzano and Torrente Cigno concessions.

## Oil Resources

	Oil Resources in MMstb			
	Best Estimate Contingent Resources	High Estimate Contingent Resources	Prospective Resources (unrisked) Best Estimate	Prospective Resources (unrisked) High Estimate
1 July 2006	29	70	1,577	4,447
30 June 2007	29	70	1,291	3,614

The Company's oil resources are effectively unchanged over the year as we await the results of the 3D seismic reprocessing and processing of the new 2D seismic on our Maltese acreage and the outcomes of the forthcoming drilling campaign at Ombrina Mare, Monte Grosso, Tunisia and Grenade. The net to the Company oil resources in our Maltese acreage have been reduced simply as a consequence of the farm out of a 20% interest.

## **Sales**

The market for gas in Italy continues to be very strong and we do not foresee any difficulties in finding markets for new gas production as it is brought on stream.

## **Health and Safety**

The Company continues to be committed to maintaining the highest standard in health, safety and environment management. No injuries have been reported since our operating Italian subsidiary was acquired in May 2005.

**Giovanni Catalano**  
Chief Executive Officer

## Consolidated income statement for the year ended 30 June 2007

	Year ended Unaudited 30-Jun-07 €000	Year ended Audited 30-Jun-06 €000
<b>Revenue</b>	4,922	4,486
Cost of sales	(1,719)	(1,046)
<b>Gross Profit</b>	3,203	3,440
Other operating income	95	-
Depreciation, depletion and amortisation	(1,618)	(1,343)
Impairment	(2,158)	-
Other administrative expenses	(2,357)	(3,059)
Total administrative expenses	(6,133)	(4,402)
<b>Loss from operations</b>	(2,835)	(962)
Unwinding of discount on provisions	(438)	-
Other finance costs	(443)	(486)
Total finance costs	(881)	(486)
Finance income	1,495	453
<b>Loss before tax</b>	(2,221)	(995)
Tax expense	(287)	(64)
<b>Loss for the year attributable to the equity holders of the parent</b>	(2,508)	(1,059)
<b>Earnings per share attributable to the equity holders of the parent</b>		
- Basic and diluted	(0.07)	(0.03)

## Unaudited Consolidated statement changes in equity for the year ended 30 June 2007

Group	Share Capital €000	Share Premium Reserve €000	Foreign Exchange Reserve €000	Share Option Reserve €000	Convertible Debt Option Reserve €000	Retained Losses €000	Total €000
At 1 July 2005	6,272	800	-	-	-	(411)	6,661
Exchange differences arising on translation of foreign operations	-	-	(11)	-	-	-	(11)
Net loss recognised directly in equity	-	-	(11)	-	-	-	(11)
Loss for the year	-	-	-	-	-	(1,059)	(1,059)
<b>Total recognised income and expense for the year</b>	-	-	(11)	-	-	(1,059)	(1,070)
Shares issued	3,511	14,043	-	-	-	-	17,554
Issue costs	-	(857)	-	-	-	-	(857)
Equity components	-	-	-	-	68	-	68
Share-based payments	-	(459)	-	689	-	107	337
At 30 June 2006	9,783	13,527	(11)	689	68	(1,363)	22,693
At 1 July 2006	9,783	13,527	(11)	689	68	(1,363)	22,693
Exchange difference arising on translation of foreign operations	-	-	11	-	-	-	11
Net loss recognised directly in equity	-	-	11	-	-	-	11
Loss for the year	-	-	-	-	-	(2,508)	(2,508)
<b>Total recognised income and expense for the year</b>	-	-	11	-	-	(2,508)	(2,497)
Share-based payments	-	-	-	495	-	-	495
As at 30th June 2007	9,783	13,527	-	1,184	68	(3,871)	20,691

## Consolidated balance sheet at 30 June 2007

	2007	2006
	€000	€000
	Unaudited	Audited
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment (PPE)	9,298	15,964
Intangible assets	9,373	2,726
Financial assets	34	34
Deferred tax assets	80	80
	<hr/>	<hr/>
Total non-current assets	18,785	18,804
<b>Current assets</b>		
Inventories	1,130	437
Trade and other receivables	3,298	2,461
Cash and cash equivalents	14,878	15,682
	<hr/>	<hr/>
Total current assets	19,306	18,580
	<hr/>	<hr/>
<b>Total assets</b>	38,091	37,384
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	5,657	2,453
Other financial liabilities	84	21
Corporation tax liability	278	253
	<hr/>	<hr/>
Total current liabilities	6,019	2,727
<b>Non-current liabilities</b>		
Financial liabilities	6,378	6,987
Provisions	5,003	4,977
	<hr/>	<hr/>
Total non-current liabilities	11,381	11,964
	<hr/>	<hr/>
	17,400	14,691
	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>20,691</b>	<b>22,693</b>

**Capital and reserves attributable to equity holders of the company**

Share capital	9,783	9,783
Share premium reserve	13,527	13,527
Share option reserve	1,184	689
Convertible debt option reserve	68	68
Foreign exchange reserve	-	(11)
Retained losses	(3,871)	(1,363)
<b>TOTAL EQUITY</b>	<b>20,691</b>	<b>22,693</b>

**Consolidated cash flow statement for the year ended 30 June 2007**

	<b>2007</b>	<b>2006</b>
	<b>€000</b>	<b>€000</b>
	Unaudited	Audited
<b>Operating activities</b>		
Loss for the year	(2,508)	(1,059)
Adjustments for:		
Depreciation, depletion and amortisation	1,618	1,343
Impairment	2,158	-
Income tax credit	-	22
Foreign exchange adjustments	(385)	(11)
Share-based payments	495	241
Investment income	(1,495)	(453)
Interest expense	881	486
Income tax expense	287	64
<b>Operating profit before changes in working capital and provisions</b>	<b>1,051</b>	<b>633</b>
Increase in inventories	(693)	(134)
(Increase)/decrease in trade and other receivables	(837)	(1,371)
Increase/(decrease) in trade and other payables	3,249	1,825
Increase in provisions	(17)	(454)
<b>Cash generated from operations</b>	<b>2,753</b>	<b>499</b>
Income taxes paid	(262)	(25)
<b>Cash flows from operating activities</b>	<b>2,491</b>	<b>474</b>

<b>Investment activities</b>		
Purchases of PPE & intangible assets	(4,141)	(1,897)
Interest received	783	453
	<u>(3,358)</u>	<u>(1,444)</u>
<b>Financing activities</b>		
Issue of ordinary shares (net of issue costs)	-	16,697
Interest paid	(322)	(461)
	<u>(322)</u>	<u>16,236</u>
Changes in foreign exchange rates	385	-
	<u>(804)</u>	<u>15,266</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		

**Segmental analysis** The Group operates in one business segment, the exploration for and production of oil and gas. The Group has interests in three geographical segments:

	<b>Mediterranean Region</b>	<b>United Kingdom</b>	<b>Australia</b>	<b>Total</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
Revenue	4,922	-	-	4,922
Other operating income	-	-	95	95
Finance income	15	1,381	-	1,396
Profit/(Loss) before taxation	(2,657)	476	(40)	(2,221)
Assets	24,088	13,838	165	38,091
Liabilities	10,597	6,643	160	17,400
Capital expenditure	4,141	-	-	4,141
Depreciation, depletion and amortisation	1,618	-	-	1,618
Impairment	2,158	-	-	2,158
Unwinding of discount on provisions	438	-	-	438
Share-based payments (non-cash)	-	495	-	495
Interest on convertible bonds (non-cash)	-	613	-	613

- 1 All turnover is sold to third parties in the segment of origin
- 2 Net assets exclude intra-Group financing

	<b>Mediterranean Region</b>	<b>United Kingdom</b>	<b>Australia</b>	<b>Total</b>
	<b>2006</b>	<b>2006</b>	<b>2006</b>	<b>2006</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Revenue	4,486	-	-	4,486
Finance income	3	450	-	453
Profit/(Loss) before taxation	(1,509)	450	-	(1,059)
Assets	22,598	14,735	51	37,384
Liabilities	7,676	6,982	33	14,691
Capital expenditure	1,948	-	-	1,948
Depreciation, amortisation and other non cash expenses	1,343	-	-	1,343
Share-based payments (non-cash)	101	337	358	796
Interest on convertible bonds (non-cash)	-	25	-	25

1. All turnover is sold to third parties in the segment of origin
2. Net assets exclude intra-Group financing.

### Loss per share

	<b>2007</b>	<b>2006</b>
	<b>€000</b>	<b>€000</b>
	<b>Unaudited</b>	<b>Audited</b>
<b><i>Numerator</i></b>		
Loss for the year	(2,508)	(1,059)
<b><i>Denominator</i></b>		
Weighted average number of shares used in basic EPS	33,612,738	29,706,863

### Post balance sheet events

The Remuneration Committee approved the issue of options in accordance with the terms of Messrs Catalano, Morandi and Bortolotti's respective services agreements. The services agreements require 100,000 options to be issued to each of them. In the case of Mr Bortolotti the options will vest over a 3 year period. At the date of this report the option agreements had not been finalised. The Remuneration Committee has recommended in each case that the options be issued at a premium to the market value on the entitlement date arising pursuant to the services agreements. The entitlement date for Mr Catalano

and Mr Bortolotti was prior to 30 June 2007 and the effect of the anticipated option issues has been provided for in the preliminary accounts.

**Contingent liability**

There are no contingent liabilities as at the date of this report.