AURELIAN OIL & GAS LIMITED

(formerly Falcon Oil & Gas Limited)

Consolidated financial statements

for the thirteen months ended

31 December 2005

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Company information

Directors	A J Lippitt CB (Chairman) M D Seymour (Managing) M S Donnelly F P Jackson M H Pattinson G Elliott R Hartley F P Hilton D G L Prior	
Secretary	R G Godson FCA	
Registered Office	6/7 Pollen Street London W1S 1NJ	
Auditors	Haslers Old Station Road Loughton Essex IG10 4PL	
Solicitors	McGrigors Johnstone House 52-54 Rose Street Aberdeen AB10 1UD	Maxwell Batley 27 Chancery Lane London WC2A 1PA
Bankers	HSBC Bank plc Nailsworth Gloucestershire	HSBC International St Helier Jersey
	ABN Amro Bank 2 Expositei Boulevard Bucharest Romania	
	Raiffeisen Bank 18/20 Gogol Str Sofia Bulgaria	
	Banc Przemyslowo-Handlowy PBK SA ul Krolewska 2700-060 Warsaw Poland	

Chairman's review

The period covered by these statements has been one of sustained concern over the world's capacity to meet its energy requirements and this environment has provided a stimulus for substantial growth in the scope of the group's activities. The recently completed share placing puts us in an ideal situation to make the most of our carefully assembled core base of concessions.

Some of us were very disappointed to be forced to change the name of the company from Falcon to Aurelian but the emergence of a Canadian company with exactly the same name as ours securing concessions in Romania left us with little choice. We feel that "Aurelian" with its strong central European associations and "golden" connotations is a very suitable alternative.

You will read about the successful development of our exploration programmes elsewhere in this report but it must be a matter of some pride that, from scratch, we will be selling our first gas from a field which we are operating ourselves within three and a half years of starting the company.

The rapid development of the company has led to increased demands on its human resources and during the period Frank Jackson has moved from being a non-executive director to taking over corporate development responsibilities and has been particularly involved in the recent successful placing. Roy Hartley who we have recently appointed to the Board will take up the position of operations director on 3 November 2006 - Roy's successful career as a Petroleum Engineer with Shell and Burmah and more recently as a consultant with Troy, Helix and RDS gives him ideal qualifications for this role.

We also welcome David Prior to the Board as vice-chairman and Paul Hilton and Guy Elliott as non-executive directors. Their background in the financial markets on which we rely for the wherewithal to move forward makes them ideal partners at this stage of our development. Miles Donnelly who provided most of the financial impetus to launch the company in 2002 has decided that he no longer has the time to do justice to his responsibilities and will be retiring from the Board at the Annual General Meeting. Shareholders should not underestimate the unique and vital contribution that he has made to our progress. We were very pleased that David Prior who is the focal point for one of our other groups of private shareholders accepted an invitation to replace Miles.

The notable feature of the last year has been the wonderful financial support we have received from our shareholders. Firstly, the rights issue of convertible loan stock was oversubscribed and we raised £1.5 million. As a result of the opportunity to secure major institutional funding in recent months, we felt it necessary to redeem the loan stock and give holders an early option to convert. Only one of the stockholders elected not to take up the option to convert. This demonstrated great faith in the company. Subsequently, as you all know, this was followed by a further placing and rights issue (again oversubscribed) securing $53.2 million, which places us in the position to make the most of the wide ranging opportunities that are available to us in Central Europe. Our next natural step is the listing of our shares on the Alternative Investment Market of the London Stock Exchange.

The outlook for the next twelve months looks exciting with a first well on our Polish licence and possibly the first well in Bulgaria. In addition, by this time next year, we should be a company with a history of production from our existing discoveries in Romania, we should have drilled wells on our other two Romanian concessions and followed up targets in different areas on the concession where the discoveries are located. It will be very disappointing if we are not also able to announce details of new concessions in our favoured areas.

A J Lippitt CB

Chairman

Dated: 26 May 2006

Operations report

The Group holds oil and gas interests in Poland, Romania and Bulgaria via local subsidiaries in each country.

Poland

In Poland, the Company's 90% owned subsidiary, Energia Zachod Sp. z o.o., holds a 100% interest as operator in the Poznan East Blocks 207 & 208, located just outside the city suburbs. In past decades, the area was held by the state oil company, Polish Oil & Gas Corporation (POGC), which drilled four wells on the Siekierki structure within Block 207, three of which reached the Permian Rotliegendes Sandstone and tested small quantities of gas.

Aurelian is now in the second phase of exploration during which it is obliged before June 2006 to acquire 300 kilometres of new 2D seismic data. This data is currently being acquired and will lead to Aurelian being in a position to select a location for drilling in the fourth quarter of 2006. Drilling contractors are currently being evaluated and a rig will be selected to drill the well to a depth of some 3,800 metres. If gas is confirmed, the well will be "fracced" and tested.

Romania

In Romania, the Company's wholly owned subsidiary, Falcon Oil & Gas S.R.L. (the name will be changed to Aurelian Oil & Gas S.R.L.), holds interests in three concessions, Brodina Block EIII-1, Cuejdiu Block EIII-3 and Bacau Block EIII-4, all in the old oilfield area of the East Carpathians. Aurelian holds 28.75% interests in Brodina and Cuejdiu, and 47.5% in Bacau. It is the operator in all three blocks.

The first well, Bilca-1, was drilled by the joint venture in 2004 and was a gas discovery, testing 99.5% methane at rates up to 6.4 mmscfd. Bilca-2 and Fratauti-1 were drilled during early 2005 and confirmed commercial reserves. The three wells are now being prepared for first production in the third quarter of 2006. Central facilities are being installed and the gas will be piped some 14 kilometres to the city of Radauti, where it will enter the regional transmission system.

Due to the non-availability of seismic crews, the 2005 seismic programmes on all three blocks were postponed to 2006 and are currently in progress. It is hoped that drilling on all three blocks for Sarmatian Sandstone gas prospects will take place at the end of 2006. The Company continues to evaluate the potential of the deeper Voitinel structure on Brodina and Ghindaioani in Cuejdiu.

Bulgaria

In Bulgaria, the Company's wholly owned subsidiary, Balkan Explorers (Bulgaria) Limited holds a 100% interest in the B-Golitza and B1-Golitza Blocks. The former holds substantial potential in very large Mesozoic structures below 3,000 metres, while the latter has low-risk potential for relatively shallow gas along the coastline of the Black Sea. New 2D seismic was acquired during 2005 and interpretation, which is currently in progress, appears to confirm the leads.

The Company has an agreement with JKX Oil & Gas plc that they can increase their interest in the blocks to 50% by making a contribution to the first well. JKX have indicated that they now intend to take up this increase. In doing so, they will take over the operatorship. The intention is that this first well will be drilled in 2007.

Other

The Group is actively evaluating new areas in its focal region of Central Europe and expects to apply for several new licences during the forthcoming months.

M D Seymour

Managing Director

Dated: 26 May 2006

Financial review

This review of finance should be read in conjunction with the Chairman's Review and the Operations Report which also contain comments on our financial activities.

Basis of presentation

Aurelian has decided on early implementation of changes in advance of its anticipated AIM Listing. Firstly, we are adopting International Financial Reporting Standards as from 1 December 2004 and these financial statements along with the comparatives for 2004 have been prepared in accordance with these standards. Secondly, we have changed the group reporting date to 31 December to coincide with the legal requirements in most of the Central European countries in which we operate. This means that the current period is thirteen months. Lastly, it has become clear that the critical currency for most of our operations is the Euro and we have therefore adopted this as the presentation currency of the group.

Most of these changes have had little effect on reporting but the adoption of IFRS by oil exploration companies will have a major effect on future reporting. The "successful efforts" basis of accounting is now the more accepted method rather than the "full cost" method and we have changed our accounting policy accordingly. This means that the cost of unsuccessful exploration in particular areas can no longer be treated as part of the cost of successful activity in those areas. It will require to be expensed as soon as it is clear that it has no lasting value.

Taxation

As the group has not yet received any sales revenues, no tax liabilities arise and there are losses available for offset against future profits in all the countries in which we operate.

Financing

During the period we entered into two significant "financings" – firstly, we had a "Rights Issue" of convertible loan stock carrying a 10% coupon. The interest was linked to production income from the Bilca fields in Romania. The group's development moved faster than anticipated and we took steps which resulted in all the loan stock and the accrued interest being converted into ordinary shares at a price of £2.00 per ordinary share in January 2006.

Secondly, we negotiated further finance linked to the Bilca Fields which consisted of a loan from Gemini Partners of $4 million which is only repayable out of a proportion of the gross revenues from the Bilca fields. To discharge this obligation, the premium payable is $6 million and 55% of our share of the gross revenue from these fields is committed until the total of $10 million is repaid. A royalty of 2% of our share of the gross revenue from the Brodina concession then becomes payable.

Currencies

Gas markets in central Europe are currently priced in local currencies which are linked in convergence arrangements to the Euro. All operational and development costs are similarly linked and therefore Aurelian is holding the bulk of its cash balances in Euros - sufficient US dollars are retained to cover short term exposures in that currency.

Going concern

Having reviewed the group's budgets and taking into account the recent $53.2 million share placing and Rights Issue, the directors are of the opinion that the company and the group have adequate resources to continue in operation for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

By order of the board

Raymond G. Godson

R G Godson
Company Secretary

Dated: 26 May 2006

Directors' report

The directors present their report on the affairs of the company and the group, together with the financial statements for the thirteen months ended 31 December 2005.

Statement of Directors responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) adopted by the European Union.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group, and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Business review

On 30 January 2006, the company changed its name from Falcon Oil & Gas Limited to Aurelian Oil & Gas Limited.

During the period, the group carried on the business of exploring for oil and gas and conducted various drilling and seismic evaluation projects. The Directors are satisfied with the progress of the programme of evaluation.

Principal activity

The principal activity of the company is exploration for oil and gas and the provision of related services. During the period efforts have been concentrated on Central Europe.

Results and dividends

The loss for the period before taxation amounted to €1,379,570 (year to 30 November 2004 - loss €112,575). The directors do not recommend the payment of a dividend (year to 30 November 2004 – nil).

Directors' report - continued

Directors and their interests

The directors who served during the period and their beneficial interests in the Company's shares were as follows:

	31/12/2005 Number of shares	**1/12/2004** Number of shares
A J Lippitt CB	35,433	35,433
M D Seymour	924,393	924,393
M S Donnelly	1,500,000	1,500,000
F P Jackson	31,500	31,500
M H Pattinson	30,000	30,000

In addition, M D Seymour holds a non-beneficial interest in 389,048 ordinary shares.

Messrs G Elliott and F P Hilton were appointed to the Board on 15 February 2006 and Messrs R Hartley and D G L Prior were appointed on 19 May 2006.

The directors hold options under the Company's unapproved share option scheme as follows:

	31/12/2005	**1/12/2004**
A J Lippitt CB	84,784	59,784
M D Seymour	125,000	100,000
M S Donnelly	75,000	50,000
F P Jackson	75,000	50,000
M H Pattinson	75,000	50,000

The options extant at 1 December 2004 are exercisable at 63.5 pence per share but only if the value of the Company's shares at the time of exercise of the option is £1.27p or more. The options granted during the year are exercisable at a price of £2.00 per share. The options are exercisable at various times between 14 February 2006 and 5 April 2009.

On 31 March 2006, the following options were granted to directors:

	Exercisable at £2.30	**Exercisable at the price of the Initial Public Offer**
A J Lippitt CB	40,000	20,000
M D Seymour	37,609	42,391
M S Donnelly	40,000	20,000
F P Jackson	40,000	40,000
M H Pattinson	40,000	20,000
G Elliott	40,000	20,000
R Hartley	52,174	20,000
F P Hilton	40,000	20,000
D G L Prior	-	20,000

These options are all exercisable between 1 April 2009 and 31 March 2011.

Auditors

The auditors, Warner Bearman merged with Haslers during the period and Haslers will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

By order of the Board

Raymond G. Godson

6/7 Pollen Street
London W1S 1NJ

Raymond G Godson
Secretary

Dated: 26 May 2006

Report of the independent auditors to the members of Aurelian Oil & Gas Limited

We have audited the consolidated financial statements (the 'financial statements') of Aurelian Oil & Gas Limited for the thirteen months ended 31 December 2005 which comprise the Group Income Statement, Group and Parent Company Balance Sheets, Group Statement of Cash Flows and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and the auditors

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities in respect of the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and IFRS as adopted by the European Union. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Chairman's review, operations report, financial review and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The Company and Group financial statements give a true and fair view of the state of the Company and Group's affairs as at 31 December 2005 and of its loss for the period then ended; and
- Have been properly prepared in accordance with the Companies Act 1985 and IFRS as adopted by the European Union.

Haslers

Haslers
Registered Auditor
Loughton

Dated: 26 May 2006

Consolidated income statement

	Notes	Period to 31 Dec 2005 €	Year to 30 Nov 2004 €
Revenue		-	-
Cost of sales		(428,817)	(141,283)
Gross loss		(428,817)	(141,283)
Administrative expenses		(896,145)	(2,998)
Other operating income		-	2,571
Operating loss	2	(1,324,962)	(141,710)
Finance income	4	82,591	29,184
Finance expense	5	(137,199)	(49)
Loss on ordinary activities before taxation		(1,379,570)	(112,575)
Taxation on ordinary activities	6	-	-
Loss for the year after taxation		€(1,379,570)	€(112,575)
Loss attributable to minority interests		(2,117)	-
Loss attributable to equity shareholders		(1,377,453)	(112,575)
		€(1,379,570)	€(112,575)

Statement of recognised gains and losses

	Period to 31 Dec 2005 €	Year to 30 Nov 2004 €
Loss for the period/year	(1,379,570)	(112,575)
Foreign currency translation	(5,522)	157
Total loss recognised	€(1,385,092)	€(112,418)
Loss attributable to minority interests	(2,117)	-
Loss attributable to equity holders	(1,382,975)	(112,418)
	€(1,385,092)	€(112,418)

Balance Sheet
As at 31 December 2005

	Notes	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
Non current assets					
Intangible	7	3,542,837	392,345	3,540,152	102,216
Tangible	8	4,010,932	2,728,301	1,143	261
Investments	9	-	5,279,557	-	4,078,566
		7,553,769	8,400,203	3,541,295	4,181,043
Current assets					
Trade and other receivables	10	1,426,845	1,694,388	522,843	19,689
Cash and cash equivalents		4,611,816	3,041,901	1,400,709	1,070,490
		6,038,661	4,736,289	1,923,552	1,090,179
Total assets		13,592,430	13,136,492	5,464,847	5,271,222
Current liabilities	11	(1,227,911)	(352,344)	(249,714)	(86,033)
Non current liabilities	12	(8,438,708)	(8,438,708)	-	-
Net assets		€3,925,811	€4,345,440	€5,215,133	€5,185,189
Capital and reserves					
Called up equity share capital	13	2,363,268	2,363,268	2,328,344	2,328,344
Share premium account	14	3,281,241	3,281,241	3,241,477	3,241,477
Equity share options reserve		39,388	39,388	18,349	18,349
Other reserves	15	2,899	2,899	2,856	2,856
Retained earnings	16	(1,758,868)	(1,341,356)	(375,893)	(405,837)
		3,927,928	4,345,440	5,215,133	5,185,189
Minority interest in equity		(2,117)	-	-	-
Total equity attributable to the company's equity holders		€3,925,811	€4,345,440	€5,215,133	€5,185,189

Signed on behalf of the Board on 26 May 2006

M D Seymour

Director

F P Jackson

Director

Consolidated cash flow statement

	Notes	Group 31 Dec 05 €	Group 30 Nov 04 €
Cash flows from operating activities			
Cash expended on operations	20	(809,133)	(357,325)
Finance income		82,591	29,184
Finance expense		(137,199)	(49)
Net cash used in operating activities		(863,741)	(328,190)
Cash flows from investing activities			
Purchase of tangible non current assets		(1,080,296)	(706)
Purchase of intangible non current assets		(547,523)	(1,879,502)
Net cash used in investing activities		(1,627,819)	(1,880,208)
Cash flows from financing activities			
Ordinary share issue costs		(8,922)	-
Proceeds from issue of ordinary shares		-	2,257,900
Issue of convertible loan stock		2,215,868	-
Long-term borrowings introduced		3,495,721	-
Net cash flows from financing activities		5,702,667	2,257,900
Increase in cash and cash equivalents in the period	21	3,211,107	49,502
Cash and cash equivalents at 1 December 2004		1,400,709	1,351,207
Cash and cash equivalents at 31 December 2005		€4,611,816	€1,400,709

1 Accounting Policies

(a) Accounting convention

Aurelian prepares its accounts on a historical cost basis. The accounts represent the thirteen month period to 31 December 2005 or the position as at that date. The comparative period represents the twelve months to 30 November 2004.

(b) Accounting standards

Aurelian has prepared its accounts in accordance with applicable International Financial Reporting Standards (IFRS).

The restatement of comparative figures for the year ended 30 November 2004 has been prepared on the basis of all IFRS and interpretations issued by the International Accounting Standards Board ("IASB") effective for the Group's reporting period ended 31 December 2005.

The general principle in adopting IFRS is that all applicable accounting standards should be applied retrospectively. IFRS 1 "First time adoption of International Financial Reporting Standards" allows certain exemptions which companies are allowed to apply. Aurelian has elected:

- not to restate financial information for business combinations which occurred prior to 30 November 2003;
- to measure certain development/producing assets at the transition date to IFRS at fair value and use this fair value as their deemed cost; and
- to deem cumulative translation differences arising on consolidation of subsidiary undertakings to be zero at 30 November 2003.

This Statement has also been prepared in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources" following early adoption of this standard by Aurelian.

(c) Basis of consolidation

The group accounts include the results of Aurelian Oil & Gas Limited and its subsidiary undertakings to the Balance Sheet date. The group Income Statement and the Cash Flow Statement include the results and cash flows of subsidiary undertakings from the date of acquisition or up to the date of disposal.

Business combinations arising prior to the Group's transition date to IFRS (1 December 2003) have not been revisited under the exemption provided by IFRS 1.

(d) Joint ventures

Aurelian participates in several joint ventures which involve the joint control of assets used in the Group's oil and gas exploration and production activities. Aurelian recognises its share of the assets and liabilities of joint ventures in which the Group holdings a participating interest, classified under the appropriate Balance Sheet headings.

(e) Revenue

Revenue represents Aurelian's share of oil, gas and condensate production, recognised on a direct entitlement basis.

Income received as operator from joint ventures is recognised on an accruals basis in accordance with joint venture agreements and is included as a deduction from administrative expenses.

Interest income is recognised on an accruals basis and is disclosed separately on the face of the Income Statement.

1 Accounting Policies - continued

(f) Oil and gas exploration assets and development/producing assets

Aurelian follows a successful efforts based accounting policy for oil and gas assets.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement.

Expenditure incurred on the acquisition of a licence interest is initially capitalised on a licence by licence basis. Costs are held, undepleted, within exploration assets until such a time as the exploration phase on the licence area is complete or commercial reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets is capitalised initially within exploration assets and subsequently allocated to drilling activities. Exploration drilling costs are initially capitalised on a well by well basis until the success or otherwise of the well has been established. The success or failure of each exploration effort is judged on a well by well basis. Drilling costs are written off on completion of a well unless the results indicate that hydrocarbon reserves exist and there is a reasonable prospect that these reserves are commercial.

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible assets or oil and gas development costs according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of licences which the directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to oil and gas development costs following an impairment review and depreciated accordingly.

Where results of exploration drilling indicate the presence of hydrocarbons which are ultimately considered not commercially viable, all related costs are written off to the Income Statement.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons have been demonstrated are capitalised within development/producing assets on a field by field basis. Subsequent expenditure is capitalised only where it either enhances the economic benefits of the development/producing asset or replaces part of the existing development/producing asset. Any costs remaining associated with the replaced asset part are expensed.

Net proceeds from any disposal of an exploration asset are initially credited against the previously capitalised costs. Any surplus proceeds are credited to the Income Statement. Net proceeds from any disposal of development/producing assets are credited against the previously capitalised cost. A gain or loss on disposal of a development/producing asset is recognised in the Income Statement to the extent that the net proceeds exceed or are less than the appropriate portion of the net capitalised costs of the asset.

Depletion and amortisation

Aurelian depletes separately, where applicable, any significant part within development/producing assets, such as fields, processing facilities and pipelines which are significant in relation to the total cost of a development/producing asset.

Aurelian depletes expenditure on oil and gas production and development on a unit of production basis, based on proved and probable reserves on a field by field basis. In certain circumstances, fields within a single development area may be combined for depletion purposes.

Impairment

Exploration assets are reviewed regularly for indications of impairment and costs are written off where circumstances indicate that the carrying value might not be recoverable. In such circumstances the exploration asset is allocated to development/producing assets within the same geographic segment and tested for impairment. Any such impairment arising is recognised in the Income Statement for the period. Where there are no development/producing assets within a geographic segment, the exploration costs are charged immediately to the Income Statement.

Impairment reviews on development/producing oil and gas assets are carried out on each cash generating unit identified in accordance with IAS 36. Aurelian's cash generating units are those assets which generate largely independent cash flows and are normally, but not always, single development areas.

1 Accounting Policies - continued

At each reporting date, where there are indicators of impairment, the net book value of the cash generating unit is compared with the associated expected discounted future cash flows. If the net book value is higher, then the difference is written off to the Income Statement as impairment.

Where there has been a charge for impairment in an earlier year that charge will be reversed in a later period where there has been a change in circumstances to the extent that the discounted cash flows are higher than the net book value at the time. In reversing impairment losses, the carrying amount of the asset will be increased to the lower of its original carrying value or the carrying value that would have been determined (net of depletion) had no impairment loss been recognised in prior periods.

(g) Property, plant and equipment

Tangible assets, other than development/producing assets, are measured at cost and depreciated over their expected useful economic lives as follows:

	Annual Rate (%)	Depreciation Method
Vehicles, fixtures and equipment	33	Straight line

(h) Intangible assets

Intangible assets, other than exploration assets, have finite useful lives and are measured at cost and amortised over their expected useful economic lives as follows:

	Annual Rate (%)	Depreciation Method
Computer software	33	Straight line

(i) Investments and loans

Shares and loans in subsidiary undertakings are shown at cost. Provisions are made for any permanent diminution in value.

(j) Inventories

Inventories of oil and condensate held at the Balance Sheet date are valued at net realisable value based on the estimated selling price at that date.

(k) Financial instruments

Trade and other receivables

Trade receivables are recognised and carried at the original invoiced amount less any allowances for doubtful debts. Other debtors are recognised and measured at cost.

Bank deposits

Bank deposits with a maturity of over three months are held as a separate category of current asset and presented on the face of the Balance Sheet.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short-term deposits with a maturity of three months or less.

Trade payables and other creditors

Trade payables and other creditors are non-interest bearing and are measured at cost.

1 Accounting Policies - continued

Interest bearing bank loans

Interest bearing bank loans represent amounts drawn under the Group's revolving credit facilities, classified according to the length of time remaining under the respective facility. Interest payable is accrued in the Income Statement for the period using the effective interest rate method.

Borrowing costs

Interest payable and exchange differences incurred on borrowings directly attributable to development projects are capitalised within the development/producing assets.

All other borrowing costs are recognised in the Income Statement in the period in which they are incurred.

(l) Equity

Equity instruments issued by Aurelian are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

(m) Taxation

The tax expense represents the sum of current tax and deferred tax expense.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the Balance Sheet liability method.

Provision is made in full for all taxation deferred, except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled.

(n) Decommissioning

At the end of the producing life of a field, costs are incurred in removing and decommissioning production facilities. Aurelian recognises the full discounted cost of decommissioning as an asset and liability when the obligation to rectify environmental damage arises. The decommissioning asset is included within fixed assets with the cost of the related installation. The liability is included within provisions. Revisions to the estimated costs of decommissioning which alter the level of the provisions required are also reflected in adjustments to the decommissioning asset. The amortisation of the asset, calculated on a unit of production basis based on proved and probable reserves, is shown as the "decommissioning charge" in the Income Statement and the unwinding of the discount on the provision is included within "finance costs".

1 Accounting Policies - continued

(o) Foreign currencies

In the accounts of individual Group companies, Aurelian translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

Aurelian maintains the accounts of all subsidiary undertakings in their functional currency. Aurelian translates the accounts of its subsidiary companies into Euros using the closing rate of exchange for the Balance Sheet and the average rate for the Income Statement, which approximate the exchange rates at the date of the underlying transactions. Aurelian takes exchange differences arising on the translation of net assets and associated long term borrowings of subsidiary undertakings and branches whose functional currency is non-Euro directly to reserves. On transition to IFRS Aurelian took advantage of the exemption offered under IFRS 1 and assumed zero brought forward translation differences on subsidiary undertakings as at 1 December 2003.

The presentation currency of the group is the Euro. The exchange rate used for the revaluation of the closing balance sheet was €1.45/£1.

(p) Leasing commitments

Aurelian charges rental payable under operating leases to the profit and loss account on a straight line basis over the lease term.

(q) Share options

The group has applied IFRS 2 – Share-Based Payments - in respect of all grants of options after 7 November 2002, which had not vested at 1 January 2005.

The group issues share options to directors and employees. These are measured at fair value at the date of grant. The fair value determined at the grant date of the option is expensed on a straight-line basis over the vesting period based on the group’s estimate of shares that will eventually vest. The fair value is calculated using the binomial model.

The expected life of the options depends on the behaviour of the option holders, which is incorporated into the option model consistent with historic data. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

31 December 2005

2. Operating loss

	31 Dec 05 €	30 Nov 04 €
The operating loss is stated after charging/(crediting) the following:		
Auditors' remuneration	22,566	14,286
Directors emoluments (see also below)	216,292	101,500
Administration costs capitalised	(241,460)	(350,504)
Depreciation of tangible non current assets owned by the group	3,452	1,921
Amortisation of intangible non current assets owned by the group	2,723	-
(Gains)/losses on exchange rate differences	173,039	(117,896)

3. Staff costs and directors' emoluments

	31 Dec 05 €	30 Nov 04 €
a) Staff costs		
Wages and salaries	258,040	123,983
Social security costs	26,731	12,424
	€284,771	€136,407
During the period, the average number of employees was:		
Management/operational	3	1
b) Directors		
Aggregate emoluments	€216,292	€101,500

4. Finance income

	31 Dec 05 €	30 Nov 04 €
On bank deposits	82,591	29,184

5. Finance expense

	31 Dec 05 €	30 Nov 04 €
On convertible loan stock	137,199	49
	€137,199	€49

6. Taxation on ordinary activities

	31 Dec 05 €	30 Nov 04 €
Loss on ordinary activities before taxation	(1,379,570)	(112,575)
Tax recoverable on loss on ordinary activities		
United Kingdom corporation tax at 30% (2004 - 30%)	(413,871)	(33,773)
Losses carried forward	413,871	33,773

No tax is payable for the period as none of the group companies made taxable profits (2004 – nil).

Losses available for offset against future profits are estimated at €621,000 (2004 - €207,000).

7. Intangible non current assets

	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
Oil and gas costs pending determination				
At cost:				
At beginning of period	3,540,152	102,216	1,801,933	438,484
Translation difference	100,115	1,433	-	102
Written off on change of accounting policy	(247,832)	-	-	-
Transferred to development costs	(213,209)	-	-	-
Additions during period	529,659	469,681	1,879,502	57,376
Transferred to subsidiary undertaking	-	-	-	(298,640)
	3,708,885	573,330	3,681,435	197,322
Written off in the period	(180,985)	(180,985)	(141,283)	(95,106)
At end of period	€3,527,900	€392,345	€3,540,152	€102,216
Other intangible assets				
At cost:				
Additions during period	17,864	-	-	-
Translation difference	(241)	-	-	-
At end of period	€17,623	-	-	-
Amortisation:				
Charge for period	2,723	-	-	-
Translation difference	(37)	-	-	-
	€2,686	-	-	-
Net book value				
At end of period	€14,937	-	-	-
Total intangible assets				
Net book value				
At end of period	€3,542,837	€392,345	€3,540,152	€102,216
At beginning of period	€3,540,152	€102,216	€1,801,933	€438,484

8. Tangible non current assets

	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
Oil and gas development costs				
At cost:				
Transferred from exploration	213,209	-	-	-
Additions during period	1,053,788	-	-	-
Translation differences	(7,398)	-	-	-
Capitalised interest	2,727,119	2,727,119	-	-
	€3,986,718	€2,727,119	-	-
Other tangible assets				
At cost:				
At commencement of period	17,390	15,441	15,859	15,033
Translation difference	274	216	825	15
Additions	26,508	1,575	706	393
At end of period	44,172	17,232	17,390	15,441
Depreciation:				
At commencement of period	16,247	15,180	13,656	13,243
Translation difference	259	212	670	16
Charge for period	3,452	658	1,921	1,921
At end of period	19,958	16,050	16,247	15,180
Net book value:				
At end of period	€24,214	€1,182	€1,143	€261
At commencement of period	€1,143	€261	€2,203	€1,790
Total tangible assets				
Net book value:				
At end of period	€4,010,932	€2,728,301	€1,143	€261
At commencement of period	€1,143	€261	€2,203	€1,790

	Shares in group companies €	Loans to group companies €	Total €
9. Fixed assets investments Company			
At cost:			
At commencement of period	11,180	4,067,386	4,078,566
Translation difference	168	61,009	61,177
Additions	15,639	1,124,175	1,139,814
At end of period	€26,987	€5,252,570	€5,279,557

The company's subsidiaries as are follows:	County of Incorporation	Area of Operation	%
Balkan Explorers (Bulgaria) Limited – dormant	United Kingdom	Bulgaria	100.00
Balkan Explorers (Bulgaria) Limited	Ireland	Bulgaria	100.00
Energia Zachod Sp. z o.o.	Poland	Poland	90.00
Falcon Oil & Gas BV – dormant	Netherlands	Netherlands	100.00
Falcon Oil & Gas S.R.L.	Romania	Romania	100.00

All subsidiaries are engaged in the business of oil and gas exploration.

10. Trade and other receivables	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
Value added tax recoverable	248,942	34,336	431,046	19,689
Amounts due from joint venture partners	991,584	1,579,980	90,423	-
Other debtors	186,319	80,072	1,374	-
	€1,426,845	€1,694,388	€522,843	€19,689

11. Current liabilities	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
Director's current account	-	-	28,423	28,423
Trade payables	269,231	187,290	201,048	39,864
Other creditors	774,412	10,455	3,460	3,460
Accruals and deferred income	184,268	154,599	16,783	14,286
	€1,227,911	€352,344	€249,714	€86,033

12. Non current liabilities	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
Convertible loan stock	2,215,868	2,215,868	-	-
Other loans – Gemini Oil & Gas Limited	6,222,840	6,222,840	-	-
	€8,438,708	€8,438,708	-	-

The convertible loan stock issued during the period has a coupon rate of 10%. Post period end the convertible stock and the accrued loan interest were converted to ordinary shares.

During the period, a loan of $4 million was advanced to the company by Gemini Oil & Gas Limited. The advance and a premium of $6 million are repayable out of the Group's share of gross revenue from the Brodina concession in Romania. The directors consider that the value of production from these fields should enable the advance and the premium to be paid in full. The loan has therefore been shown at the full potential liability, discounted to current values. The effective interest payable is shown in oil and gas development cost within tangible fixed assets. The asset and the loan will be reassessed annually.

A further loan was granted on 4 November 2005 to Energia Zachod Sp. z o.o. by Avobone NV in the sum of €791,000, although the funds were not advanced until after the period end. The loan is repayable by 2 April 2009. If repayment is not made by this date, the loan agreement is automatically extended. Interest is payable quarterly at the rate of 3% per annum.

13. Equity share capital

	31 December 2005		30 November 2004	
	No	£	No	£
Authorised				
Ordinary shares of 25 pence each	8,000,000	£2,000,000	8,000,000	£2,000,000
Allotted, issued and fully paid		€		€
Ordinary shares of 25 pence each				
At commencement of period	6,519,362	2,328,344	4,030,339	1,439,407
Issued during the period	-	-	2,489,023	888,937
Translation difference	-	34,924	-	-
At end of period	6,519,362	€2,363,268	6,519,362	€2,328,344

	Date of Grant	
During the period the group operated an unapproved share option scheme:	14 February 2003 to 6 April 2004	12 July 2005
Number of options originally granted	414,784	175,000
Contractual life	5 years	5 years
Exercise price (pence)	0.635p	£2.00p
Estimated value at date of grant	0.635p	£2.00p
Number of employees (including directors)	9	9
Expected option life	3 years	3 years
Fair value per option	0.21p	0.66p

14. Share premium account

	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
At commencement of period	3,241,477	3,241,477	1,872,514	1,872,514
Premium on shares issued during period	-	-	1,368,963	1,368,963
Costs of share issue	(8,922)	(8,922)	-	-
Translation differences	48,686	48,686	-	-
At end of period	€3,281,241	€3,281,241	€3,241,477	€3,241,477

15. Other reserves

	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
At commencement of period	2,856	2,856	2,856	2,856
Translation differences	43	43	-	-
At end of period	€2,899	€2,899	€2,856	€2,856

16. Retained earnings account

	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
At commencement of period	(375,893)	(405,837)	(263,475)	(216,839)
Loss for the period	(1,377,453)	(929,603)	(112,575)	(189,100)
Translation difference	(5,522)	(5,916)	157	102
At end of period	€(1,758,868)	€(1,341,356)	€(375,893)	€(405,837)

17. Reconciliation of movements in shareholders funds

	Group 31 Dec 05 €	Company 31 Dec 05 €	Group 30 Nov 04 €	Company 30 Nov 04 €
Opening shareholders funds	5,215,133	5,185,189	3,058,101	3,104,737
Share issue	(8,922)	(8,922)	2,257,900	2,257,900
Movement in equity share option reserve	21,039	21,039	11,550	11,550
Movement in other reserves	43	43	-	-
Exchange translation differences	78,088	77,694	157	102
Loss for the period	(1,377,453)	(929,603)	(112,575)	(189,100)
Closing shareholders' funds	€3,927,928	€4,345,440	€5,215,133	€5,185,189

18. Shareholders funds and statement of changes in shareholders equity

	Share Capital	Share premium	Equity share option reserve	Other reserves	Retained earnings	Total equity
	€	€	€	€	€	€
At 1 November 2003	1,439,407	1,872,514	6,799	2,856	(263,475)	3,058,101
Share capital issued	888,937	1,368,963	-	-	-	2,257,900
Share based payments	-	-	11,550	-	-	11,550
Loss for the year	-	-	-	-	(112,575)	(112,575)
Currency translation	-	-	-	-	157	157
At 1 December 2004	2,328,344	3,241,477	18,349	2,856	(375,893)	5,215,133
Share capital issued	-	(8,922)	-	-	-	(8,922)
Share based payments	-	-	21,039	-	-	21,039
Loss for the year	-	-	-	-	(1,377,453)	(1,377,453)
Currency translation	34,924	48,686	-	43	(5,522)	78,131
At 31 December 2005	2,363,268	3,281,241	39,388	2,899	(1,758,868)	3,927,928

19. Minority interest

	Group 31 Dec 05	Group 30 Nov 04
	€	€
At commencement of period	-	-
Share of losses	(2,117)	-
At end of period	€(2,117)	-

20. Cash flow from operating activities
Reconciliation of operating profit to net cashflow from operating activities

	Group 31 Dec 05	Group 30 Nov 04
	€	€
Cash generated by/(expended on) operations		
Operating loss for the period	(1,324,962)	(141,710)
Adjustments for:		
Expensing of exploration costs	428,817	141,283
Depreciation of other intangible non current assets	2,723	-
Depreciation of tangible non current assets	3,452	1,921
Exchange differences	(14,397)	(6,798)
Decrease/(increase) in trade and other receivables	(904,002)	(30,286)
Increase/(decrease) in trade and other payables	978,197	(340,084)
Share based payments	21,039	18,349
Cash (expended on) operations	€(809,133)	€(357,325)

21. Reconciliation of net cash flow to movement in net debt

	Group 31 Dec 05	Group 30 Nov 04
	€	€
Increase in cash	3,211,107	49,502
Cash flow from increase in debt	(5,711,589)	-
Changes in debt resulting from cash flows	(2,500,482)	49,502
Currency translation	(2,727,119)	-
Movement in net debt in period	(5,227,601)	49,502
Net debt at beginning of period	1,400,709	1,351,207
Net (debt)/funds at end of period	€(3,826,892)	€1,400,709
Represented by:		
Cash	4,611,816	1,400,709
Gemini loan	(6,222,840)	-
Convertible loan stock	(2,215,868)	-
	€(3,826,892)	€1,400,709

22. Related party transactions

During the period, €134,959 was paid to Godson & Co, a business owned by R G Godson, the company secretary, in respect of office accommodation and support services provided to the group.

23. Post-balance sheet events

In January 2006, the convertible loan stock and accrued interest were converted into ordinary shares at a price of £2.00 each. This was followed by a placing and rights issue securing further funds of $53.2 million.

24. Reconciliation of net assets and profit under UK GAAP to IFRS

Aurelian reported under UK generally accepted accounting principles (UK GAAP) in its previously published financial statements for the year ended 30 November 2004, which were presented in sterling. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 30 November 2004 to the revised net assets and profit under IFRS as reported in these financial statements in the group's functional currency.

a) Reconciliation of consolidated profit and loss account for the 12 months ended 30 November 2004

	UK GAAP	UK GAAP	Share based Payments	Total
	£	€	€	€
Cost of sales	(98,898)	(141,283)	-	(141,283)
Gross loss	(98,898)	(141,283)	-	(141,283)
Administration expenses	5,986	8,552	(11,550)	(2,998)
Other operating income	1,800	2,571	-	2,571
Operating loss	(91,112)	(130,160)	(11,550)	(141,710)
Interest income	20,429	29,184	-	29,184
Finance costs	(34)	(49)	-	(49)
Loss on ordinary activities before tax	(70,717)	(101,025)	(11,550)	(112,575)
Taxation	-	-	-	-
Loss for the year	(70,717)	(101,025)	(11,550)	(112,575)

b) Reconciliation of consolidated equity as at 30 November 2004

Intangible exploration assets	UK GAAP	UK GAAP	Share based payments	IFRS
	£	€	€	€
Intangible exploration assets	2,478,106	3,540,152	-	3,540,152
Property, plant and equipment – other	691	1,143	-	1,143
Total non-current assets	2,478,797	3,541,295	-	3,541,295
Trade and other receivables	365,990	522,843	-	522,843
Cash and cash equivalents	980,497	1,400,709	-	1,400,709
Total current assets	1,346,487	1,923,552	-	1,923,552
Total assets	3,825,284	5,464,847	-	5,464,847
Trade and other payable	(174,800)	(249,714)	-	(249,714)
Total current liabilities	(174,800)	(249,714)	-	(249,714)
Net assets	**3,650,484**	**5,215,133**	**-**	**5,215,133**
Share capital and premium	3,898,875	5,569,821	-	5,569,821
Share based payments	-	-	18,349	18,349
Reserves	1,999	2,856	-	2,856
Retained earnings	(250,390)	(357,544)	(18,349)	(375,893)
Total equity	**3,650,484**	**5,215,133**	**-**	**5,215,133**

c) Reconciliation of consolidated equity as at 30 November 2003

	UK GAAP	UK GAAP	Share based payments	IFRS
	£	€	€	€
Intangible exploration assets	1,261,353	1,801,933	-	1,801,933
Property, plant and equipment - other	1,542	2,203	-	2,203
Total non-current assets	1,262,895	1,804,136	-	1,804,136
Trade and other receivables	344,790	493,050	-	493,050
Cash and equivalents	945,845	1,352,558	-	1,352,558
Total current assets	1,290,635	1,845,608	-	1,845,608
Total assets	2,553,530	3,649,744	-	3,649,744
Trade and other payables	(412,859)	(591,643)	-	(591,643)
Total current liabilities	(412,859)	(591,643)	-	(591,643)
Net assets	**2,140,671**	**3,058,101**	**-**	**3,058,101**
Share capital and premium	2,318,345	3,311,921	-	3,311,921
Share based payments	-	-	6,799	6,799
Reserves	1,999	2,856	-	2,856
Retained earnings	(179,673)	(256,676)	(6,799)	(263,475)
Total equity	**2,140,671**	**3,058,101**	**-**	**3,058,101**

d) Explanation of reconciling items between UK GAAP and IFRS

The significant accounting policy changes and adjustments arising from the change to IFRS are set out below:

i) IFRS 6 adjustments
Pre exploration write-offs

Aurelian has implemented the early adoption of IFRS 6 and also taken advantage of the transitional relief, which allows companies not to restate comparative figures prior to 1 January 2006.

ii) Unsuccessful exploration costs

Aurelian previously followed the full cost method of accounting for oil and gas assets. Under this method, all expenditure incurred in connection with and directly attributable to the acquisition, exploration, appraisal and development of oil and gas assets were capitalised in two geographical cost pools: South Asia and North Sea. Following guidance from IFRIC in November 2005 it is no longer permissible to continue this treatment for development/producing assets. Aurelian has therefore decided to change accounting policies for both exploration and development/producing assets to a successful efforts based policy.

Under the Group's new policy, unsuccessful exploration costs previously capitalised (subject to impairment reviews) are now written off in the period in which they are determined to be unsuccessful. A total of €247,832 has therefore been written off in the period.

iii) Foreign currency translations

IAS 21 requires that the functional currency for each subsidiary within the Group be determined. Where the functional currency is different from the Group's Euro presentation currency, all assets and liabilities of those subsidiaries should be converted to Euro at closing rates on consolidation.

Given that the Group's activities are carried on in countries that intend to join the Eurozone and where contracts are increasingly designated in Euros, Aurelian has adopted the Euro as its presentation currency.

In accordance with IAS 21, cumulative exchange differences are now recognised as a separate component within equity. Aurelian has taken advantage of the exemptions offered under IFRS 1 and deemed cumulative translation differences to be zero at 30 November 2004.

iv) Share based payments

In accordance with IFRS 2, Aurelian has recognised a charge for share awards made to employees under its share option plans since 7 November 2002. This charge is based on the fair value of these awards. The fair value has been calculated using a binomial valuation model and is charged to the Income Statement over the relevant vesting period, adjusted to reflect actual and expected levels of vesting. In accordance with IFRS, only awards made after 7 November 2002 should be charged through the Income Statement. No share options were awarded prior to this date.

The reconciling credit of €18,349 between the UK GAAP and the IFRS Income Statement for the year ended 30 November 2004 is a consequence of the charge relating to share options awarded post 7 November 2002.

v) **Other adjustments**

a) Pre-exploration costs of €220,001 have been expensed during 2005.

b) The following reclassifications have been made in accordance with IAS 1, which requires separate disclosure of certain assets and liabilities on the face of the Balance Sheet.

Computer software costs previously held as "tangible fixed assets" and within prepayments to "intangible assets" in accordance with IAS38.

vi) Cash flow statements

Aurelian previously took advantage of exemptions available to small companies not to present cash flow statements. Cash flow statements have now been included.

25. Contingent liabilities

A potential liability exists in favour of Ramco Energy plc, the company from which Aurelian originally purchased the licences and subsidiaries. The purchase price of the assets was £1 for the shares and £43,000 in respect of the group loans owed to them.

A contingent loan amounting to £3,703,897 was agreed as payable to Ramco in certain circumstances. The liability under the loan agreement is restricted to 50% of any tax losses that were created prior to 30 June 2002 that are subsequently used to reduce taxable profits earned in any period up to 31 December 2010 in respect of the Bulgarian and Romanian interest.

Interest may be payable at 5% on any overdue amounts.