Edison investment research

2 September 2009

Mediterranean Oil & Gas

Year End	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/08	5.4	(0.8)	(2.7)	0.0	N/A	N/A
12/08 (6 mths)	3.4	(1.2)	(4.6)	0.0	N/A	N/A
12/09e	4.4	(3.8)	(10.5)	0.0	N/A	N/A
12/10e	4.0	(8.1)	(21.6)	0.0	N/A	N/A

Note: * PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. Year end has changed from June to December.

Investment summary: Mare Nostrum

Mediterranean Oil & Gas (MOG) has built a significant exploration and development portfolio in Italy and Malta. The company combines cash-generative, low-risk production properties and exploration acreage with two potentially value-transforming assets: Ombrina Mare and Monte Grosso. With a near-term upside of 154p a share, the global market weakness has left MOG shares offering investors significant value. Completing project financing or farming-out part of Ombrina Mare will be a clear stock catalyst.

An Italian focus: Ombrina Mare and Guendalina

MOG has built a portfolio of production licences in Italy currently producing at 2mmscf/d and has two projects under development: Ombrina Mare (100% WI), holding 20mmbbls of oil and 6.5bcf of gas; and Guendalina, a 22bcf (20% WI) gas field operated by ENI in the Adriatic Sea expected to come on stream in 2011.

High-impact exploration: Monte Grosso, Malta

In addition to its producing asset, MOG has two high-impact exploration opportunities: the Monte Grosso prospect (43p/sh risked, 201p/sh unrisked) in Italy operated by MOG in partnership with ENI and Total, and four blocks in Malta where a well is committed by mid July 2011 which most likely will target the Tarxien prospect.

Financials: Additional funding required

MOG has already secured a €10m facility for the Guendalina development. However, additional funding is required for Ombrina Mare; this development could be financed either through a farm-out or debt-financing if market conditions allow.

Valuation: Unlocking Ombrina Mare

We estimate MOG's core NAV at 81p/sh on a fully diluted basis, with the shares trading at a 40% discount to this. This excludes any exploration upside that adds to a RENAV of 154p/sh based on an oil price of $60/bbl. Key for the company is to unlock the value in Ombrina Mare; a financing solution would mean a major derisking of the asset that could be worth up to 91p (unrisked) on a 100% WI basis.

Price	49p
Market Cap	£19m

Share price graph

Share details

Code	MOG
Listing	AIM
Sector	Oil & Gas
Shares in issue	38.91m

Price

	High	Low
52 week	111p	24.5p

Balance Sheet as at 31 December 2008

Debt/Equity (%)	30
Core NAV (p/sh)	81
RENAV (p/sh)	154
Net cash/ (debt) (€m)	(7)

Business

MOG is an exploration and production (E&P) company with a significant portfolio of assets focused on the central Mediterranean.

Valuation

	2008	2009e	2010e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	19.8	12.4
ROE	N/A	N/A	N/A

Revenues by geography

UK	Europe	US	Other
0%	100%	0%	0%

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Mediterranean Oil & Gas is a research client of Edison Investment Research Limited

Investment summary: Mare Nostrum

Over the years MOG has built a portfolio of cash-generative, low-risk production assets with exploration acreage that contains at least two potentially value-transforming assets, Monte Grosso and Ombrina Mare, in a balanced upstream portfolio. The current share price deeply discounts the intrinsic short-term potential of the company, which is currently trading at a 40% discount compared to our estimated core net asset value (NAV) of 81p. Like most of its peers exploration upside is also not captured in the current stock price; we estimate it adds up to a RENAV of 154p.

Strategy

MOG aims to be the leading independent exploration and production (E&P) company in Italy. Key points of its strategy to deliver value include:

Short-term (less than one year)

- Fully exploit its 100% Ombrina Mare oil and gas discovery, finding a financing solution to move the project forward.
- Develop the Guendalina field in conjunction with the operator (ENI).
- Maintain a stable gas production base through the drilling of onshore gas wells.

Medium-term (one to two years)

- Drill the highly prospective Monte Grosso prospect in Val d'Agri (South Italy).
- Farm out and develop its assets offshore Malta.

MOG operates the majority of its licences, some of which are in partnership with majors such as ENI. This gives MOG access to the operational strength of the majors, while at the same time retaining the culture and flexibility of a smaller company.

Key facts: Reserves and production

- Current production: 2mmscf/d. 2P reserves: 23mmboe.
- Two fields under development: Ombrina Mare and Guendalina.
- €10m partly drawn development facility for Guendalina with HBOS.
- Estimated net debt: c €13.4m (as of June 2009).

Exhibit 1: Forecast assumptions

	2008a	2009e	2010e	2011e
Production (boe/d)	320	280	260	800
Oil (%)	0	0	0	0
Gas (%)	100	100	100	100
Revenues (€m)	6.8	4.4	4.0	12.5
Oil price ($/bbl)	98	60	60	60
Gas price ($/mscf)	12	10	10	10
Reserves (mmboe)	23			
Oil (mmboe)	20			
Gas (bcf)	17			
EV/2P (£/boe)	1.2			

Source: Edison Investment Research

Sector positioning: Technically competent

The company has clearly demonstrated its technical credentials over the years and most recently in Ombrina Mare. Its approach to Monte Grosso is an opportunity to apply this on a more challenging but potentially more rewarding asset.

Sensitivities: Some company-specific risks

Financial risk – The company has enough resources to cover short-term commitments following the issuance of a convertible loan note and in light of the remaining undrawn facility with HBOS. The convertible bond and the convertible loan note both mature in November 2011. Net debt at end December 2008 was €7.3m and we estimate it to be c €13.4m at end June 2009.

Environmental risk – As is the case with peers operating in Western Europe, MOG is subject to the highest environmental standards, including zero discharge, etc. Government approvals could take longer, while a major incident could potentially cause delays and damage the reputation of company.

Commercial risk – Although the company has already identified the rig to drill Monte Grosso (which is owned by a subsidiary of partner ENI) it is possible that delays could occur due to other projects that are considered more important to ENI. Another risk is the strength of ENI's commercial power to potentially limit the competitive behaviour of MOG with regard to other majors.

Financials: Farm-out or debt-finance

The company recently changed its year-end from 30 June to 31 December. As a result, it published a reduced accounting period comprising six months to end December 2008, showing revenues of €3.4m from Italian onshore gas production and a net loss of €2m. At end December 2008 debt was €13m and cash €5.7m (net debt €7.3m) following the first drawing from the tranche earmarked for general corporate purposes from the €8m HBOS facility. Capital commitments on the Guendalina fields are covered by the €10m development tranche of the HBOS facility, whereas Ombrina Mare needs to be financed either through a farm-out or debt-finance.

Valuation: Free exploration

We value MOG's core assets at 81p/sh, which comes from its gas producing assets onshore Italy and the Guendalina fields and Ombrina Mare, with its FDP approved in June 2009. We believe the discount to core NAV is mainly due to concerns over the financing of Ombrina Mare. The company is currently working on a solution and news of a farm-in or debt-financing could be a significant catalyst.

MOG also has significant exploration upside potential in two value-changing prospects: Monte Grosso (43p/sh risked, 201p/sh unrisked), the high-profile prospect in the portfolio which the company is preparing to drill in H210, and the Tarxien prospect offshore Malta (23p/sh risked, 126p/sh unrisked).

Company description: Gas production and assets under development

MOG is an E&P company with a significant portfolio of assets focused on the central Mediterranean. The size of its Italian acreage makes it the largest operator in Italy after ENI and Edison Spa, a leading Italian utility with upstream assets. The company has the potential to become a medium-sized oil and gas producer. The diversity of its portfolio gives MOG an attractive balance between low-risk, stable cash flows from gas production alongside high-impact exploration with access to two high-potential exploration prospects, any of which could add significant value.

Operations

With the arrival of Sergio Morandi in November 2007, an oil veteran who worked for 27 years with ENI, Shell and others, MOG now has a very experienced board and management team to deliver on its strategy. MOG is focusing on becoming a leading E&P independent in Italy.

The company's main areas of operations currently are:

- Italy – 32 licences both onshore and offshore, including production and exploration concessions.
- Malta – Several prospective fields in offshore Area 4, to the south of Malta.

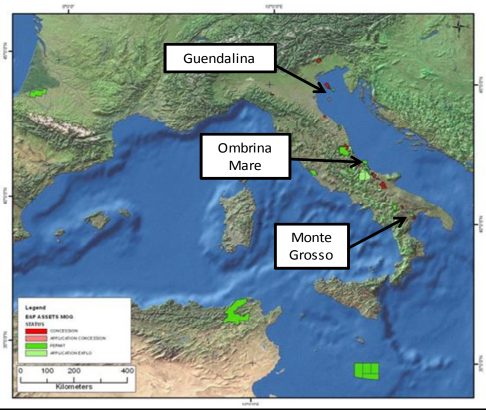
Italy

MOG operates the majority of its licences but many are in partnership with ENI and other majors. This gives it access to leverage the operational strength of the majors, while at the same time retaining the culture and flexibility of a smaller company. MOG operates via three 100%-owned subsidiaries: Medoilgas Italia, Medoilgas Civita (formerly JKX Italia) and Malta Oil (non-Italian assets). Assets held within the group include:

- 19 production concessions covering over 1,700km^2, of which 11 are operated by the company.
- 13 exploration permits covering over 2,000km^2 with seven permits operated by the company and another eight applications pending covering another 1,000km^2.

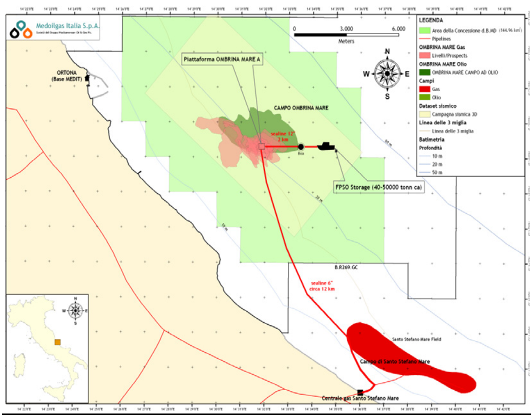
With the majority of MOG's assets located in EU countries, the company benefits from relatively low political risk. In the case of Italy, the government is looking to lessen its dependency on energy imports so MOG's Italian assets benefit from a fairly benign fiscal regime with royalties ranging from 4-7% and a marginal tax rate of c 37% applicable on first oil on revenues greater than €25m. The Italian gas market is attractive for industry players, benefiting also from high prices and an extensive transmission and distribution network. Italy currently imports over 80% of its gas needs and demand is expected to remain strong. Prices for gas are normally linked to oil prices (with a six-month lag) and currently running at c $8/mscf. MOG's assets in Italy are the most extensive of any in the junior oil and gas space, giving it a third place ranking in terms of number of licences (behind ENI and Edison). Its assets include Ombrina Mare, Monte Grosso and Guendalina (Exhibit 2).

Exhibit 2: Overview map of Italian operations



Source: Mediterranean Oil & Gas, Edison

Exhibit 3: The Ombrina Mare field



Source: Mediterranean Oil & Gas

Onshore gas production

Current gas production is c 20mmsm^3/y or 2mmscf/d. Existing fields are in natural decline, but new gas wells on production permits (S.Teodoro, Civita 1, Traetta1) are expected to come on-stream in 2010-2011 and they should keep production between 1.5-1.7mmscf/d over the next two years.

Ombrina Mare (100% WI, MOG op.)

In June 2008 MOG successfully appraised the Ombrina Mare discovery (Exhibit 3) and subsequently had its reserves independently assessed by consultant SIM, which confirmed proven plus probable (2P) reserves of 20mmbbls of oil. The results of a further study were announced in October confirming 6.5bn cubic feet (bcf) of 2P gas in a shallower formation together with a further 10bcf of possible gas reserves (P3). The most likely scenario envisages an initial rate of 5,000bbl/d from five horizontal wells with a horizontal section of approximately 1,000m. This is to further improve the well productivity as the reservoir oil is a fairly high viscosity crude with an API gravity ranging between 17-19°. Given the lack of nearby infrastructure, Ombrina Mare will be developed with a wellhead platform tied-back to an FPSO that will export crude via a shuttle tanker. Associated gas cannot be flared in Italy and it will be sent to the nearby Santo Stefano field though a 12km dedicated gas pipeline. The total capex is estimated to be at €160m or c $8/bbl and opex around $7/bbl. First oil is expected in 2012.

These estimates were finalised in 2008 at peak oil prices, hence there is room to revise costs downwards. It is likely that the project needs an oil price north of $50/bbl to be sanctioned. On an unrisked basis we estimate the project to be worth c $112m or 91p/sh to the company. However, we have applied a 70% risk factor to take into account execution risks such as delays in government approvals and operational risk due to H2S content as well as financing risks, which leads to a risked value of 64p.

In June 2009 the Italian authorities approved the Field Development Plan (FDP) and during the next quarter the company will submit the Environmental Impact Statement, which it anticipates will be approved over the following 12 months so that the final production permit could be granted by Q310. This is a critical document as the facilities will be located very close to the Italian coast and an H2S treatment module will be required to strip the hazardous gas and store it safely offshore. Delays in the EIS could be a potential and material threat to the project.

In addition to the certified 2P reserves of 20mmbbl and 6.5bcf, MOG has calculated contingent resources of 11mmbbls (best estimate) in the Ombrina Mare; this corresponds to the reservoir being charged with oil in the cretaceous formation just underneath down to the structural spill point. MOG has also identified another 10mmbbls (best estimate) prospect named Ombrina Mare SE, which could be a potential satellite development to the main Ombrina Mare field.

Monte Grosso (22.8% WI, MOG op.)

MOG holds and operates a 22.8% stake in a joint venture with ENI and Total in the Serra San Bernardo permit. The permit includes Monte Grosso, a prospect that is on-trend with the major oil producing areas of Val D'Agri (Europe's biggest oil field), being produced by ENI and Shell at around 100,000bbl/d, and Tempa Rossa, which is being developed by Shell, Total and Exxon.

With 280mmbbls prospective resources – 64mmbbls net to MOG – Monte Grosso has the potential to transform the valuation of the company. MOG, with its partners, plans to drill a deep exploration well in 2010. The prospect is, however, challenging from a technical point of view and quite expensive to drill. The reservoir is expected at a depth of 6,800m or c 22,300ft and the company estimates the first exploration well could cost up to €40m (gross).

Guendalina (20% WI, ENI op.)

MOG has a 20% interest in the Guendalina gas field, which is located offshore in the Adriatic Sea. The field is under development, with two wells to be drilled and tied back to existing facilities at ENI's Tea gas field development. The field holds 2P reserves of 22bcf and first gas is expected to be brought on stream in late 2010. The tie-back facilities are planned to be placed during 2009 while the development drilling is scheduled for 2010. ENI (operator) has applied for a production licence, which is expected to be awarded during Q309. After the final production permit is granted the development of Guendalina can start. Capital expenditures required to develop this field are covered by the existing HBOS facility of c €10m.

Frozen fields in Northern Adriatic

MOG has a 15% interest in some North Adriatic offshore discoveries, which are operated by ENI, including the Aida, Attila, Dorotea and Isabella gas fields and the Dorella prospect. The development of several gas fields located in the northern Adriatic, including MOG's fields, have been frozen by the Italian authorities over concerns regarding potential subsidence along the coast, which is about 15-20km away from where MOG's fields are located. At the moment there is no evidence linking offshore production to the subsidence, however this is a high-profile political issue. With the high gas demand in Italy, the Italian government in 2008 wrote a recommendation to speed up the possible conclusion over the environmental impact measurements in the frozen area, with a view to evaluating the possibility of re-activating the development of all the parts of the frozen fields progressively. There may be a decision on whether or not to lift the ban on these offshore fields this year. Assuming the issues are resolved, these fields could represent substantial upside; they are currently valued as contingent gas resources ranging between 19-48bcf of gas to MOG.

Malta

Offshore Area 4: Blocks 4,5,6 and 7 (90% WI, MOG op.)

MOG has a 90% interest in four exploration blocks in Malta with Leni Gas & Oil holding the remaining 10%. These blocks cover an area over 5,700km^2 with geology similar to hydrocarbon bearing areas of Tunisia and Libya. In our valuation we have assumed that the company will undertake a 2:1 farm-out in exchange for a free carry on the first exploration well.

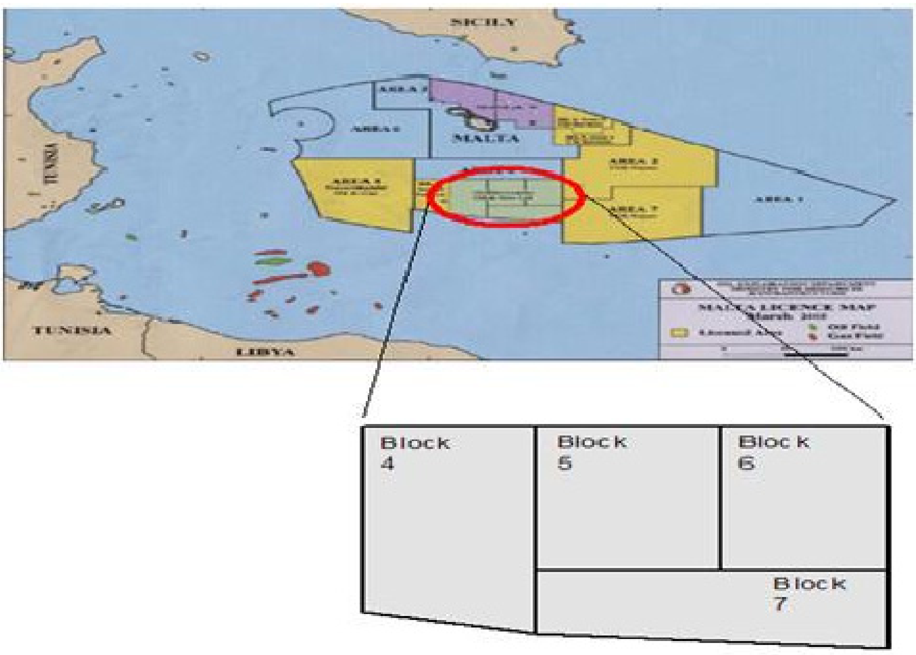
Following the acquisition and interpretation of 2D and 3D seismic data, the company has signed a Production Sharing Contract (PSC) with the Maltese government whereby the contractor has agreed to pay $100,000 in general fees per year and a $500,000 signature bonus. The PSC will grant exploration rights for a six-year period divided into three stages; within the first three-year period the contractor has a 2,500m well drilling commitment to be fulfilled in order to move to the second exploration phase.

In area 4 the company has identified nine prospects and it is now focusing on the technical assessment of Block 7, covered by 3D seismic data, where the company has identified three prospects (Haga Qim, Skorba and Tarxien). Tarxien is the one most likely to be drilled first. This prospect is estimated to have 115mmbbls of prospective resources (best estimate) and it has a structural four-way dip closure, located at a water depth of 425m therefore qualifying for the 50% tax allowance granted by Maltese terms.

Malta Fiscal Terms

- Profit oil is based on a production sliding scale and “R” factor.
- Cost recovery: 75%.
- Tax on profit: 35%.
- Depreciation: three years (water depth > 200m).
- For fields located in water depth of 200m or deeper there is a 50% tax allowance on 50% of initial development assets and depreciation is three years.

Exhibit 4: Malta production sharing contract area



Source: Mediterranean Oil & Gas

Other geographies: Tunisia and France

Teboursouk (25% WI, Range Petroleum op.)

In Tunisia MOG holds a 25% stake in the Teboursouk prospect on the Medjerda Block, onshore Northern Tunisia. The block covers nearly 5,000km^2 over which exploration work has been carried out since 1995, defining several prospects and leads. In 2008 the Teboursouk 1 well was drilled on a prospect that is estimated to contain over 100mmbbls of oil. We understand that results are non-conclusive; no further action has been taken since. We have excluded Tunisia from our valuation.

St Laurent Permit (11.2% WI, Egdon op.)

MOG holds an 11.2% stake in the St Laurent permit, on which the Grenade oil field lies. In February 2008 the company announced that the Grenade-3 well encountered no effective porosity and therefore it was suspended. The partnership was planning to sidetrack the prospect to target other areas of the prospect, although no action has been taken since. We have excluded France from our valuation.

Sensitivities

The risks for MOG are a function of its size relative to its capital intensity, the nature of its core business and the markets it operates in. A number of sensitivities that could potentially impact the value we see in MOG are generic to any company involved in exploration and production and some are company-specific.

Environmental risk

As is the case with peers operating in Western Europe, MOG is subject to the highest environmental standards, including zero discharge, etc. A major incident could be potentially costly. In order to be granted a production permit at Ombrina Mare, the company needs to submit an Environmental Impact Statement; its approval would be a critical milestone given the H2S treatment facilities devised to strip the hazardous gas.

Commercial risk

A constrained market for rigs could limit execution. For example, although the company has already identified the rig to drill Monte Grosso (owned by a subsidiary of ENI, which is a partner), it is possible that delays could occur due to other projects that are considered more important by ENI. In fact, not may rigs which are available on onshore Italy are capable of drilling to a depth in excess of 22,000ft, and they could be prioritised based on ENI's own schedule. Another risk is the strength of ENI's commercial power to potentially limit the competitive behaviour of MOG to work with oil majors.

Financial risk

We estimate the net debt position of the company at €13.4m as of June 2009 with €5.7m cash in hand. Short-term commitments are covered by cash flow from operations together with the recent bond issue. Both the interest free convertible bond and the convertible loan note are due to mature in November 2011 converting at 50p and 40p, respectively. In addition the company would need to finance the Ombrina Mare development either through a farm-out or debt-financing.

Oil & gas price risk

Ombrina is very sensitive to the oil price. We believe this asset is viable with an oil price at $50/bbl and above. This is because of the capital expenditure required. Italy's gas market is at a premium compared with UK and continental Europe, with gas currently averaging $8/mscf, following the oil price with a six-month lag, and therefore it currently corresponds to the December 2008/January 2009 low in oil prices. MOG is fortunate in the sense that it does not have a significant capital commitment falling due and it is undertaking a cost reduction exercise on Ombrina Mare.

Key management

MOG's management team brings many years' experience successfully managing E&P projects, particularly in Italy and around the Mediterranean, and corporate finance expertise.

Sergio Morandi, CEO: Mr Morandi has 28 years' experience in oil and gas exploration, operations management and the acquisition, processing and interpretation of seismic data. He has worked at ENI, Coparex, ELF, Enterprise Oil, Shell Italia E&P and Shell International E&P.

Michael Bonte-Friedheim, non-exec chairman: Mr Bonte-Friedheim brings experience in the energy sector to the company. He has over 15 years' experience in the investment banking industry, during which he focused primarily on the European power and energy sector. Most recently, he was a managing director in Goldman Sachs' energy and power team in the European Investment Banking Division

Anthony Trevisan, executive director: As a founding director and shareholder of Mediterranean Oil & Gas, Mr Trevisan was responsible for acquiring the Italian, Tunisian and Maltese assets and the company's IPO. He has over 20 years' corporate experience in financing, M&A and the restructuring of industrial, petroleum and mineral resources companies.

Christopher Kelsall, FD: Chris joined MOG as Finance Director on 1 July 2009. Prior to joining MOG he spent 14 years in capital markets/corporate finance, most recently with Deutsche Bank and ABN AMRO Rothschild.

Valuation: Unlocking Ombrina Mare

We value MOG's core NAV at 81p on a fully diluted basis. This includes the onshore gas assets together with the Guendalina and Ombrina Mare development on a project risked basis. We currently estimate 2P gas reserves from producing fields at c 10bcf and worth c $16m or 12.8p/sh.

We carry Guendalina at 4p/sh. The environmental approvals for Guendalina were granted in April 2009 and the concession award is expected in September or October 2009. Immediately after the award of the concession, FDP will start and gas production is expected to start in Q410. For the above reasons, Guendalina should be further derisked from now.

Ombrina Mare provides a significant contribution to MOG's core value with 64p (risked). We currently apply a 70% project risk to capture execution risks (potential delays in governmental approvals and operational risk due to presence of H_2S) and financing risks.

By way of highlighting a number of value drivers, we have included our valuation calculations on a non-diluted and fully diluted basis (Exhibit 5) and also have included a sensitivity table that highlights the potential upside on a range of oil prices and chance of success assumptions for the Ombrina Mare field (Exhibit 6). Our base case valuation is based on a $60 oil price and a 70%

chance of success. The fully diluted calculation reflects the conversion of the convertible bond and loan note and also accounts for the proceeds of the options and warrants outstanding.

Based on the current share price, MOG's exploration comes for free. The company has two potentially value-transforming assets in its portfolio, Monte Grosso (43p/sh risked) and Tarxien (23p/sh risked), with a reasonable geological risk of 21% and 18%, respectively. MOG is planning to drill both prospects within the next 1.5-2 years but additional funding will be required.

Exhibit 5: Mediterranean Oil & Gas valuation table

Note: * Assumed 2:1 farm-out for a full carry on first exploration well.

Current no of shares [million]	38.9									
FD shares [million]	74.5									
$/£	1.65									
$/€	1.40									
€/£	1.18				Unrisked					
					Reserves/Resources		Netback			
Assets	Country/	WI	Hydroc.	CoS	Gross	Net	NPV/boe	EMV	Value/sh	FD value/sh
	Licence	%	Fluid	%	mmboe	mmboe	$/boe	$m	p	p
Developed										
Gas fields	Italy	9-100%	Gas	100%		1.6	7.2	15.7	24.4	12.8
					TOT	1.6		TOT	24.4	12.8
Under development										
Guendalina	Italy	20%	Gas	90%	3.7	0.7	7.4	4.8	7.4	3.9
Ombrina Mare - Oil	Italy	100%	Oil	70%	20	20	5.7	76.3	118.8	62.0
Ombrina Mare - Gas	Italy	100%	Gas	70%	1.1	1.1	5.7	2.2	3.5	1.8
					TOT	22		TOT	129.7	67.7
Cash/(Net Debt)								(18.8)	(15.3)	10
G&A								(12.2)	(19.0)	(9.9)
Core NAV								TOT	120	81
Core NAV of a full diluted basis										
Exploration/Appraisal										
Monte Grosso	Italy	22.8%	Oil	21%	280	63.8	4.6	53.1	82.7	43.2
Tarxien*	Malta	45.0%	Oil	18%	115	51.8	3.0	27.9	43.5	22.7
Ombrina Mare - SE	Italy	100%	Oil	30%	10.0	10.0	5.7	8.8	13.7	7.2
								TOT	139.9	73.1
RENAV								TOT	260	154

Source: Mediterranean Oil & Gas, Edison Investment Research

Exhibit 6: Sensitivity analysis on a range of oil price and chance of success assumptions

Note: based on a fully diluted number of shares.

Core NAV		CoS (%) - Ombrina Mare				
Gas price	Oil price					
$/MScf	$/bbl	60%	70%	80%	90%	100%
6.7	40	1	4	7	10	12
10.0	60	70	81	92	104	115
13.3	80	137	157	177	197	217
16.7	100	204	233	261	290	319

Source: Edison Investment Research

Financials: Additional financing required

The company recently changed its year end from 30 June to 31 December. As a result it published a reduced accounting period of six months to 31 December 2008 reporting revenues of €3.4m and a net loss of €2m with positive cash flow from operations (before WC) of €0.4m. Guendalina is expected to come on stream in 2010 which will provide a significant step in production with group revenues estimated to increase to €12.5m. The company is expected to show a net debt position of around €11m (net of €5.7m cash) at 30 June 2009. The capital commitments on the Guendalina fields are covered by the €10m HBOS facility. In our forecasts we also assumed that the WI in Ombrina Mare will be kept at 100% with capex financed through bank debt.

Convertible bond and loan note

The company has a £4.8m interest-free convertible bond that was extended in November 2008 from March 2009 to September 2010 converting at 50p/sh. This was extended again in June 2009 to November 2011. The bondholder is Stark Investment, which is also a major shareholder in the company. In addition, in June 2009 MOG issued a £4.25m convertible loan note paying 9.9% coupon interest capitalised on a daily basis payable on redemption and converting at 40p/sh with a November 2011 maturity. Each £1,000 note has 2,500 warrants that can be converted at 45p/sh; £0.78m was taken by existing directors and £1.3m by existing bondholder and shareholder Stark Investment.

Exhibit 7: Financials

€'000	2007	2008	2008H2	2009e	2010e	2011e
Period end	Jun	Jun	Dec	Dec	Dec	Dec
Accounting basis	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	4,922	5,425	3,380	4,419	4,015	12,459
Cost of Sales	(1,719)	(2,263)	(1,243)	(1,397)	(1,309)	(7,660)
Gross Profit	3,203	3,162	2,137	3,021	2,706	4,798
EBITDA	941	573	(326)	(1,979)	(2,294)	(202)
Operating Profit (before GW and except.)	(677)	(1,261)	(1,256)	(2,984)	(3,979)	(1,706)
Asset Impairments	(2,158)	(505)	(1,874)	0	0	0
Exceptionals	0	(1,451)	1,647	0	0	0
Unwinding of discount	0	(342)	(507)	(300)	(300)	(300)
Operating Profit	(2,835)	(3,559)	(1,990)	(3,284)	(4,279)	(2,006)
Net Interest	614	412	50	(810)	(4,110)	(8,110)
Profit Before Tax (norm)	(63)	(849)	(1,206)	(3,794)	(8,089)	(9,816)
Profit Before Tax (FRS 3)	(2,221)	(3,147)	(1,940)	(4,094)	(8,389)	(10,116)
Tax	(287)	198	(94)	0	0	0
Profit After Tax (norm)	(350)	(993)	(1,807)	(4,094)	(8,389)	(10,116)
Profit After Tax (FRS 3)	(2,508)	(2,949)	(2,034)	(4,094)	(8,389)	(10,116)
Average Number of Shares Outstanding (m)	33.6	36.8	38.9	38.9	38.9	61.9
EPS - normalised (c)	(1.0)	(2.7)	(4.6)	(10.5)	(21.6)	(16.3)
EPS - FRS 3 (c)	(7.5)	(8.0)	(5.2)	(10.5)	(21.6)	(16.3)
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	65.1	58.3	63.2	68.4	67.4	38.5
EBITDA Margin (%)	19.1	10.6	(9.6)	(44.8)	(57.1)	(1.6)
Operating Margin (before GW and except.) (%)	(13.8)	(23.2)	(37.2)	(67.5)	(99.1)	(13.7)
BALANCE SHEET						
Fixed Assets	18,785	34,990	37,457	40,452	78,885	132,381
Intangible Assets	9,367	28,397	28,582	28,582	28,582	43,582
Tangible Assets	9,304	6,559	6,265	9,260	47,693	86,189
Investments	114	34	2,610	2,610	2,610	2,610
Current Assets	19,306	21,729	12,401	13,974	12,513	12,024
Stocks	1,130	1,915	2,764	2,764	2,764	2,764
Debtors	3,298	8,521	3,934	7,210	6,551	8,712
Cash	14,878	11,293	5,703	4,000	3,199	548
Current Liabilities	(6,019)	(25,464)	(7,532)	(10,489)	(11,887)	(14,710)
Creditors	(5,935)	(19,703)	(7,527)	(10,489)	(11,887)	(14,710)
Short term borrowings	(84)	(5,761)	(5)	0	0	0
Long Term Liabilities	(11,381)	(5,479)	(18,045)	(24,795)	(67,713)	(128,013)
Long term borrowings	(6,378)	(348)	(12,951)	(19,401)	(62,019)	(122,019)
Other long term liabilities	(5,003)	(5,131)	(5,094)	(5,394)	(5,694)	(5,994)
Net Assets	20,691	25,776	24,281	19,142	11,799	1,683
CASH FLOW						
Operating Cash Flow	(3,709)	1,308	(6,265)	(2,298)	(237)	459
Net Interest	461	779	198	(810)	(4,110)	(8,110)
Tax	(262)	0	0	0	0	0
Capex	(4,141)	(11,140)	(7,751)	(4,000)	(40,118)	(55,000)
Acquisitions/disposals	0	0	0	0	0	0
Financing	0	7,890	126	0	0	0
Dividends	0	0	0	0	0	0
Net Cash Flow	(7,651)	(1,163)	(13,692)	(7,108)	(44,465)	(62,651)
Opening net debt/(cash)	(15,682)	(8,416)	(5,184)	7,248	15,401	58,820
HP finance leases initiated	0	0	0	0	0	0
Other	385	(2,069)	1,255	(1,045)	1,045	0
Closing net debt/(cash)	(8,416)	(5,184)	7,253	15,401	58,821	121,471

Source: Company accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
N/A	N/A	N/A	Litigation/regulatory	◐
			Pensions	○
			Currency	◐
			Stock overhang	○
			Interest rates	◐
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 07-11e	N/A	ROCE 10e	N/A	Gearing 10e	499	Address:	
EPS CAGR 09-11e	N/A	Avg ROCE 09-11e	N/A	Interest cover 10e	N/A	Via Orazio No. 30 Roma (00193) Italy	
EBITDA CAGR 07-11e	N/A	ROE 10e	N/A	CA/CL 10e	1.1		
EBITDA CAGR 09-11e	N/A	Gross margin 10e	67.4	Stock turn 10e	N/A		
Sales CAGR 07-11e	26.1	Operating margin 10e	N/A	Debtor days 10e	N/A	Phone	+39 0668 8941
Sales CAGR 09-11e	67.9	Gr mgn / Op mgn 10e	N/A	Creditor days 10e	N/A	www.medoilgas.com	

Principal shareholders	%
Stark Offshore Management, LLC	20.0
JP Morgan Chase & Co L-R Managers LLC	10.0
Anthony Augustine Trevisan	5.4
Gestion Carmignac	3.5
Paul Curtis	3.4

Forthcoming announcements/catalysts	Date
Interim results	End September 2009*
*Note: * = estimated*	

Management team
CEO: Sergio Morandi
28 years' experience in oil and gas exploration, operations management and the acquisition, processing and interpretation of seismic data. He has worked at ENI, Coparex, ELF, Enterprise Oil, Shell Italia E&P and Shell International E&P.
Executive director: Anthony Trevisan
Responsible for acquiring the Italian, Tunisian and Maltese assets and the company's IPO. He has over 20 years' corporate experience in financing, M&A and the restructuring of industrial, petroleum and mineral resources companies.
Non-executive chairman: Michael Bonte-Friedheim
Over 15 years' experience in the investment banking industry, during which he focused primarily on the European power and energy sector. Most recently, he was a managing director in Goldman Sachs' energy and power team in the European Investment Banking Division.
Finance Director: Christopher Kelsall
Chris joined MOG as Finance Director on 1 July 2009. Prior to joining MOG he spent 14 years in capital markets/corporate finance, most recently with Deutsche Bank and ABN AMRO Rothschild.