

**Mediterranean Oil and Gas\* (MOG LN, 80p)**  
**12 Month Target 230p, Outperform**

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		Y/E 30th June	Jun 07A	Jun 08E	Jun 09E	Jun 10E
Shares (basic, mm)	38.9	CFPS	2.42	6.25	-4.83	-4.75
Shares (FD, mm)	51.0	EPS	-4.39	0.56	-5.14	-9.28
Market Cap US\$mm	\$62	RENAV (p)	738p			
Enterprise Value US\$mm	\$50	P/RENAV	0.11x			

Recommendation	<b>Outperform</b>		Jun 07A	Jun 08E	Jun 09E	Jun 10E
Current Price	80.0p	Oil & NGL mb/d	0.0	0.0	0.0	0.0
12 Month Target	230.0p	Gas mmcf/d	3	2	2	8
Expected Return	<b>188%</b>	BOE (6:1) mboe/d	0.5	0.3	0.3	1.4

Note: Unless otherwise stated all per share figures are diluted and all production volumes are gross of royalties.

\*Tristone Capital is joint-broker to Mediterranean Oil and Gas in accordance with Rule 35 of AIM.

**Reiterating Core Value; 20 mmb Reserves (2P)**

- **Reiterating Rating and Target:** We are reiterating our Outperform rating and 230p/sh target price following the update on Mediterranean's on-going gas production and reserves enhancement strategy and the nearing FDP submission for the company's core asset Ombrina Mare. Ombrina Mare represents MOG's largest asset (250p/sh) in our 297p/sh Core NAV generating an EV/2P metric of \$2.5/b (based on 20 mmb of 2P reserves) following the recent sell off of the stock.
- **Ombrina Mare looks good on Core Valuation and A&D Metrics:** We carry a risked value of \$255 mm (250p/sh) in our Core NAV based on 20 mmb of 2P certified reserves. If we compare the Ombrina Mare asset with North Sea A&D metrics, where fiscal terms are currently less favourable than in Italy, we would anticipate \$6/b in value for undeveloped assets pre-FDP submission or \$120 mm (118p/sh) at this stage in the development rising to \$12/b towards FDP approval.
- **Ombrina Mare Developments:** Mediterranean has engaged independent reserve engineers to assess the gas reserves at Ombrina Mare, which is expected to be finalised by the end of this month. Proger Engineers will assist in preparation of the field development plan and Mediterranean anticipates being able to lodge the plan for approval and apply for a production concession in November 2008.
- **Underpinning value of Assets:** The current share price represents a 73% discount to our Core NAV, a 68% discount to our risked Core NAV for Ombrina Mare alone and a 32% discount to the applied A&D metric valuation at \$6/b. After the recent sell off of the share price, we see this as a good opportunity for the longer term investor to access significant value with exposure to high impact exploration through Monte Grosso (110p/sh risked-1216p/sh unrisked) and Malta.

**MEDITERRANEAN OIL & GAS (MOG LN)**

**Recommendation:** Outperform  
**Basic Shares O/S (mm):** 38.9  
**Fully Diluted Shares (mm):** 51.0

**Market Cap (US\$mm):**  
**Ent. Value (US\$mm):**  
**52 Week Range:**

www.medoilgas.com

Analyst: Peter Nicol

**62.3**  
**50.5**  
**79.0 - 197.5p**

**12 Month Target:** 230.0p  
**Current Price:** 80.0p  
**Expected Return:** 188%

**Profile**

Rome-based Aim-listed Mediterranean Oil & Gas is an E&P company with significant upside from a mixed portfolio of exploration, appraisal and development assets. Mediterranean's core area is Italy where it holds 19 production licenses and 13 exploration permits through its subsidiary Intergas Piu and where it produces ~0.7Bcf/yr. Furthermore it holds 4 licenses in Malta, one license in France and one in Tunisia.

Mediterranean is lead by Sergio Morandi who brings over 27 years experience in the upstream industry. He is familiar with a number of the Mediterranean assets, having worked on the discovery of Ombrina Mare and the evaluation of the Monte Grosso prospect with Elf and being Head of Exploration Italy for Enterprise Oil, later Shell Italia.

**Operational Update**

Mediterranean is the operator of 11 of its 19 production licences. Although production volumes are low, the value is high with gas prices linked to oil. The assets were acquired from CPL Concordia, who had bought them from BG Group in 2001. The assets have suffered from a lack of investment in recent years, which has led to a decline in production, but that is beginning to be reversed by Mediterranean. In addition Mediterranean has an attractive portfolio of appraisal / development assets in Italy.

Ombrina Mare (WI 100%) is the most important asset of Mediterranean's appraisal / development assets accounting for ~250p/sh risked of our core NAV with a further upside potential of over 280p/sh. Ombrina Mare is located offshore Central Italy's Abruzzi region in shallow water (~20m) some 7 km offshore. After the successful appraisal of the Ombrina Mare-2 well an independent reserve report assigned 20 mmb (P50) to the oil field of which 5 mmb in the proven category. The Ombrina Mare-2 well tested up to 1.0 mb/d of heavy 17° API oil during an acidized production test in May/June this year and the company believes a production of 1.2 mb/d is achievable from this well. The development of Ombrina Mare is estimated to cost \$200 mm with first oil in 2010/2011 and first gas as early as 2009 via nearby existing gas facilities.

The Guendalina gas reservoir is a Pliocene turbiditic sandstone at a depth of over 3000 m some 25km offshore in 20 m of water. In April 2006 it was agreed to develop the Guendalina field through a tie-back to ENI's Tea Field and the connection to ENI's Amelia production platform. The project has received approval and first gas is expected in 2009.

Mediterranean (the operator WI 22.89%) along with partners ENI and Total will spud the Monte Grosso 2 well towards the end of this year. Monte Grosso is on trend with and next to Europe's largest onshore oil field, Shell/ENI's Monte Alpi and Total's Tempa Rossa. The €48mm (gross) well will take approximately 14 months to drill and will test 280 mmb of P50 prospective resources.

	Jun 07A	Jun 08E	Jun 09E
<b>Financial Results</b>			
Cash Flow (US\$mm)	1.4	4.5	(3.6)
CFPS (p/sh)	1.84	5.20	(3.92)
EPS (p/sh)	(4.39)	0.56	(5.14)
<b>Multiples</b>			
Price/Cash Flow	56.1	19.9	nmf
EV/DACF	nmf	14.6	nmf
P/E	nmf	nmf	nmf
EV/WI Reserves (US\$/boe)			
EV/WI Production (US\$/boe/d)	195.9	172.4	1,098.3

**Capital Structure**

Net Debt/ (Cash) (US\$mm)	(11.1)	(1.9)	314.3
Debt/CF	nmf	nmf	nmf
Capex (US\$mm)	6.4	25.2	312.5
Capex/CF	4.4x	5.6x	-85.9x

**Operational Update (Continued)**

Mediterranean holds an 80% interest and is operator of an Exploration Study Agreement over offshore Malta Area 4 (Blocks 4-7) which adjoins the neighbouring offshore Libya acreage. Management believes the assets, on the Pelagian Shelf south of Malta, are either an extension of Libya's prolific Sirte basin - known for high recovery rates and crude quality - or Tunisia's Metlaoui basin. Both are famed for their elephants.

Mediterranean farmed into the Medjerda Block (25%) in Northern Tunisia from Carthago Oil Company. The TEB-1 well was spudded in February 2008 but no commercial quantities of hydrocarbons were encountered in the reservoir. The partners believe there is still potential up-dip from the previous well location and options are currently evaluated.

Mediterranean also hold an 11.154% interest in the St. Laurent Permit in south west France focusing on the Grenade field in 2007. The main challenge in the program is to generate commercial flow rates from the 10 API 300mmb STOIP field (best estimates). The Grenade-3 well was spudded on the 10th of January 2008 but hit a tight part of the reservoir. Further drilling is considered.

**Outlook & Valuation**

We are maintaining our Outperform rating and price target of 230p/sh. Ombrina Mare underpins our price target even under the most negative scenario of both a 5.5% corporate tax increase and an increase in royalty as proposed. We believe that this is a conservative price target as it represents 77% of our Core NAV (assuming an increase in corporate tax, and 80% if the royalty increase is implemented and 71% if there are no tax increases). We have already applied an 80% CoS to the Ombrina Mare valuation to take account of the execution and timing risks. We value the P50 (20mmb) reserves for Ombrina Mare at 250p/sh risked and 312p/sh un-risked.

We recognize that the industry asset market may not be willing to value these assets as highly at this point in time. However if we calculate our Core NAV using our range of values for a potential asset market transaction and exclude G&A and current cash as not being part of an industry sale, then our estimate of core NAV for MOG would be 161p-219p. This suggests that the shares offer good value with strong potential upside even under more conservative assumptions than ours.

We have calculated a Core NAV of 297p/sh and a RENAV of 738p/sh.

	Jun 07A	Jun 08E	Jun 09E
<b>Unit Analysis - US\$/boe</b>			
Revenue	43.22	86.94	102.62
Royalties	0.00	0.00	0.00
Operating Costs	(15.10)	(24.14)	(26.55)
Operating Netback	28.13	62.80	76.07
G&A	(20.70)	(28.41)	(32.04)
Interest	5.39	1.69	(74.07)
<b>Netback (US\$/boe)</b>	<b>12.82</b>	<b>36.09</b>	<b>(30.04)</b>

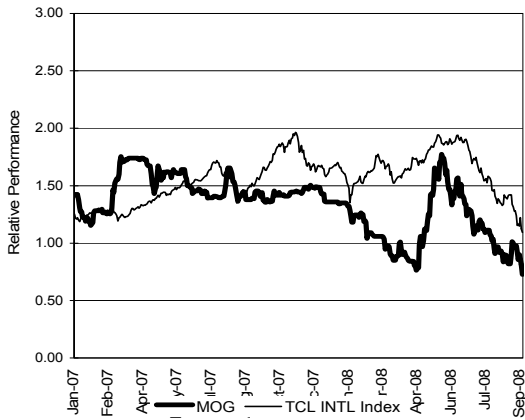
**Price Assumptions**

Crude Oil - WTI (US\$/b)	72.30	72.30	115.00
Crude Oil - Brent (US\$/b)	72.70	72.70	114.00

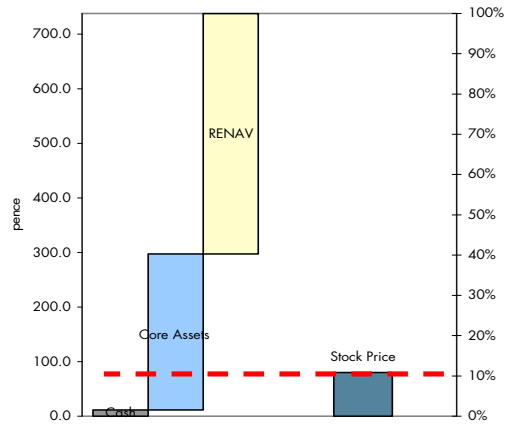
**MEDITERRANEAN OIL & GAS (MOG LN)**

Analyst: Peter Nicol

**Mediterranean vs. Tristone Capital International Index**



**Mediterranean RENAV vs Share Price**



**Summary Information**

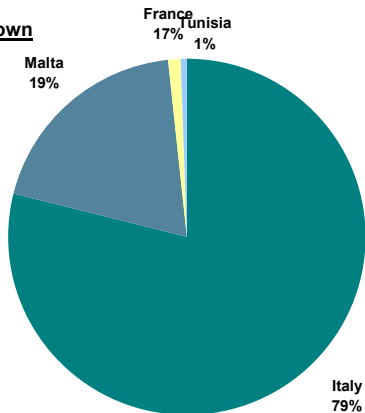
	2007A	2008E	2009E
<b>Production</b>			
Oil & Liquids (mb/d)	0.0	0.0	0.0
Natural Gas (mmcf/d)	2.9	2.1	2.1
mboe/d (6:1)	0.5	0.3	0.3
Production Growth	nmf	-28%	-2%
Gas Production Ratio	100%	100%	100%

**Reserve Information**

	2007A	2008E
<b>P+P Reserves (boe @ 6:1)</b>		
Oil (mmb)	0.0	20.0
Gas (bcf)	4.3	4.9
Total P+P (mmboe)	0.7	20.8

Country	RENAV p/sh	Unrisked NAV p/sh	Activity
Italy	564	2027	E&P
Malta	139	2998	E
France	9	166	E
Tunisia	4	46	E

**RENAV Breakdown**



Source: Tristone Capital

**Key Management**

Sergio Morandi	Chief Executive Officer
Fabio Bortolotti	Chief Financial Officer
Diego Balistreri	Manager Production and Development
Giuseppe Diomede	Operational Base Manager
Pietro Marsili	Exploration Coordinator

**Board of Directors**

Michael Bonte-Friedheim	Non-Executive Chairman
Sergio Morandi	Chief Executive Officer
Anthony Trevisan	Executive Director
Peter Clutterbuck	Director Meridian Petroleum
Salvatore Russo	Ex-Chairman & CEO of SNAM & Saipem

**Insider Ownership** 21.6%

**Major Shareholders**

Stark*	19.3%
Parkplace Finance	16.2%
LR Global Partners	11.1%
JP Morgan	10.0%
Transcontinental Inv.	5.1%
Argos Greater Europe	3.3%

\* Own 9.53 mm convertible bonds on conversion representing 34% of fully diluted shares

**Core Area Map**



Source: Mediterranean Oil & Gas

## MEDITERRANEAN OIL &amp; GAS (MOG LN)

Rating: Outperform

## Net Asset Value

	Strip Pricing			
	MMBOE	Unit Value (US\$/boe)	PV AT US\$mm	p/Share
<b>Assets (NPV10)</b>				
Producing Assets	0.8	35.93	30.0	29.4
Net Cash/(Debt) (US\$ mm)			11.8	11.6
Undeveloped Assets	23.9	11.23	268.7	263.4
Other			(7.3)	(7.1)
<b>Core NAV</b>	<b>24.8</b>	<b>12.25</b>	<b>303</b>	<b>297p</b>
Current Price/NAV				27%
Option & Warrant Proceeds (US\$ mm)			15.2	15
Risked Exploration Value	38.2	11.35	434.1	426
<b>RENAV</b>	<b>63.0</b>	<b>11.95</b>	<b>753</b>	<b>738p</b>

Current Price/RENAV

11%

## Current Stock Prices

80.0p

Mediterranean Oil & Gas Asset Breakdown  
After assumed farm down

Country	Project/Prospect	Gross Res. Potential (mmboe)	Working Interest (%)	Costs Paid (%)	Gross Well Costs (US\$ mm)	C.O.S. (%) <sup>1</sup>	Discounted Value/Boe (US\$/Boe) <sup>2</sup>	Net Risked (mmboe)	EMV (US\$ mm) <sup>3</sup>	US\$/sh (FD)	p/sh (FD)	Unrisked Value (p/sh) <sup>4</sup>
<b>Producing Assets</b>												
Italy	Producing fields (net reserves)	0.8	various				\$ 35.93	0.8	30	0.59	29	
								<b>0.8</b>	<b>30</b>		<b>29</b>	
<b>Undeveloped Assets</b>												
Italy	Masseria - Traette gas	0.2	20%	20%	2	60%	\$ 19.37	0	1.0	0.02	1.0	0.6
Italy	BR 269 GC - Ombrina Mare P+P	20.1	100%	100%	0	80%	\$ 15.85	16	255	4.99	250	312
Italy	d37 AC-FR - Guendolina Gas Field	3.3	20%	20%	2	80%	\$ 20.64	1	11	0.21	10.4	13.1
Italy	Medoilgas - D'Aglavizza	0.2	100%	100%	5	80%	\$ 19.37	0	2	0.05	2.3	3.1
								<b>17</b>	<b>269</b>		<b>263</b>	
<b>Risked Upside</b>												
Italy	BR 269 GC - Ombrina Mare - 3P	3.0	100%	100%	10.4	50%	\$ 15.85	2	19	0.37	18	42
Italy	BR 269 GC - Ombrina Mare 2C resources	11.0	100%	100%	2	30%	\$ 16.44	3	53	1.04	51.8	175.8
Italy	BR 269 GC - Ombrina Mare BS 1 gas	0.2	100%	100%	2	50%	\$ 15.50	0	1	0.01	0.6	2.2
Italy	BR 269 GC - Ombrina Mare BS 2 gas	0.5	100%	100%	2	50%	\$ 15.50	0	3	0.06	3.0	6.9
Italy	AC19 PI - Aida (frozen)	11.2	15%	15%	2	40%	\$ 12.81	1	8	0.17	8.3	21.0
Italy	AC19 PI - Dorotea-Atilla (frozen)	7.8	15%	15%	2	40%	\$ 12.81	0	6	0.11	5.7	14.5
Italy	AR 81 FR - Isabella (frozen)	2.0	15%	15%	2	40%	\$ 12.81	0	1	0.03	1.3	3.6
France	St Laurent - Grenade (heavy oil)	12.6	11.15%	11.15%	5	20%	\$ 6.36	0	1	0.03	1.3	8.3
France	St Laurent - Grenade (Subsalt Gas)	423	5.58%	0.00%	10	5%	\$ 6.83	1	8	0.16	7.9	157.7
Italy	Scanzano - Cupolini "B" structure	0.6	100%	100%	2	40%	\$ 19.37	0	4	0.07	3.5	10.6
Italy	Scanzano - Cupolini "C" structure	0.9	100%	100%	2	40%	\$ 19.37	0	6	0.11	5.4	15.4
Italy	Torrente Cigno - Masseria Vincelli gas	1.2	45%	45%	2	70%	\$ 19.37	0	7	0.14	7.1	10.2
Italy	Masseria - de Palma gas	0.9	14%	14%	2	33%	\$ 19.37	0	1	0.01	0.6	2.2
Italy	Torrente Celone - Masseria Sipari gas	0.4	50%	50%	2	33%	\$ 19.37	0	1	0.01	0.7	3.5
Italy	San Teodoro - Macchia Nuova gas	0.2	100%	100%	2	40%	\$ 19.37	0	0	0.00	0.1	2.1
Italy	Scanzano - Gioia Policora gas	2.6	100%	100%	2	25%	\$ 16.00	1	9	0.18	8.9	40.0
Italy	Medoilgas - D'Aglavizza Prospective	0.2	100%	100%	2	30%	\$ 17.61	0	0	0.00	0.0	0.0
Italy	Medoilgas - Civita	0.8	100%	100%	2	25%	\$ 16.00	0	2	0.04	1.8	11.6
Italy	Medoilgas - Mentalbano	0.8	40%	40%	2	25%	\$ 16.00	0	1	0.01	0.7	4.6
Italy	d37 AC-FR - Guendolina Gas Field (P10)	0.6	20%	20%	0	15%	\$ 20.64	0	0	0.01	0.4	2.4
Italy	AC19 PI - Dorella (frozen)	4.3	15%	15%	2	30%	\$ 11.65	0	2	0.04	2.0	7.2
Italy	Serra San Bernardo - Monte Grosso	282.7	22.9%	22.9%	65	10%	\$ 19.38	6	112	2.20	109.8	1,216.3
Italy	BR 269 GC - Ombrina Mare South	3.2	100%	100%	7.7	33%	\$ 15.69	1	11	0.22	11.2	44.1
Italy	BR 269 GC - Ombrina Mare South East	6.8	100%	100%	0	33%	\$ 14.71	2	33	0.65	32.4	98.1
Malta	Area 4 Block 7 - Hagar Gim	58.0	45%	45%	20	10%	\$ 6.78	3	10	0.19	9.4	165.5
Malta	Area 4 Block 7 - Skorba	18.0	45%	0%	20	10%	\$ 6.55	1	5	0.10	5.2	52.0
Malta	Area 4 Block 7 - Tarxien	115.0	45%	0%	4	10%	\$ 6.83	5	35	0.69	34.6	346.4
Malta	Area 4 - Luzzu	605.0	45%	45%	20	5%	\$ 3.48	14	39	0.76	38.1	920.2
Malta	Area 4 - Prospect 'A'	197.0	45%	45%	20	5%	\$ 6.25	4	19	0.38	18.8	534.7
Malta	Area 4 - Prospect 'B'	77.0	45%	45%	20	5%	\$ 6.81	2	3	0.06	3.2	222.9
Malta	Area 4 - Prospect 'C'	405.0	45%	45%	20	5%	\$ 4.28	9	30	0.60	29.8	756.2
Tunisia	Medjerda Block - Teboursouk Carbonate	15.0	25%	25%	2.5	10%	\$ 6.42	0	2	0.04	1.8	23.0
Tunisia	Medjerda Block - Teboursouk Aptian	15.0	25%	25%	2.5	10%	\$ 6.42	0	2	0.04	1.8	23.0
								<b>58.3</b>	<b>434</b>		<b>426</b>	
Total Risked Exploration Value		2306.8						<b>76</b>	<b>733</b>	<b>14.37</b>	<b>718</b>	<b>5,273</b>

## Notes

1. C.o.S. - Chance of Success - Includes all risk factors such as geological, political, economic etc
2. Value/Boe - Includes proximity to established infrastructure, development capex required & oil quality
3. EMV - Expected Monetary Value - a risk weighted value. EMV= (Reward\*C.o.S.) - [Capital at Risk\*(1-C.o.S.)]
4. Unrisked Value - Refers to the value Mediterranean Oil & Gas could potentially realize if success was achieved on prospect.

Fully Diluted Shares O/S (mm)  
GBP/USD 51.0  
EUR/USD 1.55

**MEDITERRANEAN OIL & GAS (MOG LN)****Rating: Outperform**

Target P/RENAV:	0.3x	Recent Price:	80.0p
Target PE Ratio:	na	Target Price:	230.0p
Earnings Weighting:	0%	Expected Return:	188%

	Jun 07A	Jun 08E	Jun 09E	Jun 10E
<b>Pricing</b>				
Brent (US\$/b)	72.70	123.45	145.31	142.10
Company Light Average (US\$/b)	202.86	253.59	321.01	330.11

**Production Volumes**

Oil & Liquids (mb/d)	-	-	-	-
Natural Gas (mmcf/d)	2.9	2.1	2.1	8.4
Mboe/d (@ 6:1)	0.5	0.3	0.3	1.4
Production Growth	34%	-28%	-2%	308%
Gas Production Ratio (6:1)				

**Financial Results**

Cash Flow to Common (US\$mm)	1.4	4.5	(3.6)	(3.6)
CFPS (Basic p/Sh.)	2.42	6.25	(4.83)	(4.75)
<b>CFPS (Diluted p/Sh.)</b>	<b>1.84</b>	<b>5.20</b>	<b>(3.92)</b>	<b>(3.75)</b>
Earnings to Common (US\$mm)	(3)	0	(5)	(9)
<b>EPS (Diluted p/Sh.)</b>	<b>(4.39)</b>	<b>0.56</b>	<b>(5.14)</b>	<b>(9.28)</b>

**Multiples**

Price/Cash Flow	56.1x	19.9x	nmf	nmf
EV/DACF	nmf	14.6x	nmf	nmf
P/E	nmf	nmf	nmf	nmf
EV/Reserves (US\$/boe)	130.98	2.90	-	-
EV/Production (US\$m/boe/d)	195.9	172.4	1,098.3	559.0

**Capital Structure**

Basic Shares Outstanding (mm)	33.6	38.9	38.9	38.9
Market Capitalization (US\$mm)	106	62	62	62
Year End Net Debt (US\$mm)	(11)	(2)	314	720
Enterprise Value (US\$mm)	95	60	377	783
Debt/CF	nmf	nmf	nmf	nmf

**Unit Costs and Netbacks - US\$/boe (6:1)**

Revenue	43.22	86.94	102.62	100.97
Royalties	-	-	-	-
Operating Costs	(15.10)	(24.14)	(26.55)	(29.20)
Operating Netback	28.13	62.80	76.07	71.77
G&A	(20.70)	(28.41)	(32.04)	(8.98)
Interest	5.39	1.69	(74.07)	(70.02)
<b>Netback (US\$/boe)</b>	<b>12.82</b>	<b>36.09</b>	<b>(30.04)</b>	<b>(7.23)</b>

**Other Information**

Capex (US\$mm)	6	25	312	402
Capex/CF	4.4	5.6	(85.9)	(112.5)

RENAV/Share	738p
Price/NAV	11%

**Valuation Methodology****Weighting**

12-month target established using a multiple of forecast Enterprise Value to Debt-Adjusted Cashflow.	0%
12-month target established using a multiple of Price to Risked Exploration Net Asset Value	100%

## Important Disclosures

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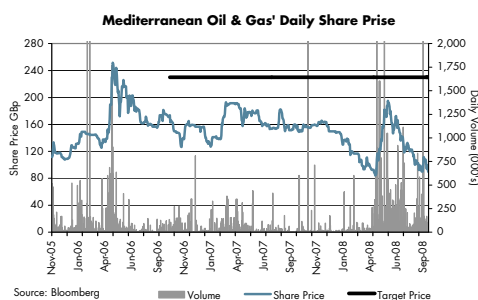
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## Research Recommendations

The following is the Tristone Rating System, which includes the percentage of recommendations that fall into each category.

Rating	Expected returns versus the peer group or sector	% of Tristone Universe
Top Pick	The highest risk-adjusted return	14%
Outperform:	Greater than the average of their peer group or sector	63%
Market Perform:	On par with the average of their peer group or sector	20%
Underperform:	Below the average of their peer group or sector	1%
Speculative:	Companies that carry high operational and/or financial risk where a change in a limited number of business variables can significantly change the valuation	1%



Change Summary		
Date	Rating	Target Price
02-Oct-07	Initiate at OP	230p

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