

Longreach Oil and Gas

Ticker: CA-TSX-V: LOI

Price: CAD\$0.89[#]

Market Cap: CAD\$20.9m

BUY

Year to Dec	Currency / Regime	Revenue	EBIT	Net Income	EPS
2009	£ Canadian GAAP	0	(87,215)	(189,460)	(0.22)
2010	£ Canadian GAAP	0	(656,736)	(532,080)	(0.05)
2011E	US IFRS	0	(1,581,209)	401,966	0.02
2012E	US IFRS	0	(1,626,720)	(1,603,59)	(0.07)

[#]Priced at close, 15 March 2012

Going Long on Morocco

Longreach Background

Longreach Oil and Gas is a TSX-V listed oil and gas exploration company focused on Morocco. The company owns interests in five licences with over 70 leads and prospects identified to date. Sidi Moktar, the flagship asset of the company, is located within the most important hydrocarbon basin within Morocco, the Essaouira Basin. Having produced in the past, Sidi Moktar has the potential for significant near term development.

Morocco: Highly prospective potential

Morocco is a stable country attracting a growing interest from over 30 oil and gas companies. Interest is resulting from the excellent advantages offered by the country:

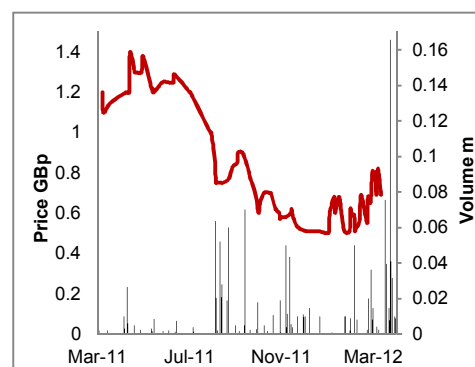
- Geographic position: adjacent to prolific oil and gas countries, Algeria, Libya and Egypt, with underexplored potential.
- Stable political environment and attractive fiscal terms, with royalties typically lower than most oil and gas producing countries and ten year tax holidays.
- Huge domestic market: 2011 energy bill of US\$10.7bn, with 97% of its energy needs currently imported.
- A domestic gas price significantly higher than other countries (US\$8/Mcf+) as it is fixed by the government and calculated by indexation on the imported oil price (fuel 2).
- Recent discoveries: Circle Oil (19.24 mmcfpd), Repsol/Dana Petroleum (multiple BCF).

Management team

Longreach was founded by Bryan Benitz who has more than 40 years' experience in the natural resources industry. He has established a team with strong credentials in finance and oil and gas and strong relations with the Moroccan national company, ONHYM. The company intends to strengthen its technical skills with a senior recruit in view of the near term development of Sidi Moktar.

Appraisal/ Price Target/ Recommendation

Our summary valuation is based on three main approaches; Sidi Moktar's DCF, the net asset value of its five licences and comparison with the closet exploration company for comparative purposes, Tangiers Petroleum.. It indicates a target share price of US\$2.42, which implies a significant undervaluation for Longreach Oil and Gas at current levels.



Source: Bloomberg

Company Description:

Longreach Oil & Gas is a fast growing exploration company with significant interest in onshore and offshore Morocco

Ticker: Bloomberg/TR	TSX-V LOI
Bourse: Market	TSX-V
Sector	Oil & Gas
Price Target	US x 2.42 c
12 Month High/Low	1.40c/0.50c
Shares in Issue	23.5m
Net Cash at December 2011E	CAD\$10.5m
Enterprise Value	CAD\$10.4m

Price %	1 mth	3	12 mths
	+58.00%	+79.00	-36.00%

Major Share-Holders	Management	20.8%
	Blakeney	20.3%
	Sprott Asset	8.52%

Analyst

Amina Bouzid

0203 005 5017

aboutid@vsacapital.com

Sales Contact

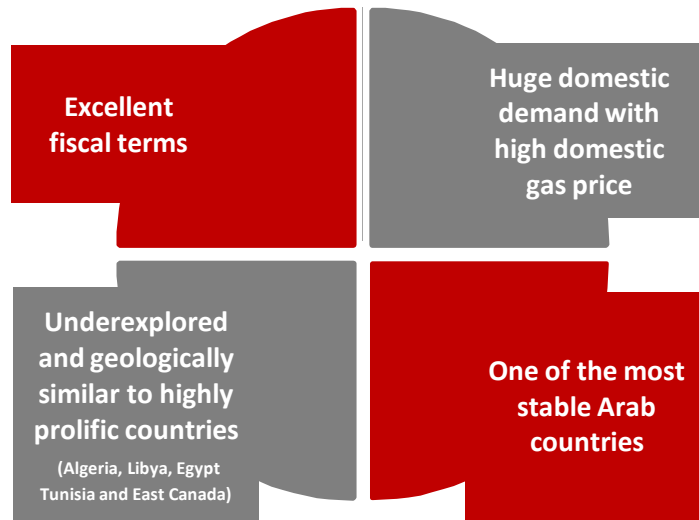
Malcolm Graham Wood

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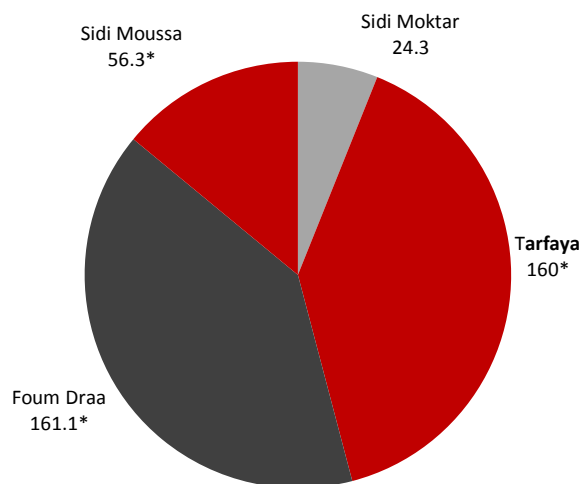
mgramhamwood@vsacapital.com

Snapshot: Oil & Gas in Morocco

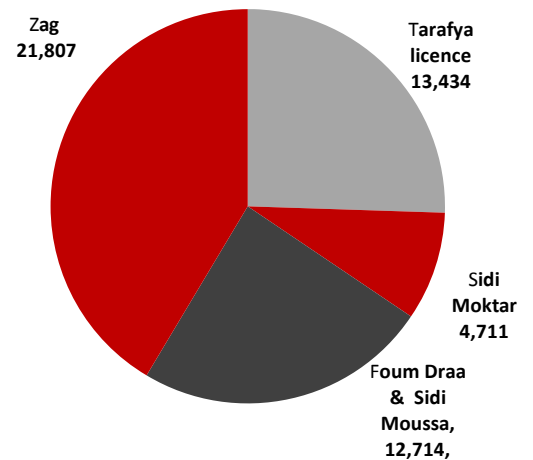
Morocco: Great Upside Potential



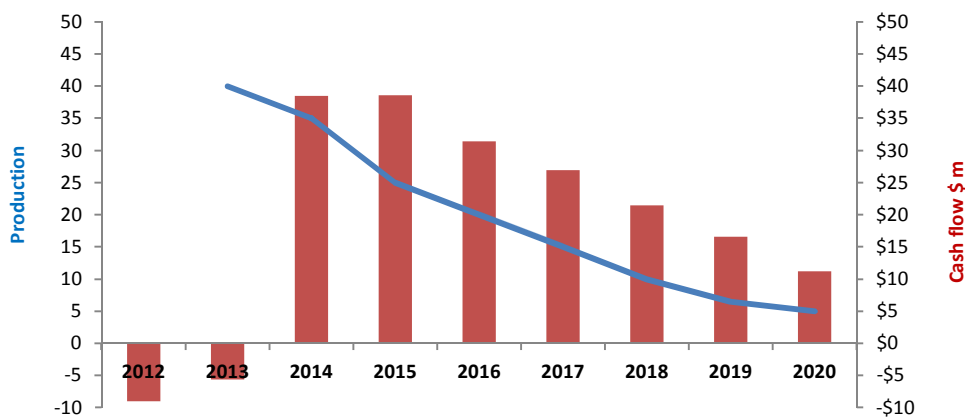
Net Unrisked Resources Boe



Gross Acreage km²



Production – Cash Flow Forecast Sidi Moktar



Source: VSA Capital & company data. *Not NI51-101, Tarfaya estimate by Netherland, Sewell & Associates, Foum Draa and Sidi

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Valuation

In this analysis, we will be using 3 methodologies for the valuation of Longreach Oil and Gas:

1. A DCF on the near term development asset: Sidi Moktar;
2. A Net Asset Value on the five assets of the company; and
3. A peer group analysis, comparing Longreach to similar companies.

1. Absolute Valuation: DCF Sidi Moktar Licence

The table below shows the result of our DCF valuation on the Sidi Moktar field. The DCF calculation is based on a forecast period of 2012-2020 which corresponds to the 8 year duration of the current exploration permit. However, if the field starts to produce, the company would agree an exploitation concession licence with the government for the development of the field and the duration would be extended to 25 years.

The growth period is 2014-2020. We have shown values for a discount range of 8-16% for Morocco and for gas prices from US\$6-\$10.5, the current domestic gas price is assumed at US\$8/mcf and our central assumption is a WACC of 10%.

Our DCF indicates a post money equity valuation range net to the company of between US\$72.5 m and US\$120.4m using a discount range of 8% to 16% and a gas price from US\$6-US\$10.5 per thousand cubic feet, the domestic gas price being US\$8 per mcf, the resulting net producing a value of US\$107m.

Gas price US\$	WACC								
	8	9	10	11	12	13	14	15	16
6	72.5	68.5	64.8	61.3	58.0	54.9	52.0	49.0	46.7
7	95.5	90.5	85.8	81.4	77.3	73.4	69.7	66.3	63.1
8	118.4	112.4	106.8	101.5	96.5	91.9	87.5	83.4	79.5
9	141.4	134.4	127.8	121.6	115.8	110.4	105.2	100.4	95.8
10	164.3	156.3	148.8	141.7	135.1	128.9	123.0	117.4	112.2
10.5	175.8	167.3	159.3	151.8	144.7	138.1	131.9	126.0	120.4

Source: VSA Capital

Currently, the company has 23.5m shares in issue. The company intends to drill two wells. The costs are outlined below:

Activities	Cash (USD)
Drilling cost	\$8 m
Completion	\$1 m
Tie in	\$1 m
Total 1 well	\$10 m
Total 2 wells	\$20 m

Source: VSA Capital

Based on this assumption and assuming also that the company will raise equity at the current share price of CAD\$0.89 per share, the company will need to issue an additional 22.5m shares, which would take the total number of issued shares to 45.9m. Applying this number to our net present value calculation will give a NPV per share of US\$2.32.

Once Longreach commences production, the government will convert the existing “exploration contract” into an “exploitation concession contract” which will increase the contract period from 8 years to 25 years. There should also be significant upside from the production of condensate associated with gas production. Indeed, the nearby analogue field, Meskala, is currently producing between 8 and 10 thousand tonnes per year of condensate from two producing wells. ONHYM is selling it to SAMIR (a national refining company) at a price of US\$750 per tonne.

By applying the two parameters (production of condensate for 25 years) and taking into account that Longreach will be producing about the same volume from its first two wells and an increase of the condensate as a result of production from further wells in 2014, Longreach has the potential to generate a net present value of US\$137.1m, equivalent to US\$2.61 per share.

2. NAV Analysis

Unrisked						Risky				
Asset	Net interest ¹	mmboe ²	US\$/boe ³	US\$m	US\$/share	CoS ⁴	mmboe	US\$m	US\$/share	Data Source
Sidi Moktar	50%	64.7	2	129.4	5.51	29%	18.8	37.5	1.60	AJM Audit
Sidi Moussa	7.5%	56.3	1	56.3	2.40	6%	3.4	3.4	0.14	Operator estimate
Foum Draa	7.5%	161.1	1	161.1	6.87	14%	22.6	22.6	0.96	Operator estimate
Tarfaya	22.5%	160.0	1	160	6.82	9%	14.4	14.6	0.61	Netherland Sewell Audit
Core NAV excluding Zag									3.32	
Zag NAV include Zag	22.5%	75.0	1	75.0	3.20	10%	7.5	7.5	0.32	Management estimates
									3.64	

1. Post ONHYM back in
2. Mean prospective resource
3. Assuming an estimate for a dollar value for the prospective resources in the ground based on the recent Petroceltic/Enel deal in Algeria and taking into account the most interesting fiscal terms in Morocco
4. Chance of success

Source: VSA Capital

For the net asset value we have assumed an estimate for a dollar value for prospective resources in the ground, and have assigned a higher value to Sidi Moktar due to its significant near term development potential.

We have used AJM’s high case scenario for Sidi Moktar because of its near term development potential and a best case scenario for the other assets. We have applied appropriate recovery rates and geological chances of success, as indicated by the CPR, in order to arrive at a risky resource for each licence.

On the base of this valuation, we have arrived at a preliminary valuation of US\$3.32 per share.

However there is a potential upside to our valuation. Management of the company has yet to evaluate resource estimates on the Zag licence. Zag has a potential to add an additional net asset value per share of US\$0.32; the addition of the licence will increase our NAV by 10% to US\$3.64 per share.

3. Peer Group Analysis

The valuation table below shows selected companies with assets principally in Africa, with an enterprise value between US\$47m and US\$357m and unrisked net prospective resources estimated between 651 MMbbl and 12,471 MMbbl. They have an average value also at the level of US\$ 0.70 per barrel (estimated risked resources).

Selected African Oil & Gas Play Valuations

Company	Market Cap	Debt	EV	Unrisked Net Prospective Resources	EV/Unrisked Resources	CoS	Net Risked Resources	EV/Riskd Resources
US\$	M ¹	M	M	MMbbl	US\$/bbl	%	MMbbl	US\$/bbl
Africa Oil Corp	436.3	0.0	337	5,326	0.06	10%	533	0.6
Chariot Oil & Gas	491.0	0.0	358	12,471	0.03	13%	1,621	0.2
Circle Oil	197.0	26.0	201	2,348	0.09	10%	235	0.9
Energulf Resources	44.7	0.0	47	719	0.07	10%	72	0.7
Rialto Energy	172.9	0.0	71	829	0.09	10%	83	0.9
Tangiers Petroleum	53.0	0.0	47	651	0.07	10%	65	0.7
Average					0.07			0.7
Median					0.07			0.7
Longreach Oil & Gas	20.88	0.0	10.4	402	0.03		49	0.21
LOI (US\$ 1.9)	44.59	0.0	34	402	0.08		49	0.7

- 1. Currency conversion rate source Bloomberg 07/03/2012
- 2. VSA estimate

Source: VSA Capital

Licences & Acreages in Morocco

	Licences	km ²	Gross Acres	Net Acres
Kosmos Energy	3	55,407	13,700,000	9,602,500
San Leon	4	47,821	11,816,783	5,889,632
Anadarko Petroleum	1	17,951	4,435,831	3,326,873
Longreach Oil & Gas	5	52,666	13,014,131	2,777,041
TransAtlantic	3	17,085	4,220,413	2,509,979
Serica Energy	2	12,714	3,141,792	785,448
Tangiers Petroleum	1	15,041	3,700,000	2,775,000
Circle Oil	2	2,480	612,895	459,226

Source: VSA Capital

With 13,014,131 gross acres (52,666 km²); Longreach has one of the largest exposures to Morocco amongst listed companies.

The closest comparable from a valuation perspective is Tangiers Petroleum.

Tangiers, an ASX listed oil and gas company, was recently also dual listed on AIM (3 February 2012) and has a market cap of US\$53m.

Tangiers's shares are trading at the average or median EV/Riskd resources level of US\$0.70 per barrel.

The company owns assets in Morocco and Australia. Its key asset is situated in Morocco in the offshore Tarfaya basin; Longreach owns an asset in the onshore side of the basin, however this is not one of its key assets (Sidi Moktar being the key asset).

While Tangiers Petroleum has a 75% interest in the offshore part of the Tarfaya basin, Longreach Oil and Gas owns 22.5% of the onshore part of the basin. For both companies a Competent Person Report (CPR) estimated by the same worldwide petroleum consultant, Netherland Sewell and Associates Inc. (NSAI), evaluated the unrisks best estimates resources at 868 MMbbl (4,959 High case) for Tangier's Tarfaya block and 711.3 MMbbl (3,879 High case) for Longreach's Tarfaya block.

The neighbouring offshore oil discovery, Cap Juby, indicates the Tarfaya blocks for both companies are within a working hydrocarbon system. The Longreach position is further enhanced/derisked by the fact that the Meskala field for Sidi Moktar is already in production.

We believe that Longreach's block has the same potential as the Tangiers block. Additionally, the costs for Longreach will be about a third of the cost of Tangiers, Tangiers asset is in offshore and the drilling cost for one well is around US\$25 m, Longreach's asset in onshore, the drilling cost for one well is around US\$8m.

Taking into account the advanced stage of Sidi Moktar, the company has the potential to generate cash flow earlier than Tangiers. If we take the valuation for Tangiers Petroleum of US\$0.70 per barrel for the estimated risked resources and apply to Longreach, it suggests that the latest should be valued at US\$1.90. Longreach is currently trading at CAD\$0.69 per share implying EV/Risked resources of US\$0.13 per barrel. If Longreach's shares were to trade at level of US\$0.7 per barrel, the company's share price would increase to US\$1.90.

Note: All market caps converted into US\$ at Bloomberg's currency conversion rate of 13 March 2012.

Conclusion and Price Target

Our valuation approach indicates a valuation range depending on the three methodologies of valuation used:

The DCF on the flagship asset Sidi Moktar indicates a net present value of US\$2.32 per share assuming the raise of the US\$20m for the drilling of two wells.

The core NAV on Sidi Moktar, Tarfaya, Foun Draa and Sidi Moussa indicates a net asset value per share of US\$3.32 per share.

The closest comparable company for valuation purpose is Tangiers Petroleum which trades at US\$0.70 per barrel EV/Risked resources. Imputing a similar value for Longreach would produce a US\$1.90 share price.

So we have a range of value for Longreach between US\$1.90 and US\$3.32 and in recognition of the inherent imprecision in these matters would choose a target price at mid-point of US\$2.42.

Longreach Oil & Gas: SWOT Analysis

Strengths	Opportunities
<ul style="list-style-type: none"> • High domestic gas price. • No debt. • Strong net cash position. • Fully funded for its seismic activities and for its existing obligations for Sidi Moktar. • Good links with the Moroccan government. • Experienced local and international management team holding over 20% of LOI shares. • Large and recent oil and gas discoveries in Morocco. • Stable political environment. • Plenty of time remaining on licences to execute work programme. 	<ul style="list-style-type: none"> • Significant domestic market. • Second largest energy importer in Africa. • Pipeline (8" pipeline to OCP Phosphate Mine) is also a potential market for the gas production of Sidi Moktar licence. • Flagship asset has near term development potential. • The growing number of foreign companies will attract more services companies which should bring faster availability, drilling cost reductions and more infrastructures. • Any major discovery will benefit the company. • At its current market cap with a large cash position and five attractive oil and gas interests, there may be a bid for the company.
Weakness	Threats
<ul style="list-style-type: none"> • Technical team will need to be strengthened in preparation for drilling. The company is actively recruiting. • Morocco's hydrocarbon resources have potential but are largely unproven. • Whilst the company has a strong cash position relative to its market cap, in order to maintain its interest in the Sidi Moktar licence it will need to raise a further US\$20 m to drill two exploration wells to test the reservoir at Sidi Moktar. It will probably do so after the release of its updated NI-51-101. • Low liquidity levels in the stock. 	<ul style="list-style-type: none"> • Fluctuations of the oil and gas prices. • Exploration risk. • Political situation: the most stable MENA country but still a political risk.

Source: VSA Capital

Country Overview:

Morocco Oil & Gas Sector

Morocco Outlook

Morocco the New Oil and Gas Investment Opportunity

Morocco is the fifth largest economy in Africa by gross domestic product and is a dynamic emerging country. In the last five years the economy has grown by an average of 5% p.a. and 33% over the whole period. It has a population of 32.5 million. Inflation is low and relatively stable at around 2% in 2011.

Most of the economic activity is located around the larger cities:

- Casablanca (4m people) is the economic and financial capital with its port accounting for 60% of Morocco's total trade;
- Rabat (2.4m people), the country political capital is the main political and administrative centre of the country where the Royal Palace, government and embassies are located; and
- Tangier (2.5m people) is the hub for maritime traffic following the opening of Tangier Med port. The city is located on the Straits of Gibraltar, has four industrial parks and a free trade zone.

Morocco: Key Facts

Area	710850 km ²
Population 2011	32.5 million
Capital City	Rabat
Major Cities	Rabat, Marrakech, Agadir, Meknes, Quarzazate, Fes
Bordering Countries	Algeria, Mauritania
Type of Government	Monarchy

Source: CIA World Factbook

The phosphate industry represents 3.5% of Morocco's GDP. Morocco has approximately two thirds of the world's phosphate reserves, putting it above major competitors like China, Russia and the United States.

Morocco is a constitutional monarchy with an elected parliament. The King of Morocco holds considerable executive powers, including the ability to dissolve parliament.

Since 2000, Morocco has signed several trade agreements in order to facilitate foreign trade, including the Morocco and US Free Trade Agreement (FTA).

With a reduction of tariffs on 95% of bilateral trade, FTA is the first such agreement in Africa and the first under the Middle East Free Trade Area initiative. Morocco is also a partner country of the European Free Trade Agreement, and has established a free trade zone for industrial goods over a 12-year transition period up to 2012, with a renewal being implemented this year.

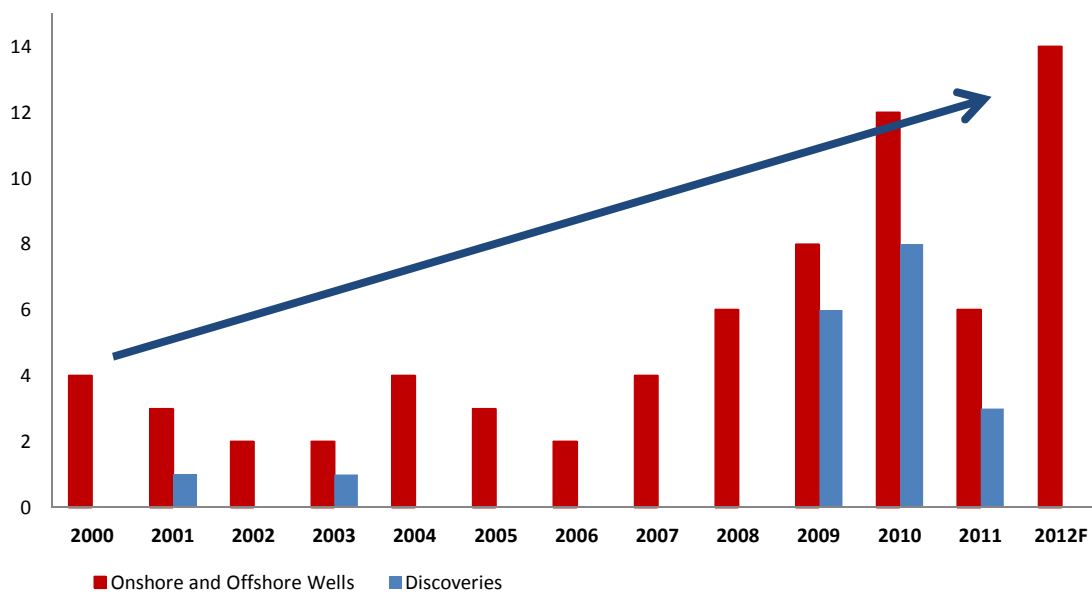
Recent Recognition of Morocco's Oil & Gas Potential

Morocco's first oil discovery occurred in 1923 in the Ain Hamra field in the Rharrb Basin and the SCP (Société Chérifienne de Pétrole), set up in 1929, conducted most of the exploration activities. The Hydrocarbon Law was passed in 1958 (amended in 1992 and 2000) with a favourable fiscal regime to attract foreign investment and by the end of 1981 drilling activity led to cumulative commercial oil and gas production of 9 million barrels of oil and 35 Bcf of gas. Exploration and drilling activities have grown steadily since then.

In 2003, ONHYM (Office Nationale des Hydrocarbures et des Mines) the state owned oil & gas and mining company, was created and today it has several production sharing agreements with foreign companies. Since its creation, the drilling activity has grown with important discoveries made in 2009 and 2010. The country has 3,500 km of coastline and only 31 wells drilled offshore and the current well density is 0.4 wells/100 km² compared to the global average of 8 wells/100 km². In 2010, twelve wells were drilled with eight successes (both onshore and offshore).

Morocco is significantly underexplored compared to many African countries but is located near almost all of the major oil and gas producing countries (for example, Algeria, Libya and Egypt), which suggests significant potential.

Onshore Drilling Count - Morocco is Underexplored



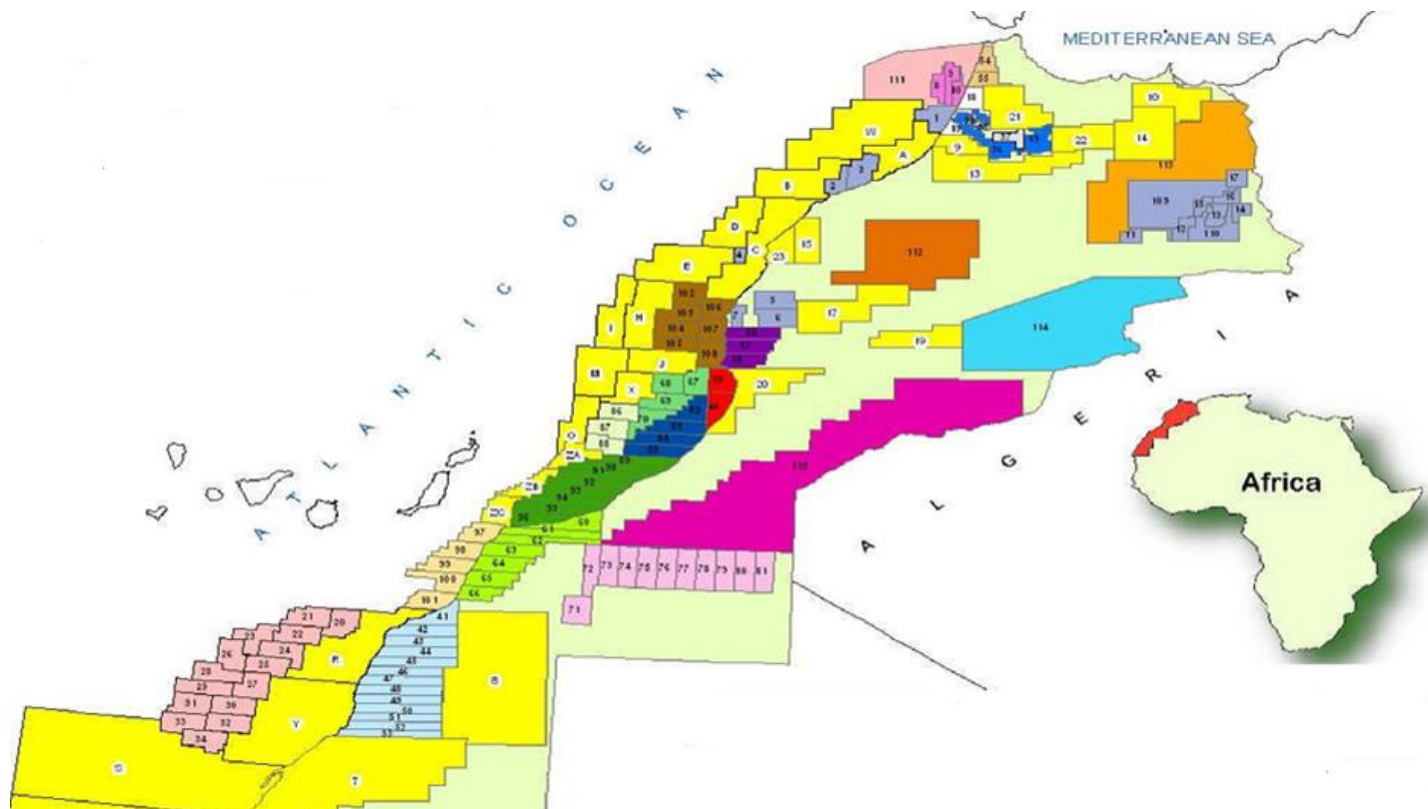
Source: Ministry of Energy and Mines of Morocco

Although hydrocarbon occurrences in Morocco are represented by a variety of liquid and gas accumulations ranging from dry gas in the Rharrb Basin, gas and condensate in Essaouira, light oil in Essaouira and Prerif, to heavy oil offshore Tarfaya, most sedimentary basins are still largely unexplored. Exploration activities can be conducted all the year round.
















Morocco Basins

The country is divided into several basins where a number of small/mid and large cap foreign companies are active including Longreach and its partners San Leon (LON:SLE) and Serica (LON:SQZ); Kosmos Energy which operates four offshore blocks; Circle Oil (LON:COP) which has made multiple gas discoveries in its onshore permits in the north, Transatlantic Petroleum (TSX:TNP) which has interests in three permits and recent entrant Tangiers Petroleum which has one block offshore. Other new entrants such as Anadarko (NYSE:APC) and recently EOG Resources are looking for shale gas onshore, Total (FP:FP) has recently signed a large reconnaissance licence offshore, and Repsol/KNOC who made a significant offshore gas discovery in 2009.
















































Morocco Hydrocarbon Exploration Licences – Holders & Acreages



Source: ONHYM

N ^o	Exploration Zones	Companies	km ²	N ^o	Exploration Zones	Companies	km ²
1	Loukos offshore	  	1925	17	Lala Mimouna Nord	 	1871
2	Casablanca offshore I		1010	18	Lala Mimouna Sud		840
3	Casablanca offshore II		1990	19	Cap Boujdour Offshore I		1992
4	Safi Offshore		500	20	Cap Boujdour Offshore II		1990
4	Sidi Moktar Nord		1786	21	Cap Boujdour Offshore III	 	1984
5	Sidi Moktar Sud	  	1999	22	Cap Boujdour Offshore IV		1984
6	Sidi Moktar Ouest		713	23	Cap Boujdour Offshore V		1999
7	Tanger-Larache-1		1000	24	Cap Boujdour Offshore VI		1942
8	Tanger-Larache-2		989			 	1993
9	Tanger-Larache-3	  	755	26	Cap Boujdour Offshore VII		1987
10	Tendara "A"		998	27	Cap Boujdour Offshore VIII		1988
11	Tendara "B"		995	28	Cap Boujdour Offshore IX		1994
12	Tendara "C"		997	29	Cap Boujdour Offshore X		1972
13	Tendara "D"		654	30	Cap Boujdour Offshore XI		1998
14	Tendara "E"		606	31	Cap Boujdour Offshore XII		1971
15	Tendara "F"		845	32	Cap Boujdour Offshore XIII		1971
16	Tendara "G"		946	33	Cap Boujdour Offshore XIV		1994
				34	Cap Boujdour Offshore XV		1993

Morocco Hydrocarbon Exploration Licences – Holders & Acreages (continued, Source ONYHM, VSA Capital)

N°	Exploration Zones	Companies		km ²	N°	Exploration Zones	Companies		km ²						
35	Rharb Centre			1386	82	Sidi Moussa Offshore-1			1964						
36	Rharb Sud			1358	83	Sidi Moussa Offshore-2			1966						
37	Tselfat			451	84	Sidi Moussa Offshore-3			1974						
38	Sebou			135	85	Sidi Moussa Offshore-4			2000						
39	Agadir Maritime I			1605	86	Foum Draa Offshore 1			1709						
40	Agadir Maritime II			1654	87	Foum Draa Offshore 2			1794						
41	Boujdour Offshore I			1759	88	Foum Draa Offshore 3			1687						
42	Boujdour Offshore II			1921	89	Tarfaya Offshore I-VIII									
43	Boujdour Offshore III			1947	90	Tarfaya Offshore I-VIII									
44	Boujdour Offshore IV			1911	91	Tarfaya Offshore I-VIII									
45	Boujdour Offshore V			1967	92	Tarfaya Offshore I-VIII									
46	Boujdour Offshore VI			1962	93	Tarfaya Offshore I-VIII									
47	Boujdour Offshore VII			1907	94	Tarfaya Offshore I-VIII									
48	Boujdour Offshore VIII			2000	95	Tarfaya Offshore I-VIII									
49	Boujdour Offshore IX			1988	96	Tarfaya Offshore I-VIII									
50	Boujdour Offshore X			1939	97	Boujdour Offshore Shallow I					9056				
51	Boujdour Offshore XI			1965	98	Boujdour Offshore Shallow II									
52	Boujdour Offshore XII			1918	99	Boujdour Offshore Shallow III									
53	Boujdour Offshore XIII			1998	100	Boujdour Offshore Shallow IV									
54	Asilah 1			1096	101	Boujdour Offshore Shallow V			11371						
55	Asilah 2			1101	102	Essaouira Offshore I									
56	Haha 1			4919	103	Essaouira Offshore II									
57	Haha 2				104	Essaouira Offshore III									
58	Haha 3				105	Essaouira Offshore IV									
59	Fes			n.a.	106	Essaouira Offshore V			11371						
60	Tarfaya Onshore 1			37748	107	Essaouira Offshore VI						11371			
61	Tarfaya Onshore 2				108	Essaouira Offshore VII									
62	Tarfaya Onshore 3						116	Doukkala						1998	
63	Tarfaya Onshore 4						117	Juby Maritime I						5606	
64	Tarfaya Onshore 5			118	Juby Maritime II										
65	Tarfaya Onshore 6			119	Juby Maritime III										
66	Tarfaya Onshore 7			6473	120	Mazagan Offshore I			10897						
67	Foum Assaka Offshore 1				121	Mazagan Offshore II									
68	Foum Assaka Offshore 2				122	Mazagan Offshore III									
69	Foum Assaka Offshore 3				123	Mazagan Offshore IV									
70	Foum Assaka Offshore 4				124	Mazagan Offshore V									
71	Zag 1			21672	125	Mazagan Offshore VI			10897						
72	Zag 2														
73	Zag 3														
74	Zag 4														
75	Zag 5														
76	Zag 6														
77	Zag 7														
78	Zag 8														
79	Zag 9														
80	Zag 10														
81	Zag 11														

The following zones are currently under negotiation:

Exploration Zones Under Negotiation	H – I – ZA – ZB – S – T – U – 15 – 17 – 23 – 24
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Source: ONHYM, VSA Capital

As can be seen from the table above, the country still has a significant amount of acreage available onshore and offshore.

Infrastructure in Place

Morocco has substantial infrastructure in place to support an increasingly active oil and gas exploration and production industry. Major seaports, roadways, airports, pipelines and refineries are near large cities endowed with the usual European and North American style amenities.

Morocco has a well-developed downstream industry. Refineries owned and operated by SAMIR are located at Sidi Kacem and at Mohammedia near Casablanca and have a capacity of 7 million tonnes per year. They annually deliver about 4 million tonnes.

Pipelines in Morocco

The Maghreb-Europe Gas Pipeline MEG crosses and supplies Morocco. Also known as the Pedro Duran Farell pipeline, it is a natural gas pipeline which links the Hassi R'mal field in Algeria through Morocco with Cordoba in Andalucia, Spain, where it is connected to the Spanish and Portuguese gas grids. It supplies mainly Spain and Portugal (and Morocco) with natural gas. It is 1,620 kilometres (1,010 mi) long, cost US\$2.3 billion and was built by Bechtel and Saipem. The Spanish section was inaugurated in Cordoba on 9 December 1996 and the Portuguese section on 27 February 1997.

Moroccan Gas Pipeline Infrastructure



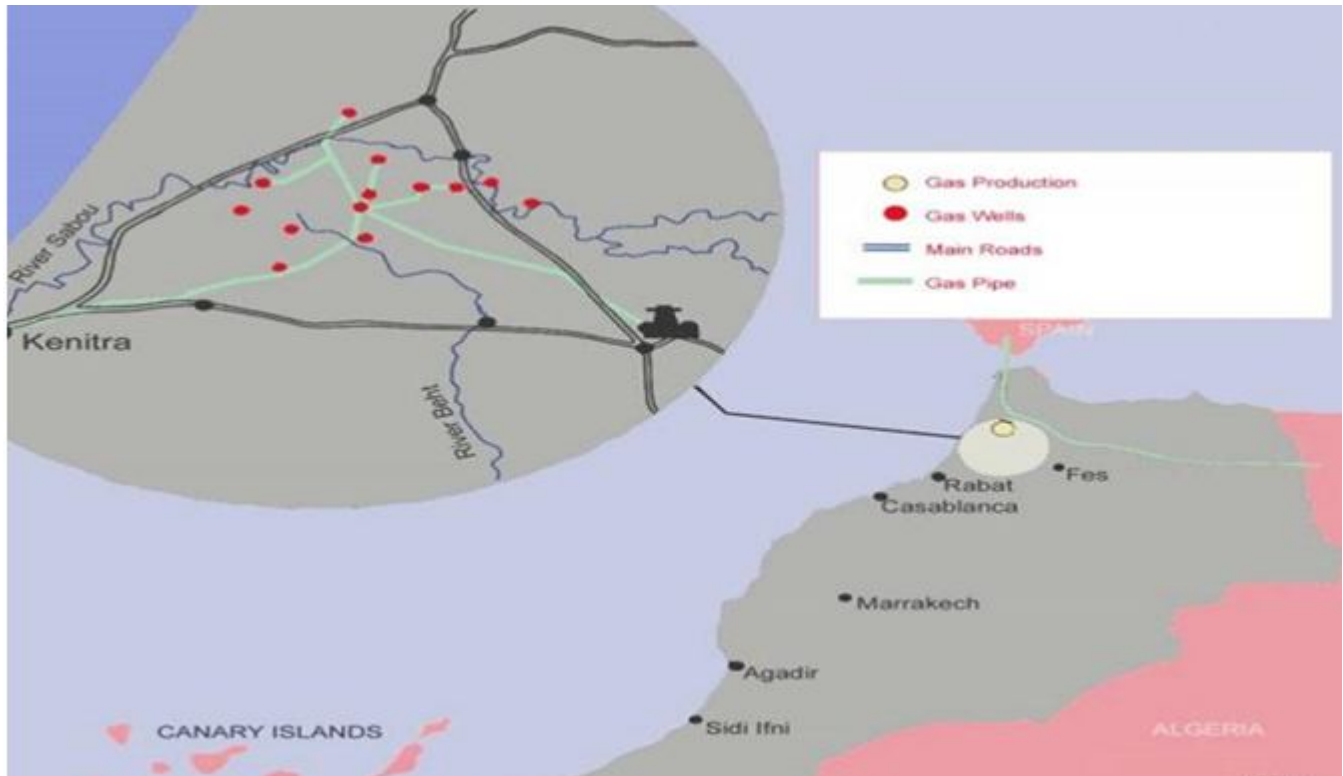
Source: Bechtel - Saipem

Morocco's pipeline under construction

In January 2010 Circle Oil and ONHYM announced that they would start building the Sebou-Kenitra gas pipeline to supply the domestic market in Kenitra, north of Rabat.

On 9th January 2012, the new pipeline was completed. Circle Oil has a 40% interest in the project; the other 50% is owned by Vegas Oil and the remaining 10% by Sea Dragon Energy. The total length of the pipeline is approximately 55 km and has a design capacity of 23.5 MMscf/d.

Rharb Basin Pipeline Infrastructure



Source: news@pipelinesinternational.com

Fiscal regime designed to encourage investment

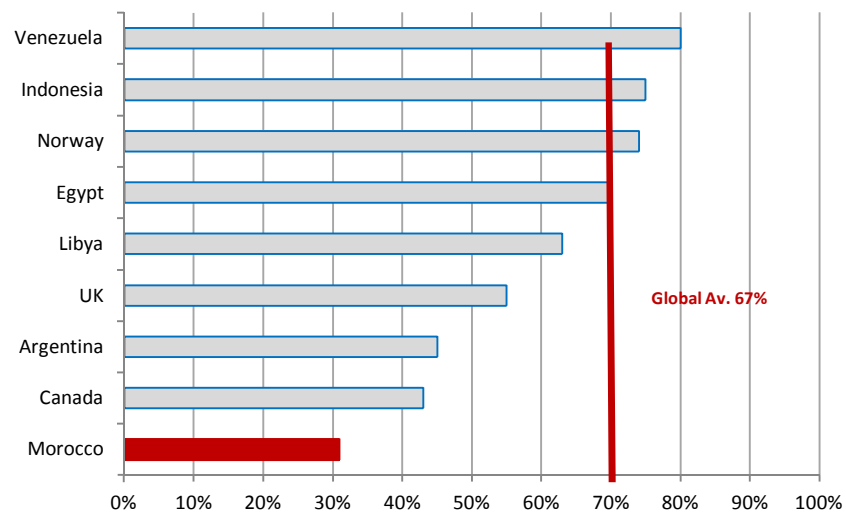
As part of the country's overall energy strategy to attract inward investment into hydrocarbon exploration, Morocco has established a hydrocarbon agreement with attractive and favourable fiscal terms with a 10 year corporate tax holiday on discovery, 10% oil royalty onshore, 7% offshore, and only 5% gas royalty onshore and 3.5% offshore. State participation is capped at 25% which is attractive compared to other emerging countries against a global average of 67% (government take scheme). After the ten year tax break, the corporate tax rate reaches a 32% maximum.

Fiscal Terms

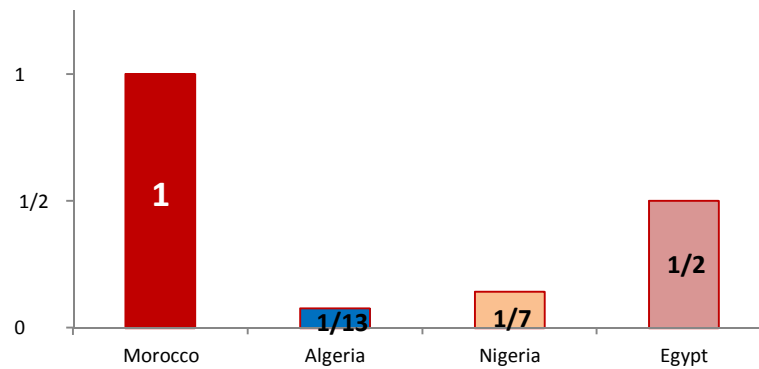
	Onshore		Offshore
Oil Royalty	10%		7%
Gas Royalty	5%		3.5%
Corporate Tax		32%	
State Participation		Up to 25%	
Additional		10 Years Tax Break	

Source: ONHYM

Government Take (%)



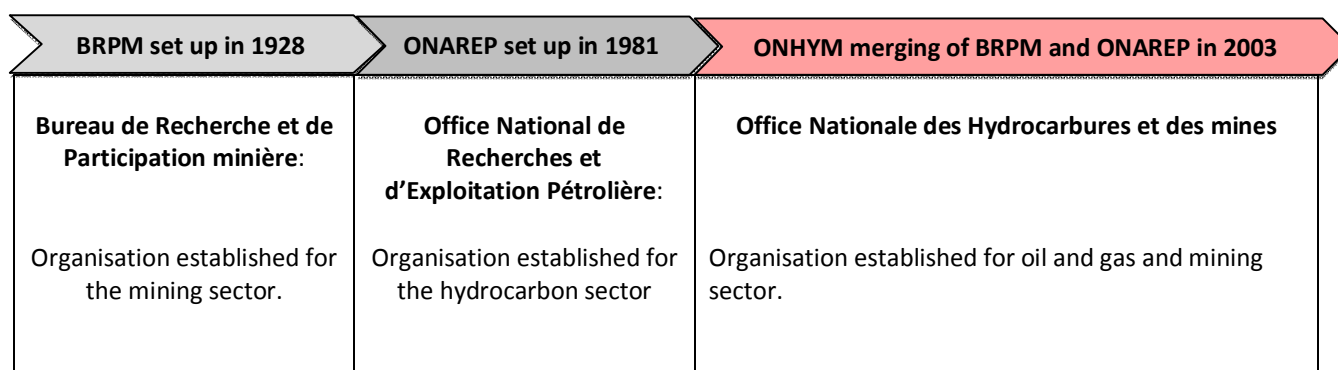
Profit Value of 1 bbl of Oil in Morocco



Source: ONYHM

Office Nationale des Hydrocarbures et des Mines ONHYM

The National Hydrocarbons & Mines Office – ONHYM – was created in 2003 through the merger of the BRPM and ONAREP following the Meskala discovery. The state owned company is directed by Amina Benkhadra, the former minister of Energy, Mines, Water and Environment. Since the legislative elections of November 2011 which resulted in the appointment of a new Minister of Energy – Mr. Fouad Douri, Ms. Benkhadra can focus totally on her leading position at ONHYM.



Source: ONHYM

ONHYM's Strategy

ONHYM's strategy has two principal components:

- The first component is focused on the development of the Meskala field (currently producing from two wells but historically from four wells), and of the Gharb basin (from which natural gas is sold to Compagnie Marocaine des Cartons et Papiers CMCP). These assets are 100% owned by ONHYM who have managed the technical and economic studies related to exploration on this acreage.
- The second component is to promote exploration in Morocco to international operators. It does this through providing interested parties with G&G data obtained partially through its own exploration work and partially through work that other explorers have carried out. It also engages with international E&P companies through participation in international oil & gas events and through the organization of a high level annual meeting in Morocco.

The strategy is to attract international participants. ONHYM was recognised by the "African National Petroleum Company" as the best African hydrocarbon and mining company in 2009.

Another aspect of the strategy is to study of a number of basins which demonstrate the potential to contain unconventional shale resource plays. Recently, companies such as Anadarko and EOG have taken positions in the country. Exploration for the recovery of oil shale in Morocco started at Tangier with the creation of the Société des Schistes Bitumineux de Tanger. The company built a pilot plant with a production capacity of 80 tonnes per day of oil shale between 1939 and 1945. The Timahdit and Tarfaya deposits were discovered late in the sixties.

Licensing Regime

The licensing process in Morocco for oil & gas concessions occurs in three stages:

1-Reconnaissance Licence	2-Exploration Licence	3-Exploitation Concession
<p>The reconnaissance prospect licence normally has a duration of one year and can be extended to two years.</p> <p>The company is required to provide a bank guarantee for the estimated programme costs.</p> <p>During the contract, the licence holder can conduct seismic and other exploratory activities.</p> <p>At the end of the period, the licence holder must determine one or more areas to move to the exploration permit.</p>	<p>The permit has duration of 8 years and each block is limited to 2000 km².</p> <p>There are three phases of 2-3 years for a maximum total period of 8 year licence.</p> <p>Exploration and appraisal studies and operations (e.g. drilling of exploration and appraisal wells) are undertaken in order to establish the existence of oil & gas in commercially exploitable quantities.</p>	<p>The exploitation concession is applied for upon the discovery of a commercially exploitable field.</p> <p>The maximum duration of an exploitation concession is 25 years, and the area is limited to the area of the deposit.</p> <p>The costs incurred for the development of the discovery during all the period of the contract will be shared proportionally to the share of each partners include ONHYM (maximum 25% stake).</p>

Source: ONHYM

Reconnaissance licence: The company can enter Morocco by obtaining a reconnaissance licence. The one year licence (renewable for a further one year) has obligations to carry out geophysical and geological studies. The data acquired will be the property of ONHYM.

At the end of the contract if the company does not wish to acquire an exploration licence, ONHYM will reprocess the data and include them in a promotion pack presented to other interested parties.

- Exploration licence: For each phase of 2-3 years, the company must propose a work programme, and provide a bank guarantee for the costs of the programme. At the end of each phase the company may relinquish part of the acreage.
- In the case of natural gas, the permit holders must use their best endeavours to find domestic and foreign markets for such natural gas.
- If the licence holder agrees that the quantity of natural gas discovered requires the construction of export facilities, in addition to domestic market facilities, the permit holders shall determine, after having informed the state, respective quantities to be reserved for the domestic market and for export

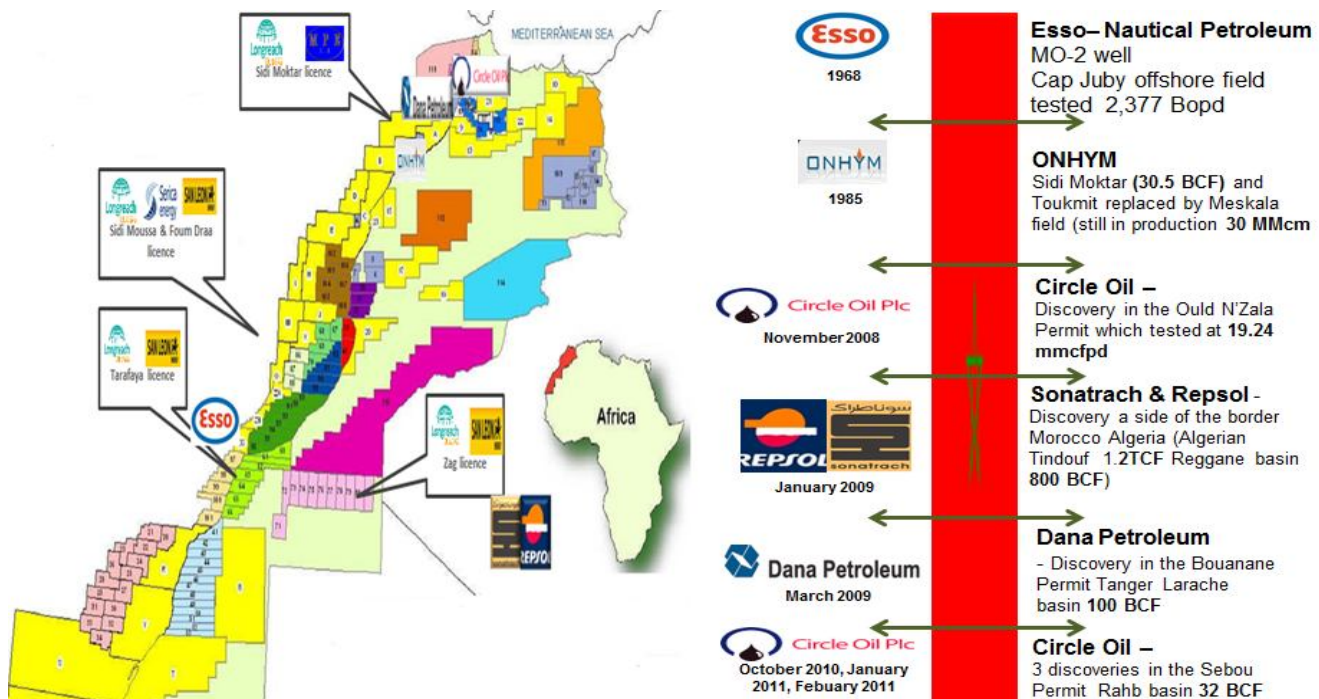
customers having entered into long-term contracts. ONHYM is obliged to use its best endeavours to assist in obtaining all necessary licenses and authorisations for the construction of such facilities².

Work Programme for ONHYM

The company has a drilling programme of two wells:

- One well in the Meskala field, the well is for replacing the two depleted wells; and
- One stratigraphic well in the south area of Boujdour.

Recent Discoveries around and in Morocco



Source: VSA Capital

The first offshore discovery was made by Mobil Oil in the Cap Juby field which tested at 2,377 Bopd.

Since 1986, ONHYM made several discoveries in the the Meskala field which is still producing around 30 million cubic meters per year from two wells.

In November 2008, Circle Oil made its first discovery in the Ould N'Zala onshore Permit Northeast of Rabat in the Rharb Basin. The ONZ6 appraisal well flowed at a sustained rate of 3.32 MMscfd.

In January 2009, the Algerian government oil and gas company, Sonatrach, in association with Repsol, made a 1.2 TCF gas discovery approximately 50km from Longreach's Zag licence property. Also immediately to the east of the Tindouf basin is the Algerian Reggane basin with a well flowing at a sustained rate of 44 MMcfd and a field estimate of 800 Bcf.

² Ref Petroleum Agreement 2009-ONHYM website

In March 2009, Repsol and Dana Petroleum made a significant gas discovery at Anchois, in the Tanger-Larache licence, with its first well offshore Morocco. Preliminary estimates of reserves are around 100 Bcf.

In October 2010, Circle Oil completed its second successful discovery CGD-11 in the Sebou Permit in the Rharb Basin. The CGD-11 well flowed at a sustained rate of 7.07 MMscfd.

In January 2011 Circle Oil made a third discovery in the Sebou Permit, with the ADD-1 well flowing at a sustained rate of 3.57 MMscfd.

February 2011, the DRJ-6 well was the latest discovery in the Sebou Permit for Circle Oil, with flowing testing at a sustained rate of 5.363 MMscfd.

The Energy Market

Morocco is currently dependent on oil and gas imports. Indeed it is one of the largest energy consumers in Africa and demand is growing at approximately 8% on average per year.

Morocco has a very attractive domestic natural gas price of +US\$8 /mcf indexed to the Fuel 2 price (compared to a US\$2.54 in the US)³.

Morocco imported 91% of its natural gas and 99% of its oil in 2010.

Morocco's 2011 energy bill was US\$10.7 bn.

Currently, Morocco is importing about 97% of its total energy needs, which consists of nearly two thirds of petroleum products and most of the remainder of coal. 2008 energy consumption was 14.72 million tons of oil equivalent (approximately 300 thousand bbl/day), which is expected to increase by about 5.8% per year.

In 2008 electricity consumption was 24,000 GWh, with 97.5% produced by imported energy, with an average growth of 7.5% per year. The law encourages the production of electricity from domestic resources.

Morocco currently obtains almost all of its natural gas from its neighbour Algeria through the Maghreb-Europe gas (MEG) pipeline which has linked Algeria with Spain through Morocco since 1996. The gas is provided on the basis of a transit royalty in kind.

Significant demand for natural gas exists primarily from Morocco's phosphate mining industry. Gas is required in three stages; electricity production, dehydration of the phosphate rock and creation of ammonia to create fertilizer. With Morocco holding more than two thirds of the world's phosphate reserves, gas is a hugely important commodity to Morocco. Longreach is in a unique position to benefit from this demand, with an existing gas pipeline running through its Sidi Moktar licence to the phosphate mining town of Youssoufia where OCP operates its largest phosphate mines.

In 2005, the consumption grew with the Tahaddart combined cycle gas turbine (CCGT).

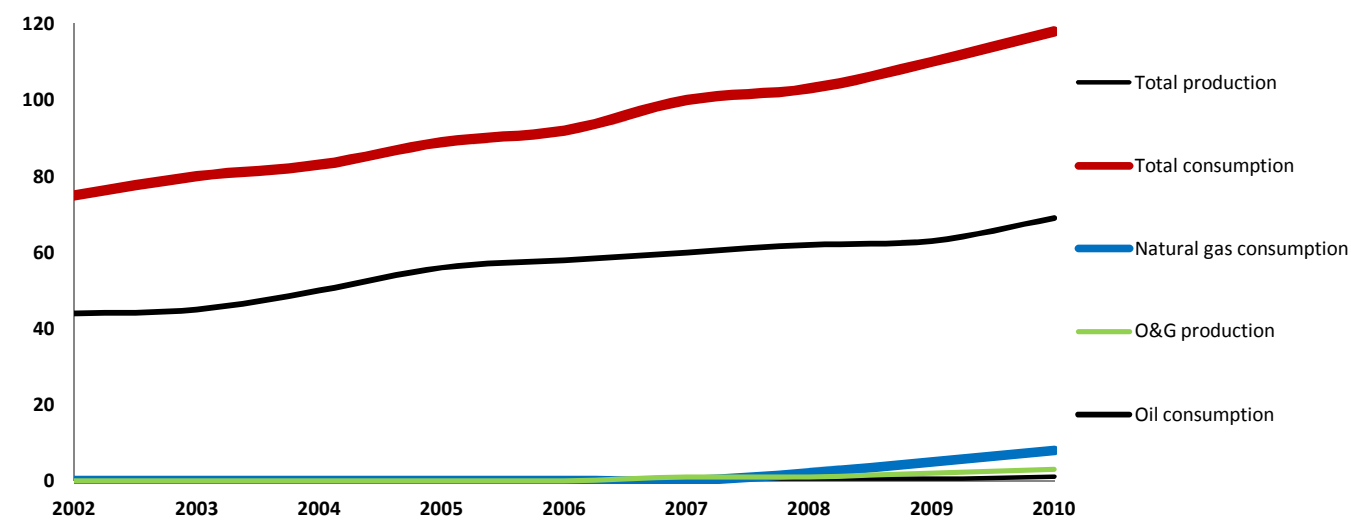
Other projects calling for natural gas were the Ain Beni Mathar integrated solar combined cycle plant (around 2.25 MMboe/year consumption), Renault-Nissan's industrial complex (using around 0.13 MMboe/year)⁴ and the domestic Phosphate Production Company OCP.

Amina Benkhadra, former Moroccan Minister of Energy, Mines, Water and Environment said: "Energy demand in Morocco will have doubled by 2020 and tripled by 2030" (19th January 2011).

³ NYMEX NEAR MONTH, Closing Bell Report

⁴ Source: Ministry of Energy and Mines of Morocco - Key figures 2010

Morrocco Energy Balance (MMboe)



Source: Ministry of Energy and Mines of Morocco-Key figures 2010, VSA Capital

Company Overview:

Longreach Oil & Gas

Longreach Oil and Gas

Set up by its Chairman, Bryan Benitz in April 2006 Longreach is an independent oil and gas exploration company with a regional focus in North Africa.

It has interests in a number of exploration licences in southern onshore and offshore Morocco.

In October 2010, the company was listed on the TSX Venture exchange (ticker LOI). In conjunction with the listing the company raised through a private placement CAD\$3.5m at an issue price of CAD\$1. In July 2011 the company successfully completed a CAD\$10.1m placing at an issue price of CAD\$1.05.

Assets Portfolio

The company possesses 5 exploration licences of which:

Two are onshore licences with gas potential:

- Sidi Moktar and Zag

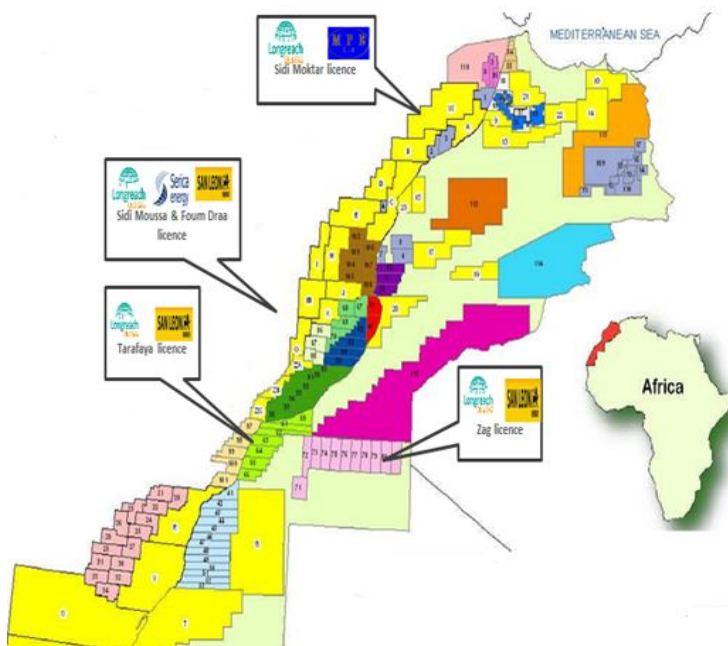
One onshore oil licence

- Tarfaya

Two offshore oil licences

- Sidi Moussa and Fom Draa

Longreach Oil & Gas Moroccan Exploration Licences



Licences name	Type of licence	Working interest
Sidi Moktar Licence Operated	Onshore exploration Licence	50%* Longreach, 25% MPE, 25% ONHYM
Tarfaya Licence	Onshore exploration Licence	22.5%* Longreach (Operator) 52.5% San Leon, 25% ONHYM
Sidi Moussa & Fom Draa Licence	Offshore exploration licence	7.5%* Longreach, 25% Serica (Technical operator), 42.5% San Leon (Operator), 25% ONHYM
Zag Licence	Onshore exploration Licence	22.5%* Longreach, 52.5% San Leon and 25% ONHYM

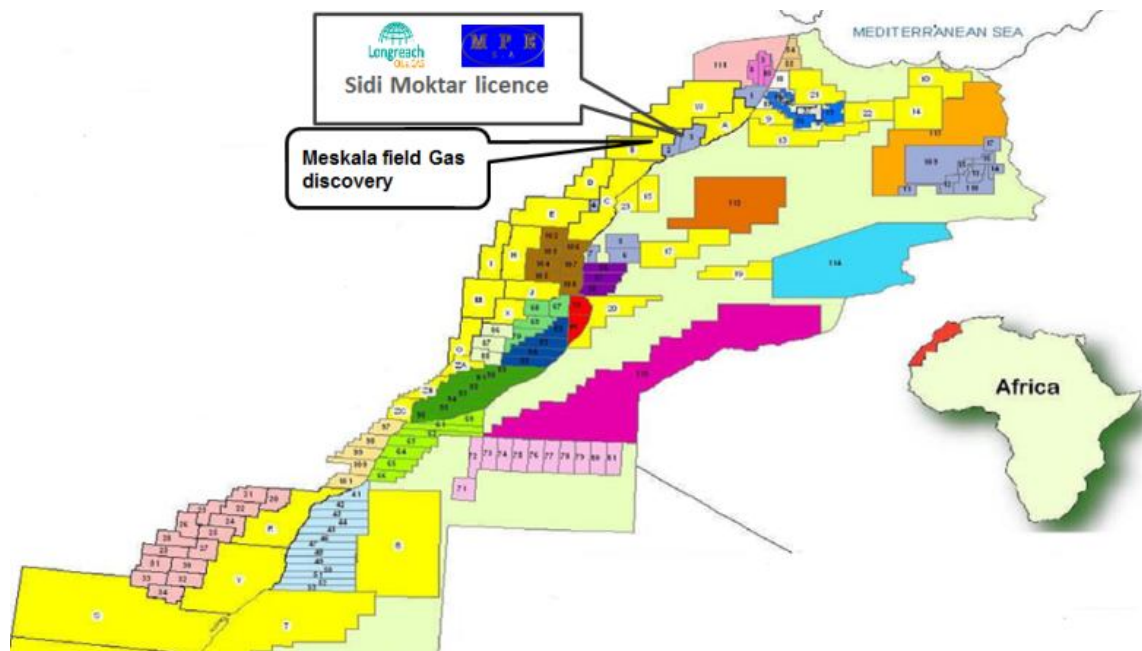
* Working Interest after State (ONHYM) back in of up to 25% WI. ONHYM is carried during exploration phase and is a full partner after backing in.

Source: VSA Capital

Sidi Moktar Licence

The company announced a farm in to the Sidi Moktar licence on the 26 May 2011 and completed this on 19 September 2011. The onshore licence consists of three blocks referred to as Sidi Moktar West, Sidi Moktar South and Sidi Moktar North, totalling 1.2 million acres, located in the Essaouira basin in central Morocco. Fields within Sidi Moktar have historically produced around 30.5 Bcf of gas from Jurassic aged reservoirs.

Sid Moktar Licence Area Location



Source: VSA Capital

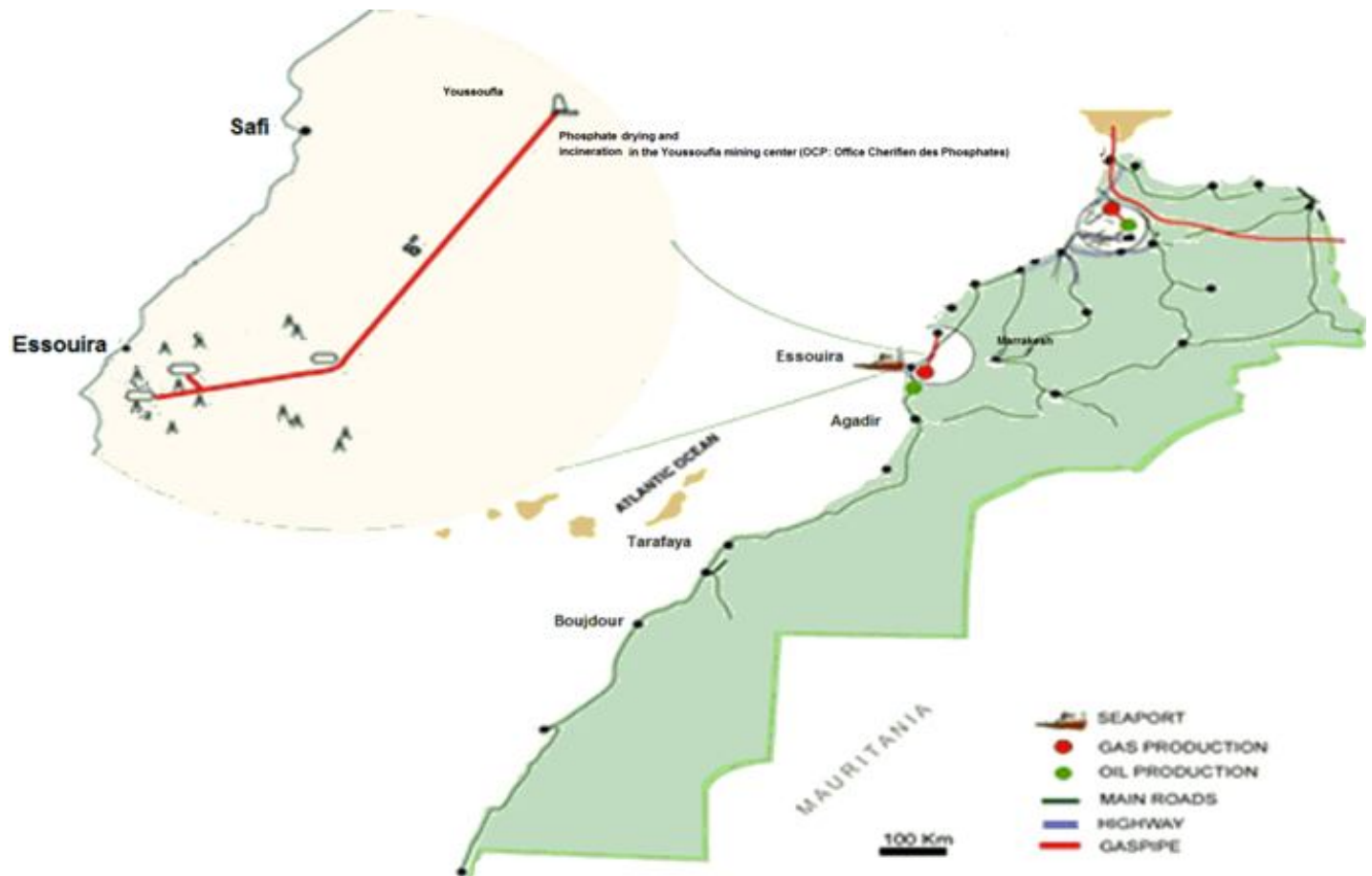
Essaouira region

The Essaouira Basin is an important onshore natural gas-generating basin in western Morocco. The basin covers approximately 11,858 km² and is the best explored basin in Morocco with 7,080 km of 2D seismic and 185 km² of 3D.

The region is still relatively underexplored, with 44 exploration wells and 38 development wells for seven hydrocarbon fields consisting of four gas, two gas/condensate and one oil.

To the north of the basin is the phosphate mining town of Youssoufia (OCP's site: Office Cherifien des Phosphates), where natural gas is sold for dehydrating the phosphate rock.

D'Essaouira Basin



Source: Longreach Oil and Gas website

The Meskala field

The Meskala area is the most prolific producing region in Morocco. Morocco has been producing condensate and natural gas since 1985 from the Toukimt field (producing since 1985) which was replaced by what is now the Meskala field (producing since 1987), which is producing from the Triassic.

Current production levels are around 89,000 cubic meters of gas per day (30 MMcm a year) and between 8-10 thousand tonnes a year for the condensate. Production of both gas and condensate is sold in their entirety; the gas to the phosphate production unit, OCP (Office Cherifien des phosphates), and the condensate to the refining unit SAMIR.

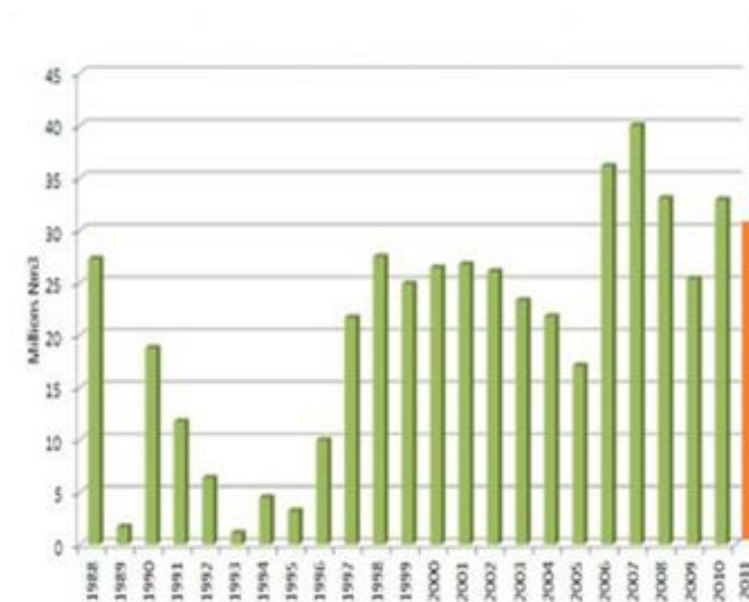
The gas is used for the dehydration of the phosphate and is supplied through an 8" pipeline directly linked to OCP.

OCP's current consumption of gas is around 55 MMcm³ annually with demand growing significantly and the two wells of the Meskala field do not satisfy its demand.

Sidi Moktar would therefore have a ready market for its expected gas production with the addition of existing infrastructure in place (the 8" pipeline).

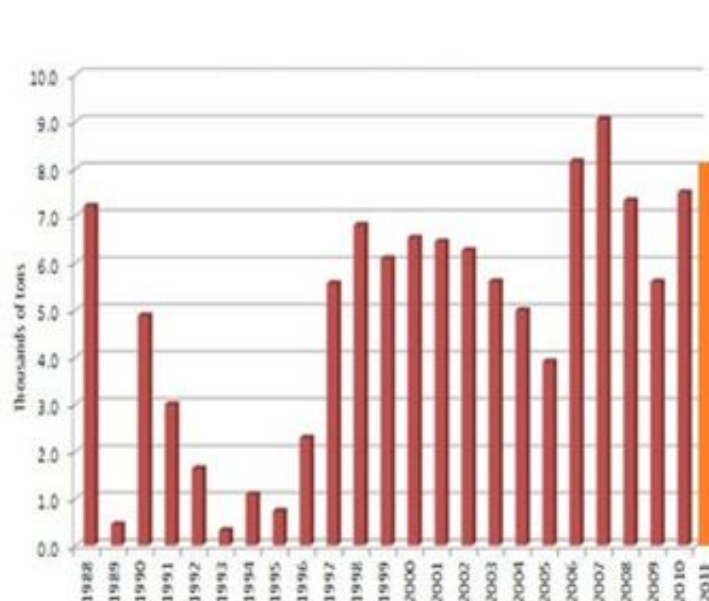
Meskala is an analogue for the pre salt and post-salt prospects of Sidi Moktar, and consequently LOI's primary target is the Triassic sandstone reservoir that extends into Sidi Moktar and has yet to be drilled.

Natural Gas Cumulative Production – Meskala – 1988 to 2011 (MMm³)



Source: ONHYM website, VSA Capital

Condensate Production – Meskala – 1988 to 2011 (thousands of tons)



Source: ONHYM website, VSA Capital

Longreach's near term development licence

Longreach acquired a 50% working interest in the licence and the operatorship of the blocks from an independent national company: Maghreb Petroleum Exploration S.A. (MPE).

The agreement includes an obligation to carry on the work programme involving the acquisition of 100Km² of 3D seismic or 500km of 2D seismic and the optional drilling of 2 wells. The exploration licence is valid until July 2017.

Prospects and resources

The licence was independently audited by Calgary based AJM Petroleum Consultants (now owned by Deloitte) with 8 fields identified representing 111 Bcf (low case), 292 Bcf (Best) and 776 Bcf (High) of gas initially in place in the best case.

The larger prospect, the Kechoula field (43 Bcf-low case, 110 Bcf-Best, 283 High) and has historically produced 19 Bcf from the Jurassic. Three other fields are West N'Dark (Carnian), Tam field (Norian) and N'Dark field with a total of the gas initially in place of 101 Bcf.

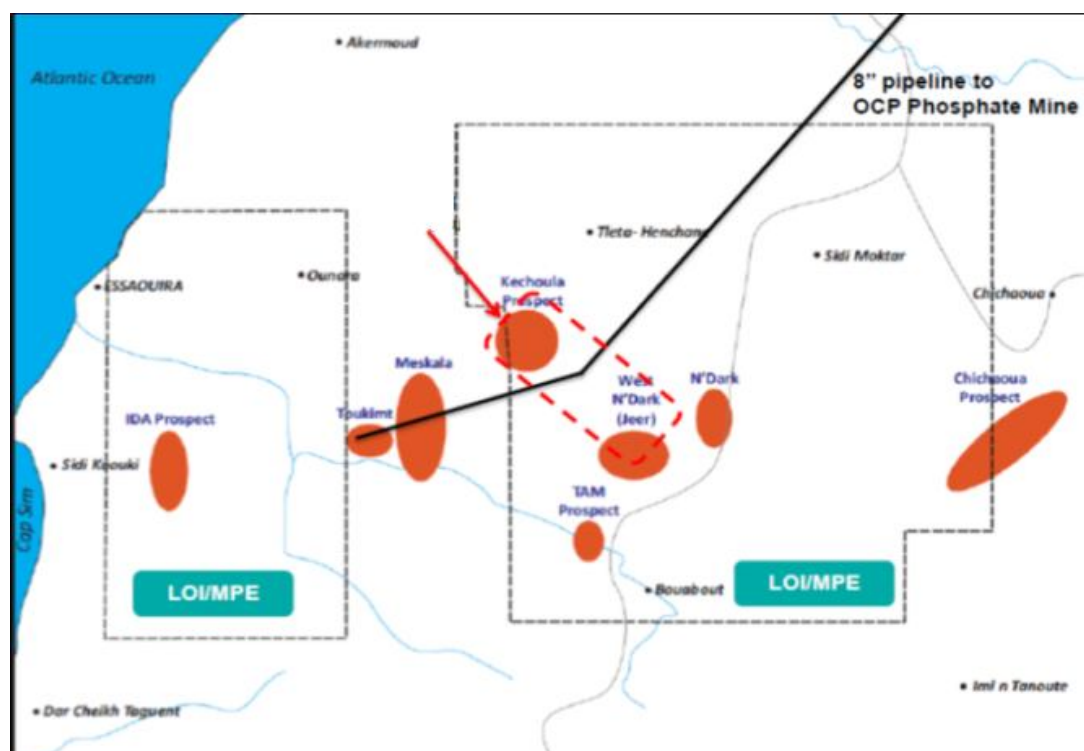
Fields Overview

Petroleum Initially In Place Bcf

	Low	Best	High
Kechoula field	43	110	283
West N'Dark (Norian)	10	26	68
West N'Dark (Carnian)	19	42	89
N'Dark field	11	28	71
Tam field (Norian)	10	31	94
Tam Field (Carnian)	8	25	78
Chichoua field	3	11	33
Ida field	7	20	59
Total	111	292	776

Source: NI 51-101 compliant resource estimate commissioned, AJM Petroleum Consultants⁵

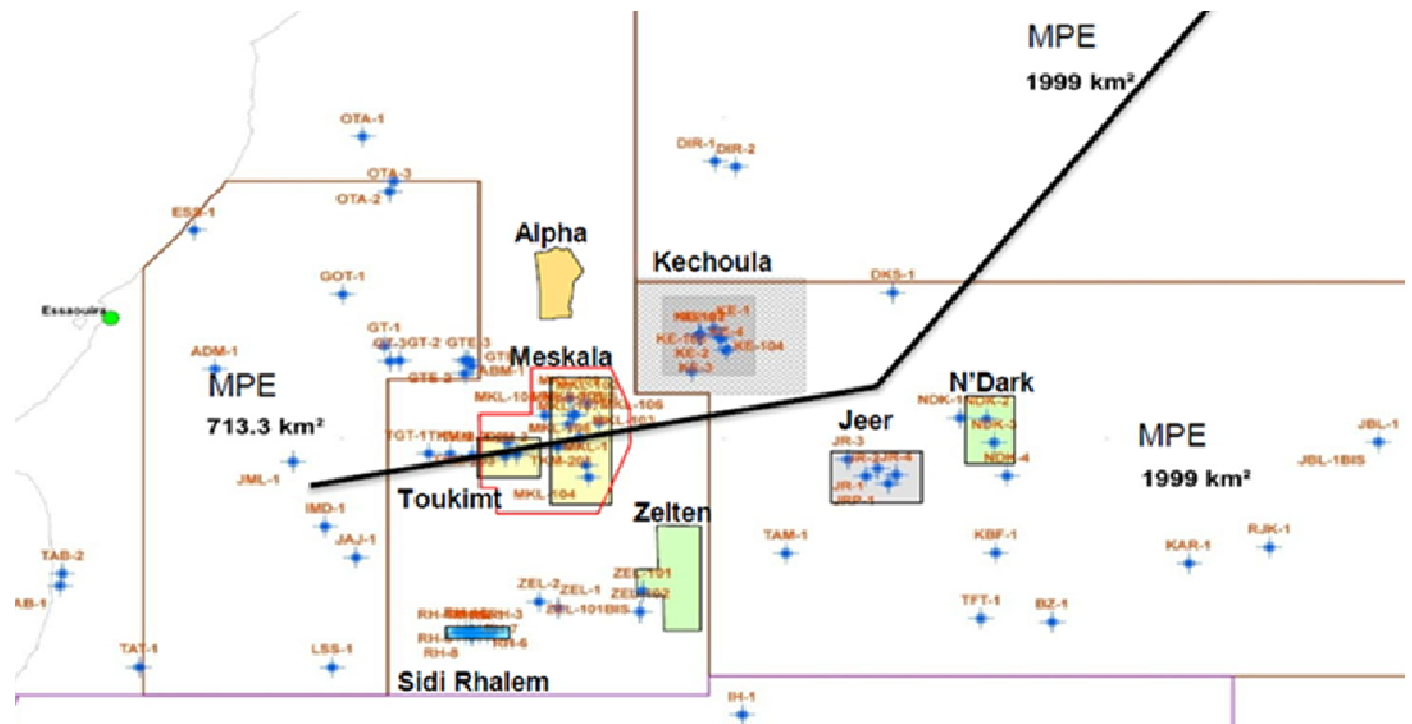
LOI / MPE Prospect Areas



Source: ONHYM, Longreach Oil and Gas

⁵ Report available on SEDAR

Basin Overview - Proposed 3D Seismic Programmes



Legend		9" Pipeline		3D Seismic Programme proposed by MPE
				3D Seismic Programme proposed by ONHYM

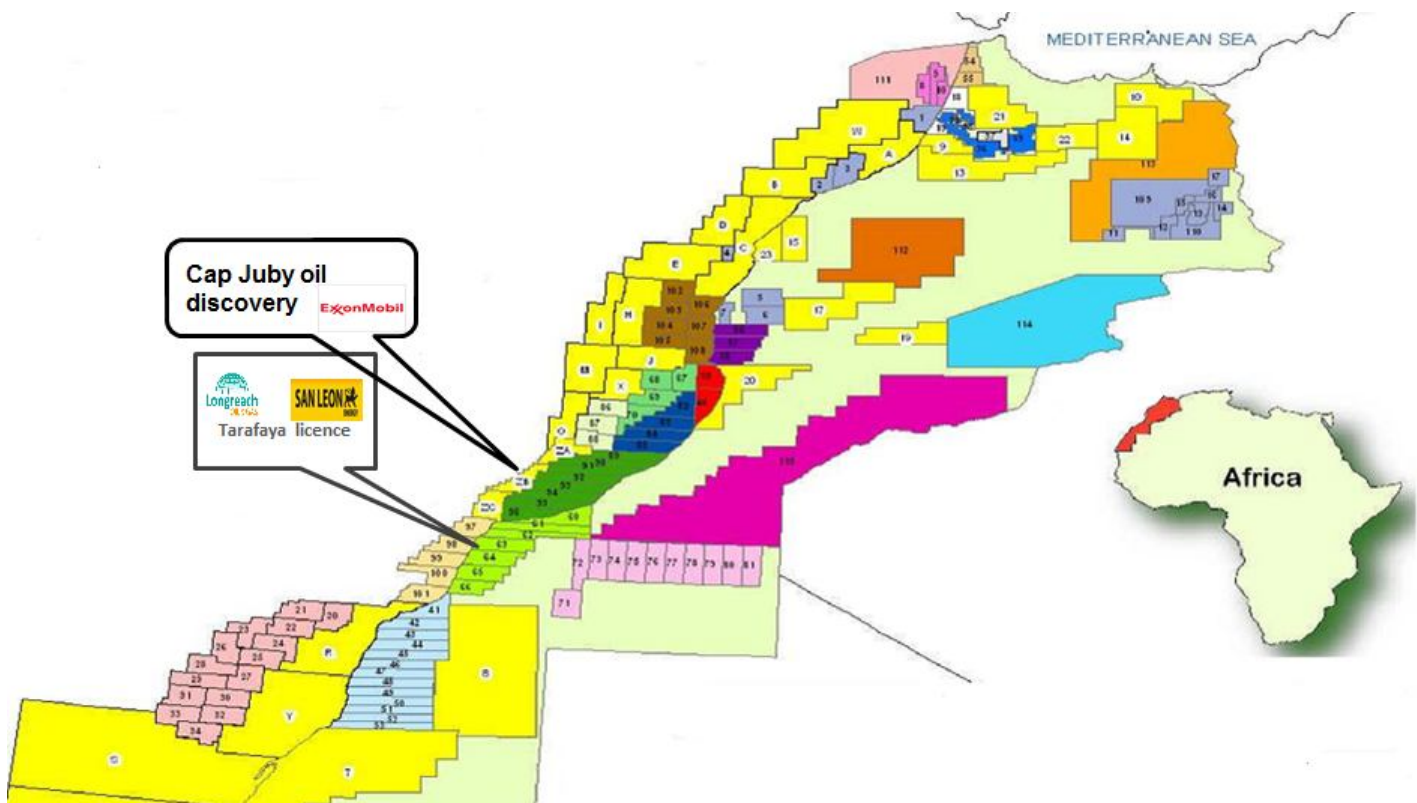
Source: ONHYM, Longreach Oil and Gas

Work programme

Longreach is currently interpreting existing seismic data and tying in wells ahead of planned new seismic acquisition over the Kechoula field in order to better define the structure ahead of drilling its first well. The company will develop an inventory of prospects, rank and risk them and look to identify drill targets before making a drill decision.

During 2012, Longreach plans to reprocess its existing geological & geophysical data, and acquire a further 500km of 2D seismic in order to identify the drilling location. We estimate the cost of the work programme for 2012 to be around US\$5.2m, for which Longreach is currently fully funded.

Tarfaya Licence



Source: VSA Capital

This onshore exploration licence is located in the southern part of the country along the Atlantic coastline and covers an area of 13,434 km² (3.32m acres). Exploration activity started in the 1960s. 10 wells were drilled and gas was encountered in Triassic sandstones in the Chebika-1 well and oil shows within the Jurassic and Cretaceous in both the onshore and offshore parts of the basin.

Longreach has a 22.5% interest in the Tarfaya licence acquired from ONHYM in 2008, 52.5% is held by San Leon the operator of the licence and the remaining 25% by ONHYM. The exploration licence is valid until 2016.

Prospects and resources

The Prospective Resources Estimates were independently assessed by Netherland, Sewell & Associates on the historical 2D seismic with 133 MMbbl (low estimate), 711 MMbbl (best estimates) and 3,878 MMbbl (high estimate).

Tarfaya Licence - Prospective Resources²

Category	Gross (100%)		Longreach Interest ¹	
	Unrisked Oil Mmbbl	Risked Oil Mmbbl	Unrisked Oil Mmbbl	Risked Oil Mmbbl
Low estimate	133.8	8.5	30.1	1.9
Best estimate	711.3	40.5	160.0	9.1
High estimate	3,878.6	195.9	872.7	44.1

1. Assuming ONHYM back in thereby Longreach reducing interest to 22.5%
2. Table non NI 51-101

Source: Netherland Sewell & Associates.

Work programme

The company plans to update its independent technical report to upgrade the prospects for the Tarfaya licence in 2012.

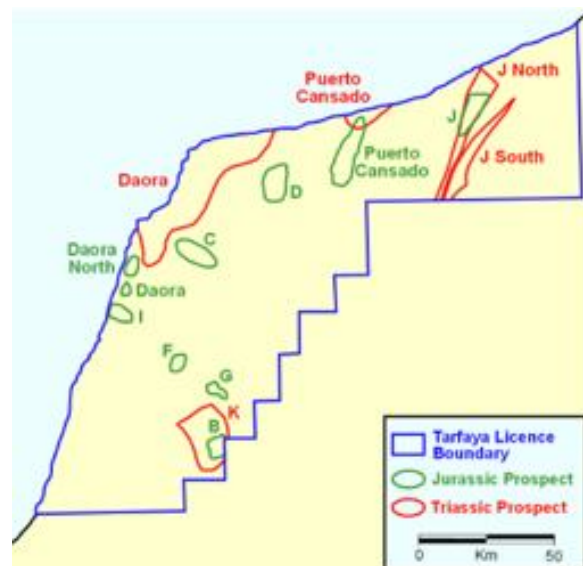
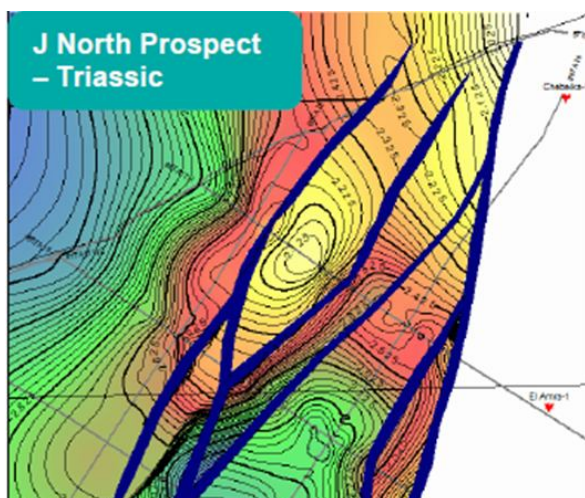
1,450km 2D seismic reprocessing was completed, identifying 15 principle leads.

The strategy of the company is to focus on the J North due to the size of the structure and because of the proximity to the offshore Cap Juby Oil discovery field (40km from Tarfaya).

Cap Juby has historically shown heavy oil accumulations within the tenement (2,377 Bopd of 12° API from the Upper Jurassic tested with the MO-2 well) and is reserved in the same geological intervals as the mapped prospects within the Tarfaya block. The heavy oil of the field is trapped in an Upper Jurassic platform Carbone reservoir and sealed by a thin cover of Cretaceous shale. The heavy oil deposits are interpreted to be the result of biodegradation from Tertiary age deep erosion. The J North prospect is consequently focusing on the deeper Triassic.

The company completed a further 608 km 2D infill seismic programme focusing on the J Northern structure last year, and the processing of the data is currently in progress.

J North Prospect



Source: Longreach Oil and Gas

The Tarfaya exploration licence contains one of the largest oil shale deposits in the world with an estimated oil shale resources volume of 86 billion tonnes (632 MMbbls of oil equivalent).

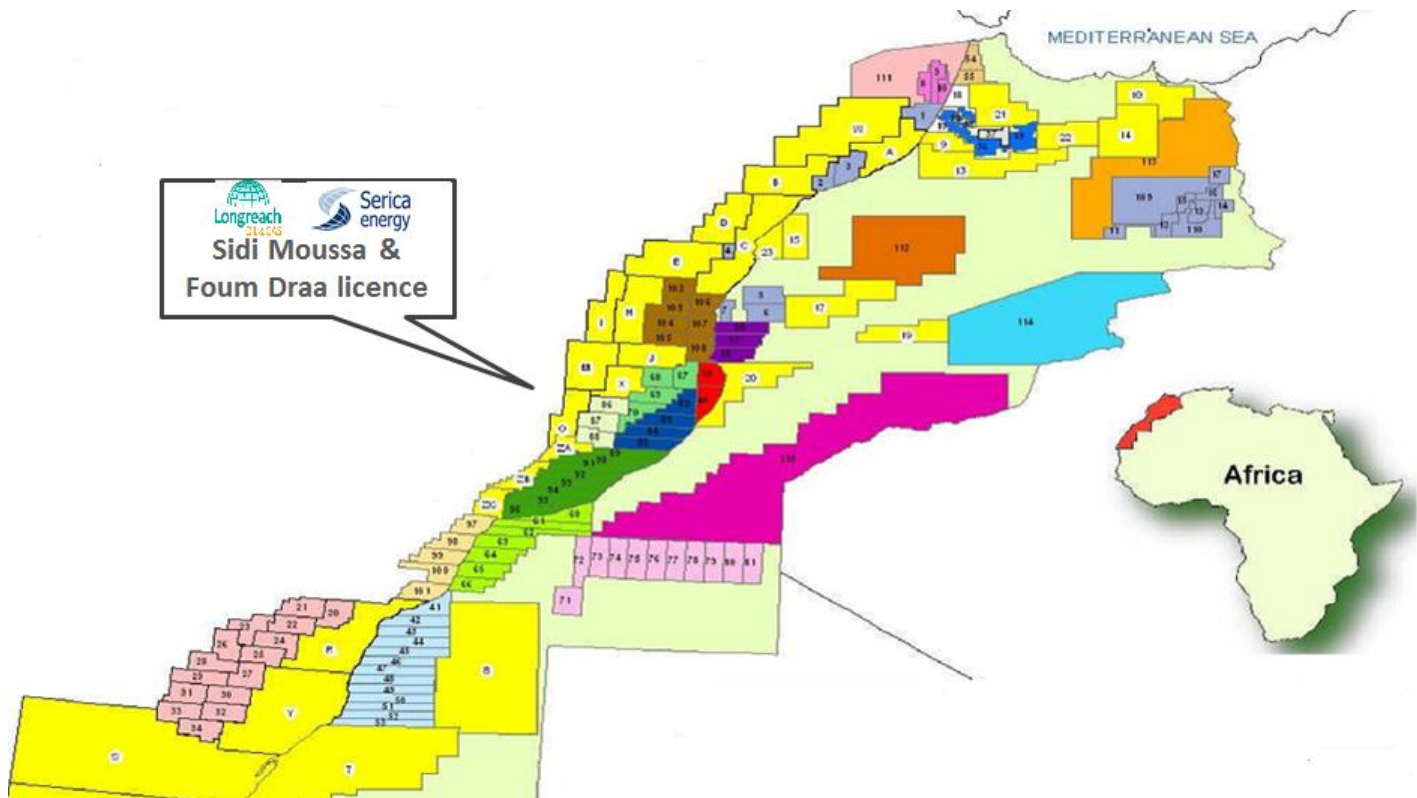
North American and European companies conducted exploratory drilling in the 1980s. Although no commercial oil was produced at that time with modern advancements of extraction technologies the licence has much more potential today.

During 2012, Longreach will drill one well, and update its Competent Person Report (CPR). We estimate Longreach's net costs to be US\$2.5 m.

Foum Draa & Sidi Moussa Licence

Offshore contiguous exploration licences, Foum Draa and Sidi Moussa, are located in northern Tarfaya and directly west of Agadir covering an area of 12,714 km² (3.14 million acres) in a water depth range of 80-2000m. Longreach has a 7.5% interest in both licences, 25% held by Serica Energy, which is the technical operator, San Leon Energy holds 42.5% and ONHYM the remaining 25%. The exploration licence was awarded in June 2009 and is held until 2017. The licences are potentially analogous to GOM, Ghana, Eastern Canada and Brazil.

Foum Draa & Sidi Moussa Licence - Location



Source: VSA Capital

Atlantic Margin North Africa Morocco

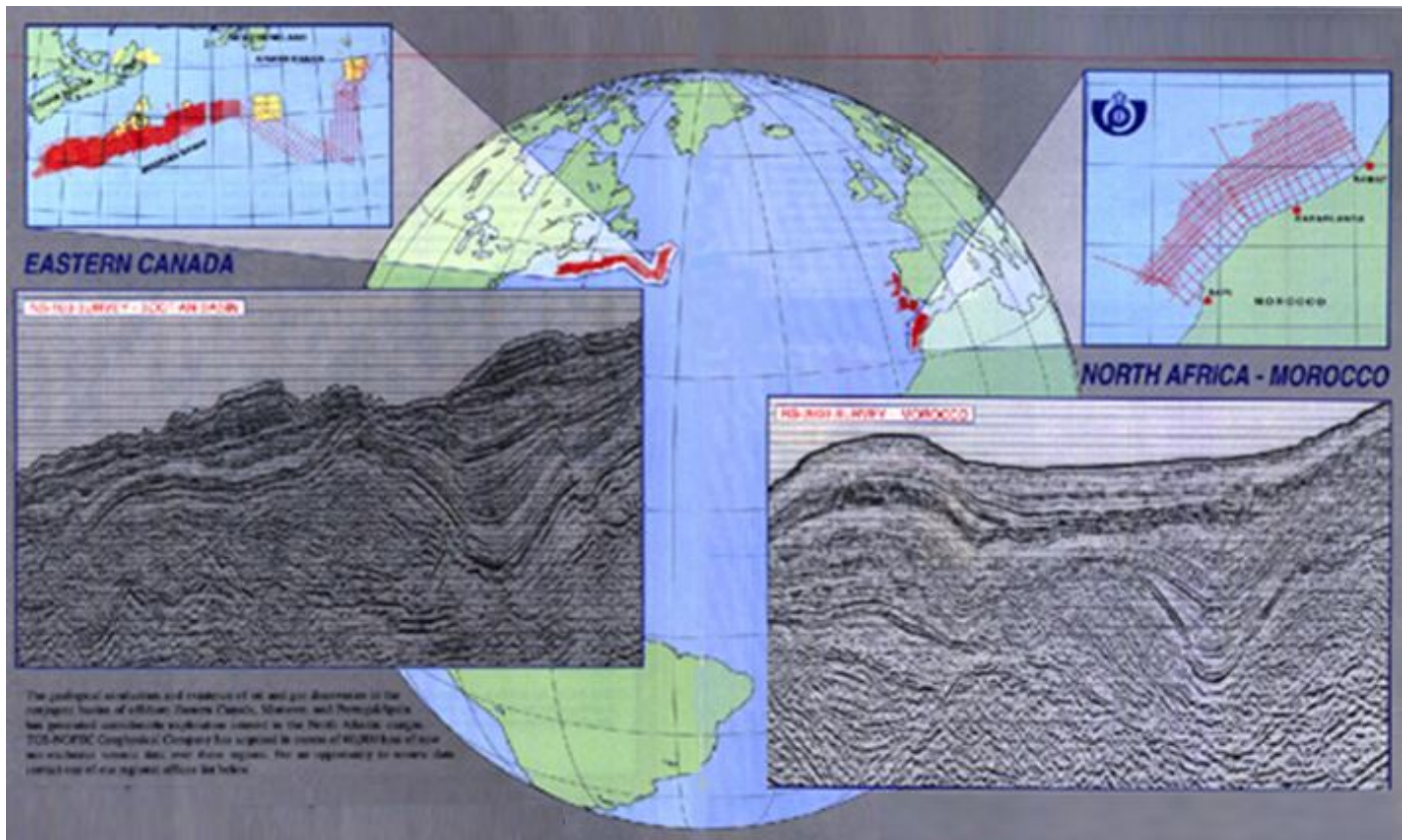
This area is underexplored. TGS NOPEC, a services company providing geoscience data to oil and gas exploration and production companies, completed a study comparing offshore Morocco with the Scotian Margin and revealed evident geological and geophysics' similarities. The 204 wells drilled in the Scotian margin resulted in 23 discoveries.

The underexplored Central Moroccan deep water Atlantic Margin has had 38 wells drilled resulting in two discoveries.

Historically, only 2 wells have been drilled:

The Ifni-1 at 6560 ft in Precambrian basement (water depth 230 ft) and the Rak-1 more recently at 4880 m in Barremian mudstones (water depth 1970m).

Atlantic Margin Opportunities



Source: Longreach Oil and Gas, TGS-Nopec

Prospects and resources

These licences have exciting short-term potential with each estimated to yield half a billion barrels.

Serica has completed the geological and geophysics and has identified and mapped 33 prospects and leads and a variety of additional play and prospect types.

It is an exciting and untested Early Cretaceous play charged by mature oil-prone Jurassic source.

A variety of additional play and prospects types were identified.

The two licences have 2.9 Bbbl unrisked resource potential and 340 million bbl of risked resource potential⁶.

33 prospects and leads have been identified so far.

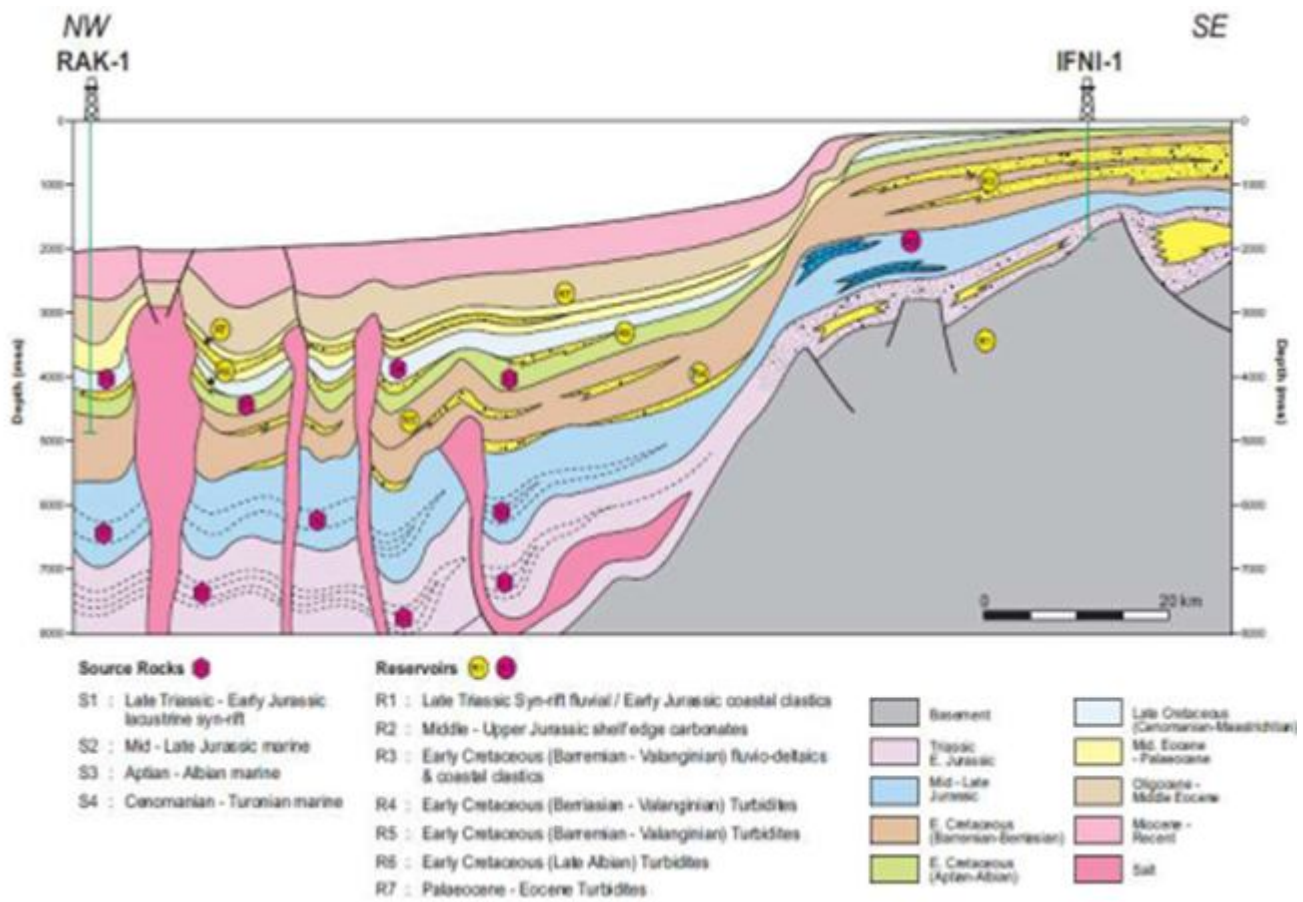
⁶ Source Serica Energy Plc estimates, Best technical case

Foum Draa & Sidi Moktar Potential Resources (MMbbl)

Licence Area	Unrisked Resources Potential	Risked Resources
Total Foum Draa & Sidi Moktar	2,9	340

Source: Company Presentation February 2012

Geological Section Atlantic Margin Wells RAK-1 to IFNI-1



Source: Longreach Oil and Gas

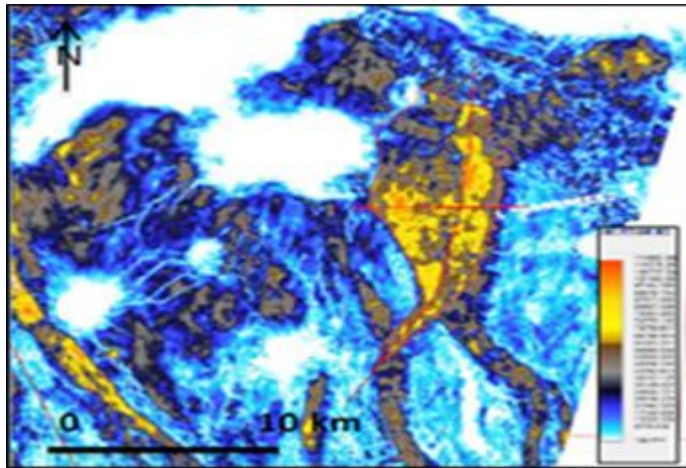
Prospect examples

The Apricot prospect has a dual target in an Early Cretaceous sandstones reservoir (source: Upper Jurassic (Oxfordian)).

- A stratigraphic pinch out developed in a slope apron fan.
- And the shallower sand mound with shale/mudstones top/lateral seal.

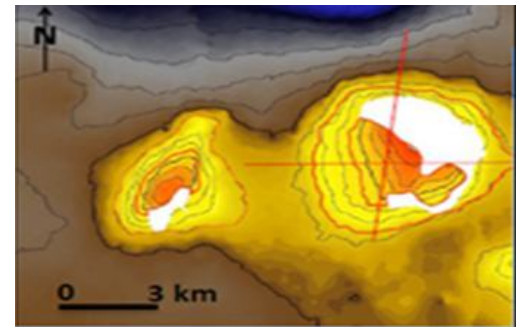
2,668 MMbbl Mean STOIP and a Potential Mean Resources of 940 MMbbl.

RMS Amplitude Extraction – Apricot Deep



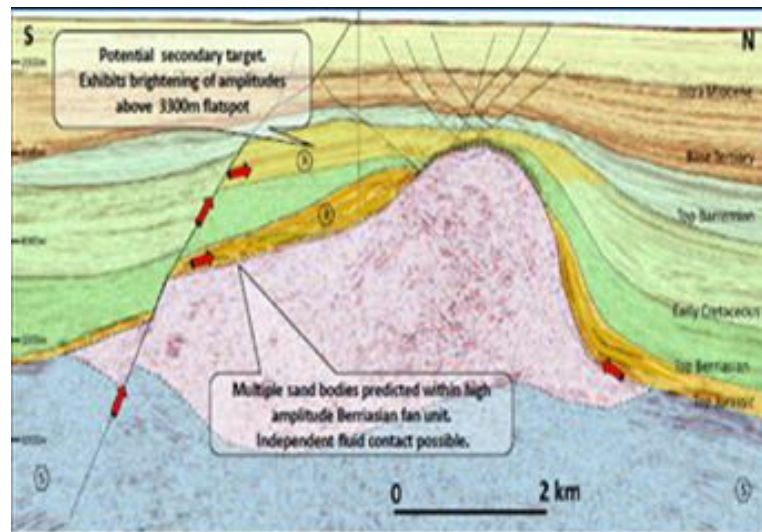
Source: Longreach Oil & Gas

Top Berrisian Basin – Depth Map



The Clementine prospect targets the stratigraphic pinch out along a diapir flank and crest in the early Cretaceous turbidite sandstones at multiple levels within a Barremian-Berrisian succession (source Upper Jurassic (Oxfordian)). 918 MMbbl Mean STOIP and 322 MMbbl of Potential Mean Resources⁷.

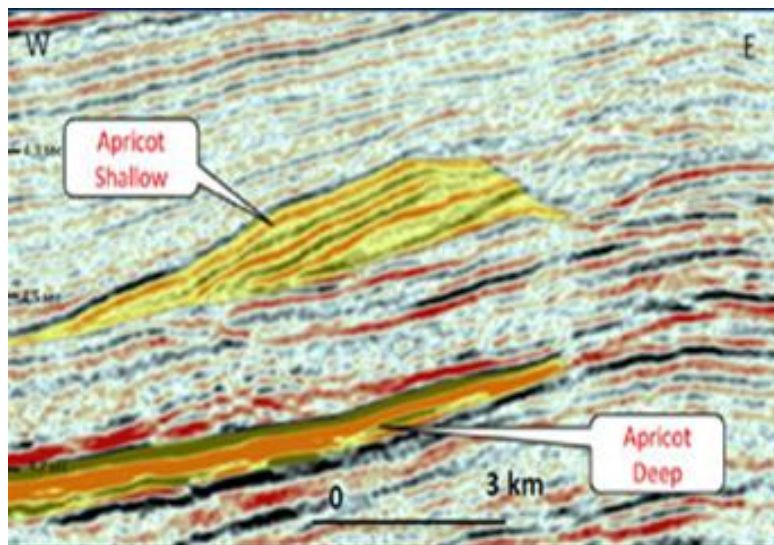
Geo-Seismic Profile-Inline 6130



Source: Lonhreach Oil & Gas

⁷ Source Serica Energy Plc estimates, Best technical case

Apricot Prospects – Zoomed Xline 5880



Source: Lonhreach Oil & Gas

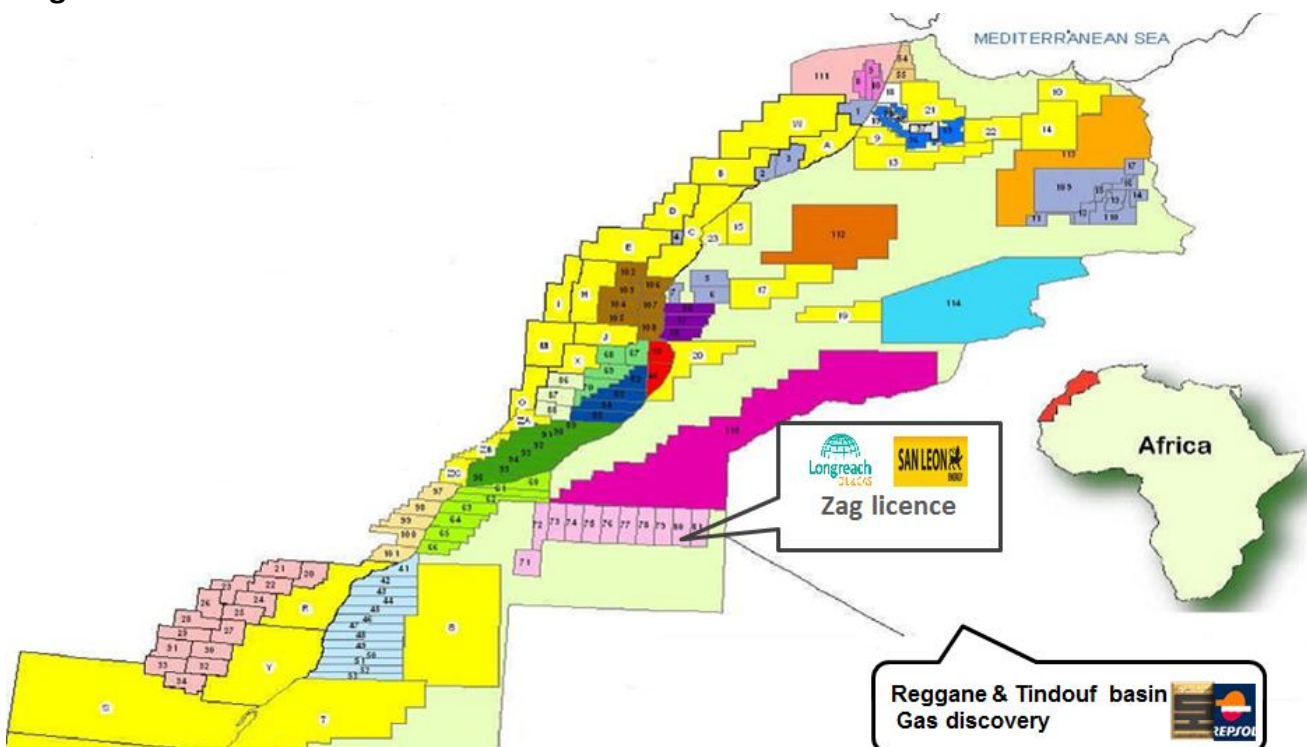
Work programme

Good quality data on the two licences was produced by previous operators.

- 5,236 km² 3D Survey covering both licences.
- 14,637 km of 2D seismic.

In 2012, Longreach will open a data room in order to attract industry partners. We estimate a net cost of around US\$20,000 to Longreach.

Zag Licence



Source: ONHYM, VSA Capital

The Zag onshore exploration licence is located within the Zag-Tindouf Basin in Southern Morocco covering approximately 95,050 km². It lies within the onshore Zag-Tindouf Basin and is the westernmost part of the prolific hydrocarbon producing Palaeozoic Basins of northern Africa stretching across Algeria, Libya and Tunisia to the East.

Longreach has a 22.5% interest in the licence, 52.5% is held by San Leon Energy Plc which is the operator and ONHYM has the remaining 25%. The exploration licence was awarded in 2009 and is held for 8 years.

Zag Basin

The basin is one of the most underexplored and highly prolific basins in all of North Africa with only 27 exploration wells drilled and no seismic data available but the area has seen large gas discoveries to the east and south of the licence, with other major players already active in the area.

It is part of a larger basin which contains 43% of the known oil and 84% of the known gas reserves of the entire North African region (some 460Bboe recoverable). Planned export pipelines to the European markets have renewed interest.

The east of the basin is the Reggane Basin, where new discoveries have been made on the Algerian side which confirm the prospectivity. In 2009 Repsol's North Reggane gas discovery flowing at 22 mmscf/day⁸ and in 2003 Sonatrach's gas discovery of around 812 Bcf⁹ in the Tindouf Basin.

15,000 line km aeromagnetic survey revealed multiple anomalies along the southern boundary of the licence and to the north west a double plunging anticline of some 60km in length was recorded – a possible trap of enormous scale. The company is collaborating with Petro Canada which has licence acreage directly to the north to identify prospects on a regional scale.

Zag-Tindouf Basin is the westernmost Palaeozoic basin of North Africa, the Palaeozoic sediment column is up to 5 km thick with up to 1km thick of Silurian source rock proving to be an enormous source of rock for gas deposits trapped in several reservoirs rocks found in the late Cambrian sandstone, upper Ordovician, lower Devonian and lower Carboniferous zones. Between 5 and 11% porosity was determined in these reservoirs but fracturing has increased this to more than 15%.

In addition to the enormous potential of conventional gas, Zag is also considered as a potentially enormous source of unconventional gas in the Silurian shale section.

Gas Monetisation Analysis

	Min Reserve Requirement Bcf	0.5 TCF US\$m	2TCF US\$m	5TCF US\$m	IRR on 2TCF US\$m
Pipeline to LNG		1,424.0	329	458	\$m 26%
Tie to Maghreb Pipeline	876	-78	197	355	16%
Domestic market	110	46	206	877	18%

Note: Financials calculated on 100% of the Zag licence

Source: Company files (Fugro Robertson economic study)

The basin also has shale gas reservoir potential; the JV is currently valuing its potential.

⁸ Repsol press release, 3rd October 2009

⁹ Sonatrach press release, 26th January 2009

Work programme

JV partners San Leon and Longreach completed a total of 1,647km of 2D seismic (500 km acquired in the terms of the licence) covering a regional grid of around 10km spacing over the eastern half of the Zag licence using Vibroseis source, a cableless recording system which has helped it to acquire high quality and low cost data.

During 2012, Longreach will update its CPR. We estimate Longreach's net costs to US\$0.1m.

Both companies believe that Zag has enormous conventional and unconventional prospects and the licence will have a high impact on Longreach's exploration programme.

Longreach Oil & Gas Resources & Reserves Estimates

The company owns one development asset, acquired in the farm-in with the larger Maghreb Petroleum Energy, containing total unrisked prospective resources net to the company of 24.3 MMboe.

The 4 other assets are in an exploration phase, and the largest asset is an offshore asset, Fom Draa, with a total unrisked prospective resources net to the company of 161.1 MMboe.

Development Asset

Licence	Net interest ¹	Gross MMboe	Unrisked	Risky		Data Source
			Net MMboe ²	CoS	MMboe	
Sidi Moktar	50.0%	49	24.3	29%	7.1	AJM Petroleum Consultants

Exploration Assets

Licence	Net interest	Gross MMboe	Unrisked	Risky		Data Source
			Net mmboe ²	CoS	MMboe	
Zag	22.5%	1,667	375.0	5%	18.8	Management estimate ³
Tarfaya	22.5%	711	160.0	10%	16.0	Netherland, Sewell & Associates ³
Fom Draa	7.5%	2,151	161.1	14%	22.6	Serica Energy Estimate ³
Sidi Moussa	7.5%	751	56.3	6%	3.4	Serica Energy Estimate ³
Total		5,328	776.7		67.7	
Total – Ex Zag		3,662	401.7		49.0	

Notes:

¹Post ONHYM back in

²Mean prospective resources net to LOI

³Non NI-51 101 compliant

Source: Longreach Oil & Gas, VSA Capital

LOI Work Programme

Licence Area	2011	2012	2013
	<ul style="list-style-type: none"> July - Placing raises CAD\$10.1 m 		
Sidi Moktar	<ul style="list-style-type: none"> May - Announce farm in September - Commencement work programme. 	<ul style="list-style-type: none"> Completion of seismic interpretation Acquisition of new seismic Update Resource numbers Identify drillable prospects Plan well Contract onshore rig 	<ul style="list-style-type: none"> Multiple drill programme
Tarfaya	<ul style="list-style-type: none"> September - Completion seismic End year - Completion seismic processing and development of prospect inventory 	<ul style="list-style-type: none"> Prospect sizing and risking Drill onshore well 	<ul style="list-style-type: none"> Development phase
Zag	<ul style="list-style-type: none"> October - Commencement of seismic 	<ul style="list-style-type: none"> Jan - Completion of seismic Additional G&G work 	<ul style="list-style-type: none"> Drill well Evaluate portfolio and additional opportunities
Sidi Moussa & Foum Draa (offshore licences)		<ul style="list-style-type: none"> Open data room and attract industry partners 	<ul style="list-style-type: none"> Drill offshore well

Source: Company presentation February 2012, VSA Capital

Financial Analysis

Profit and Loss Account

The company will have a positive net income of US\$401,966¹⁰ for 2011.

In 2012, we estimate that Longreach will have a loss of US\$1.6m.

Cash Flow

The company is expected to generate positive cash flows starting in 2014 from gas production of two wells in the Sidi Moktar licence.

Capital Expenditure 2012

	US\$ m
Tarfaya Licence	2.5
Sidi Moktar	5.2
Sidi Moussa & FoumDraa	0.02
Zag	0.1
Total net to LOI	7.8

Source: VSA Capital estimate

We have estimated the net cash position of the company at year-end 2011 at US\$10.5 m; this includes the restricted cash of US\$4.4 m¹¹.

¹⁰ Gain attributable to the sale of marketable securities (common shares of San Leon note 4) and the re-evaluation of the warrants note 10 in Q3 2011 interim statements

¹¹ Bank guaranties for the licences (Q3 2011 Longreach interim statements) recoverable at the end of the contractual obligations of the exploration programme.

Strategy

- To deliver sustainable long term growth through development of its exploration acreage
- Committed to Morocco as its core company focus
- To stay strictly focused on this region
- To acquire the most promising licences
- To enhance exploration licences through geophysical work programmes
- To identify multiple drill targets and move towards near term cash flow. To maximize the shareholder value through timely monetisation

Acquisitions

	Acquisition year	Total (km²)	Total acre (m)	2D seismic (km)	3D seismic (km²)	Prospects & Leads
Tarafya licence	2008	13,434	3,32	1,450 + 608		15
Sidi Moktar	2011	4,711		6,172	100	8
Sidi Moussa						9
FoumDraa	2009	12,714	3,14	14,637	5,236	45
Zag	2007	21,807	5.39	1,647		
Total		52,666	13,014,131			

Source: Company website

- Primary focus on generating cash flow through the near term development of Sidi Moktar.
- Continue to meet its contributions to work programmes on the assets in which it holds minority interests to benefit from the substantial upside offered by these assets.
- Strengthen technical team as Sidi Moktar nears development.
- Raise profile of Longreach through increased marketing.

Management and Shareholders

Longreach Management

Longreach was founded by Bryan Benitz who has more than 40 years' experience in the natural resources industry. He has established a team with strong credentials in finance and oil and gas and strong relations with the Moroccan national company, ONHYM. The company intends to strengthen its technical skills with a senior recruit in view of the near term development of Sidi Moktar.



Source: Longreach Oil & Gas

Management Experience and Other Roles

Name	Qualifications	Previous Experience	Other Roles
Bryan M. Benitz Chairman & CEO, Director	· 40 years' experience in natural resources industry	· Tanganyika Oil, Scandinavian Minerals, Gulfstream Resources, Island Oil and Gas · MagIndustries · Member of the Toronto and New York Stock Exchanges.	· Director on the board of Africa Oil, part of the Lundin group of companies and Chairman of Kirrin Resources.
Andrew Benitz COO, Director, Corporate Secretary	· BComm (Hons) Edinburgh University & University of Alberta.	· Oil and Gas Corporate Finance at Deutsche Bank, and the Global No.1 ranked Equity Capital Markets team. · Founder and Director of Titan Properties SL.	
Jonathan Morley-Kirk Chief Financial Officer.	· Chartered Accountant specialising in emerging market investments	· Director in Cardinal Resources · Chairman of Fox-Davies Plc. (UK based investment bank).	· Directorship in Dimension Resources & Petrokamchatka. Chairman of Snap Ring Joint
D. Campbell Deacon Non-Executive Director	· More than 35 years of Canadian and international experience in the financial and corporate sectors.	· UTS Energy, Scandinavian Minerals, Deacon BZW.	· Director of Deacon & Co, Azure Dynamics.
Yogeshwar Sharma Non-Executive Director	· He has over 30 years of international oil and gas industry experience. · MechEng at University of Alberta · Post Graduate University of Calgary in Chemical Engineering.	· Schlumberger, Doll Research in the USA, Elf international France.	· CEO of Hardy Oil and Gas.
Dr Mahmoud Zizi Non-Executive Director, Technical Advisor.	· Over 30 years of experience as a petroleum geologist, Doctorate from Rice University, Texas.	· 27 years at ONHYM the energy and mining state company in Morocco.	

Source: Longreach Oil & Gas

Shareholders

	Number	Percentage of voting rights held
Directors/Management	4,235,920	20.8%
Blakeney Management	4,134,095	20.3%
Sprott Asset Management	2,000,000	8.52%

Source: Bloomberg

Longreach listed on the Toronto Stock Exchange in October 2010 and the company has financed a part of its activities to date by a CAD\$3.5 m private placement and original seed finance at inception. In July 2011 it completed a CAD\$10.1m equity placing, proceeds of which were used primarily to secure the Sidi Mokhtar licence and fund exploration work.

Management represents the largest shareholder block, the second largest shareholding is Blakeney Management. Sprott Asset Management, a Canadian investment fund, owns 8.52%.

Dividend

No dividends have been distributed

VSA Site-Visit

In February 2012 VSA visited the gas producing Meskala field adjacent and analogous to Sidi Moktar, Longreach's flagship asset.

Morocco has historically been better known for its growing tourism industry, although we are impressed with its relatively new "open-door" policy to develop its various natural resources.

Morocco offers a number of opportunities for foreign investment, and there is a particular focus on developing oil and gas exploration, boosted by the country's huge and growing energy demand. Indeed, Morocco is the second largest importer in Africa, spending in excess of US\$10.7 billion on energy in 2011, importing about 97% of its total Energy needs. State energy consumption is expected to double by 2020 and triple by 2030.

Introduced by the COO of Longreach Oil and Gas, Andrew Benitz, and the technical and non-executive director Mahmoud Zizi, VSA met with three of the directors of the National Hydrocarbon and Mining Company (ONHYM) who were very open about discussing policies for investing in oil and gas in Morocco, highlighting the comparatively favourable fiscal terms offered which rank amongst the best in the world, including a 10 year corporate tax holiday on discovery, a maximum 10% oil royalty and only 5% gas royalty, which take the state participation to 25%, lower than almost all other emerging oil and gas exploration and production countries¹².

Andrew Benitz, Longreach's COO, commented in a recent interview with Proactive Investor UK, that due to advantageous fiscal terms and favourable domestic pricing, one barrel of oil discovered in Morocco is equivalent economically to 13 barrels of oil discovered in Algeria.

The directors of ONHYM also emphasised Morocco's strategy on the study and reinterpretation of geological and geophysical data covering promising acreage in onshore and offshore Morocco and which is followed by promotion to international companies. The success of this strategy is evident from the growing number and quality of E&P entrants, including Kosmos Energy, Transocean, Circle Oil and most recently EOG Resources, Anadarko, Repsol and Total SA.

Longreach and ONHYM believe the underexplored Moroccan basins to be prospectively prolific in oil and gas. This argument is supported by both the importance of hydrocarbon production from countries in the region and the number of recent discoveries in onshore and offshore North and West Africa.

Morocco is geographically close to the sizable oil and gas producing countries of Algeria, Libya and Egypt (and eastern Canada, which was adjoined with Morocco at the Triassic age), and benefits from similar geological characteristics to these oil and gas producers.

It is also worth noting the recent discoveries made by local and foreign E&P companies Circle Oil, Caithness, Repsol, Dana Petroleum and ONHYM. Investment by these companies in Morocco is growing year by year in oil and gas E&P and the development of infrastructure such as the Sebou-Kenitra gas pipeline.

With more than 40 years' experience in the natural resources industry, Bryan Benitz set up Longreach Oil and Gas in 2006 and has since built an experienced management team and listed the company on the TSX via reverse take over in October 2010.

A key strength of Longreach has been its early entry into Morocco, building strong connections with local partners, including Dr Mahmoud Zizi who sits on the board of Longreach and ONHYM.

¹² According Wood Mackenzie Study 2007 (excluding Morocco).

Longreach has progressively built an extensive and diversified portfolio of assets which represents one of the largest acreage positions of any foreign company operating in Morocco. It holds interests in over 402 MMboe of prospective resources across five assets, three onshore and two offshore. These assets have been derisked, to some extent, by discoveries made in adjacent licences. Longreach's most recent acquisition, Sidi Moktar, surrounds an existing producing gas field called the Meskala field owned by ONHYM, which is considered as the analogue field, and has potential for near term development.

During the site visit, VSA was also taken to the production unit of the Meskala field. This ONHYM owned unit is producing gas and condensate from two wells, and the current production is around 89,000 cubic metres of gas (30 Mmcf per year) and between 8-10 thousand tonnes per year for the condensate. The production for both has been sold in its entirety; the gas to the phosphate production unit OCP (Office Cherifien des Phosphates) and the condensate to the refining unit SAMIR.

The gas is used for phosphate dehydration and is supplied through the 8" pipeline directly linked to OCP. OCP's gas consumption is around 55 Mmcf per year and the production from the two wells in the Meskala field does not satisfy all of OCP's demand. Sidi Moktar therefore has a ready market for its expected gas production and an infrastructure already in place (8" pipeline).

Longreach has a substantial amount of data including over 25,014 km of 2D seismic and 5,336 km² of 3D seismic data, across its five licences.

The company has partners on those of its assets which have both gas and oil potential.

Two are onshore with gas potential:

- Sidi Moktar in JV with Maghreb Petroleum Energy/ Zag in JV with San Leon and ONHYM

One onshore oil:

- Tarfaya in JV with San Leon and ONHYM

Two offshore oil

- Sidi Moussa and Fom Draa in JV with Serica, San Leon and ONHYM

The company has made good progress on its working programme:

- Sidi Moktar: Seismic interpretation started in October 2011.
- Tarfaya: reprocessed 1,450 km of 2D seismic and acquired additional 608 km: 15 principal leads have been identified.
- Fom Draa and Sidi Moussa: reprocessed 3,800 km² 3D seismic, 7000 line km 2D seismic and 1460 km² 3D seismic interpreted.
- Zag: Acquired 1,647 km of 2D seismic over the eastern half of the Zag licence.

The company has the potential to start its well planning towards the end of this year with possible spud date beginning 2013.

Appendices

Risk factors

- **Political and social risk:**

Possible government regulations which could lead to restrictions on future exploitation and production, price controls, exports controls, income taxes, expropriation of property, environmental legislation and site safety.

- **Geopolitical risk:**

The Zag licence is in the territory (Western Sahara) in negotiation between the government of Morocco and the Polisario with Algeria support since 1976.

- **Price risk:**

The oil & gas price will have a direct impact on the company's earnings and are subject to volatile price fluctuations.

- **Environment risk:**

The company's operations are subjected to the environmental legislation.

- **Legislation risk:**

Potential risk due to the strict regulation and extensive control imposed by the government of the Oil and Natural Gas industry, the company could be impacted by additional legislation and amendment enacted and is not able to predict them. These changes can occur via amendments to current laws, regulations and permits governing oil and gas operations and activities (environmental laws which could increase the expenditures and costs, or require the abandonment or the delay of new oil and gas properties).

- **Exchange rate risk:**

The company's general and administrative expenses are paid in varying currencies.

- **Operational risk:**

The company's activity is strongly dependent upon know-how and technical skills and there is little possibility that this dependence will decrease because of the increase of the activity.

Income statement

Year to 31 December					
	2009	2010	2011E	2012E	
	Canadian GAAP £	Canadian GAAP £	IFRS US\$	IFRS US\$	
Revenue	0	0	0	0	
General Expenses	(87,215)	(656,736)	(1,165,448)	(1,223,720)	
Share based compensation	0	0	(342,001)	(400,000)	
Pre licence costs	0	0	(70,760)	0	
EBITDA	(87,215)	(656,736)	(1,578,209)	(1,623,720)	
Depreciation	0	0	(3,000)	(3,000)	
Amortisation	0	0	0	0	
EBIT	(87,215)	(656,736)	(1,581,209)	(1,626,720)	
Unrealized foreign exchange (gain) loss	(55,528)	69,973	(546,684)		
Finance expense	(48,040)	(24,829)	(386,700)		
Interest income	1,323	37,449	2,800,000 ¹³	23,126	
Gain on sale of marketable securities	0	42,063	116,559	0	
Earning before tax	(189,460)	(532,080)	401,966	(1,603,595)	
Tax expense	0	0	0	0	
Net income	(189,460)	(532,080)	401,966	(1,603,595)	
EPS	-0.22	-0.05	0.02	-0.07	

Source: Longreach Oil and Gas, VSA

¹³ Gain attributable to the sale of marketable securities (common shares of San Leon note 4) and the re-evaluation of the warrants note 10 in Q3 2011 interim statements

Cash Flow – Operating Activities

Year to 31 December	2009	2010	2011E	2012E
	Canadian GAAP £	Canadian GAAP £	IFRS US\$	IFRS US\$
Net income	(189,460)	(532,080)	401,966	(1,603,595)
Amortisements	0	0	0	0
Depreciation	0	0	(3,000)	(3,000)
Items non involving cash:				
Gain on sale of marketable securities	0	(42,063)	(116,559)	0
Stock based compensation	0	0	342,001	400,000
Sponsor share consideration	0	23,275	0	0
Sponsor and advisor warrant expense	0	55,000	0	0
Debt settlement shares	0	104,412	0	0
Amounts Receivable	(7,737)	(38,550)	(12,621)	0
Accounts P'bles & Acc Liab	(24,785)	(34,442)	175,772	0
Net cash flow from operations	(221,982)	(467,448)	793,559	(1,200,595)

Source: Longreach Accounts, VSA

Cash Flow – Investing & Financing Activities

Year to 31 December	2009 Canadian GAAP £	2010 Canadian GAAP £	2011E IFRS US\$	2012E IFRS US\$
Loan payable	582,403	135,573	215,373	215,373
Issue of Common share	0	2,155,966	10,060,299	0
Share issuance costs	0	(141,646)	0	0
Financing Cash Flow	582,403	2,149,923	10,275,672	215,373
Changes in non-cash working capital balances	0	241,217	0	0
Net cash acquired on acquisition	0	489	0	0
Proceeds on the disposal of marketable securities	0	118,040	326,873	0
Expenditures on property and equipment	0	(244,606)	(4,540)	(5,000)
Expenditure on evaluation and equipment	0	0	(3,839,878)	(7,820,000)
Restricted cash*	(613,156)	(41,807)	(4,374,879)	(1,283,335)
Investing Cash flow	(613,156)	73,333	(7,892,424)	(9,108,335)
Net change in Cash	(252,735)	1,758,808	3,176,807	(10,093,557)
Effect of exchange rate changes on cash	0	21,050	0	0
Cash at beginning of year	289,447	36,712	2,918,738	9,683,461
Cash at end of year	36,712	1,816,570	6,095,545	(410,096)
Total cash position of the company*			10,470,424	1,693,431

*Including the restricted cash for 2011E and 2012E, which will be recoverable at the end of the contractual obligations of the exploration programme for each asset.

Source: Longreach Accounts, VSA

Balance Sheet

Year to 31 December	2009	2010	2011E	2012E
	Canadian GAAP £	Canadian GAAP £	IFRS US\$	IFRS US\$
Balance sheet				
Cash & Cash Equivalents	36,712	1,816,570	6,095,545	(410,096)
Marketable securities	0	211,322	0	0
Accounts receivables	7,737	46,287	84,217	84,217
Restricted Cash	1,181,537	1,223,344	4,454,208	3,170,873
Current assets	1,225,986	3,297,523	11,832,928	2,057,943
Exploration and evaluation assets	0	0	2,333,506	10,153,506
Property and equipment	207,332	451,938	6,689	8,689
Non current assets	207,332	451,938	2,340,195	10,153,506
Total Assets	1,433,318	3,746,461	12,974,165	12,998,500
Accounts payable and accrued liabilities	32,775	341,098	622,165	622,165
Loan payable	582,403	788,970	1,037,995	822,622
Current liabilities	615,178	1,130,068	1,660,160	1,444,787
Warrant value attributed in equity financing	0	0	56,095	1,499,396
Total Liabilities	615,178	1,130,068	1,716,255	2,944,185
Shareholders' Equity	818,140	2,619,393	11,257,910	10,054,315
Total Liabilities & Equity	1,433,318	3,749,461	12,974,165	12,998,500

Source: Longreach Accounts, VSA Capital

Glossary

- **CPR:** Competent Person Report
- **Mcf:** Thousand cubic feet
- **MMcf:** Million cubic feet
- **Bcf:** Billion cubic feet
- **Tcf:** Trillion cubic feet
- **Mcm:** Thousand cubic meters
- **MMcm:** Million cubic meters
- **MMscf:** Million standard cubic feet
- **MMscf/d:** Million standard cubic feet per day
- **Nm³:** Normal cubic meter
- **STOIIP:** Standard Tank Oil Initially in Place
- **bbl:** Barrel
- **MMbbl:** Million barrels
- **Bbbl:** Billion barrels
- **Boe:** Barrel oil equivalent
- **MMboe:** Million barrel oil equivalent

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Disclaimer and Key Contact Details

Chief Executive	Andrew Monk	+44 (0) 203 005 5001	amonk@vsacapital.com
Head of Equities	Nick Redfern	+44 (0) 203 005 5005	nredfern@vsacapital.com
Heads of Corporate Finance	Peter Damouni	+44 (0) 203 005 5007	pdamouni@vsacapital.com
	Andrew Raca	+44 (0) 203 005 5004	araca@vsacapital.com
Group Finance Director	Peter Joy	+44 (0) 203 005 5003	pjoy@vsacapital.com

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