ALIGN
RESEARCH

Ascent Resources

14th September 2020

Transformation in progress as proven new management adopt a compelling Special Situations strategy for the resources sector

Ascent joined AIM in 2004 and has focused on developing the large Petišovci tight gas project in Slovenia. Production began in 2017, but prolonged issues with the government over permits have stopped the optimisation of this development which has consequently resulted in significantly lower than expected gas sales which have been small. With little progress being made the share price fell substantially, promoting some big changes which have seen the arrival of a new board with a brand-new strategy. Ascent is now positioned to invest in Special Sits in the energy/natural resources across the Caribbean, Hispanic Americas & Europe, focused on diversification/growth in a low oil price environment.

Exclusive negotiations on a large onshore oil portfolio in Cuba

Cuba is one of the few remaining world-class yet largely unexploited hydrocarbon systems. This is a highly compelling opportunity as it includes six separate PSCs spread across four blocks which cover some 7,000km².

Resolution of the Petišovci tight gas project - develop or litigate

Alternative strategies are under review following the appointment of a new government in Slovenia including initiating proceedings to recover significant damages from the Government of Slovenia.

New team with track record of successful international oil transactions

James Parsons and Andrew Dennan, new Chairman and CEO, have proven access to capital (raised £500 million in last 6 or 7 years) and are seeking out opportunities where they can work their entrepreneurial magic.

Possible Petišovci scenarios suggest upside of 593%

Analysis of the two project outcomes shows the potential. We initiate coverage of Ascent with a target price of 22.51p and **Conviction buy** stance.

Table: Financial overview

Year to end Dec	2018A	219A	2020E	2021E
Revenue (£'000)	1,942	298	-	5,000
PTP (£'000)	(1,365)	(3,660)	(1,790)	(350)
EPS (p)	(6.01)[1]	(13.76)[1]	(3.15)	(0.25)

Source: Company accounts & Align Research [1] adjusted for 1-for-100 consolidation

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CONVICTION BUY
Target price – 22.51p

Key data

EPIC	AST
Share price	3.25p
52 week high/low	30.0p/2.0p
Listing	AIM
Shares in issue	75.6m
Market Cap	£2.5m
Sector	Oil

12 month share price chart

Analyst details
Dr Michael Green
michael.green@alignresearch.co.uk

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Business overview

Ascent Resources Operations

Ascent Resources PLC is an established AIM-listed independent oil & gas exploration and production company with a new focus on investing in Special Situation plays in the energy and natural resources across the Caribbean, Hispanic Americas and Europe.

• **Petišovci tight gas project in Slovenia** – Ascent holds a 75% interest in and is the operator of the Petišovci Tight Gas Project which lies in the north-eastern corner of Slovenia on the borders with Hungary and Croatia. **This large gas project has Contingent gross resources of 456Bcf, where to date 12.61 Bcf of production has been seen from the deep sands of El and Dl.** There are significant remaining reserves from multiple stack reservoirs which include the untested Triassic reservoirs. Small scale gas sales began in 2017 but the project has been unable to be optimised due to the actions of the Government of Slovenia.

• **Cuba** – Ascent has exclusive rights to one of the largest onshore Cuban portfolios spanning more than 7,000km², which includes Blocks 9a, 9b, 12 and 15. Block 9a (80km²) contains the Majaguillar and San Anton onshore fields and lies on the North coast of Cuba, 120 km East off Havana where current production totals 190 barrels of oil per day (bopd) gross from three wells with another three wells that are presently shut in due to the lack of basic equipment.

Cuba

The Republic of Cuba is the largest island in the Caribbean, covering an area of 110,860km², which is about 85% of the size of England. The island is located just 90 miles off the coast of Key West, Florida, and its neighbours are the Cayman Islands, Jamaica and Haiti. The island is not very densely populated with a population of 11.21 million people, of which 2.16 million live in the capital Havana, which is also the largest city. GDP was US$100 billion in 2018 which equates to US$8,920 per capita.

The island was a Spanish colony since the 15th century until the Spanish-American War of 1898, when Cuba was occupied by the US and went on to become a US protectorate in 1902. Mounting political radicalisation saw Fulgencio Batista become a dictator following a coup. Bastista was ousted in 1959 after which communist rule was established under the leadership of Fidel Castro. The Castro family has controlled Cuba for nearly 60 years but in October 2019, Miguel Diaz-Canel (57) became President. He was seen as being the handpicked successor of 86-year old Raul Castro when he stepped down.

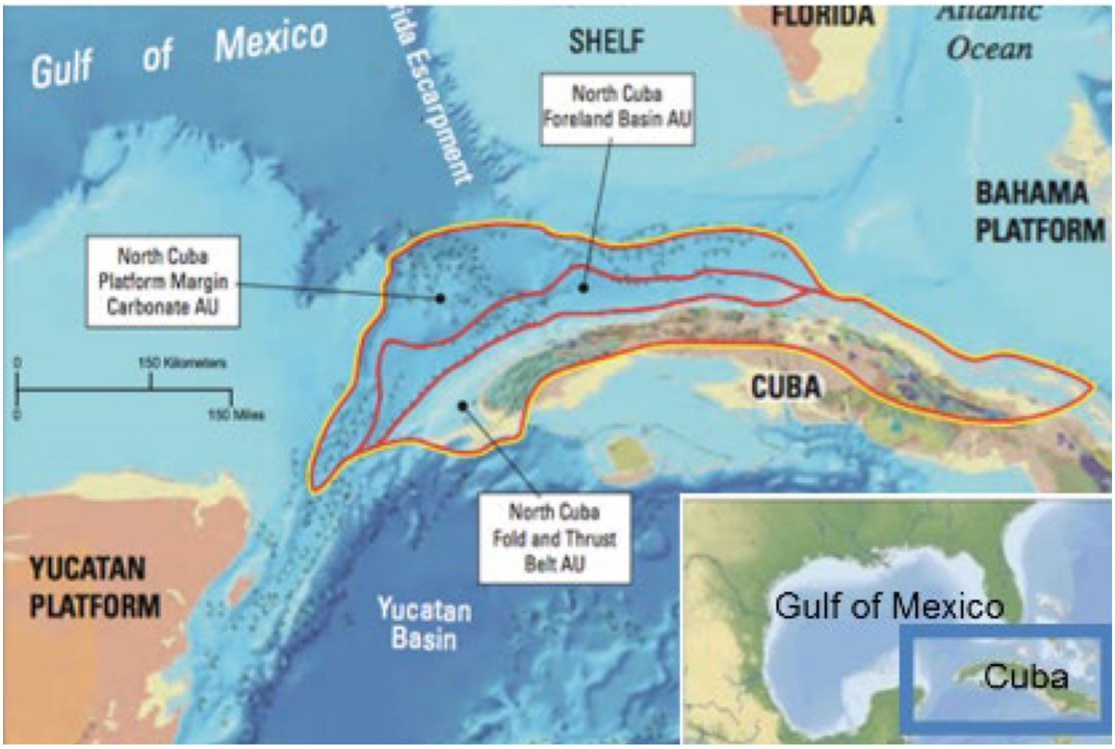
Diplomatically, Cuba has been isolated from most of the world for decades. Diplomatic relations with the US were severed in 1961 during the Cold War. In July 2015, after over 50 years of severed relations, the US and Cuba reopened embassies in each other's countries. Being cut off from Western influences, Cuba represents a unique place with time-stood-still heritage. The country provides international investors access to good infrastructure as well as an educated workforce and offers big opportunities in tourism and the oil industry.

Oil and gas

Cuba has huge oil and gas potential from its lucrative offshore reserves. **Back in 2004, the US Geological Survey (2004) commented that *"Total undiscovered technically recoverable reserves in North Cuba Basin of 4.6 billion barrels of crude oil, 9.8Tcf of natural gas and 900 million barrels of natural gas liquids".*** But, it seems that western E&P companies have been quite slow to begin to properly investigate this potential.

Today, Cuba produces around 45,000 bopd which is mostly heavy oil along with roughly 100 mscf/d of gas, with reportedly low operating costs. The country only produces enough oil and gas to meet half of its domestic needs and there are frequent blackouts. So there looks to be obvious scope for growth in Cuba's E&P sector to fuel electricity generation. Truth is that Cuba remains under explored with opportunity for western techniques to unlock resources. The Cuban government is promoting international investment and provides strong support for the oil industry. The regulatory framework in the industry looks highly appealing as there is a transparent legal framework, encouragement for foreign investment, foreign investment tax incentives, and a standard approach to oil and gas investments

The country enacted a new law in 2014 which provides protections to foreign investors, allowing payments in foreign currency and withdrawal of funds from the country. **Cuba offers attractive commercial terms for oil and gas operators which includes nil cost entries into Production Sharing Contracts (PSC) along with the ability to sell all crude produced priced in foreign currencies. In addition, there are excellent fiscal terms (22.5% tax, no royalty or signature bonus and an 8-year tax holiday) and the combination of all the above factors can make PSCs highly commercial.**



Cuba – Significant undiscovered potential. Source: Melbana Energy

Oil is purchased at the wellhead at a price which is linked to US benchmark West Texas Intermediate (WTI) crude oil by the state and paid in foreign currency. However, despite all these benefits, sanctions still constrain foreign interest. The most high profile foreign oil and gas companies active in oil and gas in Cuba are Sherritt International (TSX:S) and Melbana Energy (ASX:MAY).

Canadian resources company Sherritt International is a big nickel player which mines and processes nickel laterite at Moa Bay in Cuba using HPAL technology and the nickel concentrate is sent to Canada for final processing. Sherritt is also the largest independent oil producer in Cuba with more than a 20-year history of E&P primarily from fields in Cuba and is the country's largest independent oil producer. Sherritt has developed an expertise and proven ability to find, develop and produce oil in Cuba's complex fold and thrust-belt reservoir. All the company's wells are directionally drilled and are located along the northern coast between Havana and Cardenas. Oil in Cuba is located about 1,500 metres below sea level and Sherritt drills directional wells up to 5,600 metres long to pump oil to the surface.

Small cap Australian explorer Melbana Energy has a 100% interest in Block 9 in Cuba. This is an onshore block in a proven hydrocarbon system with potential of approximately 15.7 billion barrels of oil in place and recoverable Prospective Resources of 676 million barrels of oil. Block 9 has a large footprint at 2,344km² which has only been lightly explored despite lying along trend from the Varadero oil field (11 billion barrels of oil in place 10.5-14.3° API). In Block 9, a total of 3 prospects and 16 leads have been identified and there is thought to be potential for large Varadero type structures. Between Block 9 and Varadero lies Block 10 where Sherritt is drilling. Currently, Melbana is securing permits for a drilling program to test best estimate prospective resource of around 236 million barrels of oil with the first and second exploration wells planned to be drilled in Q4 2020 and Q1 2021.

Background

Ascent Resources joined AIM in 2004 and was established to make investments in the mining, minerals and oil and gas sectors. In March 2005, Ascent entered into an agreement with Hardman Resources Ltd to acquire a 12.86% Participating Interest in the Iris Marin Production Sharing Contract (PSC) and in the Themis Marin PSC in Gabon. Over the years there were a plethora of oil and gas deals and in 2007 Ascent became the operator of the Petišovci concession in Slovenia. By 2009, the company had some 20 operated projects across five countries in Europe: Hungary, Slovenia, Italy, Switzerland and the Netherlands.

In 2013, the board began clearing the decks with the disposal of the Italian subsidiary and Netherlands offshore licences as the company's attention became focused on the commercial development of the Petišovci gas field in Slovenia. June 2015 saw the company receive a provisional Integrated Pollution Prevention and Control (IPPC) permit from the Environmental Agency in Slovenia in relation to the installation of a Gas Gathering and Separation Station (GGSS) at the Petišovci field. However, getting the full IPPC permit has been a long process. This was an important move as when granted, this permit allows for the construction of the GGSS which would enable the company to process the gas produced from its two existing wells to a quality acceptable for the national grid network in Slovenia.

In July 2016, Ascent signed the agreements necessary to allow commercial gas production to begin in 2017. A new route to market had been engineered which used an existing production pipeline from the Petišovci field in Slovenia to the Croatian border where the raw gas will be sold. Such a route was independent of the IPPC permit. A successful flow test was completed at Pg-10 in early 2017 which exceeded expectations with a maximum stabilised flow rate of 8.8 million standard cubic feet of gas per day (MMscfd). This was in line with the results of the initial wells test (2011) and significantly above the minimum commitments required under the gas sales agreement with INA. First gas was reported in April 2017 followed by commencement works at Pg-11A to also allow gas to be sold from that well.

However, it has not been plain sailing as a consequence of the failures and the delay of the Slovenian administration with regard to applications made and decisions on requirement for the EIA being unduly protracted, both of which led to the first of a number of strategic reviews. By April 2018, the board had concluded that the planned further development of the Petišovci project, along with the diversification into other regional projects, was not a realistic option for Ascent due to the amount of equity dilution that would be required as a result of the value destruction the Company share price suffered as a consequence of the Slovenian administrative delays. Instead, the then board sought farm-outs and strategic partnership deals in order to expedite the development of Petišovci.

In the end, little changed but there was increasing shareholder frustration over the IPPC permit which was reflected in an ever-declining share price. All this has led to the appointment of a new board in February 2020 (headed by James Parsons), a 1-for-100 consolidation in the shares and a subsequent placing to raise £800,000 at 5p a share. Since then, the new management have been able to announce the execution of a binding Memorandum of Understanding (MOU) with the Cuban national oil and gas company (CUPET) which secures exclusive rights to three additional onshore licences. **It does look as though a new, far more positive chapter for Ascent is now beginning.**

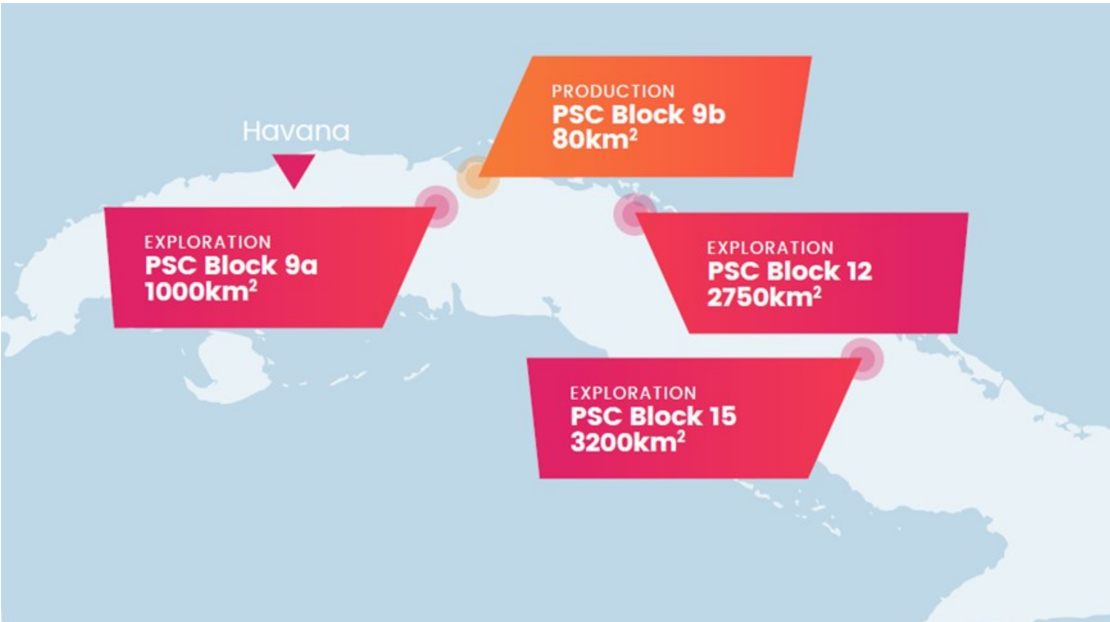
Operations

Ascent is an established AIM listed E&P company focused on onshore Central European oil & gas. Under the new management team, the company's strategy has substantially expanded to become an investor in Special Situations plays in energy and natural resources across the Caribbean, Hispanic Americas and Europe.

The Caribbean and Latin America regions have been identified as being highly prospective for oil and gas, where the team believes considerable value can be added. The strategy across this region is to build attractive production and appraisal portfolios with low operational costs which represent high-reward growth opportunities. Cuba has been selected as the initial target.

Cuba

The new-look Ascent has initiated exclusive negotiations on a large onshore oil portfolio in Cuba, which is seen as being one of the few world-class hydrocarbon systems that has remains unexploited. This has not happened overnight as the team has been working on a deal in Cuba for 18-24 months and have a good understanding of the blocks that are being focused on. A lot of work has gone into this venture and already some interpretation of the existing data has been completed.



Targeted onshore portfolio. Source: Company

The company has exclusive rights to one of the largest onshore portfolios in Cuba. This is a highly compelling opportunity as it includes six separate Production Sharing Contracts (PSC) spread across four blocks which cover some 7,000km^2, an area about the size of Devon. Over the next six months, the company will be seeking to gain approval as an operator, negotiating on a series of PSCs and undertaking further due diligence work. These negotiations will be taking place against a backdrop of low oil prices, which should allow the management to gain some attractive terms. The first move into the Caribbean was signalled by Ascent's acquisition of Energetical Limited, a UK Company with exclusive rights to secure a PSC on a producing onshore Cuban oil licence Block 9B.

An announcement in late-April 2020 brought the news of the execution of three binding Memorandum of Understandings (MOUs) directly with Cuba's national oil company Union Cuba-Petroleo (CUPET), securing exclusive rights to three large onshore exploration licences Blocks 9a, 12 and 15. At the time, the company raised £215,000 at 2.75p to fund the initial technical work.

Block 9b

This 80km² onshore block contains the Majaguillar and San Anton onshore fields and lies on the North coast of Cuba, 120 km East of Havana. At present, production totals 190 barrels of oil per day (bopd) gross from three wells. Plus, there are another three wells that are shut in due to the lack of basic equipment such as pumps. In all, there are eight wells on these fields, which in the past have all previously produced and have workover potential**. Ascent believes that a low-cost programme of bringing in additional basic equipment plus reservoir management skills could result in a significant improvement in recovery rates.**

Beyond that, the company is also assessing the viability of new deviated onshore wells which would cost around US$7 million per well. The initial production rate from such a well is expected to be around 1,800 bopd but with a steep decline, which is thought could be ameliorated by drilling into the crest of the fields. Already there is good seismic coverage, so no additional seismic will need to be acquired to drill these wells. As yet, none of the wells have produced any water and no oil water contact has been identified.

Block 9a

This is a 1,000km² onshore block which lies adjacent to acreage with a proven hydrocarbon system and on trend with the Varadero producing oil field. The most prospective area of the block is thought to be the northern part of the block although to date there is only limited modern seismic data available and past drilling activity. In all, around thirty wells have been drilled in the shallow subsurface and many have apparently encountered oil shows. Early analysis of the available data and consultation with CUPET has led to the identification of further prospectivity in the traditional Placetus carbonate reservoirs and in overlying fractured volcanic/ophiolite plays of the Zaza tectonic structural unit (TSU) which occupies a large part of Cuba.

Block 12

High potential is seen in this 2,750km² onshore block with opportunities for multiple plays in the Zaza (Ophiolite), Placetas, Camajuani and Remedios TSUs. **Before the 1960s, the block was drilled nine times with all the wells exhibited oil shows.** In more recent times, the adjacent blocks have been drilled with oil shows and discoveries reported. The potential of these larger blocks 12 and 15 could be unlocked following reprocessing of the seismic data, integrating existing well data, and structurally modelling the subsurface.

Block 15

There is good quality seismic across the central part of this 3,200km² onshore exploration block and in the past three wells have been drilled. **Initial analysis by Ascent has suggested that the northern half of the block is the most attractive section with the potential in multiple play types of the Remedios, Placetus and Camajuani TSUs.**

Metals

Ascent's move into seeking Special Situation plays does not see the company limiting itself to oil and gas. **The team is working with its Cuban consultants to evaluate opportunities in battery metals in Cuba, using a similar low-cost organic route to gain an interest in such projects.** Cuba has substantial mineral resources and is probably best known for nickel where it has the 5th largest global reserves after Indonesia, Australia, Brazil and Russia.

Legalities

Although Cuba is subject to the US embargo, both the UK and the EU do not have any sanctions in place against Cuba. Actually, the EU blocking statute protects EU operators engaged in lawful international trade and/or movement of capital, as well as related commercial activities from the extra-territorial application of the US Sanctions. To benefit from such protection as well as the bilateral investment treaty between Spain and Cuba, the company will be operating through a Spanish subsidiary. For a foreign company to successfully operate in Cuba seems all about avoiding the US nexus, which means that Ascent should not handle US dollars in relation to its Cuban business. Oil production is expected to be paid at the well head by the Cuban government in Canadian dollars or Euros. Cuba is a big tourist destination for Canadians and Europeans and such currency is plentiful in the country.

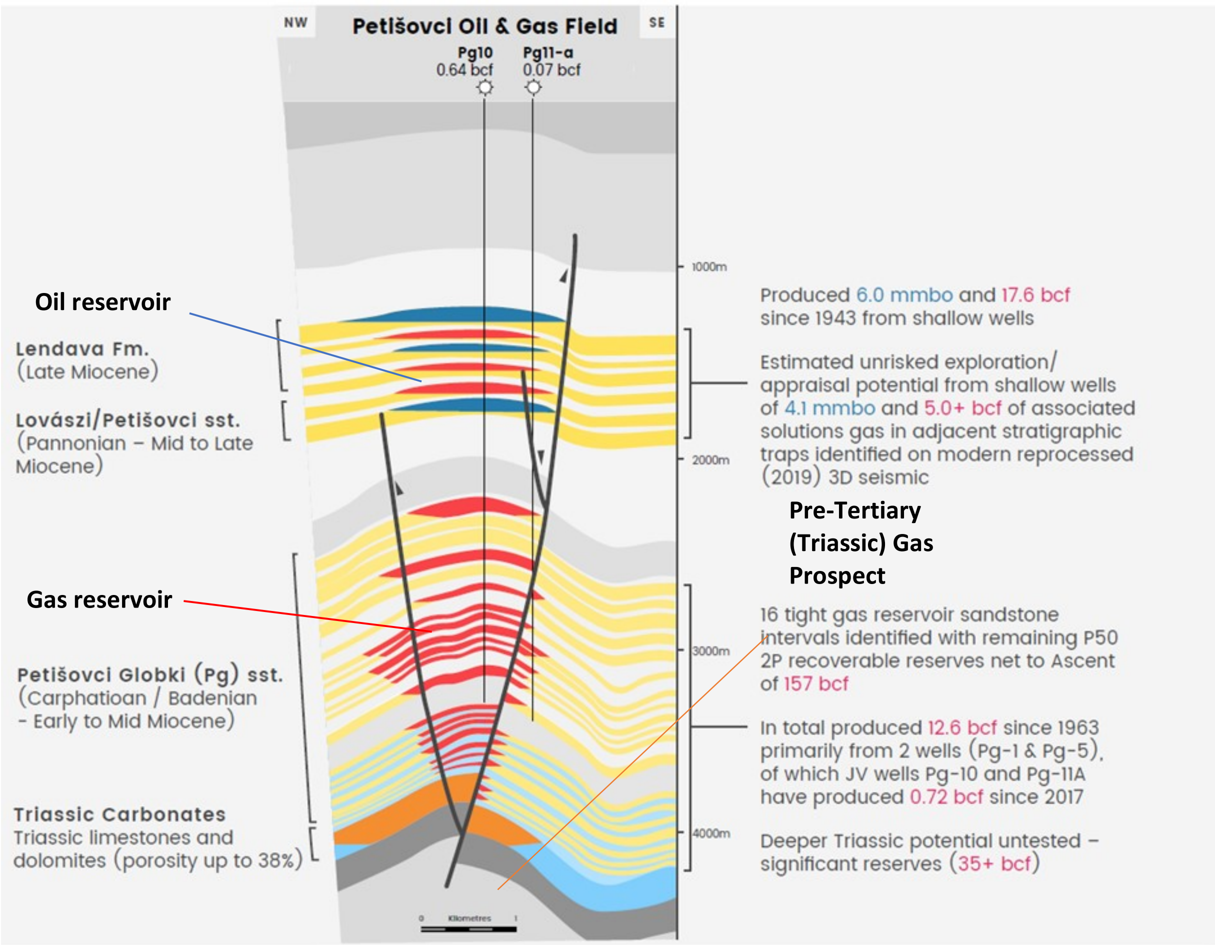
Slovenia

Ascent holds a 75% interest in and is the operator of the Petišovci Tight Gas Project which lies in the north-eastern corner of Slovenia on the borders with Hungary and Croatia.

Location of the Petišovci project. Source: Company

The remaining 25% is held by its joint venture partner Geoenergo which was awarded the current concession in 2002, and which is due for renewal in 2022. The company has been involved in the project since 2007 and to date has spent €50 million. Under the terms of the joint venture, Ascent is responsible for 100% of the costs but will receive 90% of the revenues until the costs are fully recovered.

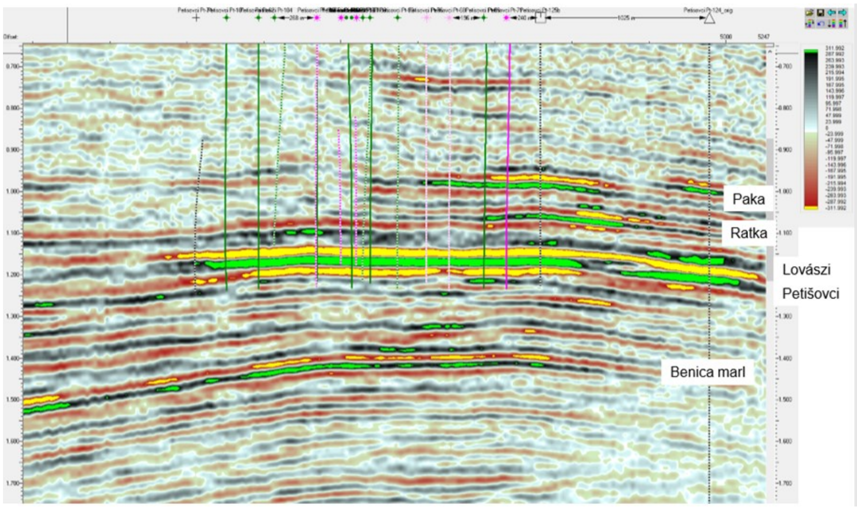
Petišovci project. Source: Company



Cross section of the Petišovci-Dolina Field. Source: Company

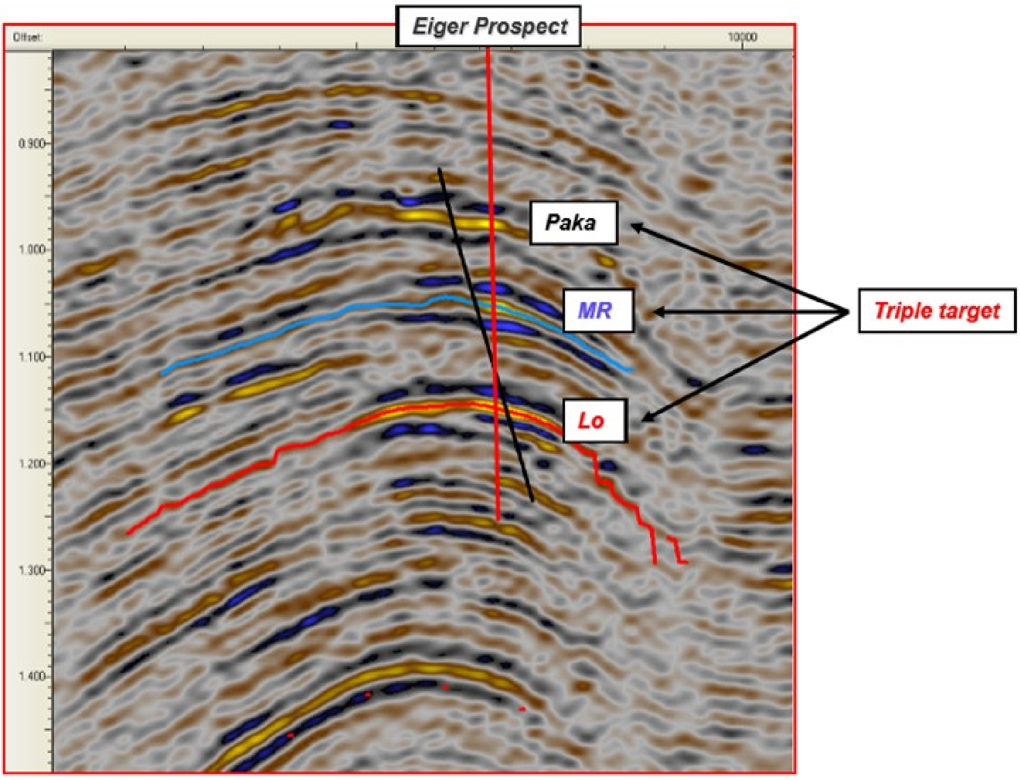
3D seismic

In 2009, Ascent conducted an extensive 3D seismic survey across the Petišovci area, which was the first ever 3D seismic acquired in the county and required the agreement of over 10,000 landowners.



Seismic amplitudes – sand distribution vs quality. Source: Company

The interpretation of the seismic data provided a good insight into the field structure and highlighted zones which would potentially provide better reservoir quality. The structure has two sets of reservoirs which are the shallower Upper Miocene and the deeper Middle and Lower Miocene. The shallower reservoirs were developed during the 1960s and Ascent's main development objective is the deeper Miocene reservoirs and from the painstaking analysis of this data, the locations for two new wells Pg-10 and Pg-11 were determined.



Shallow prospectivity. Source: Company

Drilling

Two wells, Pg-10 and Pg-11, were drilled in 2010/2011. For technical reasons, Pg-11 was side-tracked becoming Pg-11A. These wells showed commercial volumes of gas from the previously unproduced (Pg-10) and previously undiscovered (Pg-11A) reservoirs. An independent volumetric assessment of the field performed by RPS Energy verified P50 contingent gas resources of 456 Bcf. The development of the field and gas sales are taking place in two phases.

Production

Phase One is the export of untreated gas to Croatia which has now been completed. The Pg-10 and Pg-11A wells were recompleted for production, flow lines were constructed and existing processing equipment was refurbished. In addition, a metering and pigging station (to remove and separate liquids) was installed. In 2016, the acquired Trameta top access export pipeline was acquired and recertified. Initially from April 2017 untreated gas from Pg-10 and Pg-11A was sold to a local industrial customer, but from November 2017, the gas was exported over the border to INA which is Croatia's leading oil and gas company. Revenues in 2018 were around €2 million from gas sales from these first two wells.

Phase Two is the further development of the field and the sale of gas into the Slovenian national grid. The company has a developed plan to increase production from Pg-10 and Pg-11A through the use of a compressor as well as re-entering and deepen a number of the existing wells combined with the drilling on infill wells.

Permitting

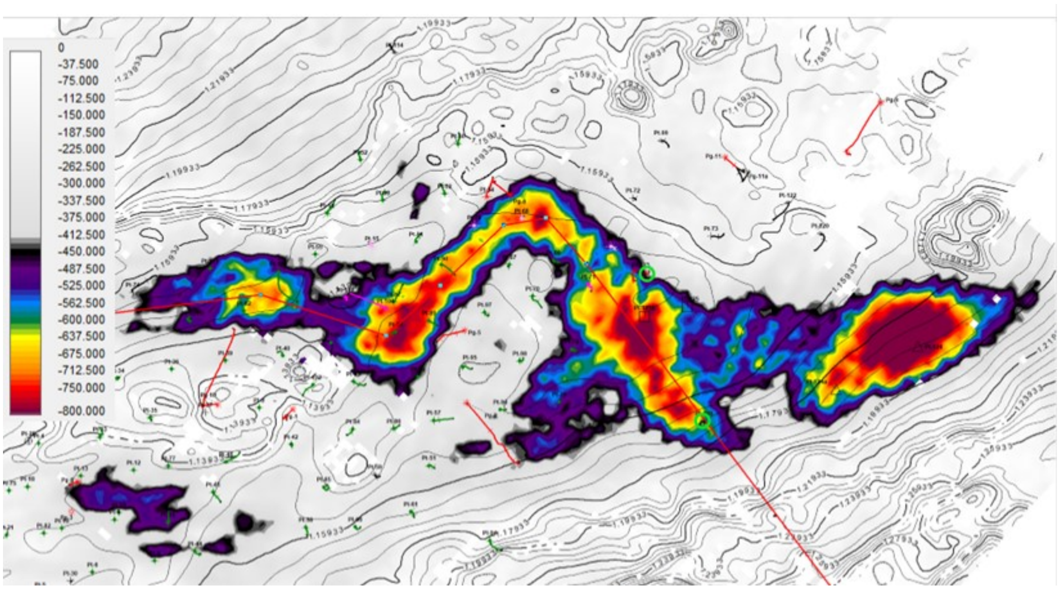
The move to Phase Two has been delayed by problems in gaining the necessary IPPC and environmental permits for the re-stimulation and the permitting for work on the other wells. To achieve the best possible price for gas sales into the Slovenian national gas network, the partners need build a processing plant to treat the gas which also requires IPPC. In 2014, an IPPC permit application was submitted but in 2016/17 the court blocked IPPC which served to reset the process. 2018/19 saw the minister initiate an internal review but to date there still seems to have been little progress.

In order to maintain the levels of gas produced, in 2017 it became necessary to carry out another round of low-volume hydraulic stimulation of the Wells. Under Slovenian law, no preliminary screening assessment or any EIA were required to do so. However, in an abundance of caution in May 2017 Ascent's JV partner Geoenergo made an application for a preliminary screening assessment with the Slovenian environmental agency ARSO. Under Slovenian law, ARSO was required to issue a decision on the application for a screening assessment within two months of the receipt of a complete application, ie by July 2017. However, ARSO only issued a draft of its decision over a year after the PS Application was made in June 2018. In the draft decision, ARSO held that an EIA was required. On 8 March 2019, ARSO issued its decision in final form, holding that an EIA was required. The ARSO decision was not based on the recommendations of Slovenia's own experts and, furthermore, it contradicted the opinions they gave. Geoenergo filed a complaint against the contested decision with the Ministry of the Environment and Spatial Planning, however, the latter rejected it in June 2019. Geoenergo subsequently challenged the ARSO Decision before Slovenian courts.

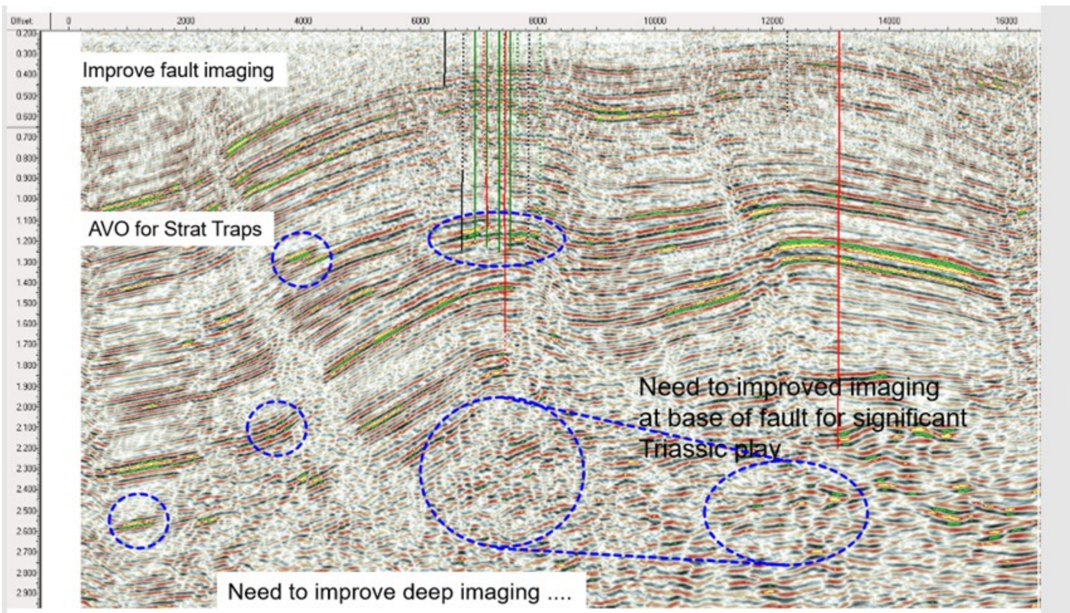
In early June 2020, the court ruled again that an EIA is required. The announcement carried the news that the company was in the process of beginning preparations for submission of an EIA, and that new work on a review of the stimulation technique and update of the field development plan had begun recently. **At that time, the board was also able to point out that the decision of the court, along with the earlier action by the State, would all constitute important evidence to support the investment treaty claim the company intends to bring against the Republic of Slovenia under the UK – Slovenia bilateral investment treaty (the BIT) and the Energy Charter Treaty (the ECT).**

Seismic reprocessing

While the permitting process has rolled on, the 3D seismic has been reprocessed to investigate a deep exploration well targeting conventional gas. This work has increased the partners' understanding of the remaining oil and gas volumes in the shallower zones and the prospectivity of the deeper pre-Tertiary Triassic basement.



Risk reduction using 3D seismic. Source: Company



Petišovci 3D seismic reprocessing. Source: Company

Strategy for the Slovenian portfolio

Ascent has been focusing all its attention on the Petišovci Tight Gas Project for the past ten years or so in bringing this asset into production. The company has a well-defined pathway for production growth from this significant gas asset with Contingent gross resources of 456 Bcf. To date, there has been 12.61 Bcf production from deep sands El and Di; but there are significant remaining reserves from multiple stacked reservoir intervals including untested Triassic reservoirs.

In late-May 2020, the company updated investors on its strategy for the Slovenian portfolio. Following a review by the new management team and discussions with local partners, the board was able to share its new two-pronged strategy whereby the team are progressing the technical work for the stimulation and increased gas production at Petišovci, whilst at the same time further refining the board's view on the chances of success and the size of any potential reward from legal action.

On maximising the value of this portfolio there seemed to be five clear points. Firstly, that the Petišovci Tight Gas Project production is sold with reference to the Central European Gas Hub Index (CEGH) and requires realised gas prices above €1.80 - 2.00 per Mscf to generate positive cash flow. The company noted that the average 2019 CEGH index was €14.4/MWh and despite the recent collapse in global oil and gas prices that the 2021/22 gas futures are already around €13-15/MWh**. So, the board reported that it saw significant core economic value at Petišovci and expects significant cash generation from the asset in the medium-term with further upside if global oil and gas prices continue to recover.**

Secondly, continued material production from the tight gas project will require regular stimulation activity and although the Slovenian government is currently taking positive action to maximise the potential of the local resources and streamlining local permitting, there remains a permitting risk. Thirdly, the government authorisation to enable re-entry and stimulation of the Pg-10 and Pg-11A wells are expected to be received by the end of 2020.

Fourthly, further stimulation at Pg-10 and Pg-11A is expected to have a material impact on production levels and could potentially return them to close to historic levels, based on achieving the highest technical standards using modern techniques. **Lastly, its partner Geoenergo is willing to work with Ascent to restructure the JV arrangements for the benefit of all parties having identified that operating efficiency can be increased and costs savings achieved.**

Slovenia's new right-leaning government has recently been sworn in, which is a coalition government led by Prime Minister Janez Jansa, the leader of the anti-immigrant Slovenian Democratic Party. **It is hoped that a new government, along with a new board at Ascent, could allow positive discussions towards gaining the necessary permits for the fuller development of Petišovci to be successfully navigated.**

At the same time, the board is looking to secure funding for legal proceedings against the government to protect Ascent's interests. In early April 2020, the board provided an update on the Slovenian Litigation funding. It was reported that potential litigation funding had withdrawn from further discussions at that time, despite signing a Letter of Intent (LOI). The directors believed that the receipt of the original LOI demonstrated the strength of the company's claim, but the new board planned to first assess the merits of litigation versus the alternatives and were reported to be looking forward to the dialogue with Ascent's in-country partners and the new Slovenian government. Subsequently in July 2020 the Company instructed a specialist international arbitration lawyer and served the Republic of Slovenia with a Notice of Dispute which sets out the Company's position on Slovenian breaches which have caused significant damages to the Ascent group. This is the first step in initiating International Arbitration proceedings against the Republic of Slovenia under Article 8(2) of the UK-Slovenia Bilateral Investment Treaty and Article 26(2)(c and (4) of the European Charter Treaty.

Strategy for growth

The new management team has come into Ascent with a fresh perspective, ushering in a compelling strategy of adding value by Special Situations plays in energy and natural resources. The team is belatedly bringing much need diversity by adopting a portfolio approach rather than being wholly dependent on a single asset. **The new move into the exciting Latin America and Caribbean oil market is really compelling as this area is fast shaping up to be the next major oil region.** Until the last decade this whole region has been pretty well overlooked for oil and gas despite being close to the vast oil reserves of Venezuela. Interest has begun to rise following major reservoirs being discovered in nearby Guyana by ExxonMobil in recent years. ExxonMobil discovered c.500 million barrels combined across the Liza oil field and the Payara reservoir and has gone onto acquire a deep-water block off the coast of neighbouring Suriname.

There is no doubt that the company has first mover advantage in Cuba where there is a blue-sky opportunity. By working with the Cuban government, Ascent will avoid having to pay huge costs and can organically grow its portfolio on projects that make economic sense at US$30 – 40 per barrel oil. Obviously, there is the spectre of US sanctions, but it looks as though there is an already trodden path to unlock the latent value in this country. Sherritt International produces nickel concentrates from its nickel laterite project at Moa Bay in Cuba which are shipped to Canada, processed into the metal, and then exported to Belgium and the US government seems to take little action against them.

The greatest opponent of sanctions is Donald Trump who is increasingly looking less likely to be re-elected in our view, so there seems to be an increasing chance of a re-weighting event at Cuba happening sooner than later. There is also the opportunity to consolidate existing stranded Cuban players. Sherritt has made no secret of the fact that it would merrily dispose of its Cuban oil interests whilst Melbana Energy has clearly been starved of capital.

Cuba has huge hydrocarbon potential. The board is negotiating on large onshore licence areas which have all been drilled and all have oil shows. **Block 9b is reported to have oil seeps and smells of oil. The production block where the first PSC is likely to be gained has very low subsurface risk and potential for strong cash flows**. Initial technical work has begun and subsequent work by independent consultants will be continuing, resulting in a planned Competent Persons Report (CPR) in Q4 2020. The installation of pumps and the adoption of some basic reservoir management skills could provide a dramatic increase in the current level of production and profitability as operating costs seem to be very low. The board plans a series of new wells which consultants predict would provide 1,800bopd of initial production with a steep decline. **A programme involving the drilling of four of these wells on a back-to-back basis would be sustainable from cash flow, provided that first well has been successfully drilled. Such a drilling programme could be self-funding.**

It seems that management are happy to diversify away from oil and gas in the search for appealing Special Situations which offer a unique balance of risk and reward. Although the new board has only been in place for a matter of months, they have already begun to highlight the multiple mining opportunities that exist across the battery metals space, especially nickel, and there looks to be a good opportunity to mirror the oil deals already being negotiated. **A move into Cuban battery metals exploration/mining could well be on the cards which would provide complementary new world exposure.**

Ascent is also focused on extracting value from the Petišovci Tight Gas Project in Slovenia, an asset that has a lot of affinity with shareholders and institutions. The board is currently developing a fresh approach to extracting or accruing value from this project and the alternatives at this stage look like being litigation or full project development. **Each of these strategies has short to medium inflection points which would represent valuing adding events on the path to achieving either of the twin main goals.**

The company has invested more than €50 million at the Petišovci Tight Gas Project, and it could be argued that Ascent had also suffered a substantial loss of production due to the shenanigans of the industry regulator in Slovenia in the delaying of granting the IPPC and failures of the Slovenian agencies and administration in the processing of applications, adherence to own reasonable timelines and arguably arbitrary judgements it has made against the development. **The outgoing management believed that Ascent had a very valid case.** The company had received a Letter of Intent for funding the full amount of the litigation which was on a performance share and a no win, no fee basis. Resolving this long-running situation and getting the value back would have a binary effect on the company. In addition, it would also remove the costs from that country as Ascent would no longer have to fund that operation. Proceeding to litigation recovery had not been a decision taken lightly.

The new board believes that to take the final investment decision on the full development of Petišovci would not only need the IPPC to be granted by the government but also a renegotiation of the joint venture agreement in order to make it more conventional and bankable. The 25% partner in the current joint venture is Geoenergo which was assigned the current concession in 2002. Currently, Ascent is in an unworkable situation of having to fund everything whilst not being able to itself negotiate directly with the government rather than its quasi-governmental partner Geoenergo. Investors could be forgiven for thinking that this all boils down to the government negotiating with itself, where Ascent seems to be the whipping boy. However, the concession is due for renewal in 2022 and the period running up to that would be an ideal time to renegotiate the JV deal so that Ascent gains control and takes the project forward. Such a move would be helpful to attract potential funders for the full field development of the project.

Navigating the permitting and environmental issues remain the biggest challenge for E&P globally which makes this a strong headwind. However, timing might actually be quite good for some resolution on the IPPC issue. With a new government in place, a new environmental minister, Ascent may well receive a better welcome. Early signs are that this new government has put quite a lot of importance on seeking to secure supply of domestic energy supply and also trying to limit the power of non-governmental organisation.

All of these actions will undoubtedly give rise to an impressive news flow over the next twelve months which will give the market plenty of instances where impressive progress could be demonstrated & that causes the market to begin to re-evaluate Ascent's woefully low share price. The future looks very bright as no longer will Ascent's growth potential be dependent on one project, one minister and one country. Today, Ascent stands at the start of a big journey where the company will be branching out into new spaces where there looks to be tremendous scope to add value in a step change from being a single asset company.

Financials & current trading

Gas production from Slovenia began in 2017. The losses that have been recorded over the last five years are mainly due to the costs of bring the Petišovci field into production, operating costs of the oil and administration expenses.

Y/E 31 December £'000s	2015A	2016A	2017A	2018A	2019A
Revenue	-	-	814	1,942	298
Pre-tax profit/loss	-3,644	-2,676	-1,966	-1,365	-3,660
Net profit/loss	-3,644	-2,676	-1,966	-1,365	-3,660

Ascent Resources five-year trading history. Source: Company accounts

2019 results

Financial results for the twelve months ended 31st December 2019 showed a challenging year for the company. Revenue for the year was £0.298 million due to a reduction in stabilised production rates and lower gas sales prices realised. Currently, gas sales are suspended as the wellhead pressure is below pipeline pressure, with production planned to resume once the company receives permitting to stimulate the Pg wells or compression is added to the reservoir. Administration costs increased to £2.313 million compared with £1.70 million in the previous year, due to an increase in consultancy and legal fees concerning the Slovenian project. The loss for the year came out at £3.660 million which equated to a loss per share of 0.14p.

Recent developments

March 2020 saw the announcement of a corporate strategy update. The newly appointed Board was reported to be in the process of reviewing the company's asset in Slovenia with particular focus on Ascent's relationships with its joint venture partner and stakeholders in the country. The new directors were also reported to be looking at opportunities to use their skills and connections beyond Europe and had highlighted the Caribbean and Hispanic America Region as being highly prospective for oil and gas.

In April 2020, Ascent acquired Energetical for £652,500 where £202,500 was satisfied by the issue of 6 million new shares. There is a deferred consideration of £450,000 which is to be satisfied by £100,000 in cash and £350,000 of shares which are payable when the company signs a PSC over Cuban onshore producing block 9B. The acquisition of Energetical gives Ascent exclusive rights to negotiate the PSC on this block, which is expected to give the company an entitlement to incremental barrels produced above the existing base of around 190bopd from three wells.

In late-May 2020, the company updated investors on its strategy for the Slovenian portfolio. Following a review by the new management team and discussions with its local partner, the board was able to share a two-pronged strategy whereby the team are progressing the technical work for the stimulation and increased gas production at Petišovci, whilst at the same time further refining the board's view on the chances of success and the size of any potential reward from legal action. A few days later in early June 2020, the company updated on JV partner Geoenergo's appeal against the Slovenian environmental agency ARSO's decision to require an EIA to re-stimulate the PG-10 and PG-11A wells. The Court ruled that an EIA was required.

Risks

Geological risks

There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the reservoirs being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

Political risk

There are political risks involved in companies operating in Slovenia & Cuba. The oil industry is arguably the most susceptible sector of the market to political risks largely due to its importance to a host county's economy.

Oil and gas price risks

Oil and gas prices are highly cyclical and changes in the price could have a negative or positive impact on the valuation of the company's projects and revenue from the sales of hydrocarbons.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from euros, US dollars, Canadian dollars or Peso Cubano into British pounds. Fluctuations in the value of the euro, US dollar, Canadian dollar and the peso cubano against the pound may have an effect on the valuation Ascent is awarded by the UK stock market.

Future funds

The market for raising funds for small cap companies looks to have had improved from the worse conditions a couple of years ago, however the global spread of the COVID-19 infection has meant that equity markets have become extremely difficult. This is especially so for oil companies where lockdown has resulted in a glut of oil which has had a severe impact on the price per barrel. Even ahead of the arrival of this pandemic and the fall in the oil price, some recent fund raisings for small cap oil companies have seen share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

Board of Directors

James Parsons – Executive Chairman

James is currently Executive Chairman of Regency Mines Plc, Non-Executive Chairman at Echo Energy Plc and Coro Energy Plc. James has over 20 years' experience in the fields of strategy, management, finance and corporate development in the energy industry. He started his career with the Royal Dutch Shell Group where he spent 12 years working in Brazil, the Dominican Republic, Scandinavia, the Netherlands and London. James was previously Chief Executive at Sound Energy Plc for 8 years, is a qualified accountant and has a BA Honours in Business Economics.

Andrew Dennan – Chief Executive Officer

Andrew has a wealth of corporate finance, merger, asset funding and corporate transaction experience on AIM. He was formerly Chief Financial Officer of Coro Energy Plc where he retains the position of Non-Executive Director and he is also a Non-Executive Director of Nu-Oil and Gas Plc.

Ewan Ainsworth – Non-Executive Director

Ewen is an experienced AIM company director. He is currently a Non-Executive Director of Regency Mines plc and CEO of Discovery Energy Limited, an advisory, consultancy and investment company and has worked in a variety of senior and board-level roles in the natural resource sector for over 30 years, most recently as Finance Director for Gulf Keystone Petroleum Ltd. He qualified as a chartered management accountant, before moving into leading commercial roles. He holds a degree in Economics and Geography from Middlesex University, and is a member of the Energy Institute.

Leonardo Salvadori – Non-Executive Director

Leonardo has over 35 years of international experience and is currently the Managing Director of Coro Energy plc's Italian business. Prior to that he held Managing Director positions in Sound Energy and Dana Gas Egypt. With a strong focus on upstream operations as well business development, Leonardo previously led business development and exploration/asset teams in Centurion and Eni across MENA, Asia and Europe. He holds a degree in Geology and is a member of the Society of Petroleum Engineers.

Forecasts

We initiate coverage of Ascent with forecasts for the financial years ending 31st December 2020 and 2021. For 2020, we forecast that there will be no production from Petišovci. The last remaining producing Pg-10 wells were shut in December 2019. During this period, it is expected that the Environmental Impact Assessment (EIA) will be completed and submitted to the authorities. The new board has sought to reduce administration costs which we have put in at £1.75 million giving an operating loss of £1.75 million and a loss for the period and loss attributable of £1.79 million. This equates to a loss per share of 3.15p.

For 2021, we assume that the EIA is approved in Q1 following the water and ancillary permitting period which is expected to take 6-8 weeks. These moves will lead to the project getting the IPPC which could allow workovers and the re-entry of existing wells to begin in Q2. No account of any production from Cuba has been taken into account at this stage, but we will be revising the 2021 forecast once the company has been granted an operator licence and terms of the PSC have been successfully negotiated. Revenue for this period is forecast to be £5 million, with £2.7 million cost of sales and £0.8 million of depreciation resulting in a gross profit of £1.5 million. After administration expenses of £1.75 million, the pre-tax loss and loss attributable come out at £0.35 million giving to a loss per share of 0.25p.

Year End 31 December (£'000s)	FY 2018a	FY 2019a	FY 2020e	FY 2021e
Revenue	1,942	298	-	5,000
Other Cost of sales	(771)	(462)	-	(2,700)
Depreciation of oil & gas assets	(793)	(440)	-	(800)
Gross profit/(loss)	378	(604)	-	1,500
Administration expenses	(1,760)	(2,132)	(1,750)	(1,750)
Operating profit/(loss)	(1,382)	(2,736)	(1,750)	(250)
Finance income	26	-	-	-
Finance cost	(9)	(924)	(40)	(100)
Net finance costs	17	(924)	(40)	(100)
Profit/(loss) before taxation	(1,365)	(3,660)	(1,790)	(350)
Income tax expense	-	-	-	-
Profit/(loss) for the period after tax	(1,365)	(3,660)	(1,790)	(350)
Profit/(loss) for the year attributable to equity shareholders	(1,365)	(3,660)	(1,790)	(350)
Earnings/(loss) per share (p)	(6.01)[1]	(13.76)[1]	(3.15)	(0.25)
Weighted average number	22,709,681[1]	26,590,316[1]	56,901,087	137,536,593
Total shares plus options and warrants	24,761,445[1]	31,647,241[1]	108,200,801	184,200,801

[1]*adjsted for 1-for-100 consolidation*

Source: Company/Align Research

Valuation

The move into the Latin American and Caribbean oil markets looks highly attractive to us as we believe that significant value could be added in the future, led by the company's entry into Cuba. The strategy is planned to be somewhat wider in Cuba where the team is specifically looking to build on the esoteric opportunity there and their existing relations and dealings with government in the country concerning enviable opportunities in the mining of battery metals. All of these deals are in the midst of being negotiated, with Ascent first looking to gain approval as an oil operator before really beginning to unveil its larger schemes. There will be good opportunities in the future to place a creditable valuation on these oil interests once such deals have been successfully negotiated**. However, in seeking to place a valuation on Ascent and an initial target price, we have limited ourselves to valuing the Petišovci Tight Gas Project.**

We know that Ascent is focused on extracting value from Slovenia, whether that be via litigation to recover damages or an industrial approach where the company's new team, with its proven access to funding, establishes a decent dialogue with the new government which will allow the full field development. In attempting to place a credible valuation on the company and initial target price, we have sought to place an economic value on both of these alternative outcomes.

Litigation

The company has invested over €50 million in the Petišovci Tight Gas Project and the new Board have initiated the first steps in protecting this investment with the serving of a Notice of Dispute against the Republic of Slovenia. This letter, which is available to view on the Company's website, sets out the history of the Company's investment as well as the breaches by Slovenia pursuant to their own and European law, including significant delay in the administrative process and arbitrary decision making processes that have adversely affected the Company's investment. In particular, Slovenia has delayed the low-volume hydraulic stimulation of the PG-10 and PG-11A wells by at least five years, significantly setting back the development of the Field. Pending such low-volume hydraulic stimulation, the amount of gas produced by the Field has been very significantly reduced, resulting in a significant loss of revenues. These sunk costs and loss of revenues represent significant damages to the company as a claimant.

With the serving of this notice of dispute, Ascent has started the clock on a three month cooling off period, beyond which it will now be able to commence international arbitration proceedings under Article 8(2) of the UK-Slovenia Bilateral Investment Treaty and Article 26(2)(c) and (4) of the European Charter Treaty. **The Company has previously announced receipt of interest to fund this claim. Having now served the notice of dispute and being able to commence international arbitration as of November, litigations funders will be able to be approached, with deals in this space usually involving a commitment to fully fund proceedings for a share of the recovered sums for a successful claim which would take 3 years from initiating.**

Full Field Development

We have developed a financial model of the Petišovci Tight Gas Project following analysis of the information set out in the CPR, presentations, announcements, conversations with the board (along with a past discussion with the previous CEO) and also had sight of the company's historic business plan. **During this work our focus has been on adopting a conservative stance so that we can outline a target price which makes sense in today's market when hydrocarbon prices remain under pressure.**

Petišovci Tight Gas Project is a significant gas asset with Contingent gross resources of 456 Bcf and we have also investigated the valuation of the development of the field with stimulated vertical well programme. This is based on the granting of the IPPC and sales of gas. The partners could flow into the Slovenian pipeline where spot prices would be paid and also make sales under the existing arrangement with INA.

In our analysis we have considered a scenario of full development of the field which envisages the re-entering and deepening of a number of the existing wells combined with the drilling on infill wells, which mirrors how the same structure has been developed north of the border in Hungary. **We modelled the field to the year 2036 (which is conservative as the field can be extended for 30 years) over which time production is planned to come from the sequential completion of 15 wells including re-entering 8 existing wells coupled with light stimulation, with continually working over wells every 24 months**. We assume production in 2021 coming from Pg-10, Pg-11A and Pg-7 being all brought back into production following workovers. Four additional wells are expected to come on stream in both 2022 and 2023, followed by 2 wells in 2024. Initially, the wells coming on stream will be existing wells following workover, after which the drilling of the eight new wells is planned to begin.

Initial production from each well is assumed to be 4MMscfd with an initial decline rate of 45%. From 2024 there are planned to be an average number of 13 wells working at any one time (with the others being on workover) producing at total of some 36MMscfd (380MMm^3 per annum) at peak production in 2026, with the other wells undergoing workovers. Over the period 2026-36 annual production does vary but never goes much lower than 32MMscfd (330Mm^3 per annum), with a total of around 100Bcf produced over the modelled period of the project, which is conservative for valuation purposes versus the 430 Bcf P50 volumes in the RPS report.

The capex for this programme is estimated to total around €240 million. Drilling costs for individual wells are assumed to be between €12 – 17 million with each workover assumed to cost €2 million. With a strong cash flow, the bulk of the capex is self-funded although around €16 million of capex needs to be funded by mixture of debt and equity in the early years, with equity potentially accounting for around a third of this total. With increasing volumes, cost of sales fall to €0.07/m^3 and operating costs to €0.004/m^3 over the life of the project.
Revenues have been determined using the following price assumptions. Condensate prices have been under pressure since the end of 2019 and the current price of €0.16 per cubic metre of gas is used over the next couple of years but then the price is escalated gently from €0.20 per litre to €0.26 by the end of the period under investigation. A flat rate of €0.28 per litre of condensate is used which equates to US$40 per barrel of oil. A Slovenian tax rate of 17% is used.

Ascent has a 75% interest in the joint venture. Under the terms of the joint venture, Ascent is responsible for 100% of the costs but will receive 90% of the revenues until the costs are fully recovered. We have determined the free cash flow attributable to the company on that basis and calculated NPVs using 10% and 12% discount factors.

Discount rate	**10%**	**12%**
€ million	123.28	101.47
£ million	112.07	92.24

Petišovci Tight Gas Project net presents values attributable to Ascent. Source: Align Research

We determined the Net Present Value using a 12% discount factor which gives a figure of £92.24 million. Using a 12% discount factor rather than the more commonly applied 10%, 8% or even 5%, already significantly risks this project. Although the project is already established and has been in production with the technical work completed to a high standard, experience to date in Slovenia leads us to further risk this outcome by the chance of success. We have chosen to apply an additional 50% discount, meaning the valuation falls to £46.12 million in our further analysis.

This valuation is highly conservative in our opinion as none of the assumptions have been at all aggressive. At the same time, plans are currently being formulated for the full field development at Petišovci using horizontal wells which is likely to generate a higher return than the vertical well model we have used.

Petišovci Tight Gas Project Risked NPV(12) attributable to Ascent		£46.12m
Per share (75,609,652)		61.00p
On a fully diluted basis (108,200,801)		**42.63p**
On a fully diluted basis allowing for additional circa €5m equity being raised		
Financing price rice per share	**Resultant number of shares in issue**	**Per share valuation**
Current price 2.25p	222,222,265	20.76p
5p	208,200,801	22.51p
7.5p	174,867,468	26.38p
10p	158,200,801	29.15p
15p	141,534,134	32.59p

Per share valuation for Petišovci full field development. Source: Align Research

Based on the number of shares currently in issue (75,609,652) the per share valuation would come out at 61.00p and on a fully diluted basis (61,223,003) 42.63p. As modelled, the full field development programme using vertical wells would require €15 million of funding, where roughly €5 million is the anticipated equity component. **Currently, the share price is under pressure and, in our opinion, is no way reflects the real underlying value that we are demonstrating.** Events of the past means that the stock market is not valuing the company in a rational way and seems to have completely written off any potential coming from Petišovci in whatever shape or form and in this way has clearly thrown the baby out with the bath water.

The impact on the valuation for a number of share price scenarios for the equity raise was studied. **We have chosen to use the valuation per share figure of 22.51p, which has been determined by raising additional equity at 5p per share for our further analysis.**

Conclusion

Investors are beginning to see the step change in Ascent as it moves from being a one project company to pursuing a wide range of Special Situation plays in energy and natural resources across the Caribbean, Hispanic Americas and Europe. **There is a succession of short to medium term inflection points to come as latent value becomes unlocked for all to see.**

The entry into Cuba has tremendous potential in our view and over the coming months Ascent is likely to gain operator status. Once that is in place, it looks as though the market might really begin to learn about the size of the prize in the vast onshore licence area where Ascent is negotiating access to a highly prospective area of Cuba. The deals provide an attractive mix of development, appraisal and exploration potential which gives Ascent a nice balance of opportunities right across the cycle.

It could soon be make or break time at the Petišovci Tight Gas Project, the development of which has been impeded by the actions of the Government of Slovenia. A willingness from the new minister to treat Ascent as an industrial partner could pave the way to undertake a quick stimulation to bring wells on stream. Longer term, the new board has been modelling a 4-8 horizontal fracted development well deep sands and believes that it has access to the funding for this new and big play, as the shallow sands have already been produced from. Petišovci would represent a great prize for Slovenia.

The company has not given up on the past strategy of developing other similar projects in Eastern Europe, but the next Special Situation is likely to provide the company with annuity cash flow and be seen as the third leg to balance this stool. The board is seeking to bring in such a third Special Situation which would lower execution risk and good visibility of near-term revenue with the bonus of becoming self-funded. **We see this as providing regular dependable levels of cash which will serve to cover management and PLC costs. This means that fund raisings going forward are likely going to be for accelerating growth opportunities**.

There is no doubt that the executive team are an entrepreneurial bunch who have connections and an open mandate to create and crystallise value through focusing on Special Situations. James Parsons and Andrew Dennan have a track record of transactions in international oil and gas as well as proven access to capital as over the last 6-7 years the pair have raised £500 million on AIM over 6-7 years.

James and Andrew have introduced this Special Situations approach to the way they intend to build the business counter cyclically in the short term. The pair bring access to funding, some of the most valued relationships in the sector, an entrepreneurial approach, with substantial experience in building a business industrially from scratch and their investments in Ascent shows that their interests are well aligned with shareholders. This is a high impact action team where there is enormous scope to add value today at Ascent, because the market is currently giving minimal value on anything that has been achieved in our view.

There looks to be an enviable flow of news moving ahead. This will include the strategy review on Petišovci along with partners and government engagement, the Notice of Dispute being presented, preparation of the field development programme and simulation plan leading to the renewal of the permit in Q1/Q2 2021. The latter paves the way for the stimulation of PG-10 and Pg-11 which will mark the beginning of the full field development programme. In Cuba, as well as qualifying as an operator, PSC negotiations, coupled with the sub-surface model build out and due diligence, are all expected to be announced in Q4 2020 which would be ahead of signing the first PSC and production beginning in Q1/Q2 2021. So, it is all building up to a time when shortly the market will be able to witness this strategy being executed with obvious value delivered.

We look forward to revising our valuation going forward as more of the pieces come into play. There is likely to be a clear advantage in full field development of Petišovci using a horizontal stimulated well programme which is expected to provide upside to the case we have modelled and we plan to upgrade our financial model in the coming months when the outcome of the company's current planning is shared.

We initiate coverage of Ascent Resources with a Conviction Buy stance and a share price target of 22.51p.

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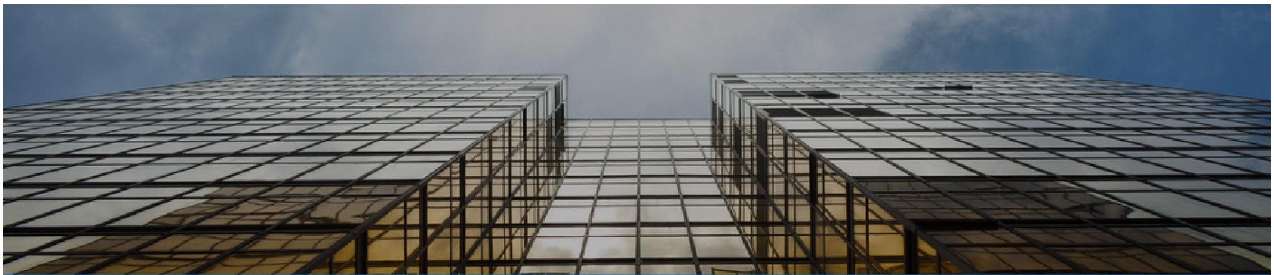

Align Research Limited
7 Moorhead Lane
Shipley
UK
BD18 4JH

Tel: 0203 609 0910
E: info@alignresearch.co.uk