

No recommendation+
Price 2.9p
Oil & Gas
United Kingdom

FTSE All Share Index	2840
Reuters/Bloomberg	AEX
No. of shares in issue (m)	779.7
Market Cap (£m)	22.6
Net Cash (£m) (estimated)	11.3
EV (£m)	11.3
Website	www.aminex-plc.com

Core NAV (p/share)	5
Risked NAV (p/share)	15
Price/Core NAV (x)	0.6

Expected next update

Ntorya-1 spudding December 2011

Performance	1M	3M	12M
Absolute (%)	(47)	(56)	(62)
Rel Index (%)	(53)	(57)	(64)
Relative to	FTSE Oil & Gas Index		

Research analyst

Craig Howie

0151 600 3703

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Aminex

Down... but definitely not out

Following the announcement on 6th October of the suspension of the Nyuni-2 well in Tanzania, Aminex's share price has fallen more than 40%, reflecting disappointment in an unfortunate technical failure. However, we would suggest that its diverse portfolio, strong balance sheet and rising production profile make Aminex very worthy of consideration at current levels. We have downgraded our earnings forecasts for FY2011, reflecting slippage in the Shoats Creek drilling schedule, and reduced our Risked NAV estimate to 15p/share (from 21p/share). This nonetheless implies, we believe, a strong value proposition, particularly as the shares are now trading at a circa 40% discount to estimated Core NAV of 5p/share (primarily consisting of 2P reserves in the US). Importantly, we see adequate headroom and some material newsflow through FY2012, including imminent spudding of Ntorya-1 in Tanzania, followed by commercial production from Kiliwani North.

Life goes on after Nyuni-2: Following technical difficulties, Aminex's failure to log the primary reservoir objective in Nyuni-2 resulted in a precipitous share price fall. This was undeniably disappointing, although we believe that Core NAV of 5p/share (underpinned by US reserves) limits downside from here, while a further 10p/share of risked upside in Tanzania provides good scope for share price appreciation if Aminex is able to deliver positive news in the coming months.

Balance sheet remains strong: Although we have reduced our earnings forecasts for the current financial year to reflect slippage in the Shoats Creek drilling schedule, the deferral of capital spend in the US means that headroom remains very adequate, according to our forecasts. We estimate that Nyuni-2 has cost Aminex US\$15m, although the Ntorya-1 well will be considerably cheaper, with net spend of US\$5m forecast. Net cash currently stands at circa US\$18m.

Introducing forecasts for FY2012: We have introduced forecasts for FY2012, which assume first gas from Kiliwani North in the second quarter. Commercialisation of Kiliwani North has taken time, although we now have sufficient confidence to include it in our production forecasts. This follows award of a development licence earlier this year, and we also believe that the signature of a new PSA at Nyuni reinforces Aminex's strong presence in an exciting region.

Results and Forecasts

Year to	Turnover	Adj. PBT	Adj. EPS	DPS	Net Cash	PER	EV/EBITDA	Div Yield
December	(US\$m)	(US\$m)	(c)	(c)	(US\$m)	(x)	(x)	(%)
2009A	7.9	(2.9)	(0.92)	-	11.6	n/a	n/a	n/a
2010A	7.1	(4.7)	(1.11)	-	2.8	n/a	n/a	n/a
2011F	9.5	(2.0)	(0.27)	-	10.6	n/a	n/a	n/a
2012F	14.1	0.7	0.08	-	4.8	58.0	4.8	n/a

Source: Aminex, Shore Capital Stockbrokers

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Life after Nyuni-2

Nyuni-2 well is available for re-entry at a later date

On 6th October 2011, Aminex announced that continued technical problems had prevented logging of the primary reservoir objective in its Nyuni-2 well in Tanzania. This followed an unsuccessful attempt to sidetrack an obstruction downhole, and the decision was made to suspend Nyuni-2, given the high cost and low chance of success that would have been associated with repeated sidetrack attempts. This was clearly a disappointing outcome, particularly given the good indications of gas in shallower horizons, although the well was not fully plugged and abandoned, leaving it available for possible re-entry at a later date.

Transition zone seismic now planned

Frustratingly, because Aminex was unable to evaluate the primary objective in Nyuni-2, the prospect has been neither proved nor disproved, to our minds, despite US\$15m of net spend. The original Nyuni-1 well, which discovered gas in the Aptian/Albian horizon and contains a contingent resource of 233bcf (billion cubic feet), also remains untested. Transition zone seismic is now planned around Nyuni and Fanjove Islands, ahead of further drilling or re-entries; given Nyuni's postcode in such an exciting area and Aminex's 70% working interest, we think that the company is ideally positioned to obtain farm-in support in due course, should this be necessary once additional seismic has been acquired.

Ntorya-1 to spud by year-end

Aminex has just announced formal signature of a new, enlarged PSA (Production Sharing Agreement) at Nyuni, which we hope marks the beginning of a period of rather more positive newsflow. The next key milestone for the company in Tanzania will be spudding of its Ntorya-1 exploration well at Ruvuma, which we expect in early December 2011. The Caroil-6 rig is due to be mobilised to the Ntorya-1 wellsite imminently. We estimate net drilling and completion costs of US\$5m, which is considerably less than for Nyuni-2 because of the well's shallower depth and vertical profile. We discuss Ntorya-1, which is located in the exciting Ruvuma basin, in more detail in the next section of this note.

Kiliwani North gas sales expected in Q2 2012

The final component of Aminex's portfolio in Tanzania is its Kiliwani North discovery, where a new development licence has been carved out of the Nyuni exploration area. Despite past delays, we understand that the Tanzanian authorities are now very keen to see this project commercialised due to local gas shortages. Aminex is confident that it can achieve first gas in the second quarter of 2012. In addition to the engineering and procurement of equipment to tie Kiliwani North into existing gas processing facilities at Songo-Songo, final negotiation of a gas sales agreement is currently underway, and we now have sufficient confidence to factor Kiliwani North into our production forecasts for next year.

Scope to increase KN-1 flow rates from 10mmcf

The KN-1 well tested in 2008 at a strong flow rate of 40mmcf (million cubic feet per day), although we understand that existing pipeline capacity will initially limit daily production to 10mmcf, once the well has been brought on stream. This will still give an annualised revenue contribution (net to Aminex) of US\$6m, according to our forecasts, providing a long-term revenue stream that has scope to increase in the future. We estimate that it will cost Aminex circa US\$2.6m to tie Kiliwani North into the existing facilities at Songo-Songo; this should be a relatively straightforward engineering project and first gas from the field will mark the beginning of commercial gas sales for Aminex in Tanzania.

In the US, we are forecasting a sequential rise in second half revenues

In the first half of FY2011, Aminex generated production revenues of US\$2.9m from its US portfolio, which is dominated by Alta Loma in Texas and Shoats Creek in Louisiana. Although further drilling at Shoats Creek has now slipped into FY2012, Aminex should benefit from a full six months' contribution from the recompleted Sunny Ernst-2 well at Alta Loma in the current half year, when we are forecasting US production revenues of US\$3.9m. We expect production in the US to be maintained at a similar level through FY2012, implying continued year-on-year revenue growth from Aminex's US operations; these will continue to provide the company with a useful source of operating cash flow, according to our forecasts.

Risked NAV of 15p/share
(including Core NAV of 5p/share)

We have updated our sum-of-the-parts valuation for Aminex, with Core NAV falling to 5p/share (from 7p/share), reflecting lower net cash balances following drilling of Nyuni-2. We calculate additional risked upside of 10p/share (previously 14p/share), which is now lower due to the more aggressive risk factor attributed by us to the Nyuni project. Importantly, volumetric estimates at Nyuni remain unchanged although, given the technical difficulties experienced during drilling of Nyuni-2, we think that it is now prudent to take a more conservative stance on risk. This still gives Risked NAV of 15p/share, implying good scope for share price appreciation if Aminex is able to deliver positive news in the coming months.

Fig 1: Aminex sum-of-the-parts valuation

	Unrisked	CoS*	Risked	Unrisked	Risked	Risked
	US\$m	%	US\$m	US\$/share	US\$/share	GBP/share
US reserves	70.0	100	70.0	0.09	0.09	0.05
Oil services	2.8	100	2.8	0.00	0.00	0.00
Net cash	18.0	100	18.0	0.02	0.02	0.01
G&A	(27.0)	100	(27.0)	(0.03)	(0.03)	(0.02)
Core NAV	63.8	-	63.8	0.08	0.08	0.05
Kiliwani North	17.7	70	12.4	0.02	0.02	0.01
Nyuni appraisal	98.4	30	29.5	0.12	0.04	0.02
Nyuni exploration	552.9	10	55.3	0.68	0.07	0.04
Ruvuma	281.3	10	28.1	0.35	0.03	0.02
Total NAV	1,014.1	-	189.1	1.26	0.23	0.15

Source: Shore Capital Stockbrokers
Assumed \$/£ rate: 1.6. *Chance of Success

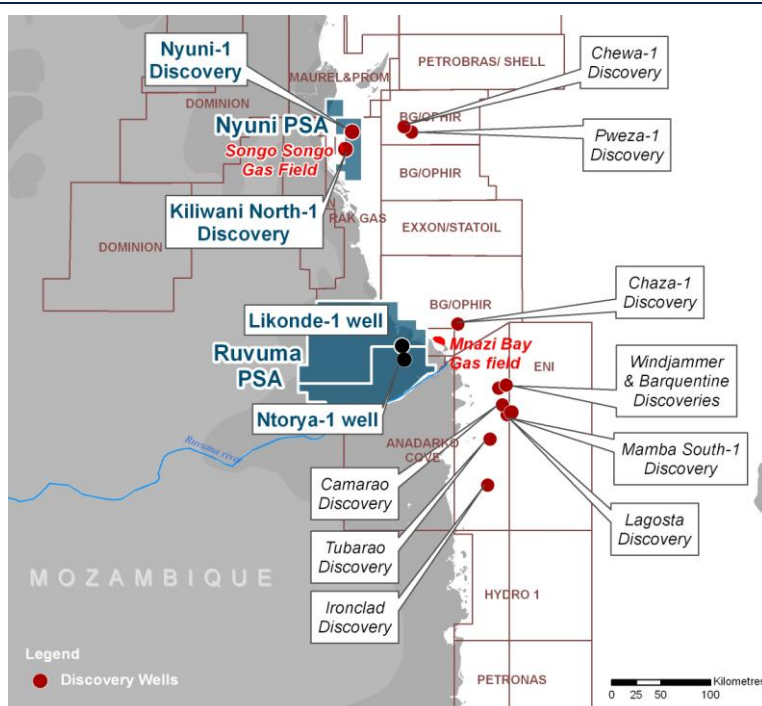
Note: we attribute a value of US\$70m to Aminex's reserves in the US. This compares to an independently assessed NPV10 of US\$46m for proven (1P) reserves and US\$135m for proven plus probable (2P) reserves. Our estimate is intended to reflect current implied reserve values and equates to approximately US\$28 per proven barrel.

Next up... Ntorya-1

The Ruvuma basin has been the subject of intense industry interest

As discussed in our previous research, the Ruvuma PSA covers 12,000km² on Tanzania's southern border with Mozambique and is primarily onshore, but adjacent to the Mnazi Bay gas field operated by Maurel & Prom in shallow coastal waters. Other operators have been very active on the Mozambique side of the basin, including Anadarko which, with Cove Energy (COV, No Recommendation, 87p), has enjoyed success with high-profile gas discoveries in deep water offshore, including the recent Camarao exploration/appraisal well.

Fig 2: Tanzania location map



Source: Aminex

Aminex has assumed operatorship of the Ruvuma PSA

Aminex, with its partners Tullow Oil (TLW, No Recommendation, 1,409p) and Solo Oil (SOLO+, No Recommendation, 0.7p), holds the principal onshore acreage north of the border in Tanzania. Aminex has a 56.25% working interest, recently increased from 37.5% in a deal signed in September 2011, which saw Aminex and Solo increase their stakes, and Aminex take over as operator from Tullow. BG Group (BG, No Recommendation, 1,392p) has reported a deep water gas discovery in its licence directly adjoining the PSA.

2D seismic enabled identification of large, drillable prospects

Since award of the Ruvuma PSA in 2005, 370km of offshore and 430km of onshore 2D seismic data have been acquired. Following the completion of interpretation work, four large onshore prospects were originally identified, with P50 resources of 50mmbbl (million barrels) and/or 300bcf estimated in each. However, subsequent reprocessing work by Tullow led to confirmation of the first well location (Likonde-1), which was spudded in early 2010.

Likonde-1 targeted multiple reservoirs	Likonde-1 targeted multiple reservoirs, including Tertiary and Cretaceous intervals, to a planned total vertical depth of 3,200m. This was primarily an oil prospect, with upside resource potential estimated at 153mmboe (million barrels of oil equivalent) and an estimated one in four chance of success.
Hydrocarbon shows and potential reservoir thickness provided encouragement	Results from Likonde-1 were reported in April 2010 after a powerful gas influx halted drilling at an extended total depth of 3,650m. Results from drilling, logging and coring showed that the well had intersected two sandstone intervals with a combined thickness of over 820 feet (250m), and evidence of residual oil and gas. High gas readings were recorded through most of the well bore, with drill cuttings and sidewall cores providing evidence of crude oil.
Evidence of a working petroleum system	Although Likonde-1 was not a flowing, commercial discovery, the hydrocarbon shows and potential net reservoir thickness provided lots of encouragement ahead of drilling of a second exploration well. Residual hydrocarbons demonstrate that there is a working petroleum system, although the oil appears to have migrated beyond the cap rock overlaying the reservoir. Anadarko's Ironclad well, drilled offshore in 2010, seems to support this theory, providing documented evidence of liquid hydrocarbons elsewhere in the basin.
Ntorya-1 scheduled for spudding by the end of this year	The priority for the partners was therefore to find a structure with an effective trapping mechanism and, following evaluation of new data acquired during drilling of Likonde-1, Ntorya-1 was selected as the next drilling location. Ntorya-1 is scheduled for spudding in early December 2011, at an estimated cost of US\$10-11m (100%). Drilling will fulfil the partners' work commitments for the current exploration phase, which will expire shortly.
100mmboe targeted, with the potential for oil and gas	Ntorya-1 will target the same high-quality Lower Tertiary reservoir sands encountered in the Likonde-1 well, and will be drilled about 14 kilometres south of that well's location, to a planned total depth of approximately 2,000m. The shallower depth means that Ntorya-1 will be cheaper to drill than the first exploration well. Mid-case recoverable resource potential of 100mmboe is estimated by the operator, with a 20% probability of success.
Aminex's working interest has increased to 56.25%	Aminex announced on 8 th September 2011 that it had agreed to assume operatorship and increase its stake to 56.25% at Ruvuma, with Solo simultaneously announcing that it was to take its interest to 18.75%. Given Aminex's existing presence and operating capability in Tanzania, we think that this is a very logical outcome that should expedite the work programme, lead to operational efficiencies and reduce costs. Tullow retains a 25% stake.
Caroil-6 rig to be mobilised to Ntorya-1 wellsite shortly	The Caroil-6 rig will shortly be mobilised to Ruvuma from the Nyuni-2 wellsite and, following spudding in the run-up to Christmas, Ntorya-1 is expected to take 25 days to reach total depth. All major services have been tendered while, given the short timeline to drilling, Tullow continues to provide logistical support. To our minds, Aminex's increased stake is good news as it provides additional leverage to drilling success in a very exciting basin.

Introducing forecasts for FY2012

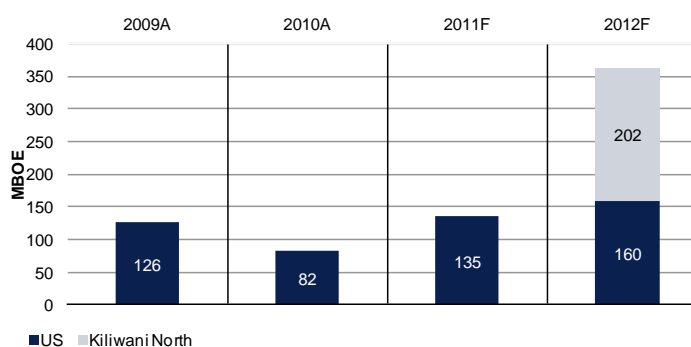
Development drilling at Shoats Creek deferred until FY2012

Following recent news and discussions with management, we have updated our financial model and introduced forecasts for FY2012. We have downgraded forecast revenues for FY2011 (to US\$9.5m from US\$18.1m), reflecting slippage in the drilling schedule at Shoats Creek in the US. Our forecasts previously assumed production from two developments wells targeting the Wilcox sands in the current half year, although we understand that El Paso is now planning to commence drilling in mid-2012. We suspect that the recently announced takeover of El Paso by Kinder Morgan Inc (KMI, No Recommendation, US\$26.86) is unlikely to expedite matters; Aminex hopes to see production from new wells at Shoats Creek in the second half of next year, although we do not assume any contribution in FY2012.

We are forecasting a material uplift in production revenues next year

However, we continue to forecast a sequential rise in US production in the current half year, as Aminex benefits from a full six months' contribution from the recompleted Sunny Ernst-2 well at Alta Loma. We are forecasting total US production of 135,000boe and 160,000boe in FY2011 and FY2012, respectively, implying a continued rebound from last year's trough. In addition, we have assumed that Kiliwani North in Tanzania is brought on stream on 1st June 2012 at 10mmcf/d; assuming a realised gas price of US\$3/mcf and seven months of production, Kiliwani North is forecast to generate revenues of US\$3.5m and operating profit of US\$2.3m in FY2012. We estimate group revenues of US\$14.1m next year, translating into a modest £0.8m operating profit and EPS of 0.08p.

Fig 3: Aminex net annual production, 2009-2012F



Source: Aminex, Shore Capital Stockbrokers

Aminex remains adequately funded with net cash of circa US\$18m

From a cash flow perspective, we estimate that Aminex currently has approximately US\$18m of net cash. With the deferral of expenditure at Shoats Creek (we assume that two wells are drilled at the end of next year), headroom remains comfortable throughout our forecast period. According to our forecasts, the main items of outstanding spend in the current financial year are Aminex's contribution to drilling Ntorya-1 (US\$5m, adjusting for existing inventory) and commercialising Kiliwani North (US\$2.0m). Looking into FY2012, forecast expenditure includes two wells at Shoats Creek (US\$6.0m) and transition zone seismic at Nyuni (US\$1.4m). We are forecasting closing net cash of US\$10.6m at the end of FY2011 and US\$4.8m at the end of FY2012.

Conclusions

Aminex remains well funded, and has an active work programme

It will take the market time to get over the Nyuni-2 disappointment, while the forthcoming Ntorya-1 well is, of course, not without risk. However, Aminex shares do appear fundamentally undervalued according to a conventional valuation methodology, in our opinion, so we think that a more positive flow of news in the coming months has the potential to drive a share price recovery from current lows. Importantly, Aminex remains adequately funded, according to our forecasts, and has some important milestones to look forward to, including spudding of Ntorya-1 and commercial production from Kiliwani North.

Strategic position in Tanzania is very strong

In addition to the intrinsic value of its 2P reserve base in the US, we note Aminex's strong presence in Tanzania, which includes an in-country team, operating capability and mature asset portfolio. Interest in Tanzania, including onshore areas, has been growing, as illustrated by the recent admission to AIM of Wentworth Resources (WRL, No Recommendation, 51p) and award of the Rukwa PSA to Heritage Oil (HOIL, No Recommendation, 211p). Dominion Petroleum (DPL, No Recommendation, 5.8p) is also being acquired in a recommended cash offer by Ophir (OPHR, No Recommendation, 261p).

Core NAV of 5p/share provides downside protection, in our view

Aminex's strategic position in Tanzania is certainly strong, in our view. We believe that the focus in the coming months will be on the delivery of key operational milestones and, in the short term, all eyes will be on Ntorya-1, where a result can be expected in the New Year. From a P&L perspective, although we have downgraded our forecasts for the current financial year, we continue to expect year-on-year production growth in the US, while Kiliwani North should make a very useful revenue contribution from mid-2012. With US reserves translating into Core NAV of 5p/share, we believe that downside from current levels is limited. Aminex shares are trading at a circa 40% discount to Core NAV, which seems wide compared to other independent E&P companies with active drilling programmes.

Fig 4: Aminex – profit & loss (\$'000)

Yr-end December	2009A	2010A	2011F	2012F
Revenues				
US production	4,247	4,456	6,760	7,791
Tanzania production	-	-	-	3,510
Oil services	3,601	2,625	2,750	2,750
Total revenues	7,848	7,081	9,510	14,051
Operating costs				
US production	(4,428)	(5,272)	(6,139)	(6,397)
Tanzania production	-	-	-	(1,257)
Oil services	(3,431)	(2,662)	(2,668)	(2,668)
Central costs	(2,754)	(3,715)	(2,850)	(2,900)
Total operating costs	(10,613)	(11,649)	(11,657)	(13,221)
Operating profit				
US production	(181)	(816)	621	1,394
Tanzania production	-	-	-	2,253
Oil services	170	(37)	83	83
Central costs	(2,754)	(3,715)	(2,850)	(2,900)
Total operating profit	(2,765)	(4,568)	(2,147)	830
Profit on disposal	-	238	-	-
Net interest	(130)	(165)	200	(150)
Profit before tax	(2,895)	(4,495)	(1,947)	680
Adj. profit before tax	(2,895)	(4,733)	(1,947)	680
Tax	-	-	-	-
Profit after tax	(2,895)	(4,495)	(1,947)	680
Average shares (000)	315,176	425,738	727,264	779,700
Average diluted shares (000)	-	-	-	807,400
EPS (cents)	(0.92)	(1.06)	(0.27)	0.09
Adjusted EPS (cents)	(0.92)	(1.11)	(0.27)	0.09
Adjusted diluted EPS (cents)	(0.92)	(1.11)	(0.27)	0.08

Source: Aminex, Shore Capital Stockbrokers

Fig 5: Aminex – cash flow (\$'000)

Yr-end December	2009A	2010A	2011F	2012F
Net profit	(2,895)	(4,495)	(1,947)	680
DD&A	1,590	1,194	1,754	2,856
Depreciation of other assets	50	79	50	50
Asset write down	0	550	0	0
Other provisions	0	0	0	0
FX (gains)/losses	215	(41)	200	0
Net interest	130	165	(200)	150
Profits on disposal	20	(238)	(39)	0
Impairment provisions	0	0	0	0
Share based payments	191	891	200	200
Working capital movement	(968)	1,634	(1,000)	(1,500)
Decommissioning costs	0	(135)	(200)	(200)
Interest paid	(13)	(11)	(10)	(10)
Operating cash flow	(1,680)	(407)	(1,192)	2,226
Capital expenditure	(1,360)	(5,789)	(9,627)	(6,600)
Exploration expenditure	(5,918)	(6,955)	(21,104)	(1,400)
Payment of back costs	1,250	0	0	0
Proceeds from disposal	91	90	490	0
Interest received	7	3	25	10
Other	0	0	0	0
Free cash flow	(7,610)	(13,058)	(31,408)	(5,764)
Share issues	15,250	4,312	39,189	0
Net cash flow	7,640	(8,746)	7,781	(5,764)
Opening net cash	3,914	11,554	2,808	10,589
Closing net cash	11,554	2,808	10,589	4,825

Source: Aminex, Shore Capital Stockbrokers

Fig 6: Aminex – US production and cost data

Yr-end December	2009A	2010A	2011F	2012F
Total oil production (000bbl)	42.0	39.0	47.0	52.5
Total gas production (000mcf)	489	248	510	623
Total oil & gas production (000boe)	126.3	81.8	134.9	159.9
Average oil price (\$/bbl)	55.25	76.46	95.00	95.00
Average gas price (\$/mcf)	3.91	4.74	4.50	4.50
Oil revenues (\$'000)	2,321	2,982	4,465	4,988
Gas revenues (\$'000)	1,912	1,176	2,295	2,804
Total revenues (\$'000)	4,247	4,456	6,760	7,791
Production cost/boe (\$)	(22.47)	(49.88)	(32.50)	(27.50)
Production costs (\$'000)	(2,838)	(4,078)	(4,385)	(4,398)
Cash operating profit (\$'000)	1,409	378	2,375	3,393
DD&A/boe (\$)	(12.59)	(14.60)	(13.00)	(12.50)
DD&A (\$'000)	(1,590)	(1,194)	(1,754)	(1,999)
Total operating costs (US production) (\$'000)	(4,428)	(5,272)	(6,139)	(6,397)
Operating profit (US production) (\$'000)	(181)	(816)	621	1,394

Source: Aminex, Shore Capital Stockbrokers

CONFLICTS

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Contacts

All Shore Capital contacts can be emailed as follows: firstname.lastname@shorecap.co.uk

Analysts

Clive Black <i>Food & Drug Retailers, Food Producers, Household & Personal Goods</i>	+44 (0)151 600 3701
Darren Shirley <i>Food & Drug Retailers, Food Producers, Household & Personal Goods</i>	+44 (0)151 600 3702
Phil Carroll <i>Beverages, Foodstuffs & Tobacco</i>	+44 (0)151 600 3711
Eamonn Flanagan <i>Insurance, Life Assurance & Lloyd's Vehicles</i>	+44 (0)151 600 3714
Owen Jones <i>Financial General</i>	+44 (0)151 600 3713
Gary Greenwood <i>Banks</i>	+44 (0)151 600 3717
Robin Speakman <i>Support Services & Technology</i>	+44 (0)151 600 3712
David O'Brien <i>Recruitment & Smaller Companies</i>	+44 (0)151 600 3707
Gerard Lane <i>Equity Strategy & Economics</i>	+44 (0)151 600 3724
Alex Stewart <i>Equity Income Sales</i>	+44 (0)207 647 8156

Sales

Rupert Armitage	+44 (0)207 647 8123
Richard Arthur	+44 (0)151 600 3706
Andy Forshaw	+44 (0)151 600 3708
Stephen Henney	+44 (0)151 600 3718
Jane Hodgson	+44 (0)151 600 3715
Andrew Keith	+44 (0)207 079 1672
Malachy McEntyre	+44 (0)151 600 3710
John Ritchie	+44 (0)151 600 3705
Terry Sissons	+44 (0)207 647 8165
Richard Sloss	+44 (0)207 079 1673
William De La Warr	+44 (0)207 468 7933

Corporate Broking

Dru Danford	+44 (0)207 468 7905
Stephan Auton	+44 (0)207 408 4062
Nick Bankes	+44 (0)151 600 3700
Bidhi Bhoma	+44 (0)207 468 7904
Anita Ghanekar	+44 (0)207 408 4052

London Office

Bond Street House
14 Clifford Street
London W1S 4JU
T: +44 (0)207 408 4080

Liverpool Office

The Corn Exchange
Fenwick Street
Liverpool L2 7RB
T: +44 (0)151 600 3700

Edinburgh Office

1st Floor
3/5 Melville Street
Edinburgh EH3 7PE
T: +44 (0)207 079 1670

Jon Bell <i>Building & Construction, European Property & Construction</i>	+44 (0)207 647 8130
Gavin Jago <i>Building & Construction, European Property & Construction</i>	+44 (0)207 647 8121
Greg Johnson <i>Travel & Leisure</i>	+44 (0)151 600 3704
Karl Burns <i>Travel & Leisure</i>	+44 (0)151 600 3720
Brian White <i>Pharmaceuticals, Healthcare & Medical Devices</i>	+44 (0)207 079 1671
Paul Taylor <i>Pharmaceuticals, Healthcare & Medical Devices</i>	+44 (0)207 079 1675
Craig Howie <i>Oil & Gas</i>	+44 (0)151 600 3703
Yuen Low <i>Small & Mid Cap Mining</i>	+44 (0)207 647 8152

Sales Traders

Simon Fine	+44 (0)207 647 8133
Barrie Ashton	+44 (0)207 647 8124
Russell Brody	+44 (0)207 647 8120
Will Porter	+44 (0)207 647 8132
David Taylor	+44 (0)207 647 8127
Simon Thomas	+44 (0)207 647 8145

Toby Gibbs	+44 (0)207 468 7967
Pascal Keane	+44 (0)207 468 7995
Jerry Keen	+44 (0)207 468 7964
Edward Mansfield	+44 (0)207 468 7906