

09 March 2017

OIL & GAS



Initiation of Coverage

Marketing Communication (Connected Research)

LGO Energy[#]

BBG Ticker: LGO LN

Price: 2.45p

Mkt Cap: £10.3m

BUY

Year to Dec	Revenue (£'000)	EBITDA (£'000)	PBT (£'000)	EPS (p)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
2014A	9,211.0	(2,747.0)	(5,112.0)	(0.2)	1.3	n/m	(10.2)
2015A	9,475.0	(4,280.0)	(11,473.0)	(0.4)	1.3	n/m	(7.0)
2016E	6,313.0	15.7	(1,283.0)	(0.0)	1.9	761.0	(798.9)
2017E	10,715.2	2,638.7	1,684.7	0.0	1.1	4.5	1,355.1

SOURCE: Company Data, VSA Capital estimates.

Turning the Corner

Following the restructuring of its balance sheet in December 2016 and the 20 for 1 share consolidation in early March, **LGO Energy (LGO)[#]** now appears to have turned the corner and preserved its reputation as an operator in Trinidad. It is now refocusing its efforts on the Goudron Field development plan and looking to capitalise on its acreage position in the South West Peninsula.

Goudron Field Development Underway

Following the completion of its refinancing with **Lind Partners** in December 2016, LGO was able to repay its senior loan facility with **BNP Paribas** allowing it to access previously restricted funds in Trinidadian dollars and begin the drilling of infill production wells in the Mayaro Sandstone formation of the Goudron Field, which is estimated to contain 2P reserves of 11.8mmbbls. Despite the challenges it faced LGO maintained production from the Goudron field through 2016, averaging 425bbls/d.

LGO has now mobilised a rig to begin drilling the first two wells of a planned 10 well shallow programme as it begins to ramp up production, with the cash flow from each well contributing to the remainder of the programme.

LGO also plans a full field enhanced oil recovery waterflood development at Goudron targeting over 60mmbbls of independently verified 3C resources. A low cost waterflood pilot programme, using wells already drilled, should be underway later this year.

South West Peninsula Offers Additional Value

Further to its development programme at Goudron, LGO has significant potential to add material upside from exploration in its South West Peninsula leases. Given Trinidad's history as a prolific petroleum province we view this as a particularly exciting area with reduced geological risk.

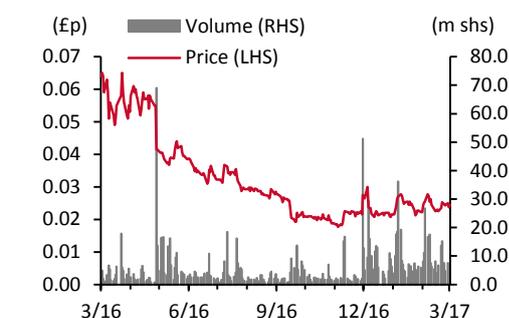
Recommendation and Target Price

We initiate coverage on LGO with a **BUY recommendation and 22p target price**, in line with our risked NAV using 12% WACC and a US\$50/bbl flat long-term oil price.

Company Description

LGO is a junior oil & gas production and development company focussed on the island of Trinidad

One Year Price Performance



Price % chg	1mn	3mn	12mn
	1.0%	2.8%	-2.8%
12mn high/low:			6.5p/1.8p

SOURCE: FactSet, as of 08/03/17 close.

Market:	LSE AIM
Price target:	22p
Shares in issue:	418.4m
Free float:	77.6%
Net debt (2016e):	£1m
Enterprise value:	£12.0m
Next news:	FY 2016 Results

Major shareholders

Barclayshare Nominees Ltd	11.7%
TD Direct Investing	10.4%
HSDL Nominees Ltd	7.2%

Edward Vaughan, Equity Analyst, Oil & Gas

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#VSA Capital acts as Research Provider to LGO Energy.

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Valuation

Methodology

The value in LGO lies in the development of its Goudron Field, through primary production and enhanced oil recovery (EOR), and exploration and development on its South West Peninsula (SWP) leases, in which LGO owns a majority 80% working interest (WI) and which we believe can create shareholder value in both the short and medium term. We have valued LGO in three main steps.

- Infill drilling of the Mayaro reservoir
- A pilot EOR waterflood scheme followed by a full-field EOR project over the Goudron Field
- Exploration and development over the South West Peninsula

Therefore, we felt the best way to capture the full value of LGO was to produce an asset by asset NAV on a per barrel basis applying detailed DCF modelling for each of the above developments, based on our own assumptions, data from analogous fields and company guidance.

In its most recent Contingent Person's Report (CPR) update carried out by **Deloitte** in June 2016 LGO's proven and probable (2P) reserves at Goudron increased to 11.8mmbbls (2015: 7.2mmbbls) relating to the Mayaro Sandstone and deeper C-Sand reservoirs, to which we have applied our per barrel NAV. We have followed a similar process for the full-field waterflood programme based on the 2C contingent resource number of 22.2mmbbls from the same CPR but note that upside remains in the 3C contingent resource number of 63.4mmbbls. Finally we have valued the SWP leases which are estimated by LGO to have gross un-risked prospective resources of 1.3Bboe. LGO's wholly owned subsidiary, **Leni Trinidad Limited**, recently signed a sales and purchase agreement (SPA) with **Beach Oil Field Limited (BOLT)** to acquire its remaining 75% shareholding and, therefore, its operatorship of some of the key SWP leases. This transaction is expected to complete in March/April 2017 and we assume this is successfully completed for our valuation purposes. We apply the following factors to reach our risked valuation.

Recovery Factor

Currently the SWP leases do not have a CPR or risked resource estimate. Based on company guidance and data from the nearby offshore Soldado Field we apply a 15% recovery factor to the un-risked STOIP of c1.3Bboe.

Discount Rate

We have applied a discount rate of 12% to reflect the fact that whilst Trinidad is still a developing nation it has an established petroleum and fiscal system which is currently undergoing reform to make the terms more favourable for investors.

Chance of Success

Our risked NAV carries a varying Chance of Success (CoS) across each asset depending on the category of resources the asset is assigned. As we value the Mayaro infill drilling on a 2P reserves basis of 11.8mmbbl we have assigned a CoS of 50%, this reflects the fact that a significant amount (10.2mmbbl) of these reserves lie in the 'probable' category and the fact the wells to exploit these reserves still require some funding.

On the full-field water flood development we have applied a geological CoS of 30%, which reflects the success of other waterflood projects in close proximity to Goudron and are interpreted to have very similar characteristics. We also view the waterflood pilot project as a key component to de-risking the full field project. As the pilot requires relatively little capex (<US\$1m in our assumptions) and has low geological risk we are confident that LGO will successfully complete the pilot test and in turn provide better visibility on the commerciality of the full field development.

Whilst SWP is still mostly an exploration play and, therefore, inherently riskier than a development project we have applied a geological CoS of 20% to reflect our high level of confidence in this region as a proven petroleum province which sits on trend with the offshore Soldado Fields which **Petrotrin** was producing 6,000bbls/d from in 2014. Furthermore LGO already has some production from the shallow reservoirs in SWP removing the risk of the presence of a source rock. LGO has consistently indicated it expects to farm-out SWP to share the risk and cost in this project. Our NAV indicates the potential for significant upside in the SWP should LGO successfully meet its stated targets by defining the resource and find a farm-in partner as this would remove the funding risk over the project.

Funding

Currently LGO's funding requirements are relatively modest, until it starts a significant drilling campaign. In the short term LGO will require some additional funds to continue the drilling programme through 2017 and into 2018. At a cost of only US\$0.5m per well, the funding required will be dependent on how quickly the revenue from new barrels outpace the drilling profile. In our valuation we assume a full 45 well development over the Mayaro Sandstone.

Funding options include both equity placings and further drawdowns from the Lind facility, however, we view this latter option as unlikely whilst it continues to pay down its first tranche of funding of US\$1.825m over the next 24 months.

NAV, Recommendation and Target Price

For our assumptions we use a long-term flat oil price of US\$50/bbl and a 12% WACC. **We initiate coverage on LGO with a BUY recommendation and 22p target price.**

NAV Summary Table

Asset	Gross reserves/resources (mmboe)	Recovery Factor	Working Interest	Net reserves/resources (mmboe)	Geological CoS	Funding CoS	Risked Reserves (mmboe)	NPV US\$/boe	Risked US\$m	Net Risked p/share
Goudron - Mayoro	11.80	100%	100%	11.8	50%	100%	5.9	5.1	29.9	5.7
Full Waterflood	22.2	100%	100%	22.2	50%	70%	7.8	2.3	18.2	3.5
South West Peninsula	1299.00	15%	80%	155.9	20%	30%	9.4	7.5	70.2	13.4
Subtract: SG&A									(2.9)	(0.5)
Subtract: Debt									(1.8)	(0.3)
Add: cash FY17									1.5	0.3
Total NAV										22.0

SOURCE: VSA Capital estimates.

Investment Case

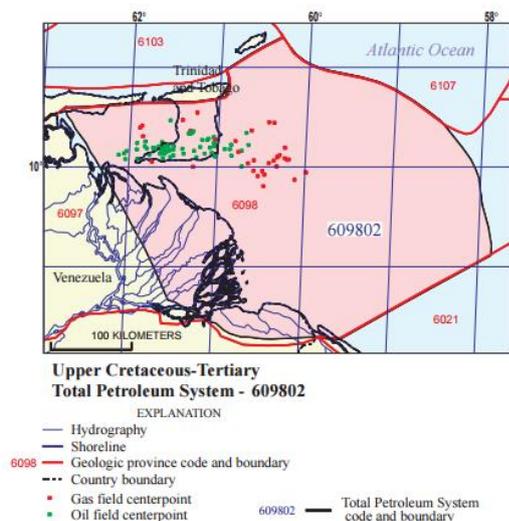
An Established Petroleum Province with Further Potential

Trinidad is a prolific petroleum producing province having produced for over 100 years on land and in shallow water producing over 3Bbbls. According to the EIA Trinidad’s proven crude oil reserves in 2013 stood at 728mmbbls. Therefore, LGO is operating in a proven province with a stable fiscal regime (that is set to potentially improve) and is currently ramping up its already producing assets with a planned EOR scheme on the horizon.

Further to its development programme at Goudron LGO has significant potential to add material upside from exploration in the SWP and due to the proven geology in the region we do not place it in the same risk category as a pure exploration play and, therefore, carries less risk.

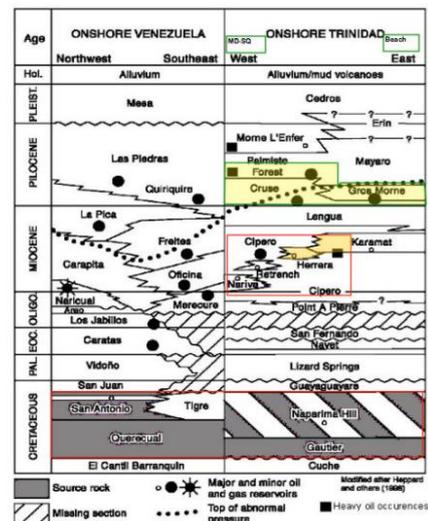
LGO’s assets are located in the Southern basin, the eastern extension of the prolific Eastern Venezuelan petroleum province defined by a regionally extensive Upper Cretaceous source rock. These rocks underlie deposits of Paleocene to Miocene age that account for large oilfields in Venezuela (El Furrial) and Trinidad (Penal-Barrackpore, Angostura). However, the main source rock across Trinidad is the mudstones of the Miocene Lower Cruse Formation. The reservoirs in Trinidad are mainly deltaic sandstones of the Miocene and Pliocene, which were charged by the migration of hydrocarbons along the numerous growth faults associated with the progradation of the Orinoco delta, and also along vertical faults associated with the wrench fault zones. Similarly, many of the trapping systems are structural with normal fault traps associated with the 150km wide fault zone of the Caribbean plate.

Trinidad Basins Assessment



SOURCE: USGS.

Trinidad Stratigraphic Column



SOURCE: Range Resources.

Proposed Reform of the Oil and Gas Tax Regime

In its 2017 budget statement the Government of the Republic of Trinidad and Tobago announced it was seeking to reform its oil and gas regime and has been advised by the International Monetary Fund (IMF) on the matter. In the wake of low hydrocarbon prices, following the oil price rout, the government is seeking to continue to promote investment in the sector and reduce the fiscal burden on projects with lower profitability in the lower price environment.

Trinidad’s current system requires companies operating in the region to pay a government royalty on revenue of 12.5%, petroleum profits tax of 50% and a smaller unemployment levy and green fund levy totalling 5.1%. A supplementary petroleum tax (SPT) is charged on revenue at prices over US\$50/bbl. With oil prices steadily recovering this has come to be viewed as a potential disincentive to small and medium sized producers, such as LGO. Because the

SPT comes into effect at prices above US\$50/bbl and since the SPT is charged on gross income rather than on profits it means there is an immediate 18% charge on income from the time the three month average price of crude moves above US\$50/bbl, effectively meaning it is more profitable to produce at US\$49/bbl rather than US\$51/bbl.

In summary, the IMF recommended a number of changes that would benefit companies investing in Trinidad’s natural resources whilst also securing a fair share of rents for the government by shifting the tax base towards profits and cash flow rather than gross production or revenue. The IMF recommended a fixed royalty rate of 10-12%, similar to what is currently in place, to ensure a minimum income stream. On top of this a cash flow tax would be applied to replace the existing SPT and a reformed PPT, where the rate is reduced and harmonised across projects. Essentially the proposed new terms by the IMF are intended to make the system more responsive to a project’s profitability. Importantly for LGO the government is also working on the design of a specific fiscal system for secondary recovery to prevent these fields from becoming stranded once primary production is exhausted.

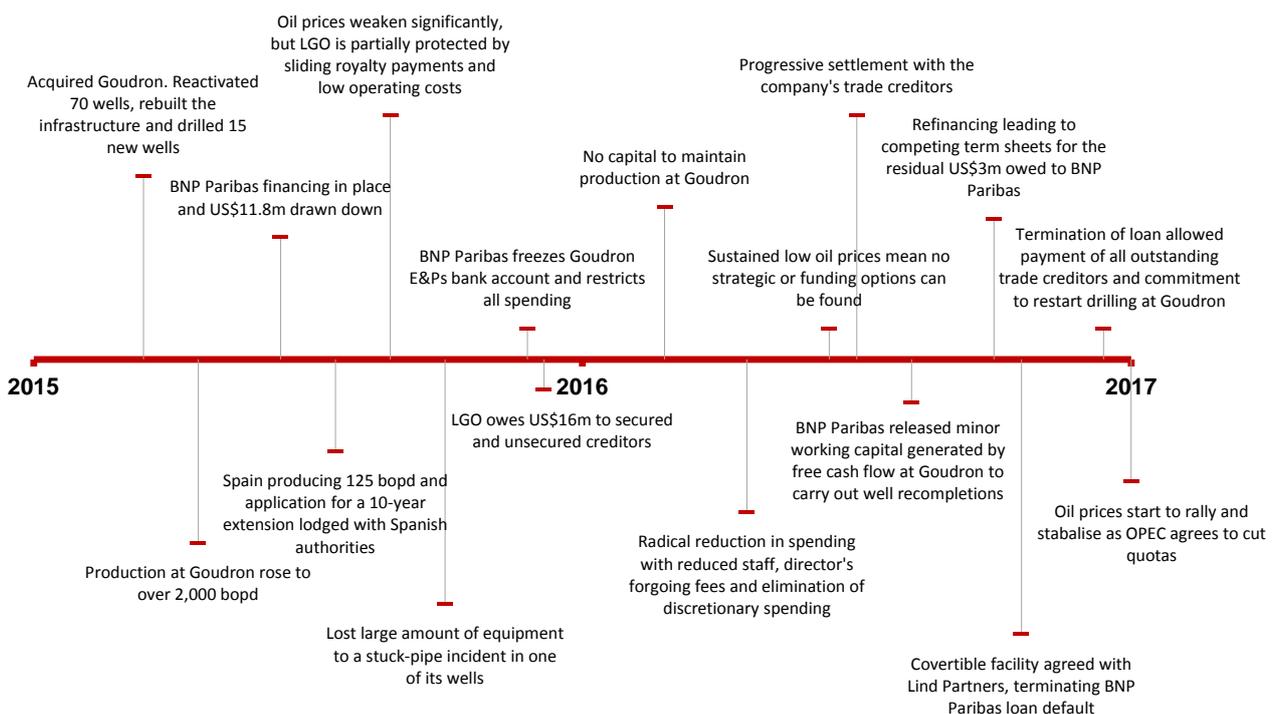
Whilst these proposals are currently under active consideration no time frame has been given for its implementation. Indeed, for our modelling purposes we use the current fiscal terms for guidance and so any improvement in the terms for both conventional reservoirs and enhanced recovery would represent upside on our current valuation of LGO. So LGO has significant value without the proposed tax changes and any improvement would be upside.

Management has Steered LGO through Significant Headwinds

As conveyed in the timeline, LGO has faced a difficult past couple of years with operational issues combining with a low price oil environment. However, management has managed to steer the business through this tough period and now the company, with a re-capitalised balance sheet, is in a significantly stronger position moving forward. Most importantly LGO preserved its reputation as a valued operator in Trinidad and paid its trade creditors in country.

The US\$8.6m convertible funding agreement with Lind Partners was a significant turning point for the company. Not only did it enable the repayment of the BNP Paribas debt but the refinancing also allowed internal funds to be freed up and put to work on new shallow wells at Goudron, with cash flow generated being used to service the repayments of the new facility and contribute to further investment.

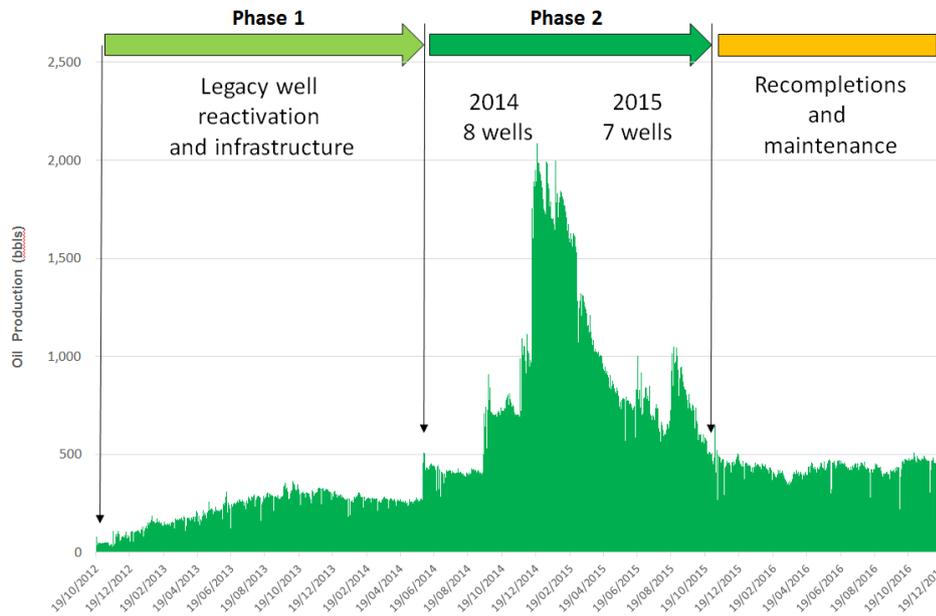
LGO Timeline



SOURCE: LGO Energy.

Furthermore LGO managed to maintain production throughout the period in which it experienced its difficulties with BNPP and averaged 425bbls/d in 2016. We feel the fact that LGO continued to deliver material production despite such difficulty highlights the strength of LGO's operations in Trinidad.

LGO's Production 2012-2016



SOURCE: LGO Energy.

Business Overview

LGO's operations comprise of the Goudron Field and the fields within the South West Peninsula (SWP). This includes the Icacos Oilfield which lies within the Cedros Peninsular and is surrounded by a number of 100% LGO owned leases. The BOLT leases which contains the Bonasse Oilfield also lies within the SWP.

The Goudron Field is 100% owned by LGO and lies between the East Moruga and Beach Marcelle fields in south-eastern Trinidad. It has direct access to the **Petrotrin** oil export pipeline to the Pointe-a-Pierre refinery in western Trinidad. The field was originally discovered by in 1927 and was developed in its current form by **Texaco** between 1956 and 1986, when ownership passed to Petrotrin. A field reactivation contract, Incremental Production Service Contract (IPSC), was signed in late 2009 and was acquired by LGO in October 2012.

LGO's Operations Overview



SOURCE: LGO Energy.

Goudron Field

LGO is currently in the midst of a four phase field development plan after acquiring the field in 2012 as outlined below.

- **Phase 1 (2012-13, completed)** – LGO reactivated existing wells and repaired or replaced infrastructure
- **Phase 2 (2014-15, completed)** – LGO drilled an eight well C-sand programme in 2014 and a seven well C-sand drilling programme on the Goudron field in 2015
- **Phase 3 (2017, underway)** – Infill drilling of the Mayaro shallow reservoir and initiate the pilot Enhanced Oil Recovery (EOR) scheme
- **Phase 4 (2018 onwards)** – Roll-out full field EOR project and continue with infill drilling as necessary

LGO incorporated the drilling data from the 2015 drilling campaign as well as production data from wells drilled in 2014 and 2015 to produce an updated reserves and resources report. This work was audited in June 2016 by **Deloitte's** Resource Evaluation & Advisory team and as a result the best estimate oil in place (STOIIP) within the field has increased over 20% since the 2015 independent review to 555mmbbls.

2016 Independently Verified Resource Estimates

Gross (mmbbls)	1P	2P	3P
Reserves	1.6	11.8	25.6
Gross (mmbbls)	1C	2C	3C
Contingent Resources	3.2	22.2	63.4
Gross (mmbbls)	Low	Med	High
STOIIP	210	555	975

SOURCE: Deloitte

LGO has also increased its reserve estimate over the Goudron Field. Proven (1P) gross oil reserves in the producing Goudron Mayaro Sandstone and deeper C-sand and pre-Cruse reservoirs have increased by over 3% to 1.6mmbbls, and the gross proven and probable reserves (2P) have increased by 4% to 11.8mmbbls. Proved, probable and possible reserves (3P) have increased by 9% to 25.6mmbbls.

Phase 3 is currently underway and LGO's local operating subsidiary has now received approval from Petrotrin and the Ministry of Energy and Energy Industries (MEEI) to drill the first two of its planned Mayaro sandstone infill wells. LGO is in the process of submitting applications for the approval of a further eight well locations.

Further to this it is believed that the Goudron Field would benefit from EOR. Several analogue fields in Trinidad have implemented a water-flood scheme in the past and, based on experiences seen in those fields, LGO is confident that similar reserves and production uplift potential exists in Goudron. The 2C and 3C contingent resources, as highlighted in the table above, illustrate the potential in the planned EOR phase.

Currently, all the oil from around the field is first sent to a gathering station, where water is separated from the oil and the treated water cleaned and returned to the natural environment. Any solids are collected in the base of the tanks, but the quantities are generally small and are removed periodically during routine maintenance. The tanks all hold produced oil and water and the size of the station ensures there is sufficient latency time to get full separation of oil from the water. Oil is then transported by pipeline to Gathering Station #134, from which sales to Petrotrin are made.

The production strategy of each well is determined individually on the basis of its characteristics. The majority of the legacy and some of the new wells are being produced by conventional downhole pumps by “nodding donkeys”. All wells undergo routine and non-routine interventions as necessary. As a result it is likely that there will be some wells off-line on any one day.

Waterflood Analogues

Analogue fields in Trinidad supplement the Goudron Field dataset. The water injection schemes implemented in the local fields in Trinidad demonstrate the existing scale of water injection operations in Trinidad, as well as the response from rock formations of the same stratigraphy as the Goudron Field.

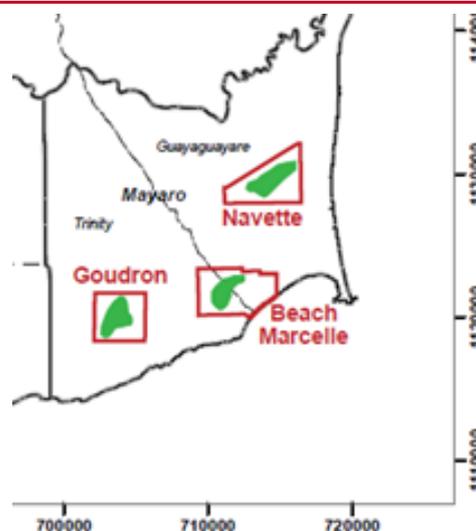
The local fields in Trinidad providing analogue data are all within c25km of the Goudron field. The nearby Navette field has performed multiple water injection schemes over the past 40 years with a secondary oil recovery factor varying from 3 to 21%. LGO also used the Beach Marcelle field as an analogue for its waterflood development as both fields are interpreted to have similar depositional environments to the C-Sand of the Goudron field. However, it should be noted not all waterflood programmes have delivered upside in Trinidad.

Work Programme

Scheme	007	410	307 main
Original Oil in Place (MMBO)	23.85	25.55	36.70
Primary Recovery (%)	36.8%	28.1%	31.8%
Cumulative secondary recovery (%)	2.6%	16.1%	2.1%
Ultimate Secondary Recovery (%)	4.5%	17.4%	5.5%

SOURCE: Eco Atlantic

Analogue Fields to Goudron



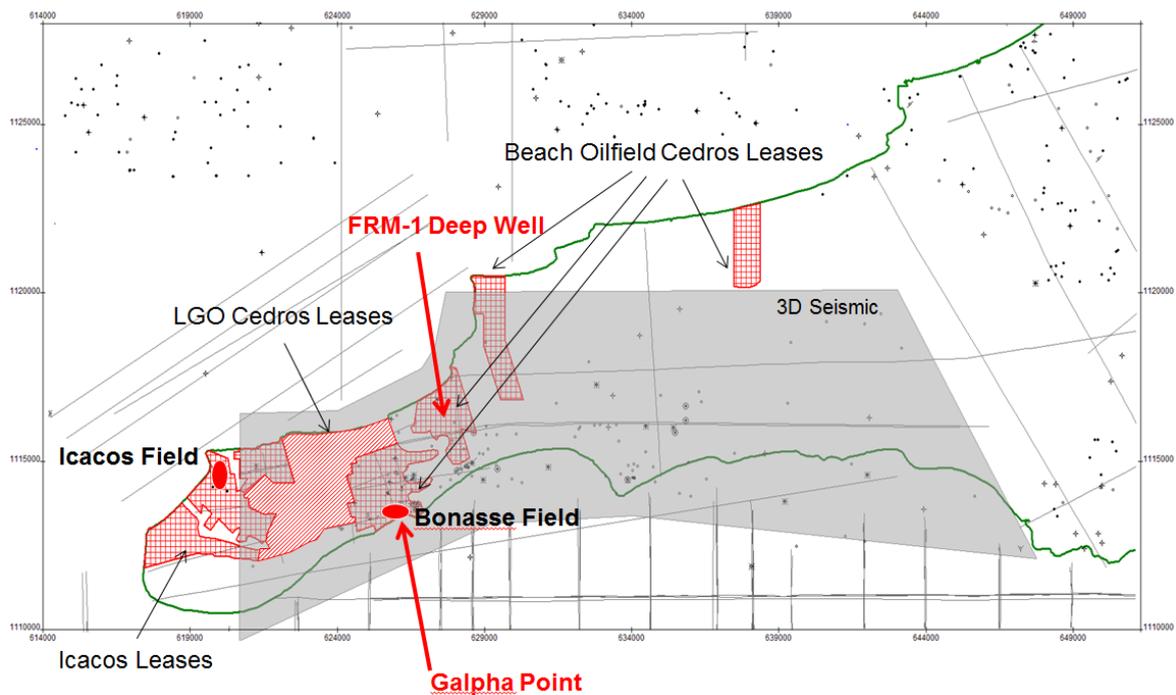
SOURCE: LGO Energy.

South West Peninsula

The SWP, where LGO already has shallow production, is significant since the deep onshore area is largely unexplored and is considered highly prospective due to its close proximity to the prolific East Venezuelan Basin of which the SWP is geologically a part.

The only deep onshore well, FRM-1, was drilled in 2008 to a depth of 12,301 feet, found oil shows in the Lower Cruse and Lengua Formations at around 11,700 feet. The regionally significant Herrera Sandstone formation was not reached in the FRM-1 well. Structural features offshore the SWP at Soldado have yielded major oil fields, in excess of 200 million barrels, and LGO believe similar structures may lie onshore beneath the SWP. LGO estimate the SWP has a STOIP of 1.3Bboe. Boulders of oil saturated Lower Cruse Herrera Sandstones are exhumed by mud volcanoes, such as at Galpha Point and confirm the presence of the play.

LGO's SWP Operations Overview



SOURCE: LGO Energy.

LGO acquired Full Tensor Gravity (FTG) data in 2015 over the entire SWP which has been interpreted alongside a soil geochemistry survey and the existing well and seismic data which includes a 3D seismic survey over a large portion of the SWP. The integrated interpretation work has shown the presence of a significant number of undrilled oil and gas leads and prospects within the SWP which will be further studied prior to a decision to drill.

Appendix 1: Board of Directors

Neil Ritson – Executive Chairman and Chief Executive Officer

Mr Ritson holds a Bachelor degree in Geophysics. He has worked in the energy sector for over 35 years, initially with BP, where he held the roles of International Chief Geophysicist, Head of Geoscience Research and Business Unit Leader for both Norway and Alaska Exploration. Subsequently Mr Ritson managed the international operations of Burlington Resources Inc and more recently he was CEO at Regal Petroleum before founding the Vanguard Energy Group where he was Chairman and CEO.

Mr Ritson is the Chairman of Solo Oil plc, the Managing Director of NR Global Consulting Limited and a Director of Marylebone Consulting Limited. He is also a Non-Executive Director of Enovation Resources Limited, a Bermudan registered private company active in the UK North Sea.

Fergus Jenkins – Chief Operating Officer

Mr Jenkins is a Chartered Engineer with a Bachelor of Engineering degree in Mining Engineering and a Master of Engineering degree in Petroleum Engineering. He has over 20 years' of experience working in industry, initially in mining before moving to petroleum. Mr Jenkins has held positions in drilling, reservoir engineering and petroleum engineering and has worked both offshore and onshore. The assets that he has worked on are spread around the Globe in areas as diverse as the UK, Libya, Nigeria, Ghana, and Cote d'Ivoire.

Mr Jenkins has held technical and increasingly senior managerial positions in mid-sized independent oil companies, including Enterprise Oil, LASMO, CalEnergy, OMV (UK) and Afren. Mr Jenkins is an Executive Director of Solo Oil.

James Thadchanamoorthy – Chief Financial Officer

Mr Thadchanamoorthy holds a Bachelor of Science degree in Chemistry and is a member of the Chartered Institute of Management Accountants. Mr Thadchanamoorthy has over 20 years' finance and commercial experience, initially in investment banking, where he worked for Merrill Lynch and Barclays Capital, before moving into the oil and gas industry. He spent over 10 years' at BP where he held a number of commercial and financial management roles in both the Upstream and Downstream divisions.

Since leaving BP, Mr Thadchanamoorthy has focused on start-up and early stage businesses. He is currently a Director at Navitas Renewables, a UK registered company where he worked in a fund raising capacity, prior to joining LGO in January 2012 to head up the Finance team.

Michael Douglas – Non Executive Director

Mr Douglas has worked in the business consultancy sector for 40 years'. He was Managing Partner for PA Consulting Group's International People Practice where his responsibilities covered the Group's Organisational Development, Pay & Rewards, Search & Selection, Advertising & Development and Process Enhancement activities. Subsequently in 1993 Mr Douglas founded the Quo Group, a consultancy specialising in behavioural change, performance and talent management, leadership development and executive coaching.

Gordon Stein – Independent Non-Executive Director

Gordon Stein is a member of the Chartered Institute of Public Finance & Accountancy and was the CFO of AIM-traded Madagascar Oil from June 2013 to October 2016. Mr Stein was previously CFO at Cadogan Petroleum which is an independent oil and gas exploration, development and production company with onshore gas and condensate assets in Ukraine. Preceding this, he has been CFO at Vanguard Energy and Regal Petroleum. He has also held senior financial and operational management positions in Fairfield Energy, Acorn Oil and Gas, LASMO, Monument Oil & Gas, Centrica and BG. Mr Stein has over 23 years' experience in the upstream oil and gas sector in the UK and internationally, including Ukraine, Tunisia, Venezuela, Algeria and Turkmenistan.

Appendix 1: Trinidad Overview

Demographics

Trinidad and Tobago has a population of 1.36m, which is split between two islands, with the majority living on Trinidad. Trinidad is made up of two main ethnic groups, East Indians and Africans, which combined make up over 85% of the population.

English is the official language, a legacy of its colonial days. The population is majority Christian (c55%), with Hinduism (c20%) and Islam (c5%) the other significant religions.

Trinidad and Tobago



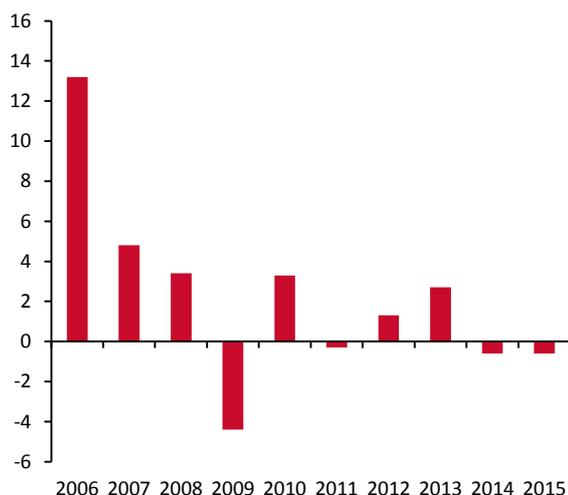
SOURCE: World Atlas.

Economy

Trinidad and Tobago is the wealthiest country in the Caribbean with a GDP of cUS\$17,300 per capita. The country's wealth has mainly been driven by the discovery of oil & gas over a century ago. Trinidad has more than 30 producing oil & gas fields, with many of them offshore. In addition, there is an oil refinery on the island, meaning that Trinidad is an exporter of higher value processed oil products.

The country is also an exporter of natural gas which has enabled it to become a large producer of ammonia and urea, both key products for fertilisers. However, the economy has experienced a significant slowdown in the last five years as energy prices have collapsed and the country has looked to diversify its economy away from oil & gas production.

Trinidad GDP Growth (%)



SOURCE: World Bank.

Trinidad Inflation (%)



Politics

Trinidad gained independence from the UK in 1962. Since then the country has had a stable political system. Keith Rowley of the People's National Party has been Prime Minister since 9th September 2016. Both the People's National Party and the opposition party are pro-business and are accommodating to foreign companies especially ones in the oil

sector. However, the fact that Trinidad is located just off the coast of Venezuela has meant that it has become one of the main gateways out of South America for the cocaine trade. This has resulted in Trinidad having an elevated murder rate; though this has remained largely within the drug gangs and has not significantly impacted international business or tourism on Tobago.

Appendix 2: Financials

Profit & Loss (Reported)

Year End Dec (£000)	2014A	2015A	2016E	2017E
Revenues	9,211.0	9,475.0	6,313	10,715
Cost of Sales	(6,263.0)	(9,808.0)	(2,856)	(4,571)
Gross Profit	2,948	(333)	3,457	6,144
SG&A	(4,871.0)	(4,196.0)	(2,937)	(2,937)
D&A	(1,480.0)	(1,732.0)	-	-
Other Operating	(824.0)	(2,515.0)	(1,283)	(1,348)
EBIT	(4,227)	(8,776)	(763)	1,860
Net Interest	(1,293)	(240)	(520)	(175)
PBT	(5,112)	(11,473)	(1,283)	1,685
Tax Expense	(960.0)	930.0	-	(928)
Net Income	(6,072)	(10,543)	(1,283)	756

Cash Flow

Year End Dec (£000)	2014A	2015A	2016E	2017E
EBIT	(4,227)	(8,776)	(763)	1,860
D&A	2,111	5,206	779	779
Changes in WC	2,571	1,985	(3,772)	813
Changes in Other CA and CL	(776)	(1,213)	-	-
Income tax paid	-	-	-	(928)
Other	824	-	-	-
Cash flow from operations	503	(2,798)	(3,756)	2,524
Capital Expenditure	(9,310)	(7,202)	-	(4,320)
Increase in intangibles	(1,693)	(833)	-	-
Change in NCA and NCL	908	(34)	-	-
Cash flow from investing	(10,095)	(8,069)	-	(4,320)
New issuance of shares	11,809	9,853	6,380	3,000
Net Debt (Repayment) / drawdown	681	4,287	(5,252)	(907)
Net interest charges	(1,149)	(262)	(520)	(175)
Other	(688)	(458)	-	-
Cash flow from financing	10,653	13,420	608	1,918
Net change in cash	1,061	2,553	(3,148)	122
Cash and cash equivalents, beginning of year	341	1,583	4,127	979
FX differences	181	(9)	-	-
Cash and cash equivalents, end of year	1,583	4,127	979	1,101

Balance Sheet

Year End Dec (£000)	2014A	2015A	2016E	2017E
Cash and cash equivalents	1,583	4,127	979	1,101
Inventory	303	309	208	352
Trade debtors	1,280	357	558	946
Other	1,523	2,118	2,118	2,118
Total Current Assets	4,689	6,911	3,862	4,518
Oil & Gas assets	12,173	14,754	13,975	17,516
Intangible assets	11,586	11,477	11,477	11,477
PP&E	2,322	2,690	2,690	2,690
Other	3,083	34	34	34
Total Non Current Assets	29,164	28,955	28,176	31,717
TOTAL ASSETS	33,853	35,866	32,038	36,234
Borrowings	2,915	7,252	2,000	1,093
Trade creditors	4,013	5,081	1,408	2,755
Other	1,412	1,271	1,271	1,271
Total Current Liabilities	8,340	13,604	4,679	5,119
Non Current Liabilities	3,150	1,011	1,011	1,011
Total Liabilities	11,490	14,615	5,690	6,130
Net Assets	22,363	21,251	26,348	30,104
Paid-in Capital	48,801	58,196	64,576	67,576
Retained Earnings	(32,169)	(42,156)	(43,439)	(42,683)
Other	5,731	5,211	5,211	5,211
Total	22,363	21,251	26,348	30,104

SOURCE: Company data. VSA Capital estimates.

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Equities breakdown: 31 December 2016	Spec. BUY	BUY	HOLD	SELL
Overall equities coverage	25%	75%	0%	0%
Companies to which VSA has supplied investment banking services	25%	75%	0%	0%