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Davy Research

June 6, 2012

Rating: OUTPERFORM *Issued: 09/06/11*

Equity Report: Drilling programme

Providence Resources

Price: 670c (540p)

Beyond Barryroe: 2013 drilling programme demonstrates scale of portfolio offshore Ireland

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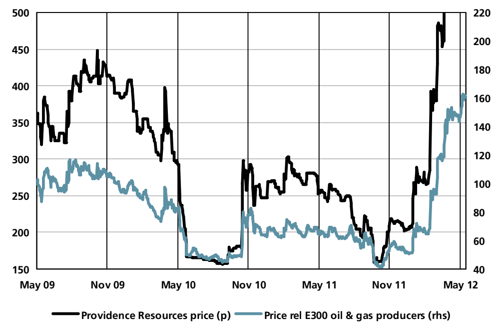
Share Price Performance



Company data	
Reuters/Bloomberg/Xetra	PRR.L/PRV LN/PZQA
Sector	Resource
Shares (m)	64.4
Daily No. Shares Traded (m)	0.39
Free Float (%)	85
52 Week High/Low	710/175 (570p/159p)
Capital Structure	
Mkt. Cap (US$m)	547.3
Net Debt/(Cash) (US$m adj.)	51
E.V. (US$m)	543.1

Recent research and research resources
Recent research and financial data on *Providence Resources*
Sector research and data on *Resource*

Providence investment case has two important elements

- The appraisal of former discoveries, typified by the recent success of the Barryroe well in the Celtic Sea. Next year, the Spanish Point and Dragon projects, both former discoveries, will be drilled.
- The drilling of large exploration targets. This is mostly centred on exploration programmes along the western Atlantic margin.

Drilling in 2013 shows there is much more to the group than the recent Barryroe events

- To capture this opportunity, the group will drill up to five wells over the next two years.
- Two wells will be drilled off the west coast of Ireland in 2013: Spanish Point and Dunquin. Two wells also are scheduled for the east coast: Dalkey Island and St Georges Channel. One well is scheduled for Rathlin Island, Northern Ireland.
- This drilling programme consists of both high-risk exploration (Dunquin, Dalkey Island) and appraisal wells (Spanish Point, St Georges Channel).

Material upside with activity catalyst supports our 'outperform' rating

- The group has re-financed, reduced debt and has the financial capacity to complete the programme described above. We think Barryroe, currently valued at just over £6/share, justifies the share price alone — and even before resource upgrades expected later this year.
- The other projects, including heavily-risked exploration, add another £8/share, bringing our risked group valuation to £14/share. Catalysts include a steady stream of Barryroe newsflow leading into the drilling campaigns.

Providence investment case more than just Barryroe

Attention so far this year has correctly focussed on the Celtic Sea Barryroe programme. When drilled, the 48/24-10z well lived up to best expectations and oil has most likely been established in commercial quantities. However, apart from the well specifics, the results also showed that Providence's strategy was working.

This is focussed on Ireland, with risk ameliorated through a multi-well programme made up of both appraisal and exploration. Apart from confirming resources, drilling the appraisal wells was designed to demonstrate that oil and gas could be commercially produced offshore Ireland.

Although Barryroe was obviously the start of this programme, and continues to improve as a project, we think it is now time to look at the non-Celtic-Sea assets in the group's portfolio. These are best defined as those along the Atlantic margin and those along the eastern seaboard.

- **The success of the Barryroe well greatly facilitated a re-capitalisation exercise by Providence over the last number of months. This raised $100m from the equity markets in April and through a combination of asset sales and the equity funding, retired the outstanding €42m euro bond.**

- **Our prior valuation of the group was £13.30 per share. The recent news that Barryroe wells can deliver high production rates added a further £1.00 per share. Adjusting for the latest information on net cash rounds our valuation to £14.00 per share.**

Valuation considerations

Earlier this year, the Barryroe well demonstrated that the model of capitalising on former activity offshore Ireland could reap significant rewards. The share price duly reacted to the addition of value. But Providence's other assets, including its exploration portfolio, also provide upside and should be valued — even if in most cases, it is a risked 'option value' at this stage.

A drilling programme is scheduled over the next two years that will provide the means by which that option value might be realised. Two of these wells will be high-risk exploration wells and two more will be lower-risk appraisal wells. The Rathlin Island well will be drilled at the end of the programme.

- Table 1 shows the make-up of our current valuation. It adjusts for the latest balance sheet available and also for the latest news with respect to the high-output capacity of the Barryroe project.
- It shows that our current value for Barryroe is £6 per share. This is based on the latest information that the wells can deliver up to 12,000 barrels per day of oil but as noted, it does not take into account the higher resource numbers expected later this year (see side-table below).
- It also shows the value attributed to each of the five wells that will be drilled, as well as the un-risked value of these projects. Foremost among these is the upside case for Dunquin. The numbers are the maximum upside case and presume full maintenance of licence value. However, they are included to show the 'value leverage' achievable in the group's drilling programme.

Barryroe field size — current assumptions versus 100m barrels

Field size (m barrels)	*Value ($m)*	*£/share*
58.6 (current est.)	1,097	6.14
100	1,626	9.09

Source: Davy

Table 1: Valuation summary (impact per well highlighted)

Asset	*Value per barrel assumed ($)*	*Net NPV (£m)*	*Risking and licence dilution*	*NAV (£/share)*	*NAV (£/share), no risking*
Core					
Barryroe	18.7	548	0.72	6.14	8.52
Atlantic margin wells					
Spanish Point	15	292	0.6	2.72	4.54
Dunquin	8.6	1458	0.06	1.36	22.65
East coast wells					
Dragon	3.9	27	0.45	0.19	0.41
Dalkey Island	17.2	215	13.3	0.44	3.34
Rathlin Basin	9.5	148	3.25	0.07	2.3
Other Celtic Sea, net cash, Singleton		440	various	3.13	7.73
Totals				14.05	49.49

Source: Davy & company reports

Material exploration — the Atlantic margin

The first well along the Atlantic margin was drilled in 1977 and about 40 wells have been drilled so far in this sector. While the challenges facing the drilling campaigns at that time were if anything even greater than now, several discoveries were made over the first few years of drilling. These demonstrated the presence of several working petroleum systems and should have initiated an inward wave of investment. However, a poor oil price from 1980 onwards, allied to a tough fiscal regime, lack of infrastructure and fewer engineering options/solutions conspired to put all development plans on the back-burner. Clearly, the situation is now different and considerable interest has been engendered in the concept of the Atlantic margin play.

Spanish Point (32% interest, operator)

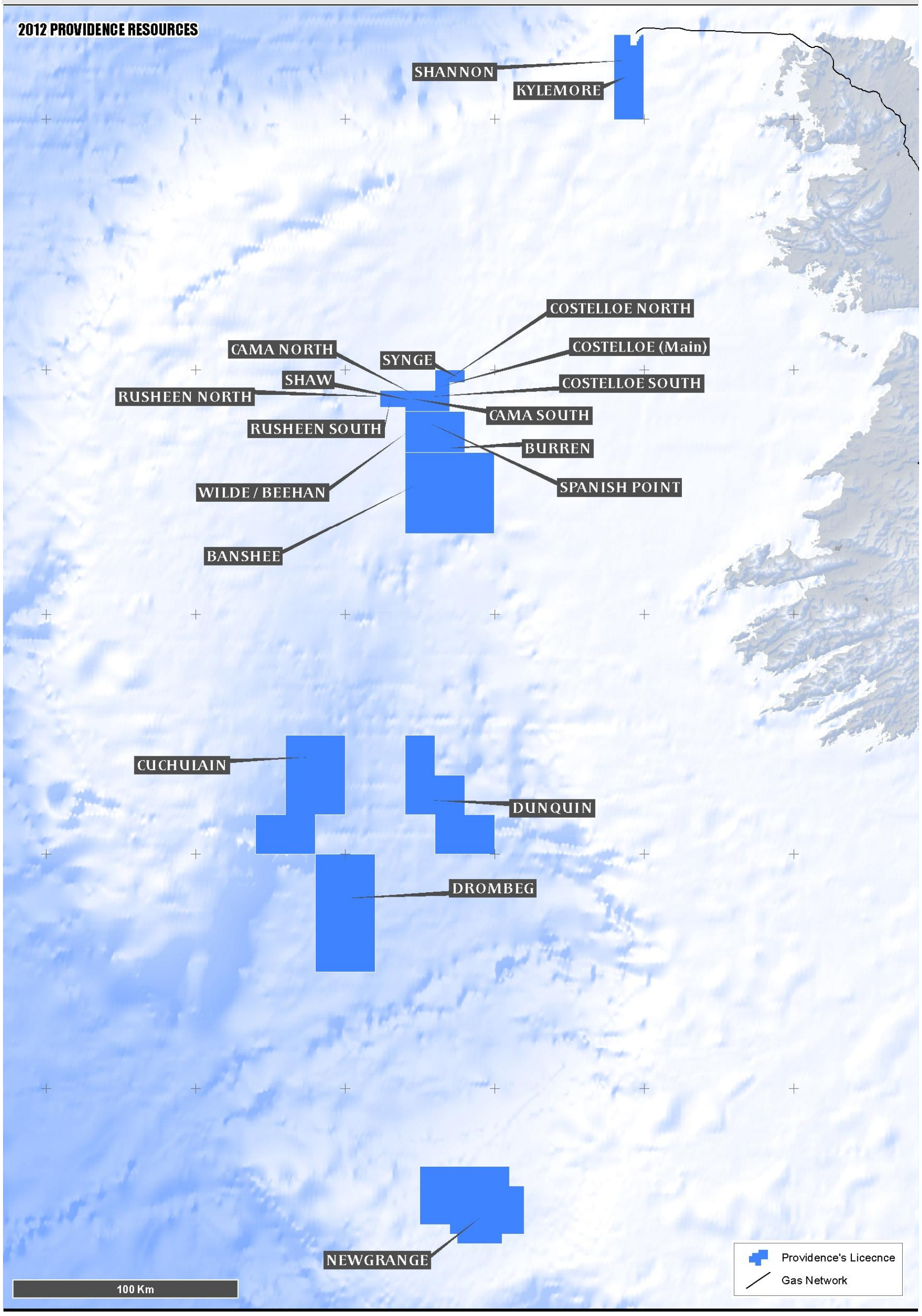
Spanish Point is located in Frontier Exploration Licence 02/04. Two successful wells have been drilled in the block. Well 35/8-2, which gave rise to the Spanish Point discovery in the Upper Jurassic, was drilled in 1981. Well 35/8-1 was drilled some years earlier in 1977 and discovered the Lower Cretaceous Burren field.

History

Spanish Point was first discovered in 1981 by Philips Petroleum. Providence licensed the block in 2004 and farmed it out in 2008 to Chrysoar, a private UK-based company specialising in stranded and undeveloped former discoveries. Chrysaor initially took a 30% interest in return for funding a 3D seismic survey. The farm-in included an option to increase its interest to a maximum 70% level if it elected to drill up to two appraisal wells. The seismic survey was undertaken in 2009 and the first well in the option was committed to in March 2011. Providence's stake in Spanish Point is now 32%. Its financial exposure to the well programme is also limited to $20m (one well and sidetrack).

Chyrsoar undertook a similar exercise with the dormant west of Shetlands Solan discovery in the UK North Sea, in which Premier Oil subsequently become involved through a farm-in.

Figure 1: Atlantic margin licences



Source: Providence Resources

- **The reservoir sections in the discovery well should optimally have been stimulated. However, for operational reasons, this was not possible at the time and the well was conventionally tested.**

Geology

Well 35/8-2 was drilled into over-pressured upper Jurassic sandstones. The well penetrated 400 metres of hydrocarbon-bearing stacked tubidite fans within which four sandstone reservoir intervals were logged (designated A, B, C and D). The uppermost of these flowed at a rate of 925 barrels of oil per day and 4.9m cubic feet of gas. The lower three horizons did not flow on test due to poor permeability — most likely related to post-burial cementation and damage to the formations due to the drilling process. The reservoir is sourced by deeper Kimmeridgian shale.

- **The latest resource estimate is that on a median basis (2C), Spanish Point contains 100m barrels of oil equivalent. The upside case (3C) is 200m barrels of oil equivalent.**

The latest resource estimate is that on a median basis (2C), Spanish Point contains 100m barrels of oil equivalent. The upside case (3C) is 200m barrels of oil equivalent.

Issues to be resolved

An appraisal well will address a number of issues. Foremost among these is the requirement to increase production rates from the field. In order to justify the investment required, production rates have to achieve a certain quantum. Consequently, the appraisal well will look to test the B and C sands which did not flow in the original 1981 well. The proposed appraisal well will drill a horizontal section which will be stimulated in order to look at the level of production that could optimally be realised.

A second issue is to establish if the seismically evident Z sand — which lies above those sands already discovered but which was not present in the 35/8-2 well due to faulting — contains hydrocarbons. This sand was very evident in the 2009 seismic survey, although it has not been included in the base case resource estimates for Spanish Point.

Commercial considerations

While a base-line commercial resource threshold is obviously required — believed to be c.150 BCF of gas — the most important issue is that a commercial production rate can be achieved.

We value Spanish point at a NPV of $15 per barrel. Some early scoping economic analysis on the project suggests that a development should be possible for around $900m. The same work suggests that peak production rates, based on horizontal completion and fracture stimulation, could reach 70,000 barrels of oil equivalent per day. Ultimately however, given the importance of well delivery rates, it will be difficult to pin down any exact capital expenditure configuration until the appraisal well is drilled.

Dunquin (16% interest, non-operated)

- **The Exxon farm-out deal provides a flexible route for Providence's participation in the well. Exxon contributed an initial cost pool and Providence also has the option to elect to reduce its stake to 8% with a carry on the remaining 8% interest. It can elect to do this up to one month before drilling commences. If it elects to keep the 16% stake, it will pay for an 8% interest in the well.**

History

Dunquin has never been drilled. It is a frontier exploration well, identified through seismic. Providence has had a 16-year exploration licence since November 2005. The block was farmed out to Exxon in 2006 and in 2009, the group elected to enter the second phase of the licence which would involve the drilling of a well on the northern end of the prospect. Subsequent to Exxon's entry to the licence and the 2009 drill commitment, both ENI and Repsol also joined the consortium. A pre-drill site survey was completed in 2010.

Geology

The working assumption is that Dunquin is a late Jurassic to early Cretaceous carbonate mound build-up on top of a mid-Porcupine ridge system whose origin is yet to be determined. The sheer scale of the structure (the ridge covers around 700 square kilometres) is such that if it is filled with hydrocarbons, the quantities are expected to be very large. Two structures are present: Dunquin North and South. There are some significant uncertainties regarding the prospect which only a well will resolve but it is nonetheless possible to build up a very cohesive argument that the geology 'works'.

Current estimates suggest a P50 recoverable prospective resource of 8.4 trillion cubic feet (TCF) of gas and 316m barrels of oil — together making 1.7bn barrels of oil equivalent — made up of a gas condensate phase. The upside P10 number is a very large 3.7bn barrels of oil equivalent.

- **The evidence for hydrocarbon generation in the basin comes from gas chimney effects visible on seismic and sea-bed seeps. Apart from Deep Panuke, other examples of a carbonate oil and gas system include the Lacq field in southern France. In fact, there is a high degree of interest in these systems given the major exploration success in the sub-salt play offshore Brazil.**

Exxon estimates that the well has a 16% chance of success. The primary risk is likely to be uncertainty of reservoir development. There is plenty of evidence of hydrocarbon generation in the basin and the working analogy is the Deep Panuke field in the Orphan Basin offshore Newfoundland. While the working assumption for now is that the South Porcupine is a gas-prone area, there is no definitive reason why oil may not also be present.

Issues to be resolved

Providence has an option to reduce its equity position up to a relatively short period prior to drilling the well. A decision has to be made about what level it intends to proceed with. We suspect that it will elect to maintain its full 16% interest given that it is carried for half of this amount in any event. We estimate that allowing for the various costs, the net exposure will be no more than $12m, an amount within current budgets.

With respect to the well itself, there is a lot of geological uncertainty in this play as to the presence of hydrocarbons, their nature and their quantum. In a sense, the well has to be drilled before the next stage of planning can proceed.

Commercial considerations

- **One possible location for Dunquin gas would be Milford Haven where ExxonMobil operates the large South Hook LNG plant. One working analogy is that the scale of Dunquin is such that it would mirror the Ormen Lange gas development, offshore Norway.**

With depth to sea floor of 1,500 metres, this is a deep-water project and will require sufficient scale to proceed on a commercial basis. It is estimated that in the order of 2 TCF of gas is the minimum recoverable quantity required to proceed with a development. There will also be plenty of development issues to consider. Early thinking is based around off-take of up to 1bn cubic feet of gas per day, nearly twice the average daily gas off-take in Ireland. Consequently, the gas is unlikely to be landed in Ireland due to infrastructure limitations and will likely go to the UK.

We value the Dunquin project at $8.60 of NPV per barrel of oil equivalent. While we assume that it is a gas-filled structure, the relatively high valuation per barrel of oil equivalent (for instance compared to the Dragon prospect) is a function of the sheer scale of the target if it works.

Other Atlantic margin plays

Providence has an extensive licence position along the western Irish Atlantic margin. Spanish Point and Dunquin are the two immediate drill targets but lead and prospect work-up has continued in parallel for a range of other targets. These are summarised in Table 2.

Table 2: Atlantic lead/prospect inventory

Licence	*Location*	*Petroleum system target*	*Primary lead/prospect*	*Status/data*
LO 11/12	Slyne Trough	Triassic gas Corrib lookalike	Corrib Lookalikes, Kylemore and Shannon	3D
FEL 2/04 & 4/08 LO 11/2	North Porcupine	Spanish Point and Burren plays	Shaw, Cama, Costelloe	2013 well planned
LO 11/9	South Porcupine	Three systems; Upper Jurassic — oil/gas, Lower Cretaceous — oil, Palaeocene — oil	Drombeg tertiary, Drombeg Jurassic, Drombeg Cretaceous	2D
LO 11/11	Goban Spur	Cretaceous	Newgrange	2D

Source: Davy; company reports

Slyne Trough (66% interest, operator)

This area was acquired through the 2011 Irish Atlantic frontier licensing round (LO 11/12). The primary targets, based on seismic, are two structures with Triassic gas play potential similar to the adjacent Corrib gas field. The Kylemore prospect has been modelled to contain an in-place resource of c.230 BCF of gas. The second target is the Shannon structure which was drilled on 3D seismic by Enterprise in 1999. The outcome was unsuccessful but the licence-holders believe that the structural closure is so large that it warrants a re-appraisal using current seismic techniques. Both prospects are proximal to existing infrastructure related to the Corrib development.

Other targets on FEL 02/04 (32% held Spanish Point licence)

Burren

The Lower Cretaceous Burren discovery was made in 1978 by well 35/8-1. This was the third well drilled in the Porcupine Basin and was also the first oil discovery. The well flowed 730 barrels of 34 API oil from one of two intervals intersected and logged as hydrocarbon-bearing. However, the sections were relatively thin and suffered from poor permeability.

- **The most recent audit suggested that Burren could contain up to 66m barrels of recoverable oil equivalent.**

The prospect was left fallow until it was surveyed in the 2009 3D seismic survey. This showed that there was some thickening away from the well across the gross package but it was not possible to see if this also applied to the reservoir sections. Nonetheless, there is at least some evidence that the volume issue may be improved but it will require improvement of permeability to commercialise the discovery.

Wilde

- **Similar Middle Jurassic reservoirs are found in the nearby Connemara field.**

This is a feature generated by the 3D seismic survey in 2009 and is interpreted to be a Middle Jurassic structure underneath the Spanish Point discovery. It has substantial scale potential and given the depth of burial, the most likely hydrocarbon phase is likely to be condensate.

Cama/Rusheen/Shaw

- **A 3D seismic survey was shot over this area in 2011 and the data are currently being interpreted.**

These are Upper Jurassic and Lower Cretaceous leads and prospects located to the north of Spanish Point and Burren. Cama is the same Upper Jurassic play as encountered by well 35/8-2 and hydrocarbon is believed to be condensate. The target is 900 metres higher in the section, so reservoir quality issues are less of risk. Rusheen is a Lower Cretaceous gas condensate target. Shaw is an oil target.

South Porcupine

Drombeg (80% interest, operated)

- **Providence is planning to provide a technical update on this prospect during 2012.**

The Drombeg target is located in very deep water (2,500 metres) and has a stacked prospect inventory providing a well with multiple objectives. The well has targets in the Lower Tertiary, Middle Cretaceous and Upper Jurassic. Seismic work carried out on data acquired in 2008 provides some evidence of possible hydrocarbon indicators, most notably gas and fluid escape chimneys, amplitude anomalies and AVO effects. However, additional seismic is required, followed by drilling. The Dunquin well will add materially to the information base on this well.

Goban Spur (40% interest, non-operated)

Newgrange

- **Repsol has been very successful in the exploration of deep-water carbonates in the Atlantic basins.**

The Cretaceous Newgrange prospect is now operated by Repsol with a 40% stake. While there is no well control on the giant Dunquin target, an Esso well was drilled on the flank of the Newgrange structure. This well demonstrated the presence of thick porous carbonates underneath a good top seal. The prospect consists of a large four-way dip closed anticline which extends over a c.1,000 square kilometre area. The flanking well provides support for a carbonate reservoir model. Early work provides support for a mean gas-in-place prospective resource of 14 TCF. The Dunquin well will add considerably to the understanding of Newgrange.

Eastern seaboard plays

This part of Providence's portfolio is probably the least well followed and understood.

There are three elements to it: a gas appraisal well in the south-east, offshore Wexford, an oil exploration well in the Kish Basin and an early-stage exploration programme in the Rathlin Basin in the north-east.

Dragon gas discovery (50% interest, operated)

History

Dragon is a joint venture project with Star Petroleum, a Petronas subsidiary, and straddles the UK and Irish jurisdictions in the St Georges Channel basin. The discovery well was drilled in 1994 by Marathon and this was followed up by an unsuccessful appraisal well on a separate fault block in 2005. Providence licensed the Irish side of the play in 2007. Marathon relinquished the UK licence in 2010, the same year it sold its Irish assets to Petronas.

On the Irish side, a study was initiated by Providence and carried out by IKON Geoscience, tying together the well data and the seismic to generate an inverted seismic model of the reservoir.

- **The discovery well was targeting a deep Lower Triassic subsalt play and hit gas condensate in overlying Middle and Upper Jurassic sandstones. The well never reached the Triassic section due to well issues and this remains a viable target.**

Geology

The discovery well 103/1-1 encountered gas in Middle Jurassic aged sandstones. The thickest of a number of sandstone intervals was tested and flowed at a rate of 21m cubic feet of gas and 120 barrels of condensate. The sands were sealed against the footwall of a normal fault.

The subsequent appraisal moved across the fault, looking to increase gas volumes. Although the well hit the same aged sands at a higher elevation, they were shown to be water-wet — most likely due to poor sealing. Post-well, Marathon took the view that the field contained no more than 55 BCF of gas.

However, the IKON study, based on seismic inversion work, demonstrated that the gas-bearing zones could be separately identified. When this was applied to the field-wide data, it suggested that the resource number could be larger, especially in the Irish sector. A gas-in-place estimate of 300 BCF was worked up, suggesting a recoverable amount significantly larger than the 51 BCF assumed following the appraisal well.

Issues to be resolved

The possible greater resource demonstrated by the IKON work needs to be verified by a well. This is slated for later this year but rig availability will probably push it into next year. Another issue to be determined is how much of the discovery lies in the UK rather than the Irish sector. With a materially better fiscal system in Ireland and high levels of historic expenditure in the Irish company, there are clear advantages to having the development in the Irish sector.

- **There is major gas infrastructure on the UK side at Milford Haven. Options include the UK NTS, LNG or a new gas-fired power station. End-of-life gas storage could also be an option.**

Commercial considerations and valuation

If the new gas-in-place number is verified, it is likely that Dragon will be a commercial proposition. Although there is no immediate infrastructure, such a resource of gas could be readily brought across to Ireland or Wales and tied into the local gas distribution infrastructure. Interestingly, if the Dragon project can be shown to be viable, there are some other similar gas targets to the north-west that could be drilled (Orpheus, Prometheus).

We value the projects at $3.90 per barrel of oil equivalent. This relatively low per-barrel valuation reflects the fact that it is gas and that we have assumed a high capital cost to allow for export gas lines.

Dalkey Island (50% interest)

History

Providence's interest in this area arose through an earlier joint venture with Petronas to examine the potential of the Kish Basin to sequester CO_2 as well as potential gas storage. The conventional oil and gas play was developed as a result of seismic re-processing and analysis. The Dalkey Island prospect is held through SEL 2/11.

- **Over 2bn barrels of oil equivalent have been produced from the east Irish Sea basin, offshore Liverpool. The major fields are Douglas, the Hamilton group, Lennox and Morecambe Bay North and South.**

- **The foreshore application for Dalkey Island is being reviewed by a non-statutory body, the Marine Licence Vetting Committee. Its recommendation will be submitted to the Minister of the Environment, Community and Local Government.**

Geology

Providence is targeting a Triassic Sherwood sandstone play at Dalkey Island. This is the main reservoir from which several fields produce in Liverpool Bay in the UK sector on the other side of the Irish Sea. Source rock is known to exist in the Kish Basin and oil seeps have been recorded.

Several other wells in this basin have been drilled and were plugged and abandoned. However, the Dalkey Island prospect is based on a structure that was formed before the oil and gas was generated, meaning that it is favourably positioned compared to the earlier wells. The structure identified has the potential to hold up to 850m barrels in place with some 250m barrels recoverable. A smaller, lower-risk target has the potential to hold 40m barrels.

Issues to be resolved

Because the well location lies within a 12 nautical mile limit, Providence applied for a foreshore licence to drill a well offshore Dublin in January 2012. Following a period of public consultation, a special group will make a recommendation to the relevant government minister. This is expected to be completed over the next few months although there is no formal way of following the process.

Commercial considerations and valuation

In theory, a hydrocarbon discovery offshore Dublin should present the same opportunities and challenges that a discovery in the Liverpool Bay area would, and the latter should provide a template. Undoubtedly, there would be many environmental and social issues to address, given the location of the project, but solutions have been found elsewhere and should be repeatable here.

We value Dalkey Island at $17.20 of NPV per barrel of oil equivalent. This relatively high valuation reflects its location and the benefits of the Irish fiscal regime.

Figure 2 - Eastern seaboard licenses

Source: Providence Resources

- **The private Canadian companies were Rathlin Energy and Mancal.**

Rathlin Basin (100% interest, operated)

History

This play has a very limited history with very little drilling and seismic available. Only one well targeted at hydrocarbons is on record. The Ballinlea-1 well was drilled in 2008 by two private Canadian companies. Light oil was reportedly recovered on testing.

Geology

The Rathlin Basin extends both onshore and offshore and is an early Mesozoic half graben deepening to the east. The exploration play is similar to the classic NW European-style discoveries such as Morecambe Bay and Wytch Farm. Typically, Carboniferous-sourced hydrocarbons are trapped in overlying Lower Triassic sandstone reservoirs. Structure is formed by a combination of rifting-related structures and Tertiary uplift.

- **The Carboniferous shales in Rathlin have a measured organic content of 12%. Rathlin Energy has flown an airborne survey to which Providence will have access.**

In the case of the Rathlin basin, oil-prone marine shales are found along the basin margin. Studies suggest these shales are mature for oil generation and are most likely the source of the oil found in the Ballinlea well. As the basin extends seawards to the north-east, Providence has elected to drill a well from Rathlin Island as it should provide access to the deeper parts of the basin.

Issues to be resolved

The overriding requirement is to establish the presence, or otherwise, of commercial hydrocarbons. Providence currently has a 100% interest and while well costs will be very manageable, we do not see this as an optimum level on which to proceed. The company will look for a partner or farm-out, but it is not clear how this will evolve. Permitting should be manageable.

Commercial considerations

Provided an economic threshold has been reached and given the well established tradition of producing oil and gas both onshore and offshore the UK, there should be no major hurdles to monetisation of a discovery, either onshore or offshore.

Barryroe oil field update

- **While still at an early stage, our working assumptions for the high production case for Barryroe is as follows: maximum field production profile is 50,000 b/d; four wells are required to achieve this; each well costs $50m to drill; total capital expenditure including the wells is $485m; production starts in 2016. This profile is applied to our 58.6m barrels base-case resource model.**

The results from the Barryroe well were up to best expectations at the time of testing. Since then, any data acquired have further supported the positive outcome. The latest update highlighted the productive quality of the reservoir and suggested that it would have the capacity to deliver up to 12,500 barrels per day of oil and 11m standard cubic feet of gas. This has two important implications:

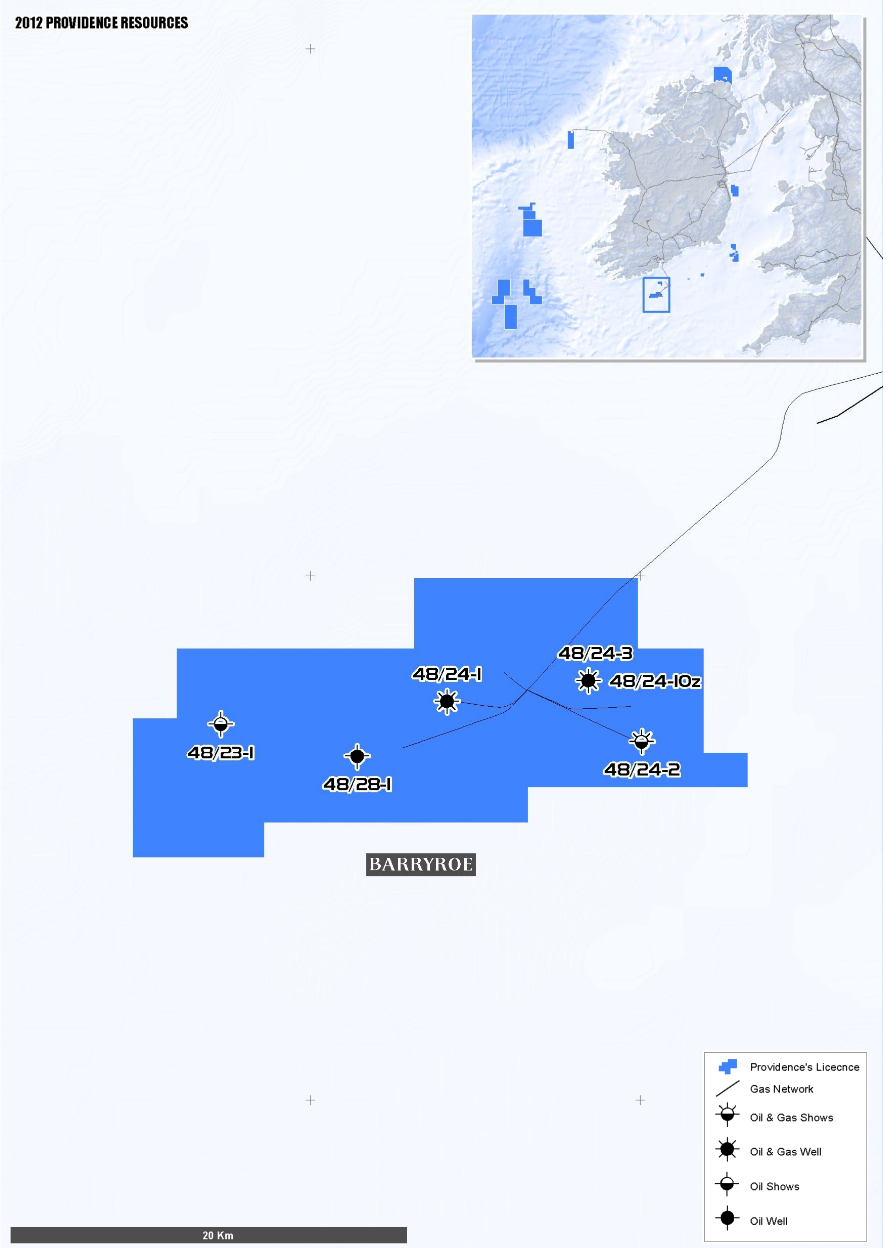
- The ultimate well count and the capital required to develop the field should be lower;
- A higher initial off-take can be achieved, thereby delivering more oil earlier in the life of the field.

Further announcements will be made on a regular basis. These include:

- The results of the analysis of the samples recovered from the well will be made known;
- The results of a study examining the depositional analysis will be made known. A positive outcome would bode well for the potential scale and quality of the deposit;
- The development of a static oil-in-place model for Barryroe. This will be based on the seismic inversion data and the six wells drilled in the Barryroe structures so far — all of which have logged hydrocarbons;

- A recovery factor will be built up and applied to the oil-in-place estimate to produce a recoverable oil estimate. The recovery factor will take into account the reservoir data and sampling acquired so far. In tandem, the development of a commercial field concept by independent consultants will be initiated;
- By the end of the year, a CPR will be produced to examine the commercial options to develop the field. This will include capital and operating parameters and a development timetable.

Figure 3: Barryroe well stages



Source: Providence Resources

The upside case

While the final recoverable resource at Barryroe will not be available until later this year, we have modelled a 100m barrel recoverable resource as a possible outcome. Assuming the same input parameters as for our baseline 58.6m barrels case, the NAV per share for Barryroe increases to £9.09 per share, a 50% improvement on the baseline case of £6.14 per share.

Farm-in partner

Contemporaneous with these developments, Providence will reduce its equity stake in the field from the current level of 80%. This is in line with its stated strategy, which focuses on project identification, exploration and drilling rather than project development.

Bringing in a larger partner raises a number of interesting issues for the group, namely the optimum equity level it should retain and the commercial terms can it negotiate at this stage. In addition, the longer it waits, the more certainty on the reserve base, so in theory the better its negotiating position. However, any prospective buyer will look for upside, either a margin to get into the project or exposure to a potentially increasing resource. The type and quality of partner will be very important in any farm-out process.

Funding requirements are covered

- **The Singleton field has been a successful investment for Providence. The field provides a cash-flow core. It is currently producing 650 barrels per day of liquids. The field contains 7.7m barrels of 2P reserves and Providence plans to drill one long reach well each year. This should yield 350 barrels of extra fluid. Singleton currently produces gross cash of $2m per month. Operating costs are in the order of $15 per barrel (net c.$1.8m to Providence pre-Deutsche-loan each month). The X12 Singleton well will be finished by the end of June**

Providence's recent year-end 2011 report included a pro-forma balance sheet which highlighted its net cash position following the events of the last six months. This included the completion of the sale of its Aje asset offshore Nigeria, the drilling of the Barryroe well and the recent equity funding.

Table 3: Balance sheet structure ($m — EUR/USD @ 1.26)

Balance sheet structure		*Net debt*	*Adjustment for Deutsche debt*	*Adjusted nominal net debt/cash*
Y/E 2011 gross debt	-90.5			
Y/E 2011 gross cash (inc. restricted)	45.5			
Y/E 2011		-45		
Adjustments				
Asset sales	5.8			
Bond reduction	-5.8			
Equity funding (net)	90			
Early bond redemption	-23.3			
Remaining bond	-14.1			
Barryroe cost	-55			
Adjusted gross debt	-47.3			
Adjusted gross cash (inc. restricted)	43.1			
Current		-4.2	55	50.8

Source: Davy & company reports

A couple of points are worth making. The Deutsche debt that remains in the group is secured on the Singleton oil field and amortises over the life of the field. The effect of this is that the cash available to the group is considerably larger than the net debt number suggests. We estimate that something over $50m is available.

At present, around 400 barrels per day of liquid production is dedicated to the Deutsche loan. The rate reduces at around five barrels per day per month.

The work programme over the next two years is in the order of the funds available.

Important disclosures

Analyst certification

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Under Review	4	4	2	6
Suspended	0	0	0	0
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