seymour pierce | equity research

11 October 12 | **Initiation of coverage** | Oil & Gas exploration and production

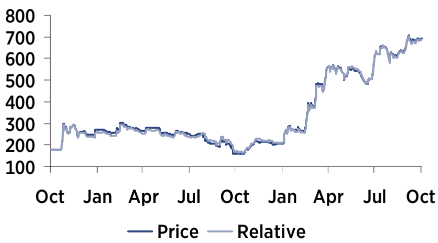
Providence Resources (AIM:PVR)

BUY

Share price	**695p**
Target price	1,538p
121% Upside	
Market cap (£m)	448.2
Net debt (£m)	1.4
Enterprise value^ (£m)	449.6
No. of shares (m)	64.5
Average daily vol ('000, -3m)	183
PER at Target price (Y1)	(37.2)
12 month high/low (p)	710/159

(%)	1m	3m	12m
Absolute	+6.3	+20.3	+238.2
FTA relative	+5.9	+16.4	+193.9

Price & price relative (-2yr)



Source: Datastream

Share price as at close: 9 October 12

Next news
Operational updates

Business
Oil & Gas exploration and production

www.providenceresources.com

Irish eyes are smiling

Providence has made significant operational progress offshore Ireland which has served to transform their asset base and ultimately their share price. With moderate risk development assets and near term high impact exploration prospects scheduled for 2013 yet to be factored in by the market, we feel the current share price represents a compelling entry point for investors.

Near term exploration upside

Whilst Providence's success at Barryroe has had a transformational effect on its share price, the company's exploration and appraisal campaign is far from over. The company intend to target multiple prospects across five further geological basins. 2013 should focus on high impact exploration at Dalkey Island, Dunquin and the Rathlin Basin; and moderate risk development drilling at Spanish Point.

2013 drilling program fully funded

Providence generated $66m in September 2012 from the sale of its UK interests. The company has confirmed that proceeds will be primarily used to pay off their outstanding debt facility, with the balance ($20-25m) for working capital commitments. We believe that cash plus existing resources should be sufficient to fully fund the 2013 drilling programme with added flexibility from the farm out of Barryroe and/or other exploration assets.

Farm down opportunities

Farming down its high interest positions offers Providence the opportunity to capture shareholder value whilst avoiding a significant capex spend as its assets move through field development. The company is likely to have its pick of partners, among those that have already signed agreements to assist in a $500m exploration program of six basins are ExxonMobil, Repsol, Petronas and ENI.

Valuation and recommendation

Our valuation of cash and cash equivalents (59p/share) and a risked valuation of Barryroe (1,106p/share), illustrates that Providence is currently trading at a discount to its core NAV. We also include a risked net asset valuation of the company's moderate risk appraisal assets which would add a combined 372p/share to our overall valuation. We have intentionally stripped out high impact Dunquin (186p risked) and Dalkey Island (141p risked) to reflect the underlying value of the company prior to the significant upside that any one of these prospects could generate if successful. On this basis, we initiate coverage with a BUY recommendation and 1,538p target price.

A draft of this research has been shown to the company following which minor factual amendments have been made.

Year end December	Revenue (€m)	EBIT* (€m)	PBT* (€m)	Tax (%)	Adj. EPS* (c)	PER (x)	EV/EBIT* (x)
2010A	11.1	1.5	(6.0)	(64.4)	(29.5)	(29.2)	196.4
2011A	13.8	0.0	(5.2)	(86.4)	(20.8)	(41.5)	13,064.0
2012E	13.9	(25.0)	(28.2)	(12.6)	(51.3)	(16.8)	(22.3)
2013E	0.0	(5.6)	(5.2)	0.0	(8.0)	(107.3)	(99.4)
2014E	0.0	(5.8)	(5.7)	0.0	(8.9)	(97.1)	(96.5)

* excludes exceptional items and amortisation of acquired intangibles.^ EV calculation adjusted for core cash, investments etc.

Source: Seymour Pierce Ltd

Sam Wahab ACA
Research Analyst
+44 (0) 20 7107 8094
samwahab@seymourpierce.com

Valuation and recommendation

Our valuation comprises a risked net asset valuation (RENAV) of the company's appraisal and development resource base

Our valuation of Providence comprises a risked net asset valuation (RENAV) of their appraisal and development resource base offshore Ireland. We currently do not ascribe values to the company's exploration assets given the higher risk associated with drilling such prospects.

The assumptions implicit in our valuation are as follows:

Valuation assumptions

Metric	Assumption
NPV/boe - Oil (Barryroe)	7.00
NPV/boe - Oil	6.00
NPV/boe - Gas Condensate	4.50
NPV/boe - Gas	2.50
Long term oil price	**2012**: $110/bbl, **2013**: $100/bbl, **2014+**: $90/bbl
Long term $/£	1.65
Long term €/$	1.30
Long term £/€	1.22
Discount rate	10%
Share's outstanding (m)	64.49

Source: Seymour Pierce Ltd

Providence has a plethora of long term high impact exploration prospects

Providence has a plethora of long term high impact exploration prospects supported through historical drilling and seismic data. Nevertheless, we feel at this stage that it is prudent to focus our RENAV on the company's moderate risk development assets, which offer near term upside.

Risked net asset valuation

Asset	Basin	Hydrocarbon Type	Working interest	CoS*	Prospective gross Rec. Resources (mmboe)		NPV 10% US$ / boe	Unrisked NPV $m	Risked NPV $m	Unrisked NPV £m	Risked NPV £m	Net Risked
					Gross	Net	$	$m	$m	£m	£m	p/share
Barryroe	Celtic Sea	Oil	80%	75%	280.4	224.3	7.00	1,570.2	1,177.7	951.7	713.7	1,106.8
Hook Head	Celtic Sea	Oil	73%	20%	120.0	87.0	6.00	522.0	104.4	316.4	63.3	98.1
Spanish Point	M. Porcupine	Gas cond.	32%	75%	100.0	32.0	4.50	144.0	108.0	87.3	65.5	101.5
Burren	M. Porcupine	Oil	32%	75%	66.0	21.1	6.00	126.7	95.0	76.8	57.6	89.3
Dragon	St G. Channel	Gas	100%	75%	26.0	26.0	2.50	65.0	48.8	39.4	29.5	45.8
Helvick	Celtic Sea	Oil	63%	50%	1.8	1.1	6.00	6.8	3.4	4.1	2.0	3.2
Nemo	Celtic Sea	Oil	54%	20%	23.0	12.5	6.00	75.1	15.0	45.5	9.1	14.1
Baltimore	Celtic Sea	Oil	60%	20%	30.0	18.0	6.00	108.0	21.6	65.5	13.1	20.3
					647.2	422.1		2,617.8	1,573.9	1,586.5	953.9	1,479.1

*Chance of Success

Source: Seymour Pierce Ltd

Our RENAV calculation demonstrates that Barryroe retains the largest contribution to Providence's development asset portfolio. Our Chance of Success (CoS) of 75% illustrates the considerable work undertaken to appraise the field to date, which has seen resource upgrades on the back of additional well test data as well as a recent adjustment to its recovery factor (see: *2012 drilling campaign*).

Sum-Of-The-Parts Valuation

Our core net asset valuation also takes account of the cash consideration received on the sale of the company's UK asset base, Barryroe, and the company's net debt position (including the company's decommissioning liabilities).

We have intentionally stripped out the company's three remaining near term exploration prospects

The bulk of our Providence NAV, therefore, lies in the company's development and appraisal assets. We have intentionally stripped out the company's three remaining near term exploration prospects (Dunquin, Dalkey Island and Rathin Island) to reflect the underlying value of the company prior to any significant upside that any one of these prospects could generate, if successful.

SOTP valuation matrix

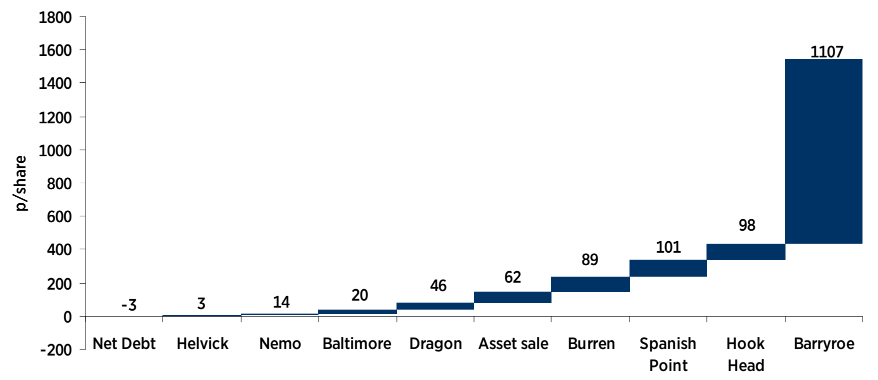
	£m	p/share
UK asset sale consideration	40.0	62.0
Barryroe	713.7	1,106.8
Net Debt	(1.8)	(2.7)
Core Value	752.0	1,166.1
Hook Head	63.3	98.1
Spanish Point	65.5	101.5
Burren	57.6	89.3
Dragon	29.5	45.8
Helvick	2.0	3.2
Nemo	9.1	14.1
Baltimore	13.1	20.3
Target Market Cap	992.1	1,538.4

Source: Seymour Pierce Ltd

Our valuation illustrates that despite recent material growth in the company's share price, the shares continue to trade at a discount to the company's core value

Our valuation illustrates that despite recent material growth in the company's share price, they continue to trade at a discount to the company's core value. Providence are scheduled to provide an updated CPR to the market before year end which will essentially be used for the farm out process whilst corroborating management's resource estimates for Barryroe.

SOTP waterfall chart



Source: Seymour Pierce Ltd

Recommendation and target price

We initiate coverage with a BUY recommendation and 1,538p/share target price.

Whilst our core valuation centres on the company's cash position and Barryroe at present, this is far from the full Providence story. With key moderate risk development assets and near term high impact exploration targets scheduled for 2013 yet to be factored in by the market; in our view the current share price represents a compelling entry point for investors. On this basis, we initiate coverage with a BUY recommendation and 1,538p/share target price.

Multi Basin Well Programme

2012 drilling campaign

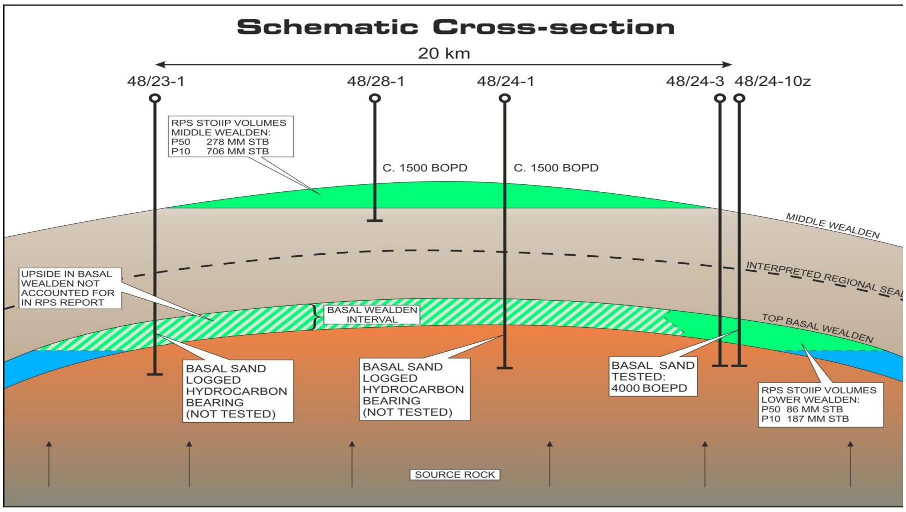
Barryroe – Celtic Sea Basin

To date drilling operations have focussed at the Barryroe field, where recent success has served to significantly de-risk adjacent prospects including Hook Head, Helvick, Dumnore, Marlin, Baltimore and Nemo. Upon drilling at the Barryroe oil discovery in 4Q 2011, Providence delivered the first indicative commercial flow rates of oil. Flow test results from Barryroe of 3,514bopd and 2.93mcf/d (4,000boepd) from the main basal sandstone package substantially exceeded pre-drill expectations.

On completing data acquisition activities, the Barryroe programme moved to data assimilation and integration

On completing data acquisition activities, the Barryroe programme moved to data assimilation and integration, in addition to seismic inversion and geological mapping of the structure.

Barryroe schematic



Source: Company

A comprehensive programme of post-drill studies was subsequently conducted to define the Barryroe oil in place resources numbers, recoverable reserves, and future field economics. Encouragingly, analysis also confirmed that the basal hydrocarbon bearing sandstone package was highly permeable and that initial production rates of c. 12,500bopd and c.11mcf/d (c.14,300boepd) could be achieved with a horizontal well through production tubing under a natural lift.

Hydrocarbons can be produced from Barryroe at commercially attractive rates

This clearly illustrates that hydrocarbons can be produced from Barryroe at commercially attractive rates. This data will ultimately be incorporated in an updated field development plan, which will be the subject of a new CPR expected to be published at the end of this year. Nevertheless, RPS Energy has provided an internal estimate schedule post data analysis:

Post data internal resource estimate - Barryroe

Reservior Interval	P50 (mmbo)	P10 (mmbo)
Middle Wealden	287	706
Lower Wealden	416	663
Basal Wealden	756	906
Purbeckian	362	502
Total	1,821	2,777

Source: Company

Further to this, yesterday Providence updated the market with results of further dynamic modelling studies of the Basal Wealden reservoir, providing a further estimate of the oil recovery rate.

Following detailed analysis, a range of between 17% and 43% has been demonstrated with a base case of 31%

Following detailed analysis, a range of between 17% and 43% has been demonstrated with a base case of 31% through development and economic modelling. The updated recovery rate is currently only applicable to the Basal Wealden where 756mmbo is established. A previous analysis (from RPS) of 16% for the Middle Wealden remains intact, and no recovery factor has been assigned to the Lower Wealden and Purbeckian intervals (778 OIIP).

Impact of change in recovery factor to valuation

Barryroe	P50 OIIP	Recovery Factor	P50 Recoverable	Prior guidance	Uplift	Uplift
Interval	*(mmbo)*	*%*	*(mmbo)*	*(mmbo)*	*(mmbo)*	*p/share*
Middle Wealden	287	16%	46	46	0	0
Basal Wealden	756	31%	234	121	113	407
	1,043	27%	280	167	114	407

Source: Seymour Pierce Ltd

This represents a significant uplift from the prior 16% recoverable guidance for the Middle Wealden interval and forms the basis of our RENAV valuation for Barryroe. The increase has been based on a development scenario involving 41 horizontal production and 22 horizontal water-injection wells over a 25 year field life. These horizontal producer and injector wells are designed to be 600m in length, with the producers incorporating gas lift.

A sample analysis on a Barryroe oil sample collected during the well testing indicated the oil to be of a premium light quality (43 API), with low sulphur and nitrogen content.

The wax content was determined to be c.17% (by weight) which has historically been viewed in a negative light in terms of having a high pour point. Knowledge and control of the pour point of hydrocarbon fluid (i.e. the temperature at which it ceases to flow) is vital in designing ongoing production systems at Barryroe.

High pour points usually occur in crude oils that have significant paraffin content

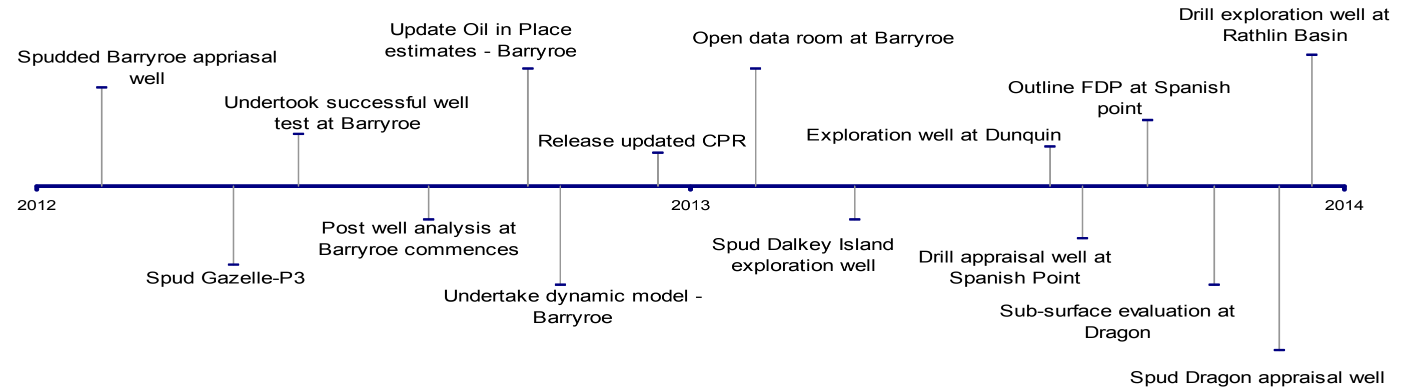
High pour points usually occur in crude oils that have significant paraffin content; these paraffins (or waxes) will start to precipitate as temperature decreases until at some point they accumulate to such an extent that the fluid may no longer flow at initial rates. High pour points are common to heavy oils, but the phenomenon can also occur in light oils such as at Barryroe. Nevertheless, modern techniques in removing heavy hydrocarbon solid deposition in crude oils have been developed considerably in recent years, and with the current market price for wax at c.$300/bbl, this issue could add greater long term commerciality to the Barryroe field.

Forward exploration activity

Whilst Providence's success at Barryroe has had a transformational effect on the company, its exploration and appraisal campaign is far from over

Whilst Providence's success at Barryroe has had a transformational effect on the company's share price, the company's exploration and appraisal campaign is far from over. Providence will target multiple prospects across five further geological basins. 2013 will focus on high impact exploration at Dalkey Island, Dunquin and the Rathlin Basin; and moderate risk development drilling at Spanish Point.

2012/13 exploration and appraisal programme



Source: Company

Dalkey Island – Kish Bank Basin

In 2010, Providence identified the Lower Triassic Dalkey Island prospect (offshore Dublin) as a significant un-drilled oil exploration prospect with an in-place prospective resource potential of c.850mmbo (250mmbo recoverable).

The prospect is a shallow water (c.20-30m) hydrocarbon target in the Kish Bank Basin, which lies just c.10km offshore Dublin. Geologically, the Kish Bank Basin is akin to the prolific East Irish Sea Basin, which produces large volumes of oil and gas offshore Liverpool Bay.

Four wells drilled to date in the basin have proven the presence of excellent quality Sherwood Sandstone reservoir, Mercia Mudstone caprock as well as gas prone Upper Carboniferous source rocks. In addition, oil shows in two of the four wells together with published airborne seep detection data, which suggests the presence of a further oil prone source rock.

The Dalkey Island prospect is a Lower Triassic tilted fault block structure where seismic inversion analysis has revealed the presence of hydrocarbon indicators

The Dalkey Island prospect is a Lower Triassic tilted fault block structure where seismic inversion analysis has revealed the presence of hydrocarbon indicators. Similarly aged oil productive reservoirs have been discovered in the Liverpool Bay area of the East Irish Sea Basin, offshore UK.

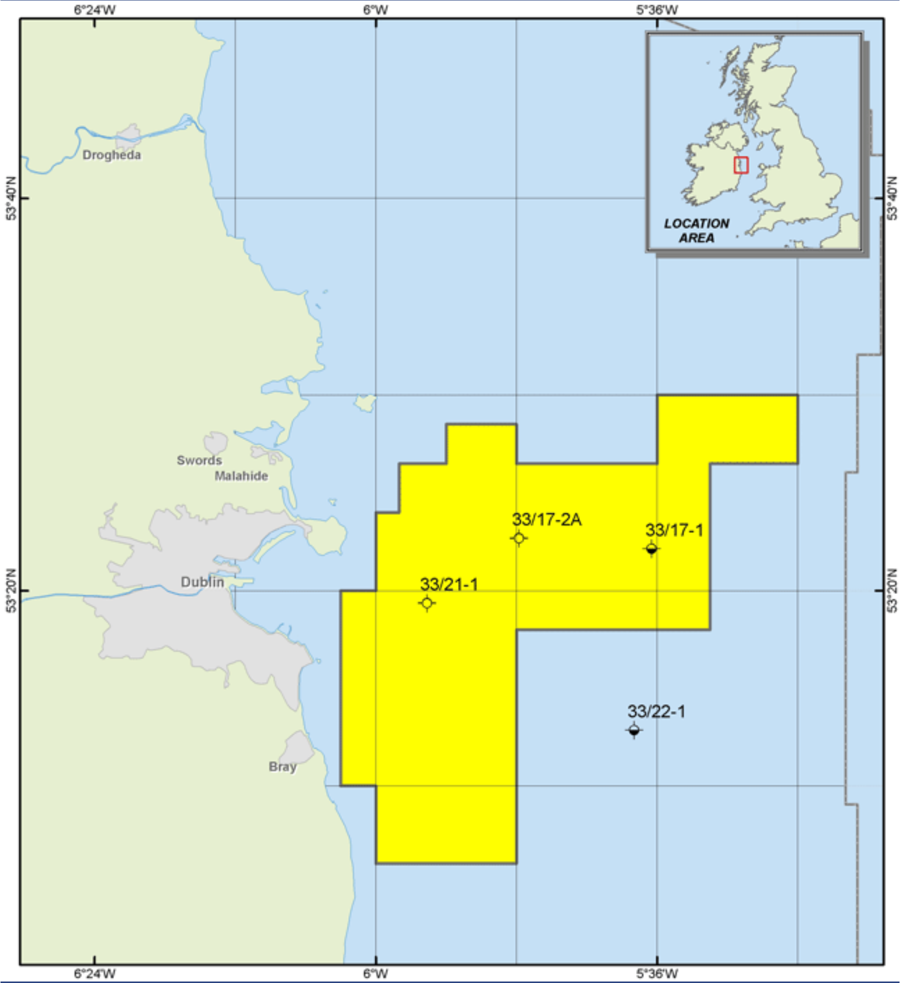
RENAV - Dalkey Island

Asset	Basin	Hydrocarbon Type	Working interest	CoS %	Prospective gross (mmboe) Gross	Net	NPV 10% US$ / boe	Unrisked NPV $	Risked NPV $m	Unrisked NPV $m	Risked NPV £m	Net Unrisked £m	Net Risked p/share
Dalkey Island	Kish Bank	Oil	50%	20%	250	125	6.00	750.0	150.0	454.5	90.9	704.8	141.0

Source: Seymour Pierce Ltd

If risked on a similar basis to Providence's development assets, success at Dalkey Island could yield £1.41/share on a risked basis.

Dalkey Island location map



Source: Company

Providence operates the prospect on behalf of its partner, Petronas. Oil source rock has been identified in the basin and Providence has commenced planning with a view to spudding a well in 1Q 2013.

Given that Dalkey Island is pure exploration; it is not included in our target valuation at present. If risked on a similar basis to Providence's development assets, success here could yield £1.41/share on a risked basis (£7.05/share unrisked).

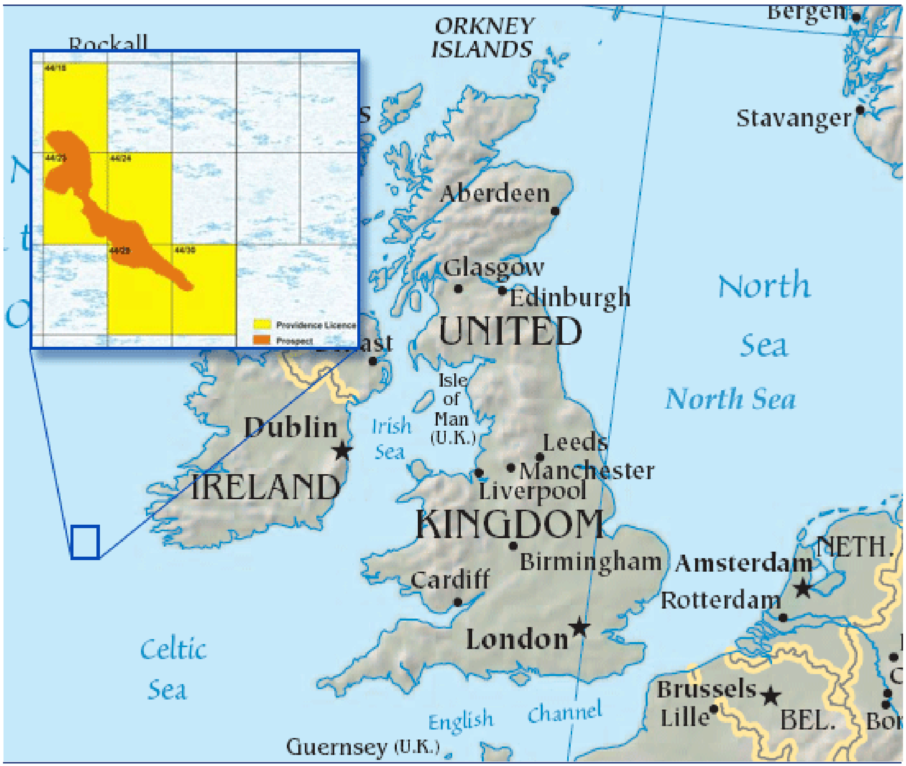
Dunquin – South Porcupine Basin

Providence's largest exploration opportunity is the Dunquin gas condensate prospect located in the South Porcupine Basin, 200km southwest of Ireland.

Dunquin lies in 1,500m of water and will target an over-pressured Cretaceous carbonate reservoir at 5,000m. Management believes there are strong analogues for this type of play across the Atlantic, with the Irish acreage representing a conjugate margin to the prolific Eastern Canadian basins (Nova Scotia, Hibernia, Newfoundland).

Dunquin's resource potential is significant, with 2D seismic surveys estimating recoverable resource of 8.4tcf of gas and 316mmbbls of condensate. Given the scale of the potential resource, we are not surprised to see Providence partnered in Dunquin with several majors – ExxonMobil (27.5%, operator), ENI (27.5%), and Repsol (25%). It is positive to see Providence's largest exploration opportunity validated by partners with considerable deepwater expertise.

Dunquin location map



Source: Rigzone

In our view Dunquin remains a high risk prospect with significant technical challenges. The farm-in agreement states that Providence can maintain its current 16% stake by funding 8% of the total well costs ($175m gross, but net exposure likely to be around $12m due to Providence's partial carry), or, alternatively, the company can exercise an option to trim its position to 8% and be fully carried through the next two wells.

We assume that Providence maintains its 16% stake and is liable for 8% share of well costs given that management is keen to sustain this equity stake in such a significant field

We will currently assume that Providence maintains its 16% stake and is liable for 8% share of well costs given that management is keen to sustain this equity stake in such a significant field.

Management estimate the well will spud in March 2013 (letter of intent signed for Eirik Raude rig). Nevertheless given that the prospect is fully under explored at present and the risks associated with pure deepwater exploration of this type, we do not currently ascribe any value to Dunquin in our target valuation for Providence. However, if risked on a similar basis to our development asset RENAV, success at Dunquin could generate £1.85/share risked upside (£11.61/share unrisked).

RENAV - Dunquin

Asset	Basin	Hydrocarbon type	Working interest %	CoS %	Prospective gross (mmboe) Gross		NPV 10% US$ / boe Net	Unrisked NPV $m $	Risked NPV $m $m	Unrisked NPV £m $m	Risked NPV £m £m	Net Unrisked £m	Net Risked p/share
Dunquin	South Porcupine	Gas cond.	16%	16%	1716	274.56	4.5	1,235.5	197.7	748.8	119.8	1,161.1	185.8

Source: Seymour Pierce Ltd

Spanish Point – Porcupine Basin

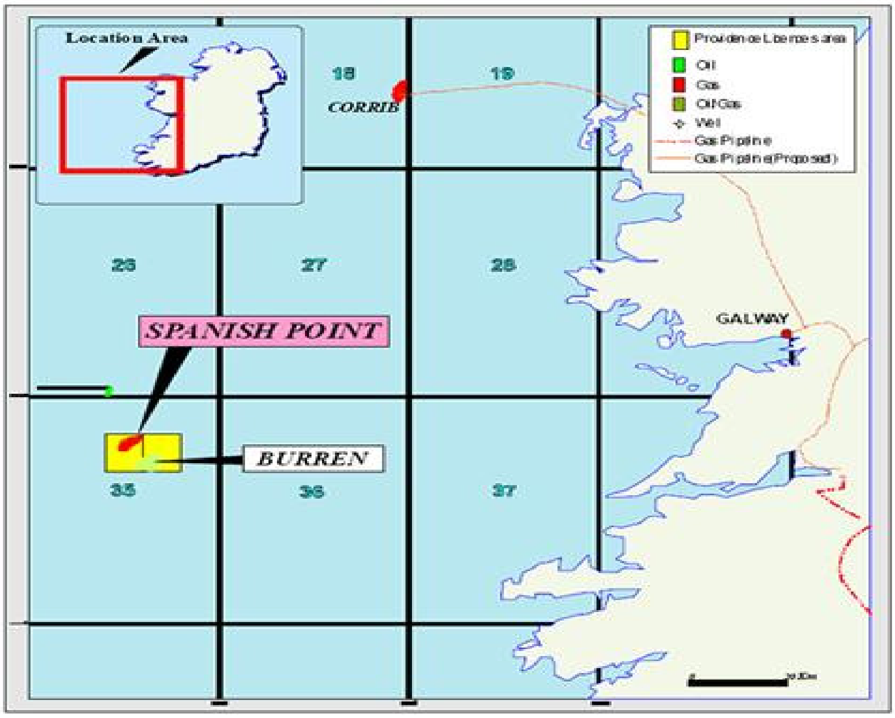
The first high impact Atlantic Margin appraisal well to be drilled is Spanish Point

The first high impact Atlantic Margin appraisal well to be drilled is Spanish Point (Providence 32%, operator), which is expected to spud in 3Q 2013. Spanish Point is a gas condensate discovery located in the Porcupine Basin, 175km off the west coast of Ireland. The licence lies in c.400m water depths and was granted in November 2004 for a 15 year term. The prospect was originally discovered by Phillips in 1981 and flowed c.1,000bopd and c. 5mcfd from one of four logged payzones of Upper Jurassic age; though higher skin factor damage was recorded which inhibited flow rates.

Post-drill analysis suggests that the discovery could contain resources of up to 1.1tcf and 112mmbo

Post-drill analysis suggested that while the discovery could contain resources of up to 1.1tcf and 112mmbo, it was deemed uneconomic due to a combination of low commodity prices, high production costs and lack of gas infrastructure in Ireland at the time.

Spanish Point location map



Source: Company

Providence subsequently commissioned a series of independent reports which suggested that the field contains estimated contingent resources (2C) of 1.4tcf and 160mmbo with significant upside potential both within the field and in adjacent prospects. In 2008, Providence was awarded additional acreage adjacent to the Spanish Point discovery under the Irish government's 2007 Porcupine Licensing Round. This area may contain extensions to the Spanish Point and Burren hydrocarbon systems.

In 2008, Providence confirmed that, together with its partner Sosina Exploration Ltd, it had signed a staged farm-out agreement with Chrysaor. The farm-out agreement limits Providence's net exposure to $20m for both the Spanish Point appraisal well and its side-track.

If Spanish Point is deemed commercial, management estimate total development capex of up to $1.4bn

If Spanish Point is deemed commercial, management estimate total development capex of up to $1.4bn based on a multiple horizontal fracture-stimulated well design. On this basis expect Providence to look to farm-down its stake substantially in exchange for a development cost carry, retaining material exposure to Spanish Point without a significant capex liability.

We value Providence's stake in Spanish Point at 112p/share risked assuming a 75% CoS, based on a minimum recoverable base of 100mmboe.

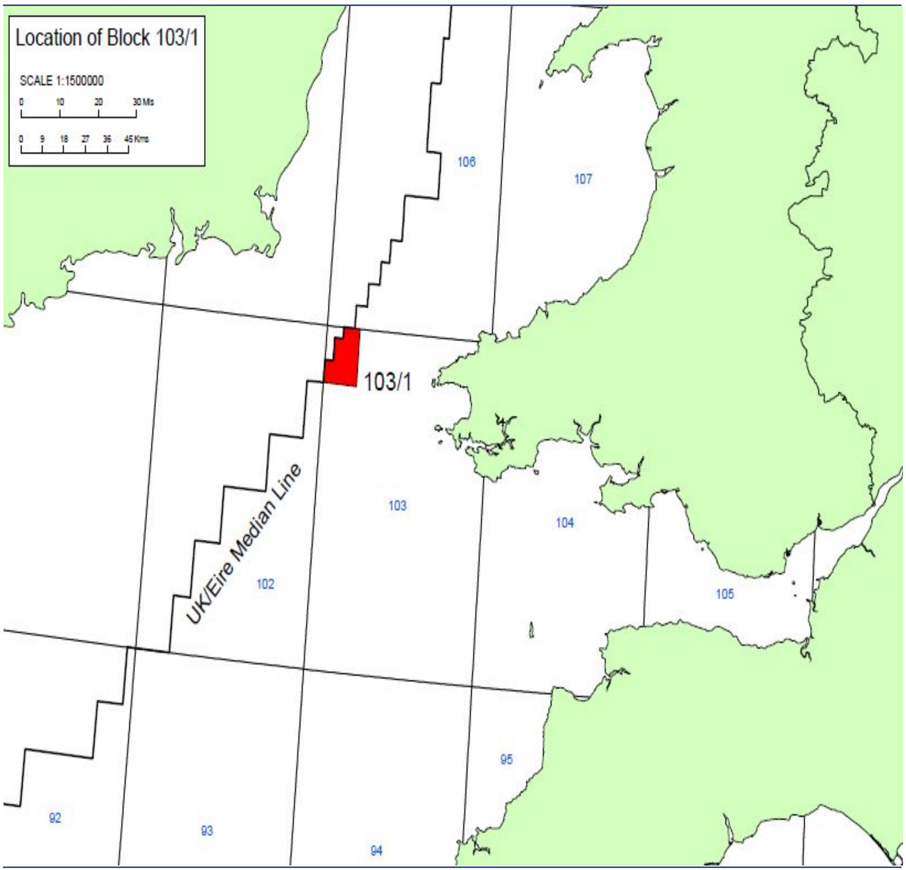
Dragon – St George's Channel Basin

The Dragon field, which straddles the Irish/UK median line, was discovered in 1994 by Marathon Oil. Previous work on Dragon has suggested in place resources of up to c.100bcf with a c.25:75 split between Ireland and the UK.

Providence expects to spud an appraisal well at Dragon in 1Q2014

However, a recent seismic study by IKON indicated that the Dragon reservoir sands may extend much further into Irish waters than first thought, with estimated in place resources increasing to 300bcf and up to 75% of the accumulation lying on the Irish side of the median line (i.e. in Providence's 100%-owned and operated block). Providence therefore expects to spud an appraisal well in 1Q2014.

Dragon field location map



Source: Subsea

If deemed successful on a commercial basis, the Dragon field offers relatively simple tie-backs to nearby infrastructure (e.g. Milford Haven LNG in Wales).

We value Providence's stake in Dragon at 46p/share, risked at a 75% CoS based on Providence's current 75% exposure (i.e. 100% of the 75% of Dragon that sits in Irish waters).

Rathlin Basin – Bushmills

Providence has agreed to re-evaluate available subsurface data with a view to drill an exploration well in 1Q 2014

Rathlin Basin is located onshore/offshore Northern Ireland. The oil exploration potential of this frontier basin was recently highlighted by the Ballinlea-1 well (drilled in 2008 by another operator, first exploration well in the basin), which encountered shows and recovered good quality oil to surface during testing. Providence interprets this well to have been drilled on the margin of the basin which extends and deepens offshore towards the basin centre under Rathlin Island.

As part of its agreed work programme with the Northern Irish and UK authorities, Providence has agreed to re-evaluate available subsurface data with a view to drill an exploration well in 1Q 2014.

Funding and farm down opportunities

Providence has taken positive steps to secure funding for their ongoing exploration program through equity placings and asset sales

Providence has taken positive steps to secure funding for their ongoing exploration program through equity placings and asset sales. In addition, the company has a number of opportunities available to them to develop their longer term assets, which we feel will involve a farm down of working interests in their larger fields.

Sale of UK interests

Providence generated $66m in September 2012 from the sale of its 100% interest in the producing Singleton oil field, its 50% operated interest in the Baxter's Copse oil discovery, and the Burton Down exploration prospect. The proceeds will be primarily used to pay off the company's outstanding debt facility, with the balance ($20-25m) used to fund working capital commitments.

We believe that cash plus existing resources should be sufficient to fully fund the 2013 drilling programme with added flexibility from the farmout of Barryroe and/or other exploration assets.

We believe that cash plus existing resources should be sufficient to fully fund the 2013 drilling programme

Value extracted on sale

Our 10% DCF yielded a valuation of Singleton at $84m (79p/share) forecasting operating cash flow of $11.3m in 2012 and $12.0m in 2013. Whilst Singleton was sold at a discount to our NPV, the transaction provides Providence with the required capital to pay existing liabilities and therefore fund its 2013 drilling program. In addition, the sale serves to divest the company's non-core UK operations.

Singleton generated modest production levels (c.750boepd ramping up to 900boepd in 1H 13) for the company, whilst down-hole mechanical issues at the recent X12 development well suggests that the asset could have served as a distraction from Providence's core Irish operations if retained.

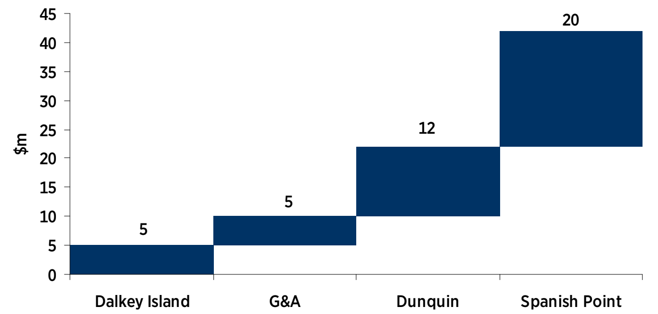
In terms of the other assets included in the sale, Baxter's Copse (initially drilled by Conoco in the early 1980s) offers 5mmbbls of gross prospective resources that would most likely be developed using similar horizontal drilling techniques to those employed at Singleton. We valued Baxters Corpse at 39p/share to Providence prior to the sale on a risked basis.

Financial health

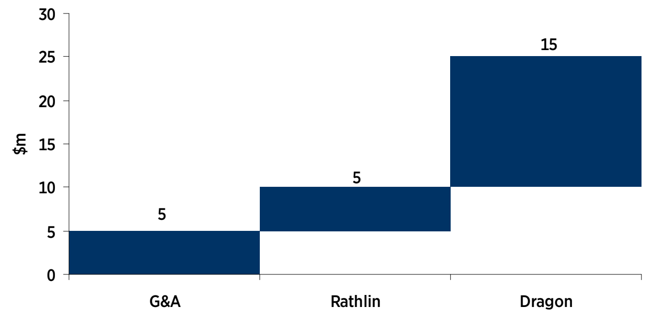
Our forecast capital expenditure for FY13 is $42m, and FY14 $25m.

Providence ended 1H12 with available cash of €41m ($66m), driven mainly by a $100m equity placing completed in April 2012. We estimate the company will record a FY12 cash balance of €33.9m ($44m). Our forecast capital expenditure for FY13 is $42m, and $25m for FY14

Capex forecast – 2013 Expenditure



2014 Expenditure



Source: Seymour Pierce Ltd, Company

On the basis of the above capex spend, Providence can finance its 2013 drilling campaign through existing cash resources.

Based on our estimated drilling calendar (see *'Forward Exploration Programme'*) and Providence's current ownership stakes, we believe the company's current cash will last until 1H14 – this assumes drilling the Dalkey Island, Spanish Point and Dunquin wells in 2013.

Farmout potential

The longer term capital required to develop any commercial discoveries suggests it is unlikely that Providence will maintain its high working interests in its exploration prospects over the medium term.

It is unlikely that Providence will maintain its high working interests in its exploration prospects over the medium term

Providence has the option to be fully carried through the Exxon operated Dunquin well in return for an 8% working interest, an option we believe is very unlikely to be exercised given the upside potential of the prospect at a (relatively) low outlay.

In addition, a farmout process is currently taking place for the Dragon prospect (expected 4Q12/1Q13), which will invariably reduce Providence's financial exposure to the drilling costs. At Spanish Point, Providence retains the flexibility to farm down its 32% working interest. On this basis the $20m assumed cost to Providence assumed for the first two Spanish Point wells (a vertical well plus sidetrack) is capped by Chrysaor.

As such, there is no clear source of funding for Providence's 2014 drilling program. However we expect any potential Barryroe transaction to generate cash plus well carry elements, with additional funding raised through farming down other interests in the company's portfolio.

Farming down offers Providence the opportunity to capture shareholder value whilst avoiding a significant capex spend

Farming down its high interest positions offers Providence the opportunity to capture shareholder value whilst avoiding a significant capex spend as its assets move through field development. Providence is likely to have its pick of partners among those that have already signed agreements to assist in a $500m exploration program of six basins are ExxonMobil, Repsol, and ENI.

Operating offshore Ireland

Improved technology, a welcoming Irish fiscal regime and a high oil price environment have made offshore Irish oil fields commercial possibilities.

Improved technology, a welcoming Irish fiscal regime and a high oil price environment have made offshore Irish oil fields commercial possibilities

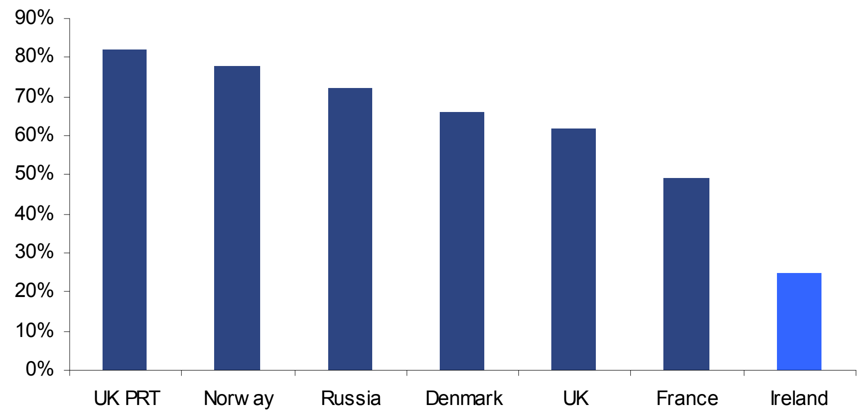
Fiscal terms

A lack of investment in the Irish oil industry, due to high operating costs, a dominence of unconventional hydrocarbons and underdeveloped infrastructure means Ireland has not seen the significant tax gains from oil & gas production enjoyed by economies such as the UK and Norway.

Nevertheless, oil & gas companies have significant incentive to invest in Irish prospects given the favorable fiscal terms on offer. Corporation tax is currently 25% whilst companies can also write off 100% of eligible exploration and development capex in the year the expenditure is incurred. Producers are also liable for Ireland's petroleum resource rent tax (PRRT), levied at between 0-15% depending on the company's ratio of cumulative post-tax profits to cumulative exploration, appraisal and development expenditure. In contrast the UK last year increased its oil company corporation tax from 50% to 62% (or up to 82% for PRT paying fields) whilst the current average international tax take is 68%.

Ireland operates an attractive fiscal regime requiring only a 25% corporation tax take

European fiscal terms comparison



Source: CIA World Factbook

We believe the present regime offers sufficient incentive to attract new explorers to offshore licenses and ultimately the Irish market; however over the long term we believe there is the risk of Ireland's fiscal terms being tightened as the country aims to capture more value from its growing petroleum industry.

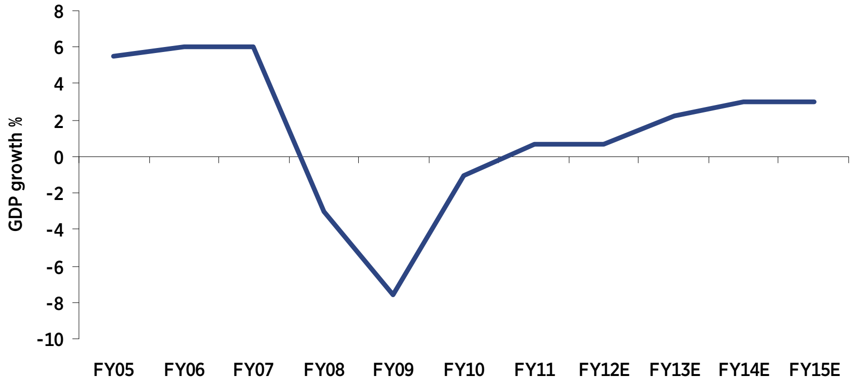
Irish Economy

The downturn affected the Irish economy severely, compounding domestic economic problems related to the collapse of the Irish property bubble

The downturn affected the Irish economy severely, compounding domestic economic problems related to the collapse of the Irish property bubble. After 24 years of continuous growth at an annual level during 1984-2007, Ireland experienced a two-year recession from Q1 2008-Q4 2009, culminating in a €67.5bn ($84bn) bailout from the European Union and International Monetary Fund

After a year with stagnant economic activity in 2010, Irish real GDP rose by 1.4% in 2011. The economic challenges continued, however, with some economists fearing the European Sovereign debt crisis had suddenly caused another Irish recession starting in Q1 2012, when the Central Statistics Office announced that it had seasonally adjusted quarterly real GDP to contract by 1.1%.

Historical and projected GDP growth rate - Ireland



Source: Department for Finance

More recently, economists have forecasted some positive growth expectations for Ireland, with real GDP expected to rise 0.6% overall in 2012 and increase a further 2.2% in 2013. The European Commission forecasted similar positive growth expectations for Ireland in May this year.

Given the issues currently facing the Irish economy, the country would clearly welcome long term investment in their junior energy sector.

Potential impact of an Irish oil boom

Given the issues currently facing the Irish economy, the country would clearly welcome long term investment in their junior energy sector, the long term economic benefits of which could draw comparisons to the North Sea's impact on the UK economy.

North Sea impact on UK economy

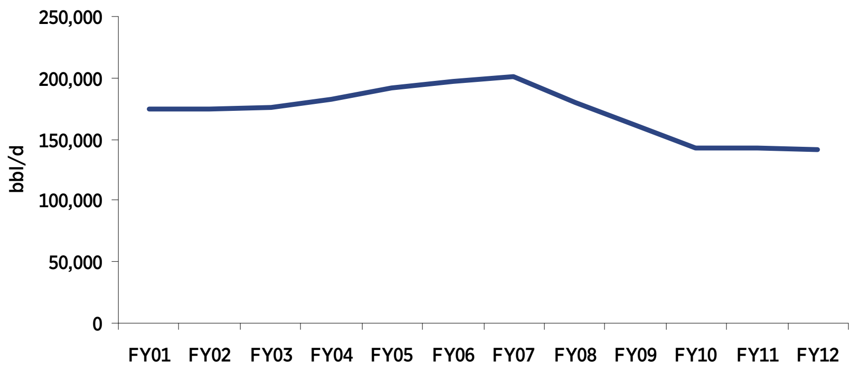
From the early 1970s, the UK experienced an intensive exploitation of North Sea oil and gas fields, turning the country from an oil importer to significant net oil exporter by the end of the decade. The high oil prices from the middle 1970s induced a stream of revenues from the North Sea, increasing overall national wealth and demand in the country. The potential for profitable output from the energy sector gave huge investment and business opportunities to the overall economy, with increased demand for labour and capital.

Potential impact on Irish economy

Ireland currently imports 100% of its oil, which is consumed at a rate of c.140,000bbl/d

Ireland currently imports 100% of its oil, which is consumed at a rate of c.140,000bbl/d. Therefore in terms of security of supply, job creation and long term tax receipts, an oil province offshore Ireland could be transformational for the country.

Historical Irish oil consumption levels



Source: Seymour Pierce Ltd

A quarter of all oil imported is refined in close proximity from the Barryroe discovery and therefore close to the necessary industrial infrastructure to assist in the construction of future oil wells.

The U.K. has collected £300bn in oil and gas royalties from the British section of the North Sea over the last four decades. In addition, the country has attracted £500bn investment in its energy industry. This clearly bodes well for the Irish economy given the increased interest and subsequent exposure gained through Providence's success with the drill bit. The introduction of major players such as ENI, Repsol and Exxon could lead to an influx into the region, a move that would be welcomed by the Irish government.

Appendix 1: Management

Dr Brian Hillery - Chairman

Dr Brian Hillery has served as Chairman on the Providence board since the incorporation of the company. He is non-executive Chairman of Independent News & Media PLC and is a member of the National Pensions Reserve Fund Commission. A former Professor at the Graduate School of Business, University College Dublin, he has also served as a member of the Irish Parliament as a TD and Senator (1977-1994). He was an Executive Director of the European Bank for Reconstruction and Development (EBRD) London (1994-1997) and was non-executive Chairman of UniCredit Bank (Ireland) Plc. (1999-2008).

Tony O'Reilly - Chief Executive

Tony O'Reilly is a graduate of Brown University in Rhode Island. He is Chief Executive of Providence Resources P.l.c. having served on the Board since incorporation. He has previously worked in mergers and acquisitions at Dillon Read and in corporate finance at Coopers and Lybrand, advising natural resource companies. He served as Chairman of Arcon International Resources P.l.c. (having been Chief Executive from 1996 to 2000) until April 2005 when Arcon merged with Lundin Mining Corporation. He joined Wedgwood in 2001 becoming Chief Executive (2002 to 2005) following which he became Chief Executive of Providence.

John O'Sullivan - Technical Director

John O'Sullivan is a geology graduate of University College, Cork and holds a Masters in Applied Geophysics from the National University of Ireland, Galway. He also holds a Masters in Technology Management from the Smurfit Graduate School of Business at University College, Dublin and is presently completing a dissertation leading to a Ph.D in Geology at Trinity College, Dublin. He is a Fellow of the Geological Society and a member of both the Energy Institute and the Petroleum Exploration Society of Great Britain. He has 20 years' experience in the oil and gas exploration and production industry with both Mobil and Marathon and is a qualified person as defined in the guidance note for Mining Oil & Gas Companies, March 2006 of the London Stock Exchange.

Philip O'Quigley - Non Executive Director

Philip O'Quigley is a Fellow of the Institute of Chartered Accountants in Ireland. Having trained with Ernst & Young, Dublin, he moved into finance positions within the oil and gas industry in the early 1990s. He joined Glencar Mining plc, the IEX and AIM quoted gold mining company in 1997 as Finance Director. In 2002 he left Glencar Mining plc as an Executive Director and since that time has been involved in a number of private and public companies in the oil and gas industry, including Petroceltic International plc where he was Finance Director. Currently he holds the position of Chief Executive of Falcon Oil and Gas Ltd.

Lex Gamble - Non Executive Director

Lex Gamble was appointed as a non-executive director of the Company in August, 2005. Mr. Gamble holds a Bachelor of Arts Degree from the University of Washington, and a Masters Degree from Harvard Business School. Mr. Gamble has been an investment banker for over 35 years and has provided strategic advice to more than 200 U.S. and international companies, including several in the FTSE 100 and Fortune 500. During his time as Managing Director with Smith Barney Group Inc, Morgan Grenfell Plc and Kidder Peabody & Co Inc, he advised corporate clients on capital raisings totaling in excess of US$40 billion. Mr. Gamble is a Director of the Harris Private Bank NA (Chicago), Crosswater Financial Corporation (Minneapolis), Ashford Castle (Ireland), the University of Washington Foundation, and the University of Washington School of Business (Seattle) and was a Founding Principal of Lockwood Financial Group, a leading provider of consulting and wealth management services to high net worth individuals.

James S.D. McCarthy - Non-executive Director

Appointed as a non-executive Director of the Company in May 2005. Mr McCarthy holds a Bachelor Degree in Civil Law, an MBA from the University of Pittsburgh and is a qualified solicitor. He is managing Director of Corporate Finance Ireland Limited and a Director of Nissan Ireland, Windsor Motors Limited and Rockall Technologies Limited and a number of other companies. Mr McCarthy is a former Director of ARCON International Resources plc.

Dr Philip Nolan - Non-executive Director

Appointed as a non-executive Director of the Company in May 2004. Dr Nolan was CEO of eircom Plc from 2002 to 2006. He is currently Chairman of J.LAING Plc. He is also a non-executive Director of the Ulster Bank Group and a former director of De La Rue Plc. He is Chairman of the Irish Management Institute and is a member of the Board of the Ireland Fund and The Queens University Foundation. Dr Nolan, graduated from Queen's University in Belfast with a BSc and a Ph.D in geology and has an MBA from the London Business School.

Financial model

Income Statement

Year end December (€m)	2010A	2011A	2012E
Group revenue	11.1	13.8	13.9
Cost of sales	(4.7)	(4.1)	(5.2)
Gross profit	6.4	9.7	8.8
Total operating expenses	(5.0)	(9.7)	(33.7)
EBIT	1.5	0.0	(25.0)
Net interest/financial income/(cost)	(7.4)	(5.2)	(3.2)
Associate and Other non-op. income/(cost)	0.0	0.0	0.0
PBT	(6.0)	(5.2)	(28.2)
Tax	(3.8)	(4.5)	(3.6)
Effective tax rate (%)	(64.4)	(86.4)	(12.6)
Minorities	0.0	0.0	0.0
Earnings	(9.8)	(9.7)	(31.8)
EBITDA	9.6	2.7	(24.4)
Adjusted EBITDA*	9.6	2.7	(24.4)
Adjusted EBIT*	1.5	0.0	(25.0)
Adjusted PBT*	(6.0)	(5.2)	(28.2)
Adjusted earnings*	(9.8)	(9.7)	(31.8)
DPS (c)	0.0	0.0	0.0
EPS (c)	(29.5)	(20.8)	(51.3)
EPS [F. Dil.] (c)	(29.5)	(20.8)	(51.3)
EPS [Adj.]* (c)	(29.5)	(20.8)	(51.3)
EPS [Adj. F. Dil.]* (c)	(29.5)	(20.8)	(51.3)
Weighted average no. shares (m)	33.2	46.8	64.5
Fully dil. w. ave. no. shares (m)	33.2	46.8	64.5
Year end no. shares (m)	33.2	46.8	64.5

* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, Seymour Pierce Ltd

Cashflow Statement

Year end December (€m)	2010A	2011A	2012E
Operating income	1.5	0.0	(25.0)
Amortisation of acquired intangibles	0.0	0.0	0.0
Amortisation of other intangibles	0.0	0.0	0.0
Depreciation	8.1	2.6	0.6
Net change in working capital	(0.5)	5.4	11.4
Other	1.4	(3.3)	21.7
Operating cash flow	10.5	4.8	8.7
Capital expenditure	(10.7)	(36.5)	(53.6)
Investment in Other intangibles	0.0	0.0	0.0
Net interest/financial income/(cost)	0.2	0.1	0.6
Tax paid	(0.0)	0.0	0.0
Net acqns./disposals	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0
Other	0.0	18.2	55.4
Cash flow before financing	(0.0)	(13.3)	11.1
Proceeds from shares issued	16.5	47.7	84.4
Investments	0.0	0.0	0.0
Other	(1.0)	(19.9)	(76.0)
Net movement in cash/(debt)	15.5	14.4	19.5
Opening net cash/(debt)	1.0	(71.3)	30.3
Adjustments (Forex, etc.)	0.1	0.2	0.0
Closing net cash/(debt)	(71.3)	30.3	33.6

Source: Company data, Seymour Pierce Ltd

Balance Sheet

Year end December (€m)	2010A	2011A	2012E
Property plant and equipment	57.5	46.2	42.5
Goodwill and Acquired intangibles	0.0	0.0	0.0
Other intangibles	10.1	36.2	63.6
Other fixed assets	3.5	11.0	10.5
Non current assets	71.2	93.4	116.6
Stocks & WIP	0.0	0.0	0.0
Trade receivables	3.6	6.6	22.5
Cash	9.2	18.6	33.9
Other current assets	16.8	18.0	3.5
Current assets	29.6	43.2	59.9
Total assets	100.7	136.6	176.5
Trade creditors	8.9	27.7	40.4
Short term borrowings	2.7	41.8	0.0
Long term borrowings	83.1	30.0	0.0
Other liabilities	29.8	29.3	34.1
Total liabilities	124.5	128.7	74.5
Net assets	(23.7)	7.9	102.0
Issued share capital	15.1	16.7	18.1
Share premium account	86.9	130.5	209.6
Retained earnings	(136.0)	(149.0)	(127.6)
Other reserves	10.3	9.7	1.8
Minority interests	0.0	0.0	0.0
Total equity	(23.7)	7.9	102.0

Source: Company data, Seymour Pierce Ltd

Key Ratios

Year end December	2010A	2011A	2012E
Revenue growth (%)	n/a	24.1	1.2
Adj. EBITDA* growth (%)	n/a	(72.1)	(1,015.2)
Adj. EBIT* growth (%)	n/a	(97.9)	(80,726.8)
Gross margin (%)	57.9	70.5	62.9
Adj. EBITDA* margin (%)	86.3	19.4	(175.2)
Adj. EBIT* margin (%)	13.2	0.2	(179.6)
Gearing (%)	(300.2)	n/a	n/a
Interest cover (x)	0.2	0.0	(7.8)
Net debt/Adj. EBITDA* (x)	(7.5)	11.4	(1.4)
Dividend cover (x)	n/a	n/a	n/a
ROE (%)	41.3	(123.3)	(31.2)
ROIC (%)	(91.5)	(26.6)	(59.3)
ROCE (%)	(91.5)	(26.6)	(59.3)
Operating cash conversion (%)	109.9	180.6	(35.6)
Net cash conversion (%)	0.2	137.1	(34.8)
Net working cap / revenue (%)	(4.4)	39.4	81.5
Cap Ex / revenue (%)	96.7	265.4	385.0

* excludes exceptional items and amortisation of acquired intangibles.

Source: Company data, Seymour Pierce Ltd

Valuation Metrics

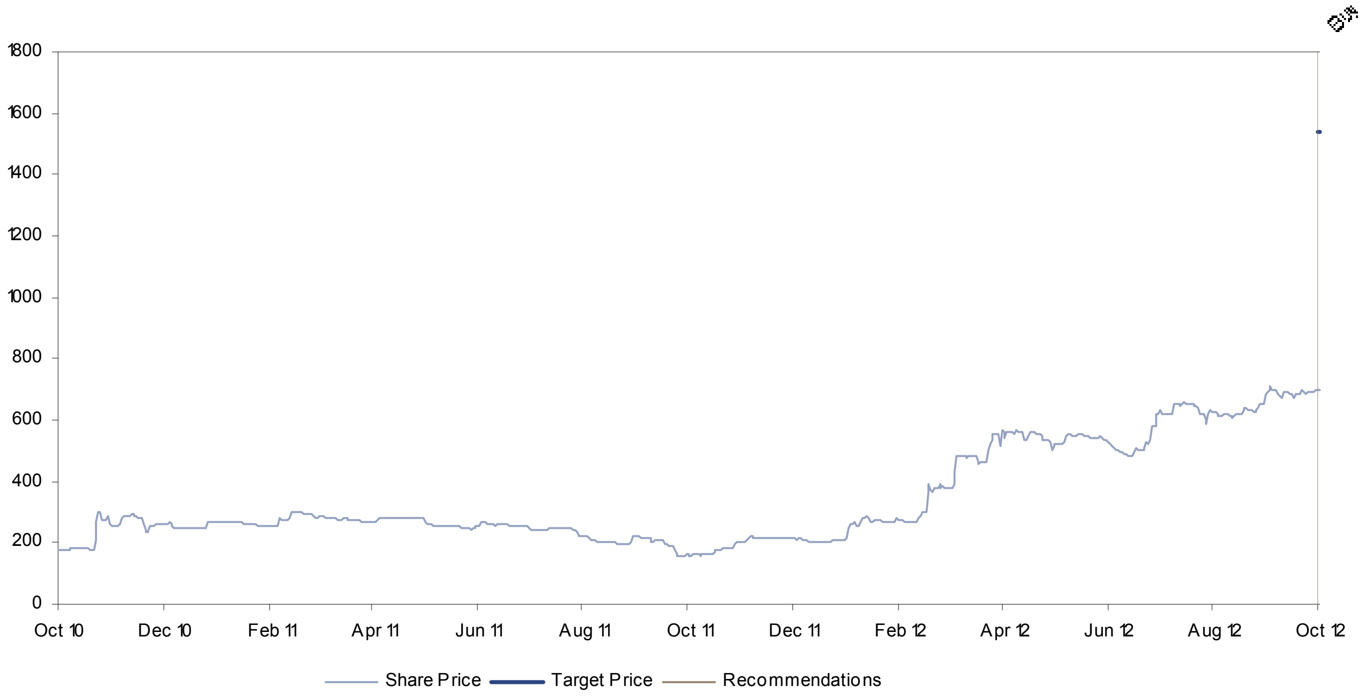
Year end December	2010A	2011A	2012E
PER (x)	(29.2)	(41.5)	(16.8)
EV / Revenue^ (x)	50.3	40.6	40.1
EV / Adj. EBITDA^* (x)	58.3	209.3	(22.9)
EV / Adj. EBIT^* (x)	380.5	17,993.2	(22.3)
EV / IC^ (x)	11.7	(24.9)	8.2
EV / Taxed Adj. EBIT^* (x)	380.5	17,993.2	(22.3)
Yield (%)	0.0	0.0	0.0
P / CFPS (x)	(17,888.6)	(30.3)	50.3
NAV per share (c)	(71.5)	16.8	158.1

* excludes exceptional items and amortisation of acquired intangibles.

^ EV calculation adjusted for core cash, investments etc.

Source: Company data, Seymour Pierce Ltd

Target Price & Recommendation History



Source: Datastream, Seymour Pierce Ltd

Key to material interests

1 The analyst has a personal holding of the securities issued by the company, or of derivatives related to such securities.
2 Seymour Pierce Limited or an affiliate owns more than 5% of the issued share capital of the company.
3 Seymour Pierce Limited or an affiliate is party to an agreement with the company relating to the provision of investment banking services, or has been party to such an agreement within the past 12 months. Our corporate broking agreements include a provision that we will prepare and publish research at such times as we consider appropriate.
4 Seymour Pierce or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities for the company within the past 12 months.
5 Seymour Pierce is a market maker or liquidity provider in the securities issued by the company.
6 Seymour Pierce is party to an agreement with the company relating to the production of research recommendations.

Distribution of ratings

Our research ratings are defined with reference to the absolute return we expect over the next 12 months:

Rating	Definition
Buy	Absolute return expected to be more than 10%
Add	Absolute return expected to be between 5% and 10%
Hold	Absolute return expected to be between -5% and +5%
Reduce	Absolute return expected to be between -5% and -10%
Sell	Absolute return expected to be less than -10%

As from 25 October 2010 the nomenclature of our recommendation was changed. Prior to that time Add recommendations were described as Outperform and Reduce recommendations were described as Underperform.

As at 30 September 2012 the distribution of all our published recommendations is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
Buy	57.4%	59.5%
Add	5.4%	14.3%
Hold	26.4%	0.0%
Reduce	1.7%	0.0%
Sell	2.3%	0.0%
None	7.0%	88.9%

Important Notes

Our research recommendations are issued and approved for distribution within the United Kingdom by Seymour Pierce Limited only to eligible counterparties and professional clients as defined under the FSA rules. Our research is not directed at, may not be suitable for and should not be relied upon by any other person. The information contained in our research is compiled from a number of sources and is believed to be correct, but cannot be guaranteed. It is not to be construed as an offer, invitation or solicitation to buy or sell any securities of any of the companies referred to within it. All statements made and opinions expressed are made as at the date on the face of the material and are subject to change without notice. Where prices of securities are mentioned, these are the mid-market prices as at the close-of-business on the business day immediately preceding the date of the research. The meanings of our research ratings, together with the proportion of our recommendations issued during the previous quarter carrying each rating, is set out on our website at www.seymourpierce.com. Seymour Pierce Limited and/or its associated companies and ultimate holding company may from time-to-time provide investment or other services to, or solicit such business from, any of the companies referred to in research material. In addition, they and/or their directors and employees and/or any connected persons may have an interest in the securities of any of the companies in the report and may from time-to-time add to or dispose of such interests. Details of the significant conflicts relating to the companies that we research are set out on our website www.seymourpierce.com, together with a summary of our policies for managing conflicts of interest.

Seymour Pierce does not meet all of the FSA standards for managing conflicts of interest, as a result our research should not be regarded as an impartial or objective assessment of the value or prospects of its subject matter, though of course we will always ensure that it remains clear, fair and not misleading.

Seymour Pierce Limited is authorised and regulated by the Financial Services Authority, and is a member of the London Stock Exchange.