Conventional Oil & Gas: Explorer

PURA VIDA ENERGY NL

Huge Resource Upgrade Promotes to New Level

Pura Vida Energy NL ("Pura Vida", "PVD", "Company") has announced a massive upgrade to the prospective resource potential of its large 75% owned Mazagan Permit, offshore Morocco. The updated independent resource report was completed by internationally renowned consultants DeGolyer and MacNaughton ("D&M").

The Company's net resource potential has increased from 2.4 billion barrels of oil to 5.3 billion barrels of oil (Pmean). There are two main reasons for the upgrade; several prospects had previously not been included in the estimate as re-processing of the 3D seismic was still in process, but more significantly, the analysis has indicated that the gross reservoir thickness is likely to be greater than previously estimated due to the presence of multiple sands. For example, the lead prospect, Toubkal, has been upgraded from a mean prospective resource of 790 million barrels of oil to a massive 1.5 billion barrels of oil.

Direct Hydrocarbon Indicators ("DHIs") have been confirmed not only on the main prospects, where they had previously been identified, but also at several other large prospects in different play types. This has resulted in a significant increase in the chance of success, with 6 prospects now estimated to have a chance of success exceeding 30%. The remaining 7 prospects included in the report have a respectable 19% estimated chance of success.

DHIs – Are They Significant? Most Definitely

The analysis undertaken included modelling of what local rock types, known from historic wells in the area, should look like on the seismic if they were saturated with hydrocarbons. The modelled estimates and the actual results are the same. Previous analysis that identified multiple phase changes in the intensity of the seismic response has been confirmed, indicating a likely gas cap on oil on water. These phase changes shut off at consistent depth contours, further supporting the evidence of hydrocarbon presence.

Simple Numbers, Huge Upside - Buy

We know from experience that our valuation methodology is accurate in predicting pre-drill market capitalisation. It is ultimately a question of perceived risk / reward and whether a "bet" on the drilling event stacks up in a statistical sense. i.e. If there is greater than a 10x uplift in potential return and the chance of success is perceived to be better than 10%, then that would be considered a good investment. The more skewed the relationship between the upside multiple and the chance of success, the more attractive the investment becomes.

We believe it is safe to assume that PVD will achieve a farm-out (given the quality of the acreage, size of the prospects, DHIs, multiple play types, increased activity in the region) that will result in drilling within 18 months (possible sooner). Given this, let's explore the parameters around potential uplift and chance of success. Toubkal has mean potential for 1.5 billion barrels of oil and PVD will conservatively retain a 30% working interest post farm-out. This means that the potential value on success, net to PVD @ $10 per barrel, is $4.5 billion dollars. So, if we assumed that chance of success was 10% (1/3 of the D&M estimate), that would imply that a valuation of $450m ($5 per share) pre-drill would constitute an even money proposition. This is for Toubkal alone.

We have increased our price target from 113cps to 188cps. PVD is a Buy.

25 Sep 2012

Share Price:	$0.66
12mth Price Target:	$1.88

Brief Business Description:
African focussed oil and gas exploration company with core asset offshore Morocco.

Hartleys Brief Investment Conclusion
Early entrant offshore Morocco. Increased industry interest is likely to be followed by the market.

Key Personnel
Mr Bevan Tarratt (Chairman)
Mr Damon Neaves (CEO, Director)
Mr David Ormerod (Technical Director)

Top Shareholders:
No substantial holders

Company Address:
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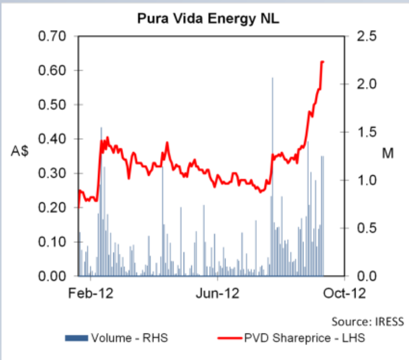
Valuation:	$3.76
Issued Capital:	50.8m
- fully diluted	90.3m
Market Cap:	$33.5m
- fully diluted	$59.6m
Cash (Jun '12):	$6.0m
Debt (Jun '12):	$0.0m

Valuation Summary

Asset	Value ($m)	Value ($ps)	Unrisked Value ($ps)
Toubkal	140.15	1.553	50.08
Others	197.87	2.192	91.56
Cash	6.00	0.066	0.066
Debt	0.00	0.000	0.000
Corp Admin	-11.33	-0.126	-0.126
Options/Equity	6.37	0.071	0.071
Total	**339.06**	**3.756**	**141.66**

Prospective Resource (mmbbl)		5,300
EV/Resource ($/bbl)	$	0.010

Source: Hartleys Research



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Pura Vida Energy NL. See disclosure on back page for details. The analyst has a beneficial interest in the shares of Pura Vida Energy NL.

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HIGHLIGHTS

Huge resource upgrade with massive prospects that have Direct Hydrocarbon Indicators has propelled PVD to a new level.

Pura Vida's Mazagan Permit (PVD 75%) offshore Morocco is 10,900km^2 in area and is covered by 3,570km^2 of modern 3D seismic that has recently been reprocessed. The outcome of the reprocessing is the identification by independent consultants, DeGolyer and MacNaughton, of 7.0 billion barrels of mean potential oil on the permit over 13 prospects, on a gross basis (5.3 billion net to PVD). Direct Hydrocarbon Indicators have also been confirmed by the independent analysis, which estimates chance of success in excess of 30% for 6 of the lead prospects.

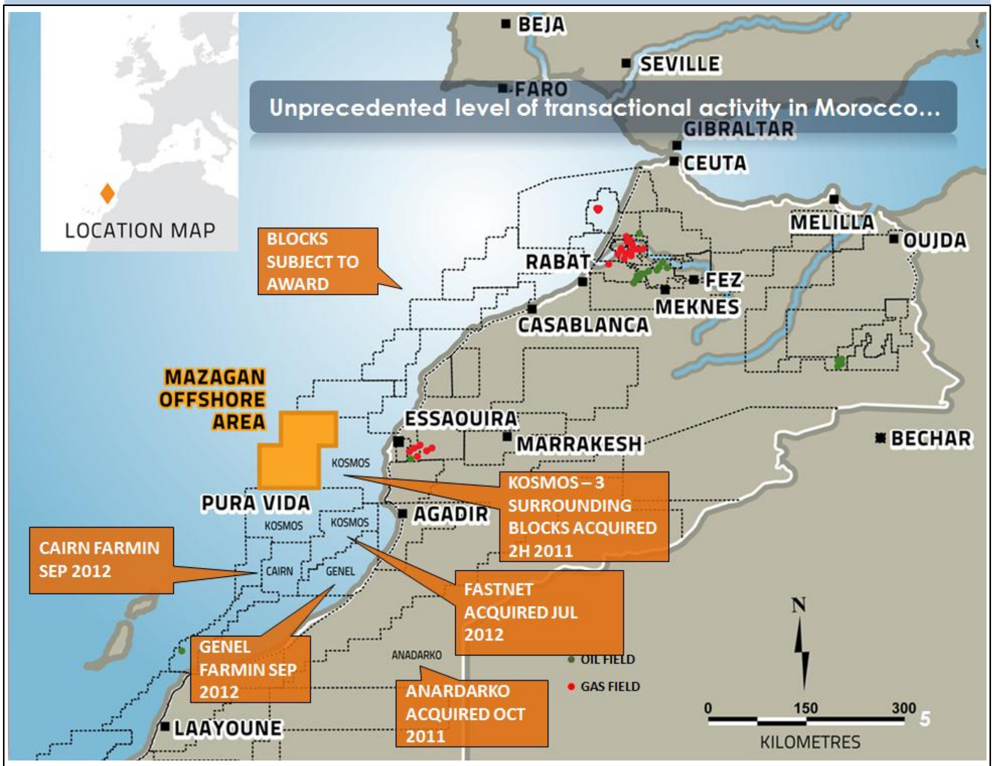
Likely to result in increased farm-out interest, expected to close in Q1 2013.

The Company listed on the ASX in Feb 2012 and has achieved great success, accomplishing milestones ahead of and above expectations, such as the recent resource upgrade. Significantly, the Company acquired Mazagan ahead of a wave of recent industry activity that has seen a large re-rating in the value of Moroccan oil and gas assets. This activity will also result in the drilling of several high impact wells within the next 18 months, one of which is likely to be PVD's Toubkal prospect. A formal farm-out process, managed by EZDataRoom, will begin in early October 2012 with a deal likely to be finalised in Q1 2013. Drilling could occur as early as late 2013.

Pura Vida has indicated that it intends to grow its asset portfolio, with a focus on Africa. Our view on management discipline, as well as strong technical and commercial acumen, gives us confidence that any acquisition will be value accretive for shareholders.

Two farm-outs in acreage next door in recent months will result in 2-3 wells in H2 2013. Look through metrics imply uplift on PVD block, which has larger prospects as well as DHIs.

Fig. 1: Pura Vida Location with Recent Activity



Source: Pura Vida

Morocco Activity

Our initiation note in August included a section on the uptick in industry activity in Morocco, highlighting that this often precedes interest by financial markets. Since then (only a month or so ago) there has been additional activity that provides some interesting look through valuations for Pura Vida.

Two farm-outs have been completed recently with Cairn Energy and Genel Energy executing two separate, but similar, deals on the Foum Draa and Sidi Moussa permits, respectively. The two farm-outs both include the costs of drilling of a well on each permit, with timing for both likely to be H2 2013. The metrics are set out below.

Morocco has become a hot bed of activity. Drilling next year is likely to result in increased investor interest and further share price re-rating for companies with exposure.

Fig. 2: Recent Farm-out Deal Metrics

Permit	% Acquired	Implied Cost ($m)*	Area (km2)	Prospective Barrels (millions of barrels)#	Implied Value per km2	Implied Value per prospective barrel (cents per mmbbl)
Sidi Moussa	60%	$86m	7,624		$11,200	
Foum Draa	50%	$123m	5,090		$24,160	
Total		**$209m**	**12,714**	**2,300**	**$16,400**	**9.1c**

Source: Hartleys, #Longreach Oil and Gas, Company Reports, *total permit calculated based on well cost caps and payment of historical costs

By comparison, PVD's Mazagan Permit is 10,700km2 in size, which indicates look through value of $175m for the entire permit. On a prospective resources basis, the look through value is much higher at $635m, based on the gross mean resource of 7 billion barrels. Pura Vida is currently at a 75% working interest but this is expected to decrease with a farm-out to 30-35%. Given the size of the prospects on PVD's permit and the presence of DHIs (not present on Foum Draa and Sidi Moussa, to our knowledge) we are confident that a decent farm-out can be executed.

Past activity previously reported is detailed below.

Kosmos Energy acquired 3 adjacent blocks to PVD's Mazagan Permit in H2 2011. The reason that this is significant is that Kosmos discovered the billion barrel Jubilee field offshore Ghana and has fast tracked its exploration program to include drilling as early as 2013. Kosmos recently completed the acquisition of 4,940km^2 of 3D seismic, which we estimate to have cost between $30-$40m.

Newly AIM-listed, Fastnet Oil and Gas, has also recently entered Morocco. Fastnet is managed by several founding Directors of the recently acquired Cove Energy. Fastnet's core asset is an 18.75% carried interest in the Foum Assaka permit, adjacent to PVD's acreage, operated by Kosmos. Fastnet has a market capitalisation of $50m.

Genel Energy (headed by former BP boss Tony Hayward) acquired Barrus Petroleum in July 2012, inheriting acreage offshore Cote D-Ivoire and Morocco. The acquisition price was undisclosed but it is believed to be around $50m.

Exploration is Risky, 10% Success Rate is not the Number

We mentioned on the cover page our interpretation of risk / reward investment decisions by investors, which has historically predicted share price movements ahead of high impact drilling with good accuracy. There is no reason why PVD cannot replicate, or perhaps exceed, this type of performance in valuation. We have covered some of the peer performance in previous research and will no doubt revisit this as milestones, such as farm-out, are accomplished.

First it is important to discuss why investors will take on this kind of risk, as many are quicker to point out the failures (of which there are many) than they are to consider the success stories. Companies like Tullow, Cove, Africa Oil, Kosmos, Hardman, Karoon, Ophir, African Petroleum and Dominion have all delivered many multiple returns on investment in recent years on the back of offshore discoveries, predominantly in Africa.

Oil and gas exploration remains high risk; however, decent assets with the right attributes are achieving much higher success rates than the perceived global historical average of 10%.

Globally, wildcat offshore success rates pre-2000 averaged close to 10%. Since then, the introduction of new technology, including increased computing power and more complex algorithms used to analyse seismic, has seen an increase to ~20%. The success rate offshore Africa, especially where DHIs are evident, now exceeds this. This is evidenced by large discoveries made in virgin areas in recent years, such as offshore Brazil (Tupi 5-8 billion barrels), offshore Ghana (Jubilee >1 billion barrels), offshore French Guyana (Zaedyus >1 billion barrels), offshore Israel (Leviathan 16tcf) and many discoveries offshore East Africa (100tcf), where the success rate is >80%.

Fig. 3: Huge Prospects with High Chance of Success

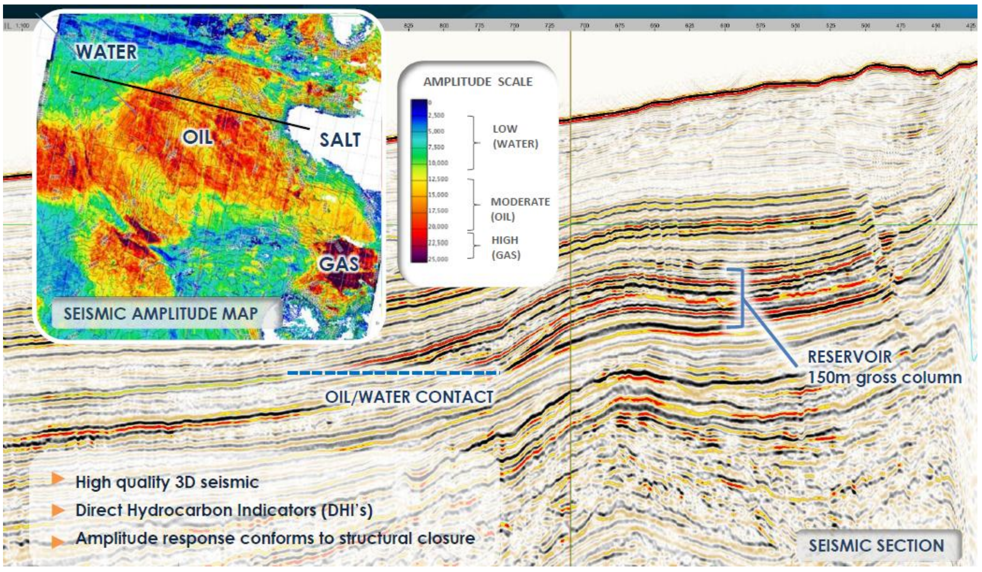
Prospect	Low Estimate (mmbo)	Best Estimate (mmbo)	High Estimate (mmbo)	Mean Estimate (mmbo)	Probability of Geologic Success
Zagora	20	51	132	65	34%
Amchad	22	62	161	80	34%
Tafraoute	294	807	2,114	1,047	32%
Amtoudi East	167	478	1,137	590	32%
Amtoudi West	122	342	869	435	32%
Toubkal	436	1,168	3,074	1,507	31%
Jbel Ayachi	55	157	414	202	19%
Jbel Musa	78	217	570	281	19%
Jbel Lakhdar	58	167	400	208	19%
Jbel Talmest	130	370	953	475	19%
Jbel Aroudane	121	322	851	417	19%
Jbel Tadrart	237	689	1,780	879	19%
Jbel Azavza	229	640	1,687	829	19%
TOTAL	**4,614**	**6,721**	**9,791**	**7,017**	**Avg. 25.9%**

Source: Pura Vida

Given that PVD has good evidence of hydrocarbons, based on seismic analysis and modelling, we view that our valuation is far from exuberant considering that it is based on a chance of success of <3% on average.

Significance of DHIs should not be underestimated.

Fig. 4: Toubkal – Massive 1.5b Barrel Prospect with DHIs



Source: Pura Vida

CONCLUSION AND RECOMMENDATION

Additional catalysts, such as farm-out in Q1 2013, likely to drive share price higher prior to the large uptick that will occur late next year in the lead up to drilling

Pura Vida has gone from strength to strength, with positive newsflow continuing in relation to industry transactions that have re-rated the market's perception of the prospectivity of Morocco as well as a massive upgrade to the resource potential. This has been reflected in the share price in recent weeks and the Company is now capped at $60m (fully diluted). By comparison, peers tend to attract valuations of $100m+ once a farm-out is achieved and then progress to >$200m prior to drilling. We are not aware of any peer that has a resource potential as large as PVD's, where the lead prospect is 1.5 billion barrels in size and has Direct Hydrocarbon Indicators. In this context, we believe that there is a long way to go in terms of share price appreciation and our conviction remains high.

We continue to rate Pura Vida as a Buy with a price target of 188cps (prev 113cps).

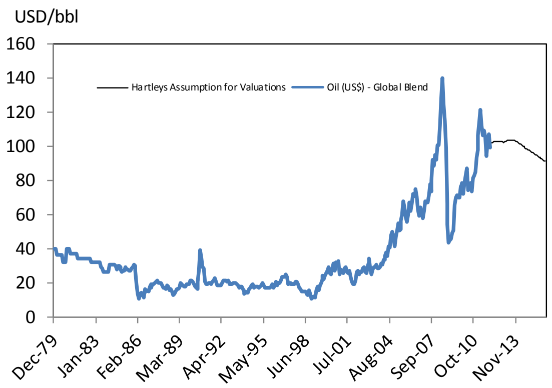
KEY ASSUMPTIONS / RISKS

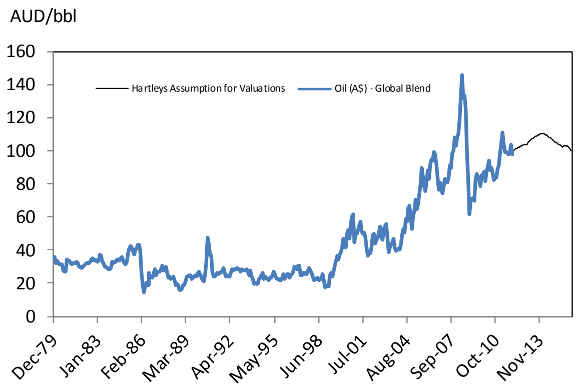
Our valuation methodology is based on risked value of resource potential using notional in ground valuation and conservative estimates for probability of success. This methodology results in Net Asset Value of 376cps.

Our price target is a qualitative discount to our valuation based on market cap, liquidity and takeover premium. In PVD's case, this discount has been estimated at 50% resulting in a price target of 188cps.

Fig. 1: Commodity price assumptions

Oil





Source: Hartleys, Bloomberg

Fig. 2: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Exploration Risk	Moderate-High	Moderate-High	Oil and gas exploration is more likely to fail than succeed so risk is high; however, the high discovery rate offshore West Africa provides some mitigating factors in the form of successful application of modern techniques.
Schedule Risk	Low	Low-Moderate	Timing of farm-out negotiations, especially with large corporations, is difficult to predict; however, the wave of activity offshore Morocco means that timing is not a major risk, in our view.
Funding Risk	Low	Low-Moderate	PVD has $6m in cash and is fully funded for the current work program.
Valuation Risk	Low	Low-Moderate	Our exploration valuation includes a risked metric based on prospect sizes. It assumes that the market will recognise a portion of potential value before the results of a well are known. In most cases, we include ~10% of potential prospect value in our valuations. However, this may increase or decrease depending on the type of well drilled and confidence in the prospect
Conclusion	*We believe the assumptions we have used have a low-moderate risk of not being achieved, which would have a moderate impact on our valuation.*		

SOURCE: Hartleys

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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