



Pura Vida Energy BUY

Current Price: **\$0.83**
Target Price: **\$2.22**

Ticker: **PVD**
Sector: **Energy**

Shares on Issue (m): **50.8**
Market Cap (\$m): **42.2**
Net Cash (\$m)*: **4.0**
Enterprise Value (\$m): **38.2**

* estimate

52 wk High/Low: **\$0.83** **\$0.20**
12m Av Daily Vol (m): **0.28**

Valuation	Risky		Unrisky
	\$m	\$/s	\$/s
Toubkal Standalone	339.1	3.82	50.90
Cash	4.0	0.05	0.05
Debt	0.0	0.00	0.00
Corp Admin	-15.0	-0.17	-0.17
Options	0.0	0.00	0.00
Total	328.1	3.69	50.77

*Toubkal only included in valuation. Risked @ 7.5% vs IER 31%

In A\$ unless otherwise stated

Share Price Graph



Analysts:
Dave Wall

19 November 2012

Red Hot

Initiation: Arguably the Best Permit in North West Africa

Pura Vida Energy (PVD) listed in February 2012 with a 75% working interest in a large deepwater block offshore Morocco called the Mazagan Permit (10,900km²). The block was covered by 3,570km² of modern 3D seismic, which has subsequently been reprocessed and reinterpreted. Independent experts, DeGolyer and MacNaughton, recently estimated mean potential (net to PVD) of 5.3b barrels of oil, with prospects as large as 1.5b barrels gross mean recoverable (Toubkal). Analysis, including seismic inversion, has confirmed Direct Hydrocarbon Indicators (DHIs) across several prospects, including Toubkal. Consequently, the chance for success has been estimated at as high as 34% (Toubkal 31%). Recent analysis of drop core results (taken from the sea bed floor) has revealed micro seeps of oil, coincident with where faults / salt related features identified on the seismic intersect the surface. A formal farm-out process commenced in October 2012.

View:

Positive

Pura Vida Energy (PVD) continues to achieve milestones that should ensure a favourable farm-out deal in the near term. Mazagan has now been de-risked through technical analysis to a point where there is only one box remaining to be ticked.

Positive Attribute	Comment
<input checked="" type="checkbox"/> Large Acreage Position	10,900km ²
<input checked="" type="checkbox"/> High Working Interest	75%
<input checked="" type="checkbox"/> Huge Prospects Defined by Modern 3D	1.5b barrel Toubkal prospect plus plenty of followup
<input checked="" type="checkbox"/> Direct Hydrocarbon Indicators	Jubilee analogue on seismic signature, confirmed by inversion
<input checked="" type="checkbox"/> Micro Seeps in Drop Cores	Early signs encouraging - analysis underway
<input checked="" type="checkbox"/> Quality Commercial and Technical Team	Proven track record of finding oil and executing deals
<input checked="" type="checkbox"/> Pre Rift Conjugate with Billions of Barrels	Scotian shelf offshore Canada 4+ billion boe discovered
<input checked="" type="checkbox"/> Regional Activity Increasing	Neighbours all moved in after PVD: Kosmos, Cairn, Genel
<input checked="" type="checkbox"/> Multiple Wells Planned, Rigs In Country 2013	Up to 8 wells planned in and around PVD acreage
<input checked="" type="checkbox"/> Proven Hydrocarbon System	Oil and gas in shelf and onshore in same basin
<input checked="" type="checkbox"/> Multiple Play Types	Three independent play types
<input type="checkbox"/> Massive Discovery Nearby	Not yet...

The achievement of the above milestones has resulted in strong share price appreciation. Significant upside remains as companies with this kind of potential generally trade in excess of \$250m pre-drill – PVD can substantially exceed this, in our view, implying >250% upside from current prices. We had previously anticipated a deal sometime in Q1; however, we now contemplate the possibility of a positive surprise both in terms of timing and shape. Regardless of timing (which is always hard to predict), we remain confident of a deal that should further re-rate the Company.

Recommendation:

Buy

Initiating with BUY recommendation and an unrisky valuation of \$3.69/s. Argonaut has risk-weighted the valuation by 40% arrive at a target price of \$2.22/s.

Important Disclosures & Information

The analyst has a beneficial interest in the shares of Pura Vida Energy.



Highlights

Upside case numbers combined with quality of asset means that conviction of share price appreciation is high

The Upside Case Numbers are Enormous

Our valuation for the Company is based on only one prospect, Toubkal. Our assumptions are listed below:

- 7.5% chance of success vs the Independent Expert Report at 31%
- NPV per barrel at \$10, even though pro-forma modeling of the success case yields something closer to \$40 per barrel (due to favourable Moroccan fiscal terms)
- Assuming 30% post farm-out equity

Valuation based on only one prospect

This results in a risked valuation, for Toubkal alone, of \$3.81/s with an unrisked valuation of \$51/s. If we applied the same methodology across all the prospects, the upside becomes \$237/s.

Pre-drill market cap likely to exceed \$250m

Of course, it is nonsensical to add the possible prospect outcomes in this situation but it does serve to illustrate the potential scale of return for investors in the success case. When the upside is this big, investor behavior in the lead up to drilling has been historically predictable, with an average market capitalisation ~\$250m and a maximum observed pre-drill market capitalisation of >\$1b.

Farm-out underway – could surprise in shape and timing

Given the DHIs, large size of the prospects and the raft of drilling slated for late 2013, we can see no reason why PVD cannot exceed the average market capitalisation of its pre-drill peers. This is all predicated on a favourable farm-out, which we had previously estimated would be achieved in Q1. Due to the increase in industry interest regionally, we now believe that it is possible for a deal to occur prior to year-end.

Initiate with a Buy and price target of 222cps

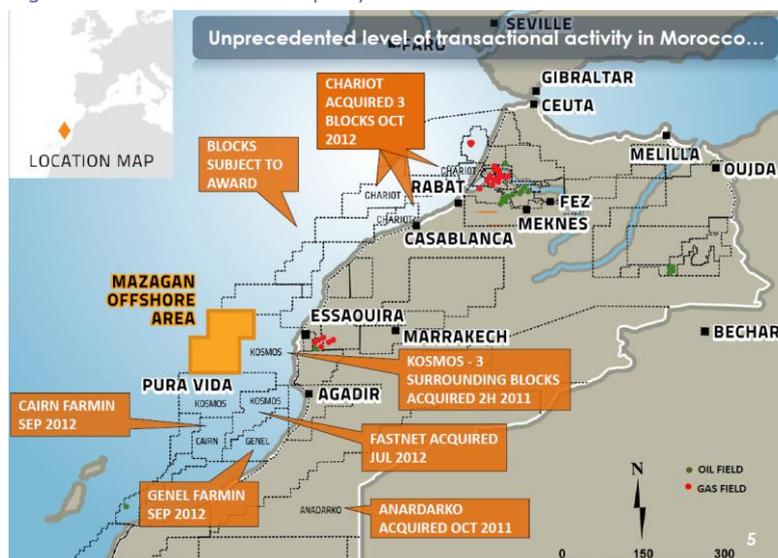
Often oil and gas exploration companies are viewed as “speculative” due to the nature of the risk associated with drilling, which most would consider a 1 in 10 proposition. We see the world slightly differently. By identifying the opportunity at the right part of the value curve, we believe that investment in exploration companies can be low risk. This is due to recognition of a mismatch between upside potential relative to the current market capitalisation and the risk / reward ratio. So, if a company like PVD is likely (and we have never seen this fail) to trade at \$250m in the lead up to drilling and is currently capped at \$70m (fully diluted) then the upside, before the risky drilling, is >250%. We also believe that 1 in 10 is not the right number any more due to advances in technology that have positively impacted global exploration success rates in recent years.

The Company has stated that it is looking to grow its business in Africa and we expect a deal within months.

We are initiating on Pura Vida with a Buy recommendation and price target of \$2.22/s.

Morocco is one of the hottest regions for oil and gas transactional activity

Figure 1: Morocco – Hot Property



Source: PVD



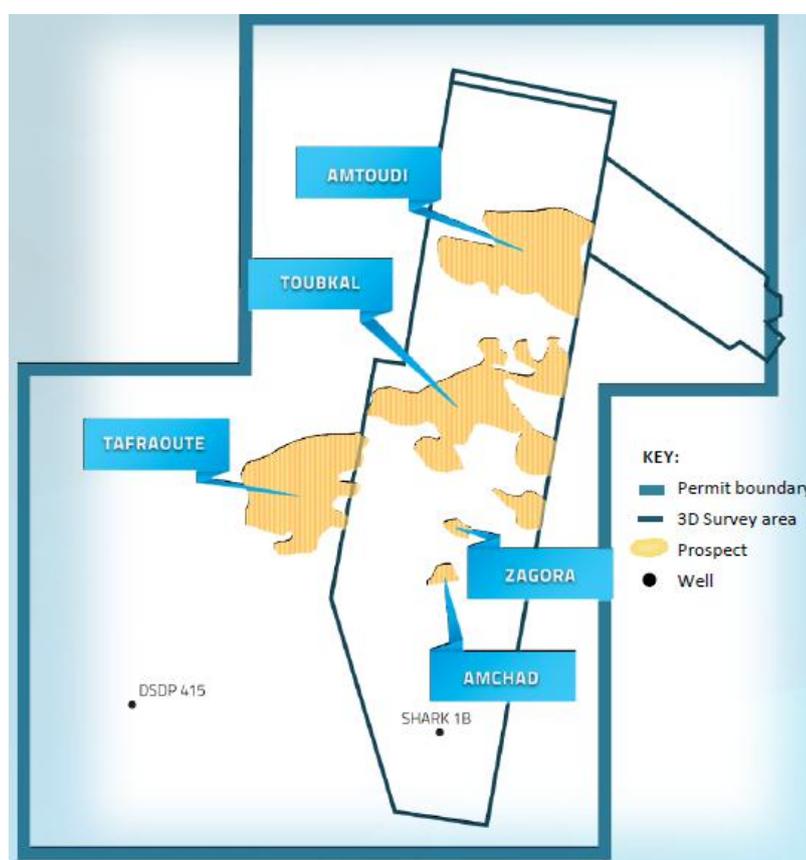
Mazagan Permit (PVD 75%)

Overview

Pura Vida acquired its interest in the Mazagan Permit in late 2011 after ~6 months of direct negotiation with the Moroccan government. The potential on the block had been recognised years earlier and when it was relinquished during the GFC, the company commenced work to acquire it. Subsequent to award, several other industry players executed deals in surrounding acreage, including Kosmos, Genel and Cairn. More recently, Chariot made a country entry to the north and we understand that additional permits are likely to be granted in the near term.

There is significant modern 3D seismic over the block (3,570km²), which has been recently reprocessed and reinterpreted, meaning that many of the prospects are drill ready.

Figure 1: Huge Resource Potential – 5.3b barrels net to PVD



Source: PVD

Geology

There are three main play types identified on PVD's acreage. Turbiditic fans in the Miocene, lower Cretaceous toe thrust and lower Cretaceous inversion anticline trends. Water depth is 1,000m-2,100m (1,400m at the Toubkal location). Source is likely to be of Jurassic age.

The conjugate margin on the Scotian Shelf offshore Canada has billions of barrels of discovered hydrocarbons, including the >1b barrel Hibernia Field. This Continental Drift Theory has been applied recent years with successful results and explains some of the increase in regional interest.

10,900km² offshore Morocco where industry interest is getting hotter all the time.

Three play types provides diversity and adds to the attraction of the permit to a major. Significant followup potential also.



Figure 3: Huge Resource Potential – 5.3b barrels net to PVD

Continental Drift Theory has led to success in recent times. Morocco's conjugate offshore Canada has billions of barrels of oil.



Source: PVD

Partners

The Company is partnered with the National Oil Company, ONHYM, which is free carried for its 25% interest through the exploration phase. A formal farm-out process commenced in early October and we expect, due to the competitive interest in the region and the quality of the assets, that a deal will be concluded in the near term (possibly before year end).

Resource Potential

DeGolyer and MacNaughton recently updated and upgraded the resource potential on the permit, estimating 5.3b barrels net to PVD including the massive 1.5b barrel Toubkal prospect.

5.3b barrels of net prospective resources, including 1.5b barrels at Toubkal.

Figure 4: Huge Resource Potential – 5.3b barrels net to PVD

PROSPECTIVE OIL RESOURCES (RECOVERABLE)		
TRENDS	MEAN (mmbbl)	Pg*
Miocene trend - 5 prospects (including Toubkal)	3,724	31-34%
Lower Cretaceous toe thrust trend - 3 prospects	691	19%
Lower Cretaceous inversion anticline trend - 4 prospects	2,600	19%
TOTAL	7,017	Avg. 26%
NET TO PURA VIDA (75%)	5,263	Avg. 26%

* Pg means probability of geologic success
Source: DeGolyer & MacNaughton Independent Resource Assessment – Sept 12

Source: PVD



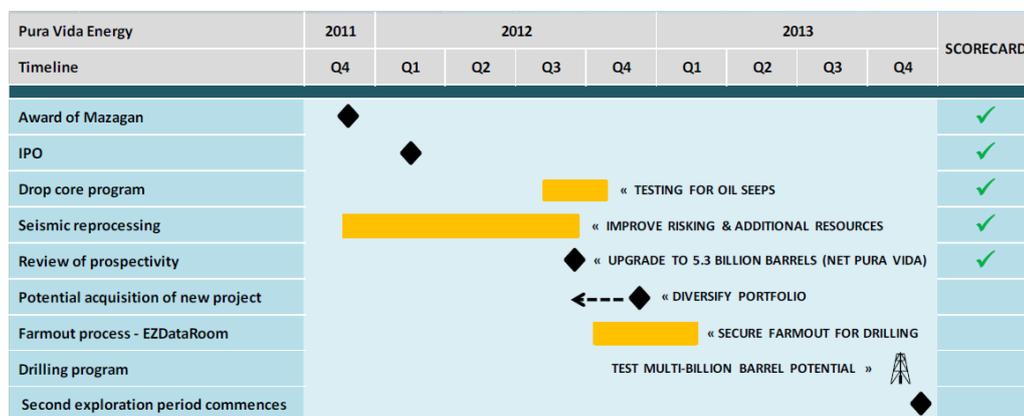
Forward Program

>8 wells likely in and around PVD

Assuming that a farm-out is executed in the near-term, drilling is likely in late 2013, as part of a shared program with Kosmos (2 wells), Cairn (2 wells) and Genel (1 well). Depending on the farm-out, PVD could be directly exposed to more than 1 well.

Farm-out and project acquisition should drive newsflow driven share price appreciation ahead of drilling late next year.

Figure 5: Forward Program



Source: PVD

Toubkal – Worth a Closer Look

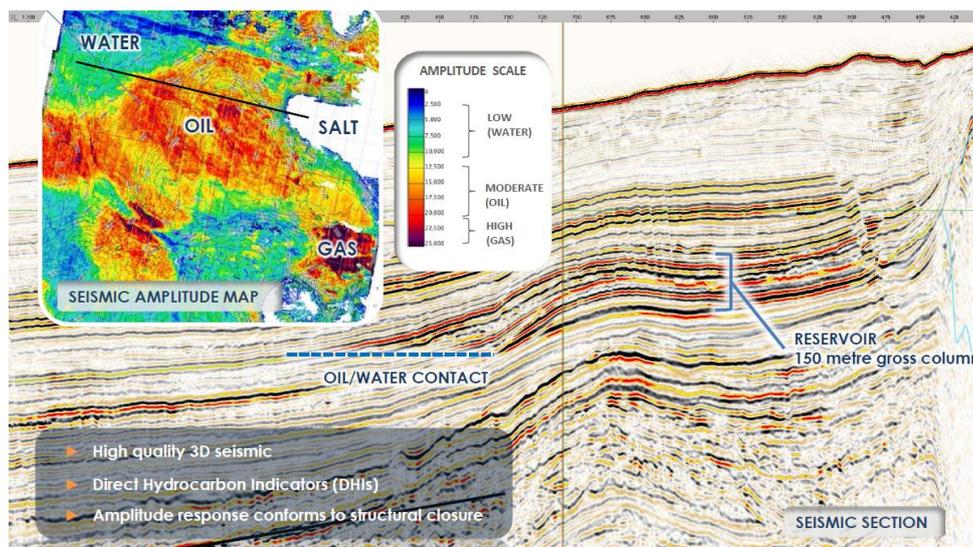
Toubkal is likely to be the first prospect drilled on the permit and with good reason. It has been estimated to have mean potential resources of 1.5b barrels of oil and is reinforced by multiple phase shifts in seismic amplitudes that shut off along depth contours. This is referred to as a Direct Hydrocarbon Indicator (DHI) and basically means that the seismic is indicating a possible scenario where gas is sitting on top of oil with a water contact also evident. Success rates using modern 3D seismic on prospects with DHIs are typically in the range of >30% in recent times.

In the event of success, there is over 2b barrels of followup potential in three prospects in the same Miocene trend as Toubkal.

Figure 6: Toubkal – 1.5b Barrel Prospect with DHIs

Massive Toubkal prospect a look-a-like to Jubilee discovery offshore Ghana.

1.5b barrels with DHIs should result in an attractive farmout.



Source: PVD



Valuation

Our valuation for the Company is based on only one prospect, Toubkal. Our assumptions are listed below:

- 7.5% chance of success vs the Independent Expert Report at 31%
- NPV per barrel at \$10, even though pro-forma modeling of the success case yields something closer to \$40 per barrel (due to favourable Moroccan fiscal terms)
- 30% post farm-out equity

This results in a risked valuation, for Toubkal alone, of \$3.82/s with an unrisked valuation of \$51/s. If we applied the same methodology across all the prospects, the upside becomes \$237/s.

Table 1: Summary Valuation

Valuation assumptions conservative => valuation still much higher than current price

Valuation Summary*	\$m	\$/sh
Toubkal Standalone	339	3.82
Cash	4	0.05
Debt	0	0.00
Corp Admin	-15	-0.17
Options	0	0.00
Total	328	3.69

*Toubkal only included in valuation, risked at 7.5% COS vs expert estimate of 31%

Source: Argonaut

Argonaut values the stock at AU\$3.69/s with a price target of \$2.22/s

Our valuation is based on the methodology described above and our price target is a qualitative discount to this based on liquidity, size and lack of takeover premium. For PVD, we have used a discount to valuation of 40% to arrive at a price target of \$2.22/s.

There are a total of 39m options, performance shares and partly paid shares outstanding. The options exercise above \$0.35/s and the partly paid require \$0.19/s to be paid. We assume that all of these are issued in our valuation.



Appendix A: Board and Management

Strong commercial and technical acumen as evidenced by the early entry into Morocco on favourable terms.

Additional acquisitions likely to be value accretive.

Managing Director, Damon Neaves:

Formerly BDM for Tap Oil. Led Business Development, Commercial and Legal teams during 8 year tenure at Tap. Several major acquisitions, many involving entry into new countries: Thailand, Ghana, Indonesia, Brunei, Philippines, Australia & New Zealand. Established highly profitable domestic gas business. Upstream project management experience. Legal/corporate advisory background.

Technical Director, David Ormerod:

Over 25 years industry experience. Participated in several major discoveries over his career: Mad Dog, Atlantis and Neptune (deep water Gulf of Mexico (GoM)) and Stybarrow (NW Shelf). Responsible for Karoon Gas' entry into Brazil which saw a period of dramatic growth in shareholder value. Experience with BHPBP, Woodside, Stirling and Tap in areas as diverse as the GoM, West Africa, SE Asia and NW Shelf. Leads a strong technical team at Pura Vida.

Non Executive Chairman, Bevan Tarratt:

Accounting industry background focused on small/midcaps. Founding partner of Hemisphere Corporate. Equity markets experience with Patersons Securities. Managed IPOs, secondary raisings and re-structuring of numerous listed companies. Director of a number of Australian public companies.



Appendix B: Glossary

1P Reserves: proven Reserves

2P Reserves: proven Reserves + probable Reserves

3P Reserves: proven Reserves + probable Reserves + possible Reserves

1C Resources: Low estimate, considered to be a conservative estimate (90% probability) of the quantity that will actually be recovered

2C Resources: Best estimate, considered to be the best estimate (50% probability) of the quantity that will actually be recovered

3C Resources: High estimate, considered to be an optimistic estimate (10% probability) of the quantity that will actually be recovered

ONHYM: Morocco National Oil Company, Office National des Hydrocarbures et des Mines

cf / scf: Standard cubic foot, is a measure of quantity of gas, equal to a cubic foot of volume at 60 degrees Fahrenheit (15.6 degrees Celsius) and certain pressure.

b: billion

mmbbl: million barrels or 1,000,000 barrels

mcf: thousand cubic feet or 1,000cf

MMcf: million cubic feet or 1,000,000cf

Bcf: billion cubic feet or 1,000,000,000cf

Tcf: trillion cubic feet or 1,000Bcf



Appendix C: Risks

Political and legal

Morocco is one of the most stable African nations and sovereign risk is considered low; however, African has taken Australia's lead recently with changes to its tax code and also ownership policies so fiscal risk is considered moderate.

Transactional

The Company is currently in the process of farming-out an interest in its Moroccan asset. Whilst we have confidence that a deal will be concluded in the near term and that this will exceed expectations, risk remains.

There is also transactional risk associated with the Company's plans to grow its African portfolio. Management are considered highly backable on this front; however, market reaction to an event with little visibility is difficult to predict.

Tenure

PVD has fulfilled the first phase of its commitments 12 months ahead of schedule. The drilling commitments on the block are also likely to be fully funded and fulfilled ahead of schedule.

Exploration

Oil and gas exploration is inherently risky, with pre-2000 exploration success rates in frontier areas of ~10%. More recently, advances in technology have increased this to closer to 20%. Prospects defined by 3D seismic with DHIs have a success rate of ~30%.

Commodity price

Global oil pricing remains volatile; however, the strong upward trend remains intact.

Weather

Operating conditions offshore Morocco are considered benign.

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The analyst has a beneficial interest in the shares of Pura Vida Energy.

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