Pura Vida Energy
BUY

Current Price:	$0.82
Target Price	$2.27

Ticker:	PVD
Sector:	Energy

Shares on Issue (m):	59.8
- fully diluted (m):	99.3
Market Cap ($m):	49.0
Market Cap Diluted ($m)	81.4
Net Cash ($m)*:	23.0
Enterprise Value ($m):	58.4

* estimate

52 wk High/Low:	$0.89	$0.20
12m Av Daily Vol (m):	0.27	

Valuation	Risked	Risked	Unrisked
	$m	$/s	$/s
Toubkal	260.0	2.62	34.92
Jbel Tadrart	101.1	1.02	24.26
Cash	23.0	0.23	0.23
Debt	0.0	0.00	0.00
Corp Admin	-15.0	-0.15	-0.15
Options / Partly Pai	6.4	0.00	0.00
Total	**375.4**	**3.72**	**59.26**

*Toubkal risked @ 7.5% vs IER 31%, Tadrart risked @ 5% vs I

In A$ unless otherwise stated

Share Price Graph

Analysts:
Dave Wall

3 January 2013

Farm-Out Beats Expectation

$230m Farm-Out Deal Confirms "Best of Breed"

Pura Vida Energy (PVD) has announced a farm-out deal to Plains Exploration and Production (PXP) valued at US$230m, whereby PVD will receive US$15m in cash plus a 2 well carry capped at US$215m, including additional activity such as deepening of wells and/or 3D seismic and retain a 23% working interest (subject to government approvals). Based on drilling plans by Genel (1 well), Cairn (2 wells) and Kosmos (2 wells) in adjacent permits in late 2013 / early 2014, it is likely that PVD / Plains will also drill, using the same rig, in this timeframe. The cash back, multiple wells with large expenditure cap, as well as likely near term drilling, make this arguably the best farm-out deal executed by an ASX listed exploration company.

Plains is a US$6b market cap company that was recently bid for by Freeport McMoRan Copper and Gold, a US$33b market cap company.

View: Positive

Our expectation had been for cash back of <US$10m, 1 well with an option for a second and with a retained working interest of 25-30%. Given this, the deal has beaten our expectation significantly, despite the slightly reduced working interest. To put this into context, success at the 1.5 billion barrel Toubkal prospect represents ~$35/s upside net to PVD at 23% working interest. DeGolyer and McNaughton have estimated a 31% chance of success for this prospect based on Direct Hydrocarbon Indicators on the seismic. Subsequent to this, drop cores from the seabed floor on the flanks of Toubkal have been confirmed to contain oil, further de-risking the prospect.

The Company also flagged (November 2012 capital raising announcement) that it is in advanced discussions to acquire additional acreage in Africa. We are backing management to achieve a value accretive deal that does not require dilution to shareholders in the near term, especially given the quantum of cash to be received as part of the farm-out deal.

We retain our view that the Company will trade in excess of $250m market capitalisation (~$2.50/s) prior to the drilling of Toubkal, which should occur in 12-15 months. The uptick in share price usually starts around 6 months out from drilling as visibility on the schedule becomes higher. Given the quality of the farm-out and the continued newsflow relating to growth of the portfolio, we would expect a new base in the share price well in excess of $1.00/s. PVD had the most successful IPO in 2012 (Feb listing) so there is potential for some profit taking, although the register remains tight. Any dips below $1.00/s represent a strong buying opportunity.

Recommendation: Buy

We retain our BUY recommendation and an unrisked valuation of $3.72/s (prev $3.69/s - we now include two prospects in our value matrix but have adjusted for dilution from the recent placement as well as forecast cash position). Argonaut has risk-weighted the valuation by 40% to arrive at a target price of $2.27/s (prev $2.22/s).

Important Disclosures & Information

The analyst has a beneficial interest in the shares of Pura Vida Energy.
Argonaut assisted with placement in the recent Capital Raising in November 2012 and will receive fees commensurate with this service.

Overview

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

PVD has a 75% working interest (reducing to 23%) in the Mazagan Permit, located offshore Morocco. The Company acquired the permit prior to an upsurge in industry activity and has reprocessed and reinterpreted 3,570km^2 3D seismic, identifying Direct Hydrocarbon Indicators (DHIs) over several very large prospects. The Company also recently completed a drop core program that identified oil seeps from cores taken from the sea bed floor, further enhancing the prospectivity of the permit.

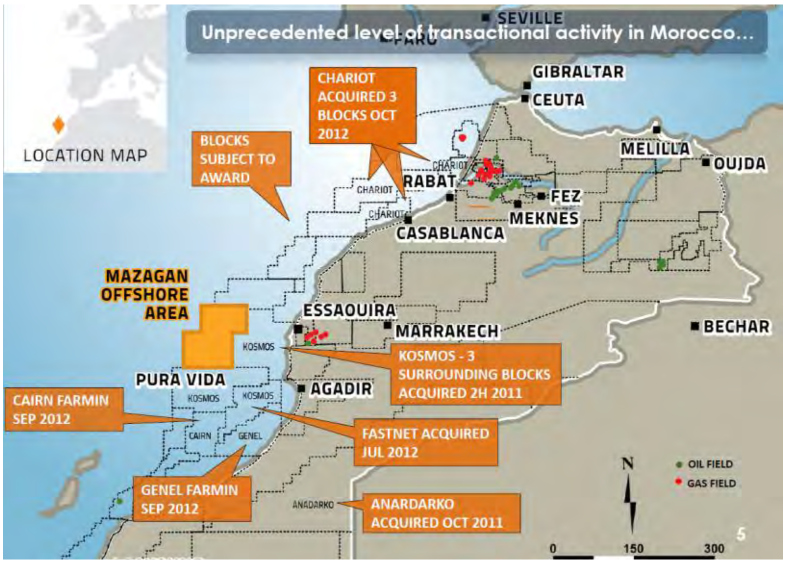
Given the DHIs, large size of the prospects, oil seeps from drop cores and the raft of drilling slated for late 2013 / early 2014, we can see no reason why PVD cannot exceed the average market capitalisation of $200m achieved by its pre-drill peers. The quality of the farm-out deal announced today increases conviction and enhances credibility of the work done by PVD's strong technical team.

Pre-drill market cap likely to exceed $250m

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

We are rate Pura Vida as a Buy with a price target of $2.27/s.

Figure 1: Morocco – Hot Property



Source: PVD

Quality farm-out increases confidence and credibility

Buy with price target of $2.27/s

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

Mazagan Permit (PVD 75%, reducing to 23%)

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.

10,900km^2 offshore Morocco where industry interest is getting hotter all the time

There is significant modern 3D seismic over the block (3,570km^2), which has been recently reprocessed and reinterpreted, meaning that many of the prospects are drill ready.

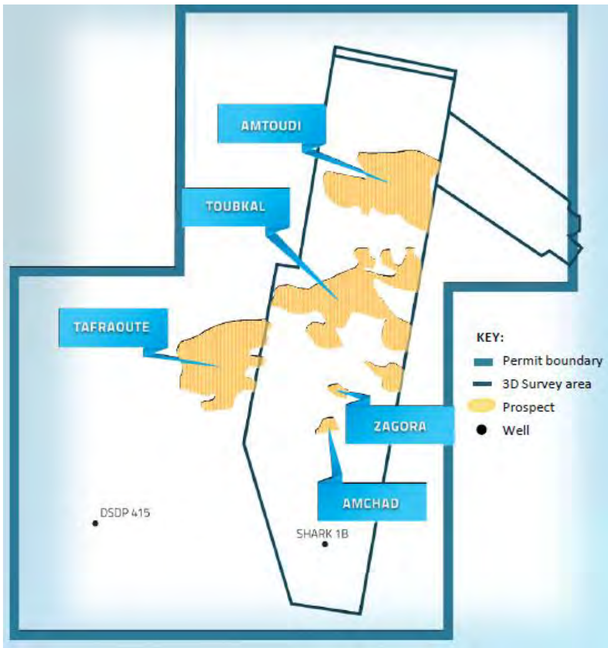
Three play types provides diversity of risk

The farm-out includes a carry on two wells and additional exploration activity capped at US$215m. The additional activity includes deepening of wells and more 3D seismic. This implies that Plains may have identified another play type, possibly sub salt, which may further increase the prospectivity of the permit.

Significant followup potential

1.6b barrels of net prospective resources (post farm-out), including 1.5b barrels (gross) at Toubkal

Figure 2: Huge Resource Potential – 5.3b barrels net to PVD*



Source: PVD, 1.6b barrels @ 23% post farm-out

Geology

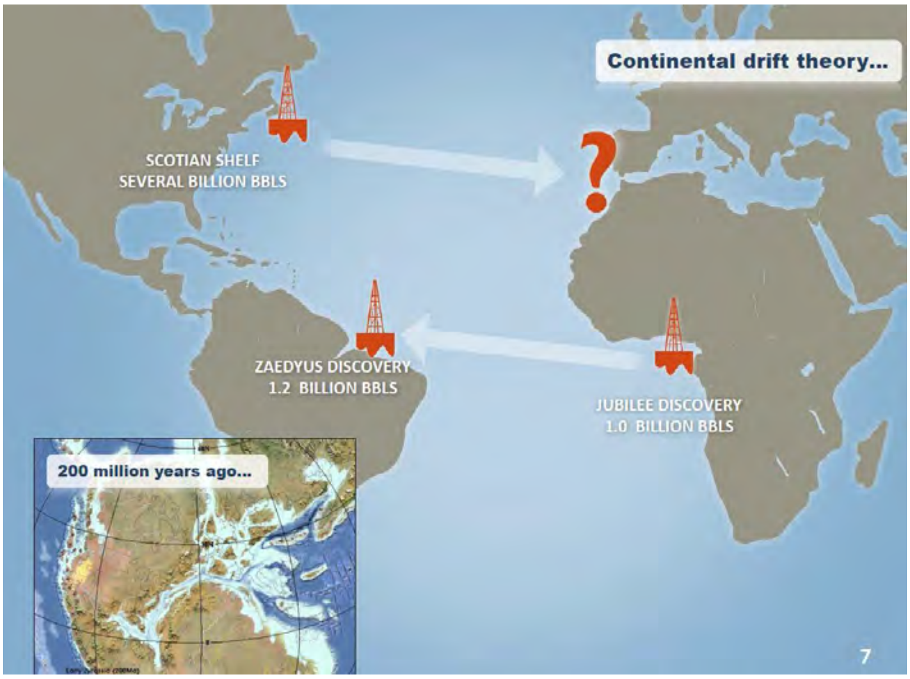
There are three main play types identified on PVD's acreage. Turbiditic fans in the Miocene, lower Cretaceous toe thrust and lower Cretaceous inversion anticline trends. Water depth is 1,000m-2,100m (1,400m at the Toubkal location). Source is likely to be of Jurassic age.

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.

Continental Drift Theory has led to success in recent times

Morocco's conjugate offshore Canada has billions of barrels of oil

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



Source: PVD, 1.6b barrels @ 23% post farm-out

Partners

The Company is partnered with the National Oil Company, ONHYM, which is free carried for its 25% interest through the exploration phase. The farm-out announced today will see the entry of Plains Exploration and Production Company as operator and 52% working interest partner. Plains was recently bid for by Freeport McMoRan Copper and Gold.

Resource Potential

DeGolyer and MacNaughton recently updated and upgraded the resource potential on the permit, estimating 5.3b barrels net to PVD (1.6b barrels post farm-out) including the massive 1.5b barrel Toubkal prospect.

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

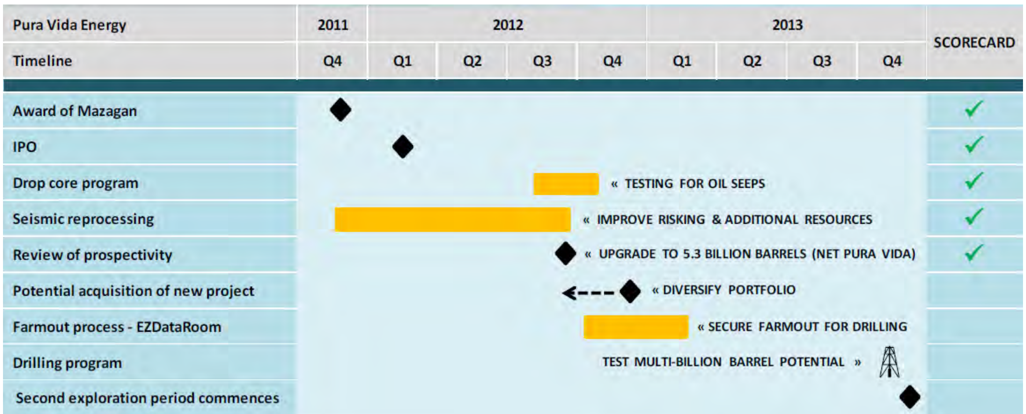
Source: PVD, 1.6b barrels @ 23% post farm-out

Forward Program

>8 wells likely in and around PVD

Drilling is likely in late 2013 / early 2014, as part of a shared program with Kosmos (2 wells), Cairn (2 wells) and Genel (1 well). PVD and Plains will likely drill two back to back wells, testing multiple play types.

Figure 5: Forward Program



Source: PVD

Farm-out and project acquisition should drive newsflow driven share price appreciation ahead of drilling late 2013 / early 2014.

Toubkal – Worth a Closer Look

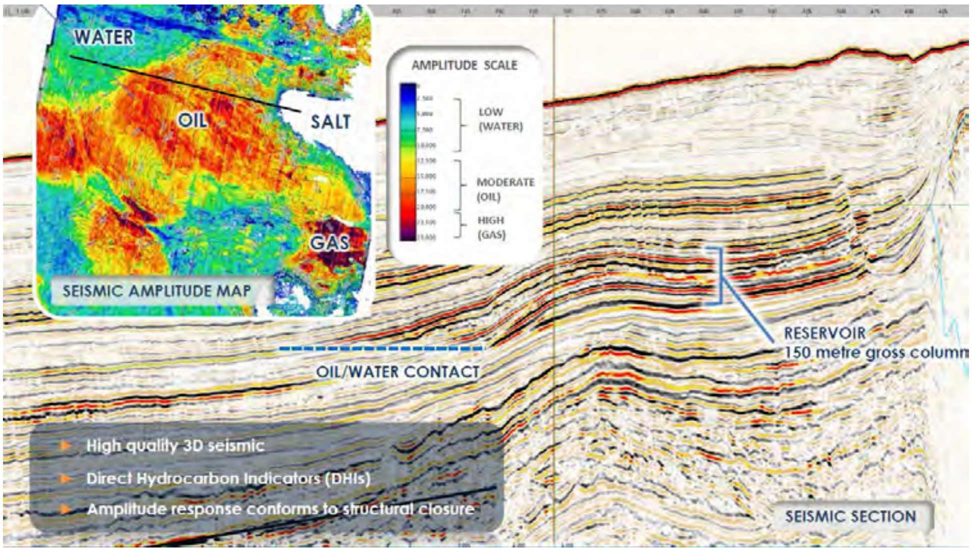
Toubkal is likely to be the first prospect drilled on the permit and with good reason. It has been estimated to have mean potential resources of 1.5b barrels of oil and is reinforced by multiple phase shifts in seismic amplitudes that shut off along depth contours. This is referred to as a Direct Hydrocarbon 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.

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

1.5b barrels with DHIs

Figure 6: Toubkal – 1.5b Barrel Prospect with DHIs



Source: PVD

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

Valuation

Our valuation for the Company is now based on two prospects in different play types, Toubkal (Miocene) and Jbel Tadrart (Cretaceous). Our assumptions are listed below:

- 7.5% chance of success vs the Independent Expert Report at 31% at Toubkal
- 5% chance of success vs Independent Expert Report at 19% for Jbel Tadrart
- 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)
- 23% post farm-out equity (prev 30%)

Argonaut values the stock at AU$3.72/s with a price target of $2.27/s

This results in a risked valuation, for both prospects, of $3.63/s with an unrisked valuation of $55/s. If we applied the same methodology across all the prospects, the upside becomes $166/s.

Table 1: Summary Valuation

Valuation Summary*	$m	$/sh
Toubkal	260	2.62
Jbel Tadrart	101	1.02
Cash	23	0.23
Debt	0	0.00
Corp Admin	-15	-0.15
Options / Partly Paids	6	0.00
Total	**375**	**3.72**

*Toubkal risked at 7.5% COS vs expert estimate of 31%, Jbel Tadrart at 5% vs expert estimate of 19%

Source: Argonaut

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 $2.27/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 paids 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 and the recent high quality farm-out

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.

Additional acquisitions likely to be value accretive

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, several African nations have followed Australia's lead recently with changes to tax codes and also ownership policies, consequently fiscal risk is considered moderate.

Transactional

There is 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 are 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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