Conventional Oil & Gas: Explorer

Hartleys

PVD.asx
Buy

PURA VIDA ENERGY NL

Mazagan Farmout

Pura Vida Energy NL ("Pura Vida", "PVD", "Company") has secured a farmout agreement with Plains Exploration and Production Company (NYSE:PXP, "Plains") for the Mazagan permit in Morocco. The terms of the farmout include a US$15m cash payment plus a two well free carry up to US$215m for 52%. Pura Vida will retain a 23% interest in the Mazagan permit and transfer operatorship to Plains. The agreement is subject to Moroccan government approval and other customary conditions.

The primary target of the first well will be the Toubkal prospect, expected to be drilled in 2014. The second well will target a prospect to be mutually agreed following drilling of the first well.

The transaction implies a gross value of $440m for the Mazagan permit. Pura Vida's net interest equates to $102m.

Free carried on multi billion barrel prospects

DeGolyer & MacNaughton's (D&M) independent report estimates gross resource potential of 7.0 billion barrels of oil (Pmean) in the Mazagan permit. Post farmout, Pura Vida will have a net interest of 1.6 billion barrels.

D&M's estimate includes the giant Toubkal prospect which has a Pmean potential of 1.5 billion barrels of oil (347 million barrels net to PVD, post farmout).

As a result of the farmout providing more certainty to drilling, we have increased our probability of success of the Toubkal well to 10% (previously 3%) and now estimate a value of $346m ($3.51/share) for the prospect. Our increased probability of success is still below the D&M estimate of 31%.

Who is Plains?

Plains is a US focussed exploration and production company, with a US$6.1bn market cap and daily production of 105,000 barrels of oil equivalent. The company is currently subject to a merger with Freeport-McMoran Copper and Gold Inc (NYSE:FCX) which will create a US$60bn natural resources company.

Buy – free carried on billion barrel drilling

Investors will struggle to find a better farmout deal than the Mazagan farmout. Pura Vida is now in the ideal situation where it is free carried to a value of US$215m on two wells, the first of which will target a 1.5 billion barrel prospect. The value of the two well carry means it is unlikely Pura Vida will need to contribute any funds to the first two wells. In addition to the carry, the Company will receive a US$15m cash payment.

The Company has a fully diluted EV of ~$47m (including the US$15m cash payment) which means there is plenty of upside to our risked exploration value of $346m for the Toubkal prospect. However, well timing is important for a pre-spud rally and the current timing (2014) is a long way off. Based on current projects, Pura Vida will have no need to raise cash between now and 2014 but could utilise the US$15m cash payment to acquire additional projects to fill the news gap between now and 2014. We retain our Buy recommendation with a 12 month price target of $2.08.

	3 Jan 2013
Share Price:	$0.69
12mth Price Target:	$2.08

Brief Business Description:
African focussed oil and gas exploration company free carried on two wells offshore Morocco.

Hartleys Brief Investment Conclusion
Free carried through two well program initially targeting a billion barrel prospect.

Key Personnel
Mr Bevan Tarratt (Chairman)
Mr Damon Neaves (CEO, Director)
Mr David Ormerod (Technical Director)
Top Shareholders:
No substantial holders

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Valuation:	$5.20
Issued Capital:	59.8m
- fully diluted	98.6m
Market Cap:	$41.2m
- fully diluted	$68.1m
Cash (current est)*:	$21.0m
Debt (Sep '12):	$0.0m

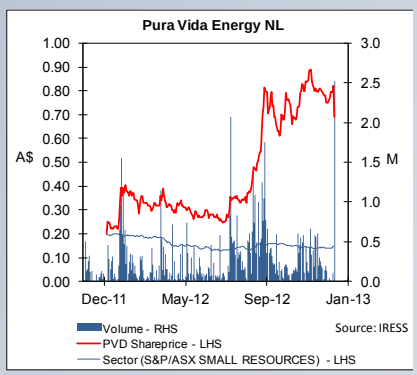
* inc current estimate of $6m + Mazagan payment

Valuation Summary

Asset	Value ($m)	Value ($ps)	Unrisked Value ($ps)
Toubkal	346.61	3.514	35.14
Others	151.70	1.538	64.24
Cash	21.00	0.213	0.213
Debt	0.00	0.000	0.000
Corp Admin	-11.33	-0.115	-0.115
Options/Equity	4.68	0.047	0.047
Total	**512.66**	**5.197**	**99.52**

Prospective Resource (mmbbl)	1,613
EV/Resource ($/bbl)	$ 0.029

Source: Hartleys Research



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Hartleys has assisted in the completion of capital raisings in the past 12 months for Pura Vida Energy NL. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Pura Vida Energy NL. Hartleys has a beneficial interest in 3 million unlisted options in Pura Vida. See disclosure on back page for details.

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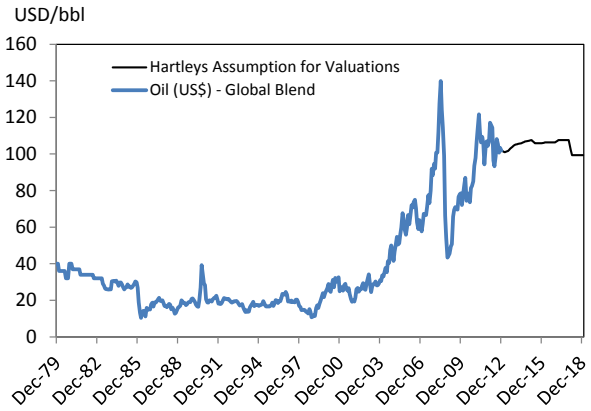
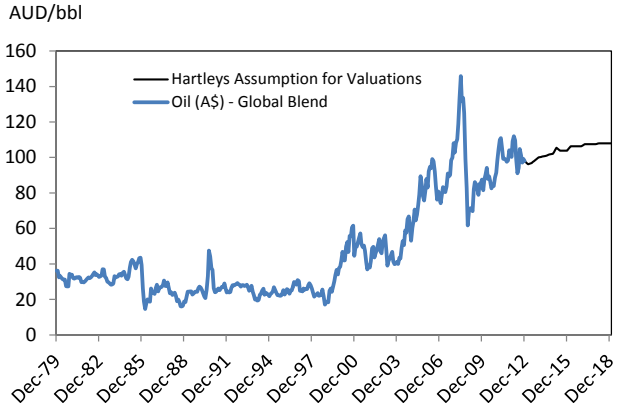
KEY ASSUMPTIONS / RISKS

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 520cps.

Our price target is a qualitative discount to our valuation. In PVD's case, this discount has been estimated at 60% resulting in a price target of 208cps which partly reflects our current risked valuation of the Toubkal prospect.

Fig. 1: Commodity price assumptions





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. It is important to note that exploration risk is currently low as drilling will not occur for at least 12 months.
Funding Risk	Low	Low-Moderate	PVD will have ~$20m in cash and a free carry on a two well program post farmout close.
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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