Research

ARGONAUT

Pura Vida Energy BUY

Current Price:	$0.73
Target Price	$2.29

Ticker:	PVD
Sector:	Energy

Shares on Issue (m):	59.8
- fully diluted (m):	99.3
Market Cap ($m):	43.3
Market Cap Diluted ($m)	81.4
Net Cash ($m)*:	14.5
Enterprise Value ($m):	66.9

* estimate

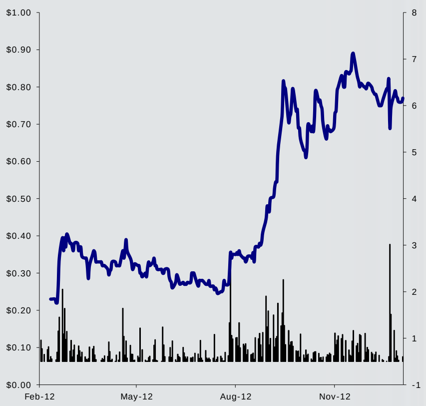
52 wk High/Low:	$0.89	$0.20
12m Av Daily Vol (m):	0.29	

Valuation	Risked	Risked	Unrisked
	$m	$/s	$/s
Toubkal	260.0	2.62	34.92
Jbel Tadrart	101.1	1.02	24.26
Gabon	11.3	0.11	13.67
Cash	19.5	0.20	0.20
Debt	-5.0	-0.05	-0.05
Corp Admin	-15.0	-0.15	-0.15
Options / Partly Pai	6.4	0.06	0.06
Total	**378.2**	**3.81**	**72.91**

*Toubkal risked @ 7.5% vs IER 31%, Tadrart risked @ 5% vs IER 19%

In A$ unless otherwise stated

Share Price Graph



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Gabon Entry: Another Hot Address

Entry into Highly Prospective Proven Area

Pura Vida Energy (PVD) has announced the acquisition of a highly prospective block, Nkembe, offshore Gabon. The Company will pay a US$9m signature bonus, part funded by a short term debt facility ($5m @ 20%). After the US$15m receivable from the Morocco farm-out (~2 months away), PVD will have proforma cash of A$12m after accounting for overheads and incidentals, including the purchase of existing 3D seismic on the permit.

In the first four year phase, the Company has commitments to acquire 550km^2 of multi-azimuth 3D seismic and drill one exploration well (prior to January 2017). Water depth ranges from 50-500m and much of the permit can be tested by a jack-up rig so a well may cost as little as $25m-$30m.

Nkembe is surrounded by producing fields, predominantly from the shallow Batanga formation. Industry interest has increased in recent years due to multi-billion barrel discoveries in the deeper pre-salt plays offshore Brazil, which is a conjugate for Gabon.

View: Positive

The award of a block of this calibre to a junior exploration company is a major coup for PVD and a testament to the technical and commercial reputation that this fledgling group has already established. The price tag is more akin to what may be expected from a larger company also; however, given the excellent farm-out of the Moroccan acreage (with $15m in cash expected) we do not feel that the Company has overreached. Part funding via debt also minimises dilution for existing shareholders.

Existing discoveries on the block remain to be volumetrically assessed post reprocessing of existing 3D seismic, providing a possible low risk value add. Favourable fiscal terms would make a relatively small accumulation, ~10mmbbl, commercial.

Of higher impact, and higher risk, is the pre salt potential that has attracted the majors to the region. Drilling by Marathon, Total and Ophir, chasing pre-salt and other plays, is scheduled over 2013 and any success will flow through to a re-rating of PVD's acreage.

Little detail has been released on play types, prospects and volumetric potential on Nkembe but we expect a similar value creation path to that achieved at the Mazagan Permit, offshore Morocco. Mazagan was acquired for a work program of $4m and ~12 months later PVD had executed a $235m farm-out, and had increased its market capitalisation from $15m to $80m.

We remain convinced that the market capitalisation will exceed $250m prior to the drilling of the giant 1.5b Toubkal prospect offshore Morocco in H12014. PVD is free carried on two wells offshore Morocco as part of the recent farm-out to Plains Exploration.

Recommendation: Buy

We retain our BUY recommendation and our unrisked valuation of $3.78/s remains largely unchanged until more detail on the Gabon block is released. Argonaut has risk-weighted the valuation by 40% to arrive at a target price of $2.29/s.

Appendix A: 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 B: 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.

Gabon is considered to be medium risk according to Maplecroft, which is in the lowest band of risk for Africa. It is a mature oil producing region with significant activity by major oil companies, including Shell, Total, Sinopec, Mitsubishi, Ophir and Hess.

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.

The Company requires certain approvals for its Moroccan farmout to Plains, which will result in cash received of $15m. The signature bonus for Gabon of $9m has been part funded by debt, so if the farm-out deal were to fall over, PVD would need to raise equity to cover this.

Tenure

PVD has fulfilled the first phase of its commitments in Morocco 12 months ahead of schedule. The drilling commitments on the block are now fully funded and should be fulfilled ahead of schedule as part of the Plains farm-out.

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 and Gabon are considered benign.

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Argonaut assisted with placement of the recent Capital Raising in November 2012 and will receive fees commensurate with this service.

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

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