Conventional Oil & Gas: Explorer

Hartleys

PURA VIDA ENERGY NL

Classic Oil Play

Pura Vida Energy NL ("Pura Vida", "PVD", "Company") is ideally positioned for its planned well to be drilled in Morocco early 2014. The Company is free carried on two wells (to a total cost of US$215m) and retains a 23% in the permit. In addition to nearby drilling in Morocco, news flow related to its recently acquired Nkembe block in Gabon will fill the gap between now and drilling of the Toubkal prospect.

Exponential upside from Morocco

The initial prospect to be drilled in Morocco is the Toubkal prospect. DeGolyer & MacNaughton estimate the Toubkal prospect has a Pmean potential of 1.5 billion barrels of oil (347 million barrels net to PVD).

Pura Vida's share price is yet to properly reflect any upside to drilling Toubkal but the upside can't be ignored for too much longer. We believe the potential value of the target means the share price prior to drilling must be higher than it is currently. The unrisked success case for Toubkal is $27.68 (assuming an NPV per barrel of $10). As mentioned, the upside is too compelling to be ignored prior to spud.

The Company is due to receive a US$15m upfront payment once Moroccan Government approval is received. ONHYM (the Moroccan national oil regulator) has given its recommendation for the farmout and Pura Vida estimates final approval should be received mid-year.

Gabon to keep the news flow coming

The recently acquired Nkembe block in Gabon will provide regular news flow while Pura Vida pursues a farmout and works up the prospects on the block. Furthermore, resource estimates and farmouts should also act as price catalysts. An initial resource estimate for the block is due in July and a data room for the farmout process is expected to open in August.

We believe the Nkembe block is wrongly given little value in the market. The block has an existing discovery estimated to hold 20mmbbls, is close to existing infrastructure and there is active drilling in the area.

Buy – early entry provides best exposure

We maintain our Buy recommendation with a price target of $1.78. We believe the best returns from oil exploration are made by buying early in the lead up to a high impact well. There are a number of criteria that should be satisfied when pursuing this strategy, including; sufficient funding beyond the value event, ample upside to the risked value of the well and regular news flow to support or increase the share price. If these criteria are met then, as the share price increases in anticipation of the well, it provides an opportunity for early investors to derisk their position while still maintaining an interest in the potential upside from the well.

The current share price implies a 1.4% POS on Toubkal and once approvals are received for the Mazagan farmout, we estimate Pura Vida will have $14m in net cash and limited commitments (assuming the Nkembe block is farmed out). As such, the Company ticks all the boxes for buying early and this is why we believe the share price must be higher prior to drilling (the upside is too big to ignore).

PVD.asx
Buy

27 May 2013

Share Price:	$0.39
12mth Price Target:	$1.78

Brief Business Description:
Free carried on two wells offshore Morocco plus a proven discovery and upside exploration in Gabon nearby existing production.

Hartleys Brief Investment Conclusion
Free carried through two well program initially targeting a 1.5 billion barrel prospect plus adding value to Gabon asset.

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

Top Shareholders:

Damon Neaves	7.6%
David Ormerod	6.2%

Company Address:
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Valuation:	$4.33
Issued Capital:	92.5m
- fully diluted	125.2m
Market Cap:	$36.1m
- fully diluted	$48.8m
Cash (current est)*:	$18.0m
Debt (current est):	$4.0m

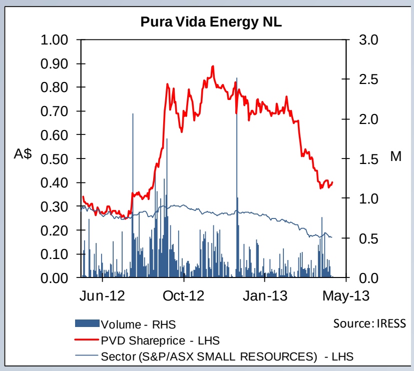
* proforma post placement and Mazagan farmout

Valuation Summary

Asset	Value ($m)	Value ($ps)	Unrisked Value ($ps)
Toubkal	346.61	2.768	27.68
Loba	24.00	0.192	1.92
Others	151.70	1.211	50.60
Cash	18.00	0.144	0.144
Debt	4.00	0.032	0.032
Corp Admin	-11.33	-0.090	-0.090
Options/Equity	9.30	0.074	0.074
Total	**542.28**	**4.330**	**80.35**

Contingent Resource (mmbbl)		20
Prospective Resource (mmbbl)		1,613
EV/Contingent Resource ($/bbl)	$	1.742
EV/Prospective Resource ($/bbl)	$	0.022

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.

MOROCCO – WHERE THE ACTION IS

Drilling activity around PVD's block to start in late 2013

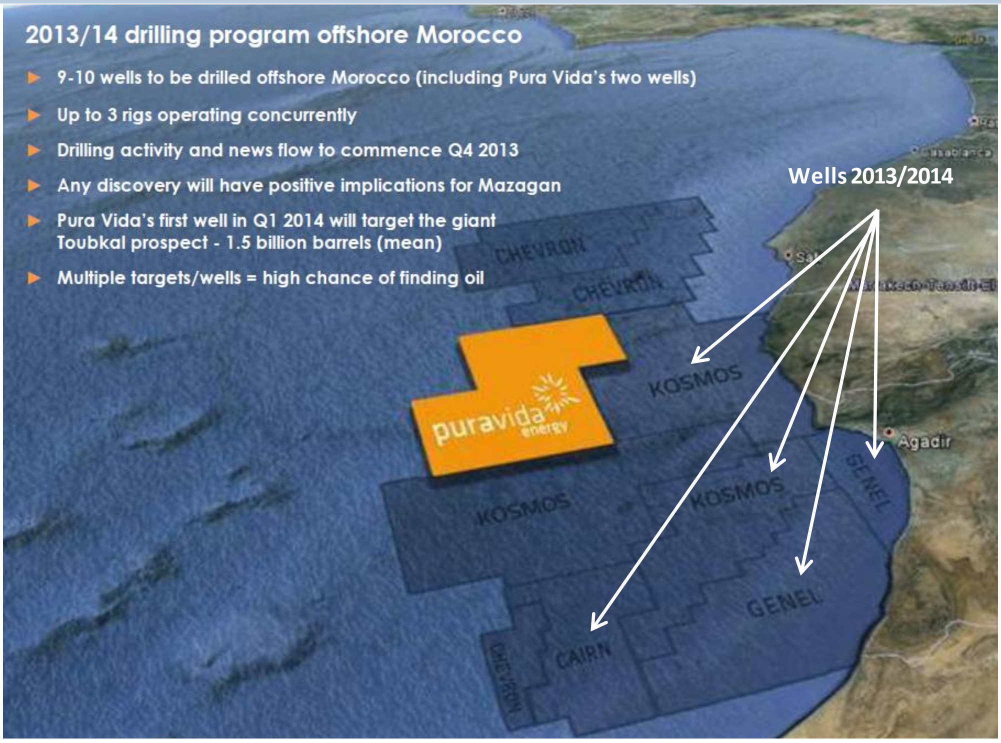
Drilling activity in Morocco is soon to escalate which is sure to result in an increase in Pura Vida's share price as investors speculate on success. Drilling will commence in late 2013 in blocks around Pura Vida's Mazagan permit plus the Company expects to drill the Toubkal well in early 2014.

Toubkal to be drilled in early 2014

Genel Energy has secured a rig for its 10 well west African exploration program commencing with a well in Morocco in late 2013. Genel's first well will target a prospect around the existing Cap Juby discovery (prospect size of 73mmbbls), following which it plans two more wells (one each in its Sidi Moussa block and its Mir Left block). Cairn Energy has secured a rig for its drilling campaign that will commence in late 2013 with two wells in Morocco (including the Cap Juby linked prospect which it has an interest in). Cairn's drilling campaign will also include two wells in Senegal plus another two wells in Morocco. Kosmos is also planning to drill at least two wells commencing late 2013/early 2014. Kosmos has not secured a rig for drilling yet, but we expect that this is imminent and Kosmos is expected to be in the same rig club as Pura Vida (or Plains, as operator).

First well in Morocco is likely to be close to an existing discovery (Cap Juby) so success is more likely and, hence, market excitement

Fig. 1: Drilling on neighbouring blocks in Morocco



Source: Hartleys Research Estimates

Toubkal has a Pmean prospective net resource of 347mmbbls

The Toubkal prospect, with Pmean prospective resource of 347mmbbls net to Pura Vida (1.5 billion barrels gross), is an excellent first target. Seismic over the prospect exhibits very similar qualities for potential turbiditic sands, direct hydrocarbon indicators and oil water contact as other analogous discoveries along the west African coast. In addition, oil seeps have been confirmed in drop cores and the prospect has been given a very high POS by D&M of 31%.

Carried for two wells to US$215m

The two well farmout means investors get two bites at the cherry. Also, the value of the two well carry (US$215m) means that Pura Vida should not require any further funding for Morocco unless there was a significant success.

GABON – PROVEN PRODUCER

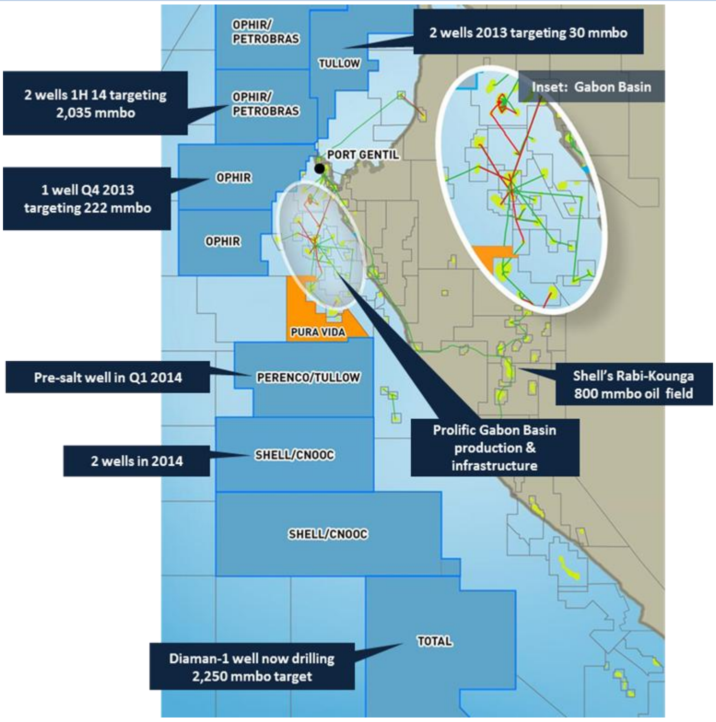
Close to existing production (57 kboepd)

P50 contingent resource of 20 mmbbls on the block of

Large amount of exploration around the Nkembe block over the next 18 months

Pura Vida was awarded the Nkembe block in January 2013 and immediately set out to add value to its new asset. The Nkembe block is contiguous to Total's producing fields which produce around 57 kboepd and it contains the Loba-1 discovery of 46 metres of oil pay in the Batanga sandstone. The Company has estimated a P50 contingent resource of 20 mmbbls.

Fig. 1: Nkembe block, Gabon



Source: Pura Vida presentation

Massive potential of pre-salt and sub-salt supported by Harvest's sub-salt discovery

The existence of a discovery on the block is very positive, however, Pura Vida believe there is substantially more upside from the underexplored pre-salt and sub-salt potential on the block. The sub and pre salt play is supported by Harvest Natural Resources' recent sub-salt discovery of 51 metres of pay in Tortue Marin-1 well off the southern coast of Gabon. Harvest has estimated a contingent resource of between 5 mmbbls and 45 mmbbls for the discovery. Also, there is a large amount of exploration planned around the Nkembe block.

The first stage of commitments on the block includes the acquisition of 500 sqkm of 3D seismic and the drilling of one well over a four year period. Pura Vida is keen to advance the exploration of the block as soon as possible so will open a data room in August 2013 to seek a farm out partner to participate in the first stage of the exploration program.

Farmout will de-risk exposure to exploration and reduce or eliminate commitment costs

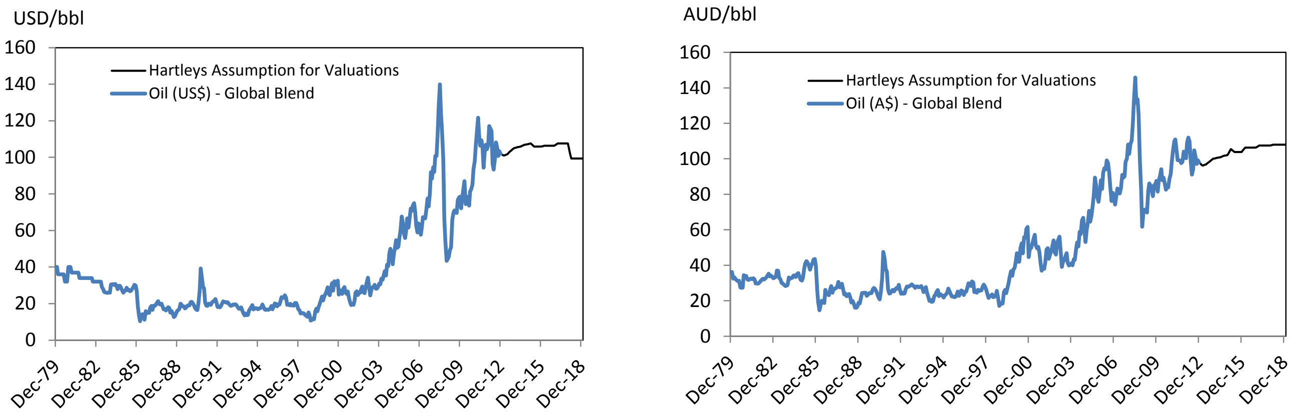
A farmout of the Nkembe block will have two distinct advantages. The first is that it will de-risk the Company's exposure to exploration risk. Although Pura Vida is extremely confident it will have success in Gabon (and so it should be, with existing oil discovery on the block and production nearby), we believe it is prudent for a junior not to be exposed to 100% of exploration. The second advantage is that it conserves cash. The first stage of the exploration program will cost around $35m. Pura Vida should get a carry on some or all of this (plus back costs) which means the Company will have around $14m in net cash once the farmout of the Mazagan block is finalised.

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 a value of 433cps.

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 178cps which partly reflects our current risked valuation of the Toubkal prospect.

Fig. 2: Commodity price assumptions



Source: Hartleys, Bloomberg

Fig. 3: 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 ~$14m in net cash and a free carry on a two well program post farmout close. Gabon will require additional funding but the work program has a four year period and the asset will be farmed out to fund exploration.
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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