

24 Jul 2013

Share Price: \$0.635  
12mth Price Target: \$1.78

## PURA VIDA ENERGY NL

### Almost Over the Line in Morocco

Pura Vida Energy NL ("Pura Vida", "PVD", "Company") has received in principle approval of the farmout of the Mazagan permit to a subsidiary of Freeport-McMoran Oil and Gas LLC.

The Company has stated that the remaining steps required to complete the farmout are administrative in nature. Completion of the farmout should now just be a matter of course. Once the farmout is complete, Pura Vida will receive US\$15m in cash and the joint venture will be able to advance rig negotiations for drilling of Toubkal in 2014.

### Toubkal prospect a mean 1.5 billion bbl target

Toubkal has been independently assessed to hold a mean prospective 1.5 billion bbls (347 mmbbls net). We value Toubkal on a risked basis at \$2.76 based on a 10% probability of success (POS).

Independent petroleum resource consultant, DeGolyer and MacNaughton, estimated a POS of 32% and we may look to increase our POS assessment if there is success in nearby drilling.

A rig slot has not been secured for Toubkal but we expect that completion of the farmout is the delaying factor in progressing rig selection. We understand that preparations have already begun for the acquisition of long lead items. As such, we believe the likelihood of drilling in 2014 is high.

### Nearby drilling to commence in 2013

Cairn and Genel have indicated their Moroccan drilling campaigns will commence in 4Q13. In addition, there are another eight wells planned to be drilled offshore Morocco over the next 18 months (including Pura Vida's two wells).

### Gabon to keep the news flow coming

The Nkembe block in Gabon will provide regular news flow while investors wait for the drilling of Toubkal to commence. Additional resource estimates and possible farmout should also act as price catalysts.

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. We note that Total is currently drilling the Diaman-1 well (targeting 2.2 billion bbls) south of Pura Vida which should reach TD within weeks.

### Buy – plenty of news flow to come

In our opinion, the lead up to drilling is the best time to buy an oil explorer because investors get maximum exposure to speculation on success. There is market risk buying 12 months before drilling, however, we believe that Pura Vida will be exposed to so much news flow from its own Gabon licence and nearby drilling in Morocco that the share price will be supported at these levels with many opportunities for positive price catalysts.

We retain our Buy recommendation with a price target of \$1.78.

#### Hartleys Brief Investment Conclusion

Pura Vida Energy (PVD) provides investors with huge upside potential from Morocco with minimal cash commitments, but must complete Morocco farmout and secure Gabon farmout.

#### Board of Directors:

Mr Bevan Tarratt (Chairman)  
Mr Damon Neaves (MD)  
Mr David Ormerod (Technical Director)

#### Substantial Shareholders:

Damon Neaves (MD) 7.6%  
David Ormerod (Technical Director) 6.2%

#### Company Address:

Lvl 1, 89 St Georges Tce  
Perth, WA, 6000

Issued Capital: 92.5m

- fully diluted 127.9m

Market Cap: \$58.8m

- fully diluted \$81.2m

Cash (current est): \$3.0m

Cash (pro-forma)\*: \$19.0m

Debt (current est): \$4.0m

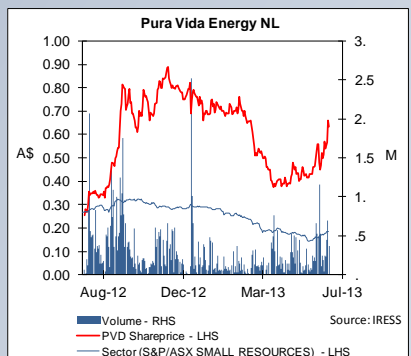
\* includes Mazagan farmout proceeds

#### Valuation Summary

Asset	Value (\$m)	Value (\$ps)	Unrisked Value (\$ps)
Toubkal	347	2.76	27.60
Loba	12	0.10	0.96
Others	433	3.45	50.46
Cash	5	0.04	0.040
Debt	-4	-0.03	-0.032
Corp Admin	-11	-0.09	-0.090
Options/Equity	8	0.07	0.066
<b>Total</b>	<b>789</b>	<b>6.29</b>	<b>78.99</b>

Contingent Resource (mmbbl)	20
Prospective Resource (mmbbl)	1,613
EV/Contingent Resource (\$/bbl)	\$ 4.037
EV/Prospective Resource (\$/bbl)	\$ 0.050

Source: Hartleys Research



#### Authors:

Trent Barnett  
Head of Research  
Ph: +61 8 9268 3052  
E: trent\_barnett@hartleys.com.au

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.

# SUMMARY MODEL

Pura Vida Energy NL PVD		Share Price \$0.635		24 Jul 2013 Buy				
<b>Key Market Information</b>			<b>Directors</b>					
Share Price		\$0.635	Mr Bevan Tarratt (Chairman)					
Market Capitalisation		\$59m	Mr Damon Neaves (MD)					
Cash est (pro-forma is \$19m)		\$3.0m	Mr David Ormerod (Technical Director)					
Debt est		\$4.0m						
Issued Capital		92.5m						
ITM options		33.1m						
Issued Capital (fully diluted ITM options)		125.6m						
Issued Capital (fully diluted all options)		127.9m						
<b>EV (pro-forma EV is \$44m)</b>		<b>\$59.8m</b>						
Riskied Valuation (per share)		\$6.29						
<b>12Mth Price Target</b>		<b>\$1.78</b>						
<b>Projects</b>			<b>Substantial Shareholders</b>					
	Interest	Location	Commodity	Shares	%			
Mazagan	23%	Morocco	Oil	11.3m	7.6%			
Nkembe	80%	Gabon	Oil	10.0m	6.2%			
			<b>Investment Summary</b>					
			Pura Vida must finalise the Morocco farmout, following which it will receive US\$15m and be fully carried on two wells. We expect the share price to rally prior to drilling Toubkal, the first prospect of PVD's to be drilled in Morocco. Activity in Morocco will be supported by the farmout of the Nkembe block in Gabon which should maintain interest in the shares.					
<b>Resources (net)</b>			<b>Expected Newsflow</b>					
	Oil mmbbl	Gas bcf	Condensate mmbbl	Oil Eq mmbbl				
<b>Mean Prospective</b>								
Mazagan	1,614	-	-	1,614				
Nkembe	815	-	-	815				
<b>P50 Contingent Resource</b>								
Loba	16	-	-	16				
<b>P&amp;L</b>			<b>Unpaid Capital</b>					
	FY2013F	FY2014F	FY2015F	No (m)	\$ (m)	Ave Pr	% Ord	
Net Revenue	na	na	na	30-Jun-14	22.0	4.4	0.20	23.7%
Total Costs	na	na	na	30-Jun-15	1.5	0.4	0.25	1.6%
EBITDA	na	na	na	30-Jun-16	2.7	1.4	0.53	2.9%
Deprec/Amort	na	na	na	30-Jun-17	6.3	2.5	0.40	6.8%
EBIT	na	na	na	Total	32.4	8.7	0.27	35.0%
Net Interest	na	na	na					
Pre-Tax Profit	na	na	na					
Tax Expense	na	na	na					
NPAT	loss	loss	loss					
Abnormal Items	na	na	na					
Reported Profit	loss	loss	loss					
			<b>Comments</b>					
			There are two (possibly three) near term catalyst that we believe will cause an immediate re-rating. The first is the receipt of the cash for the Mazagan farmout (US\$15m). The second is the commencement of neighbouring drilling in Morocco. The third potential catalyst is a Gabon farmout, although we note that recently the market's reaction to farmout announcements, in general, has been muted.					
Analyst: Trent Barnett Phone: +61 8 9268 3052			Last Updated: 24/07/2013					
Sources: IRESS, Company Information, Hartleys Research								

## VALUATION SUMMARY

Permit / Interest	Country	Operator	Net Recoverable Potential	NPV per Unit (\$)	POS	Risked Value (\$ millions)	(cps)	Unrisked Value (cps)
<b>Production Assets</b>								
None								
<b>Exploration Assets</b>								
Toubkal	Morocco	FCX*	347 mmboe	10	10%	347	276	2,760
Morocco - Other	Morocco	FCX*	1,267 mmboe	5	2%	152	121**	5,046**
Loba	Gabon	Pura Vida	8 mmboe	15	10%	12	10	96
Gabon - Other	Gabon	Pura Vida	375 mmboe	15	5%	281	224	4,477
<b>Total</b>			<b>1,996 mmboe</b>			<b>791</b>	<b>630</b>	<b>12,378</b>

\* Freeport-McMoRan Copper & Gold Inc.

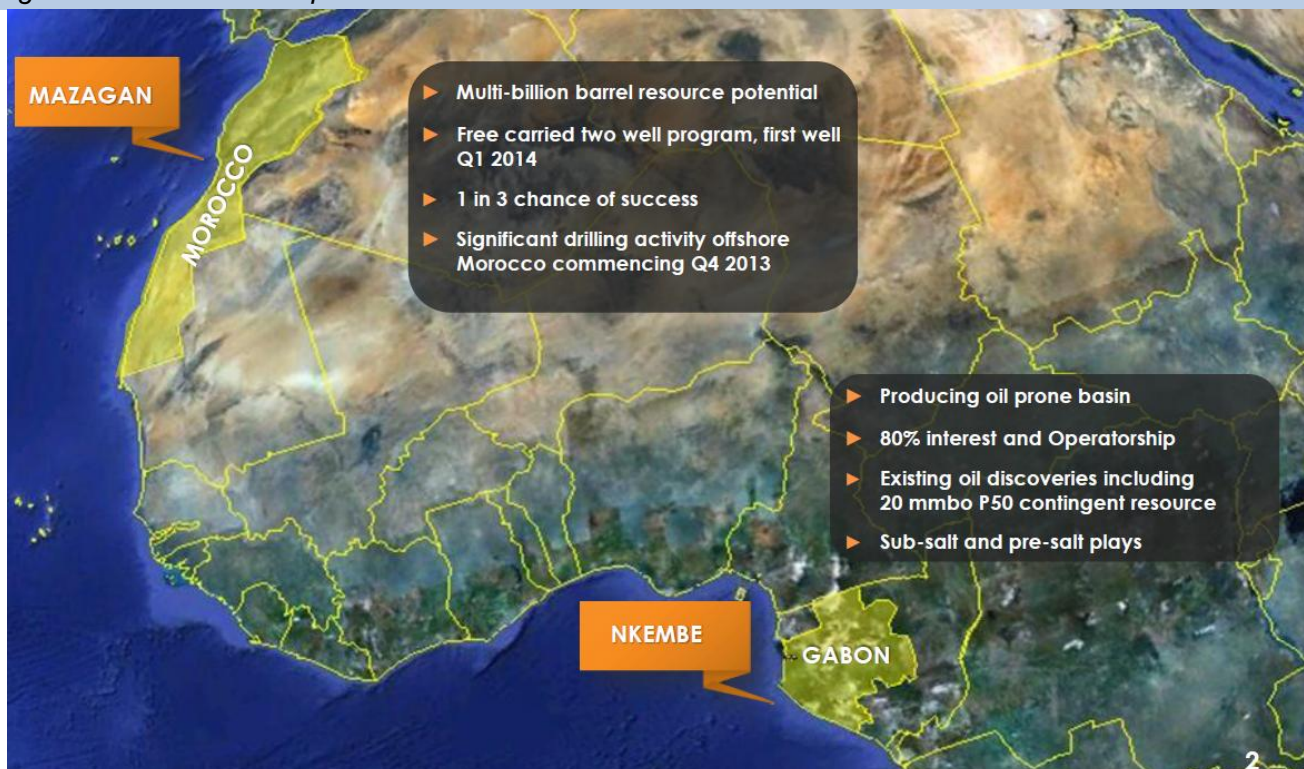
\*\* Valuation based only on Tafroute, Jbel Tadrart and Jbel Azavza prospects (total gross prospective resource estimate of 2,755 mmbbls)

Source: Hartleys and PVD

## PRICE TARGET

In arriving at our price target of \$1.78 we have considered the risked value of the Toubkal prospect to be the key value driver for Pura Vida in the short term.

Fig. 1: PVD African Exposure



Source: PVD

**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	Post Morocco farmout completion, PVD will have ~\$13m in net cash and a free carry on a two well program post farmout. 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

## RISKS

The key risks for Pura Vida Energy NL (like most oil & gas exploration companies) is making an economic discovery and obtaining the funding for ongoing exploration. Other risks include delays, key person risk, country/sovereign risk, weather, JV partner obligations, cost inflation. Investing in explorers is very risky given the exploration value of the company in essence assumes that the market will recognise a portion of potential value before the results of an exploration program are known, conscious that the ultimate chance of success is low (typically 1%-20%) and that failure is much more likely, in most cases. Other risks are earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, resource estimate errors and management performance and contract negotiation skills. High financial leverage (if it exists at that time) would add to the problem.

# HARTLEYS CORPORATE DIRECTORY

## Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
Paul Cartwright	Oil & Gas Analyst	+61 8 9268 2826
Peter Gray	Oil & Gas Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

## Corporate Finance

Grey Egerton-Warburton	Head of Corp Fin.	+61 8 9268 2851
Richard Simpson	Director –Corp. Fin.	+61 8 9268 2824
Paul Fryer	Director–Corp. Fin.	+61 8 9268 2819
Dale Bryan	Director–Corp. Fin.	+61 8 9268 2829
Ben Wale	Snr Mgr–Corp. Fin.	+61 8 9268 3055
Ben Crossing	Snr Mgr – Corp.Fin.	+61 8 9268 3047
Stephen Kite	Snr Mgr- Corp. Fin.	+61 8 9268 3050
Scott Weir	Mgr - Corp Fin.	+61 8 9268 2821

## Registered Office

### Level 6, 141 St Georges Tce Postal Address:

PerthWA 6000	GPO Box 2777
Australia	Perth WA 6001
PH:+61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

*Note: personal email addresses of company employees are structured in the following*

*manner:firstname\_lastname@hartleys.com.au*

## 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	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.

## Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Chris Chong	+61 8 9268 2817
Simon Andrew	+61 8 9268 3020
Veronika Tkacova	+61 8 9268 3053

## Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Travis Clark	+61 8 9268 2876
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Georgiades	+61 8 9268 2887
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Bradley Knight	+61 8 9268 2823
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Damir Mikulic	+61 8 9268 3027
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Charlie Ransom	+61 8 9268 2868
Brenton Reynolds	+61 8 9268 2866
Conlie Salvemini	+61 8 9268 2833
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Jayne Walsh	+61 8 9268 2828
Samuel Williams	+61 8 9268 3041

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