Hartleys

PURA VIDA ENERGY NL (PVD)

Alex, Marty, The Penguins and now Pura Vida!

Better late than never but PVD has finally completed the Mazagan farm out and received the US$15m. In addition PVD has announced that it has farmed into the Ambilobe block offshore Madagascar. The next important milestone for the stock will be the announcement by Freeport McMoran (Freeport) that it has secured a rig slot to drill the Toubkal target. Other catalysts include the farm-out of PVD's Gabon acreage, multiple well's in nearby acreage (Morocco and Gabon) and finally the drilling of the billion-barrel Toubkal prospect in 3Q 2014 (Hartleys estimate).

We have witnessed some short term "sell the fact" stock price weakness, which may represent an opportunity to enter the stock. We maintain our Speculative Buy recommendation.

PVD farms into Madagascar

PVD management has delivered on its promise not to stand still but to continue looking for new opportunities around Africa. The Company has farmed into the Ambilobe block offshore Madagascar. PVD will farm into a 50% interest in the block for a modest up front cost (US$1.25m) plus a commitment to shoot both a 2D and 3D seismic program (carry to a maximum of US$15m). The limited data available over the Ambilobe Block certainly puts it in the wildcat category and in relatively deep water. PVD believe the block contains a variety of play types including large scale salt related targets similar to those being targeted in east Africa. Exxon operate the block contiguous to Ambilobe (directly south).

The noise levels keeps on rising in Morocco

From farm-ins, farm-outs, drilling and expensive hand cream the noise levels for the Moroccan oil story gets louder. In addition to the recent farm-in announcements from BP and Cairn we are also expecting significant drilling activity from PVD's neighbours. Chevron was the first "Super Major" to enter, and then recently Kosmos announced that BP had farmed into three blocks offshore Morocco. BP's entry further highlights the potential for a major discovery offshore Morocco in 2014.

The first of a potentially 10 wells to be drilled over the next 12 months recently spudded. This week Cairn reported that it has spudded its FD-1 well (a different style of target to PVD's Toubkal prospect). Whilst none of these wells provides an exact read through to Toubkal, the most relevant will be the Kosmos wells targeting Cretaceous fan plays expected to be drilled in 2H 2014.

Valuation and recommendation

Based on an independent prospective resource estimate the Toubkal prospect alone contains 1.1bn bbl of recoverable oil (best estimate) with a probability of <u>geological</u> success of 31% (relatively high for this type of well). Our risked valuation is $2.72 / share with a 12-month target price of $2.04. PVD currently has approximately A$22m in cash with a quarterly cash burn of approximately A$1m.

Conventional Oil & Gas: Explorer

PVD.asx
Speculative Buy

6 Nov 2013

Share Price:	$0.715
12mth Price Target:	$2.04

Hartleys Brief Investment Conclusion
Pura Vida (PVD)'s retained a significant interest in what is potentially a 1bn bbl resource (Toubkal). Upside also comes from its offshore acreage in Gabon and now Madagascar.

Board of Directors:

Damon Neaves	Managing Director
David Ormerod	Technical Director
Bevan Tarratt	Non-Exec Chairman

Substantial Shareholders:

Board	23.8%

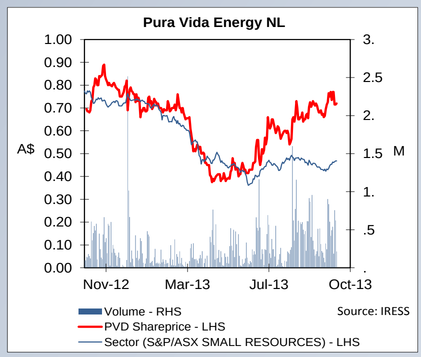
Company Address:
Level 3, 89 St Georges Tce
Perth, W.A. 6000

Issued Capital:	92.7m
- fully diluted	133.0m
Market Cap:	$66.3m
- fully diluted	$95.1m
Cash (current est):	$23.0m
Debt (current est):	$4.0m

Valuation Summary

Asset	**Risked A$m**	**Risked A$/s**	**Un-risked A$/s**
Toubkal	277	2.08	20.82
Morocco - Other	33	0.25	2.46
Gabon	74	0.55	15.79
Overheads	-20	-0.15	
Debt	-4	-0.03	
Cash	3	0.02	
	362	**2.72**	**39.06**

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 ("Pura Vida") for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Pura Vida, for which it has earned and continues to earn fees. Hartleys has a beneficial interest in 3 million unlisted options in Pura Vida.

SUMMARY MODEL

Pura Vida Energy NL **PVD**

Share Price **$0.715**

6 Nov 2013
Speculative Buy

Key Market Information	
Share Price	**$0.715**
Market Capitalisation	$95m
Cash est	$22.0m
Debt est	$4.0m
Issued Capital	92.7m
ITM options	6.5m
Issued Capital (fully diluted ITM options)	133.0m
Issued Capital (fully diluted all options)	133.0m
Enterprise Value (EV)	$77.1m
Risked Valuation (per share)	$2.72
12Mth Price Target	**$2.04**

Projects	Interest	Location	Commodity
Mazagan	23%	Morocco	Oil
Nkembe	80%	Gabon	Oil
Ambilobe	50%	Madagascar	Oil

Resources (net)	Oil mmbbl	Gas bcf	Condensate mmbbl	Oil Eq mmbbl
Mean Prospective				
Mazagan	1,168	-	-	1,168
Nkembe	815	-	-	815
Ambilobe				
P50 Contingent Resource				
Loba	16	-	-	16

Directors	Company Details
Damon Neaves	Managing Director
David Ormerod	Technical Director
Bevan Tarratt	Non-Executive Chairman

Substantial Shareholders	Shares	%
Board	31.6m	23.8%

Includes Ordinary, Partly Paid shares and Options

Investment Summary

Pura Vida recently got final government approval of its Morrocan farmout and received US$15m We expect the share price to rally prior to drilling Toubkal, the first prospect of PVD's to be drilled in Morocco. The farm-out of PVD's Nkembe block and a significant well program by other operators in both Morocco and Gabon will continue to generate newsflow. PVD's recent farm into the Ambilobe Block offshore Madagascar adds to The Comapny's portfolio of African assets.

Expected Newsflow		Project	Impact
4Q 13	Cairn & Kosmos drilling	Morocco	Indirect
4Q 13	Total drilling	Gabon	Indirect
4Q 13	Gabon resource update	Gabon	Direct
1Q 14	Gabon farmout	Gabon	Direct

Quarterly Cash Flow- Historical

	FY13				FY14
A$ m	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**
Beginning	**3.86**	**4.53**	**8.24**	**1.90**	**3.41**
Operating	-2.18	-1.95	-2.36	-4.79	-2.73
Investing	-0.01	-0.05	-8.68	-0.01	-0.03
Financing	2.79	5.73	4.72	6.24	6.55
End	**4.47**	**8.26**	**1.92**	**3.34**	**7.20**

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Last Updated: 06/11/2013

Sources: IRESS, Company Information, Hartleys Research

PVD FARMS INTO MADAGASCAR

Farm in agreement

Madagascar – frontier exploration territory, large acreage position for minimal up front cost. Exxon operate the neighbouring block.

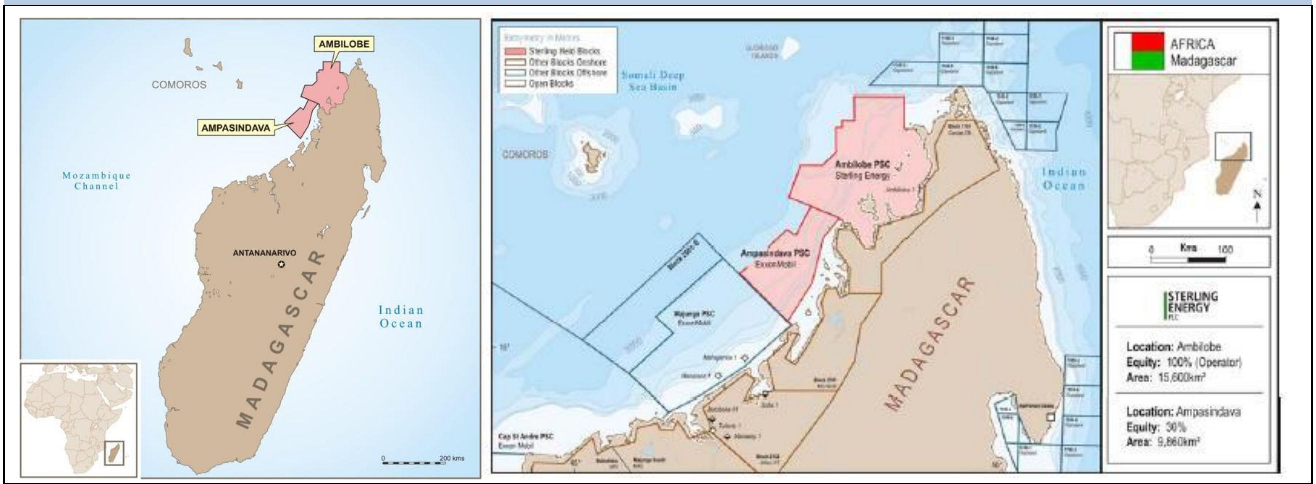
PVD has agreed to farm into a 50% interest in the Ambilobe block (offshore). The deal requires PVD to pay Sterling Energy Plc (SEY LN) US$1.25m in back costs in addition to free carrying Sterling through an extensive 2D and 3D seismic program. Sterling will retain operatorship. The deal is subject to final approval from the Government of Madagascar. The seismic program will involve shooting and processing 1000km of 2D and 1250km^2 of 3D seismic. PVD will carry the cost of the overall (2D and 3D) up to a maximum of US$15m after which the partners will contribute evenly.

The Ambilobe PSC is currently in Phase 2, which does not require any further work (Phase 2 expires in September 2015). Should the JV partners decide to proceed to Phase 3 then a well will be required to be drilled by September 2016.

PVD believe Ambilobe contains a range of play types. These include several salt related plays similar to those being chased by PVD offshore West Africa. PVD also believe the large onshore oil discoveries extend onto the Ambilobe block due to oil seeps on the eastern coastal border of the block.

The Ambilobe acreage is certainly frontier. Only limited data has been acquired over the block, which makes it difficult to make an assessment as to the prospectivity. There is the potential for Madagascar to have some geological similarities to offshore Mozambique where significant gas discoveries have been made. Exxon operate the block located to the south of Ambilobe.

Fig. 1: Ambilobe Block



Source: Sterling Energy Plc

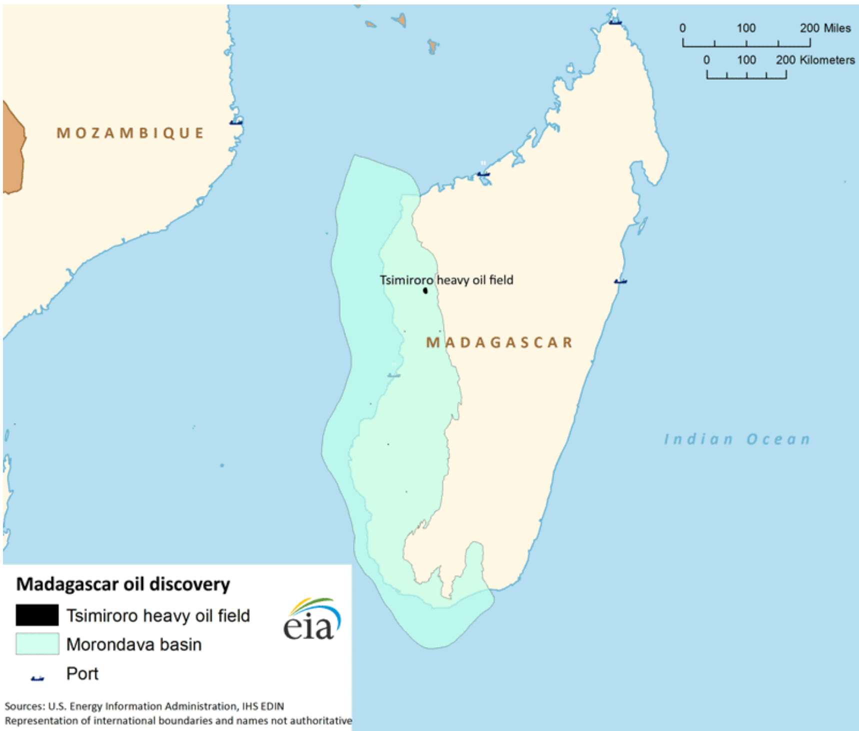
Political uncertainty remains but improving.

The political landscape in Madagascar has improved but remains uncertain. The elections held in October of this year were the first since a military coup in 2009. The election result remains uncertain (33 candidates contested the election) with the outcome being determined by a final election run off in December.

The uncertain political landscape led to a sharp reduction in both foreign investment and foreign aid directed towards Madagascar. Our research suggests investment in the oil and gas industry has come to an almost complete standstill since the coup. This may have direct implications on the cost of PVD's work commitments under the terms of the farm-in agreement. A lack of oil and gas infrastructure and the possibility of a changing tax regime may increase the cost of the work program. The alternate view may be that a definitive election result and the need to attract foreign investment may result in the new Government offering various incentives to encourage investment. The Office of National Mines and Strategic Industries (OMNIS) overseas the upstream oil and gas sector.

Oil and gas exploration in Madagascar has historically focused on the Morondava Basin with limited success. The Tsimiroro Field has been the most promising asset with a recoverable oil resource of 1.7bn bbls according to the fields' operators Madagascar Oil. The offshore Morondava Basin is also believed to host significant hydrocarbon reserves. The US Geological Survey estimates a mean recoverable resource of 10.8bn bbls of oil and 167 tcf of gas.

Fig. 2: Madagascar – key oil fairways



Source: EIA

Madagascar has a limited oil and gas history. According to EIA data Madagascar does not produce any oil or gas and thus imports 100% of its consumption. Madagascar Oil is attempting to start a heavy oil pilot production facility at the Tsimiroro field this year. If the pilot plant is successful then Madagascar Oil anticipates commercial ramp up in 2019 to a peak production of 150,000 – 160,000 bbls/d of heavy oil.

NOISE LEVELS RISING IN MOROCCO

Majors farming in and a 10 well program should keep the noise levels high

Recent news flow continues to focus the markets attention on Morocco. This includes BP farming into acreage, Cairn increasing its acreage position and the spudding of the first exploration well offshore Morocco for many years. Morocco has been largely free of the political turmoil that has gripped several of its North African neighbours and is largely unexplored as an offshore oil province.

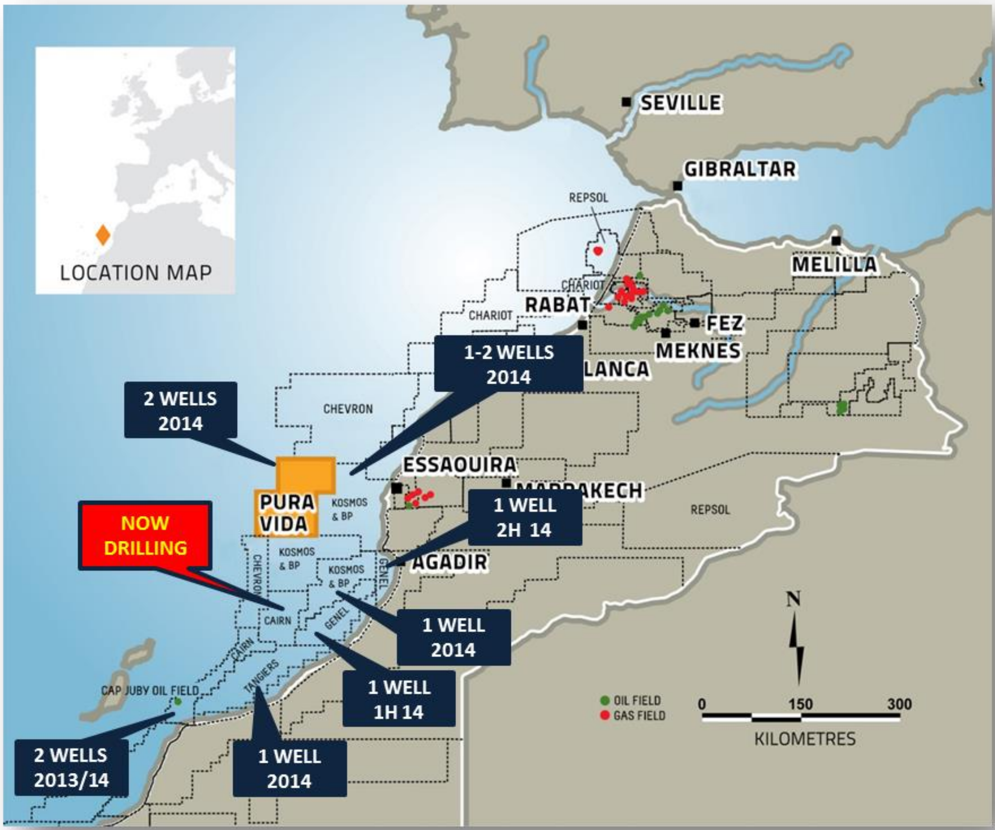
Entry of another super-major: Last month Kosmos announced that it entered into three farm-out agreements with BP Plc (BP) covering its three Agadir Basin blocks. The farm-out agreement includes BP paying a proportion of back costs and free-carry Kosmos for the cost of an exploration well on each of the three blocks.

Cairn farms in: In a busy period for Kosmos, Cairn announced that it had reached agreement with Kosmos and ONHYM to farm into a 20% interest in the Cap Boujdour exploration permit. This permit sits to the south of Mazagan and is off-shore the Aauin Basin (Western Sahara).

Drilling begins: Cairn is the first operator to spin the drill bit. The FD-I exploration well spudded about 10 days ago

We believe the next major news flow for PVD will be Freeport announcing that it has secured a rig slot to drill the Toubkal prospect.

Fig. 3: Morocco – plenty of drilling to come



Source: Company Presentation

STRONG DEMAND FOR ACREAGE OFFSHORE GABON

Strong interest in the recent bid round offshore Gabon bodes well for PVD's farm out

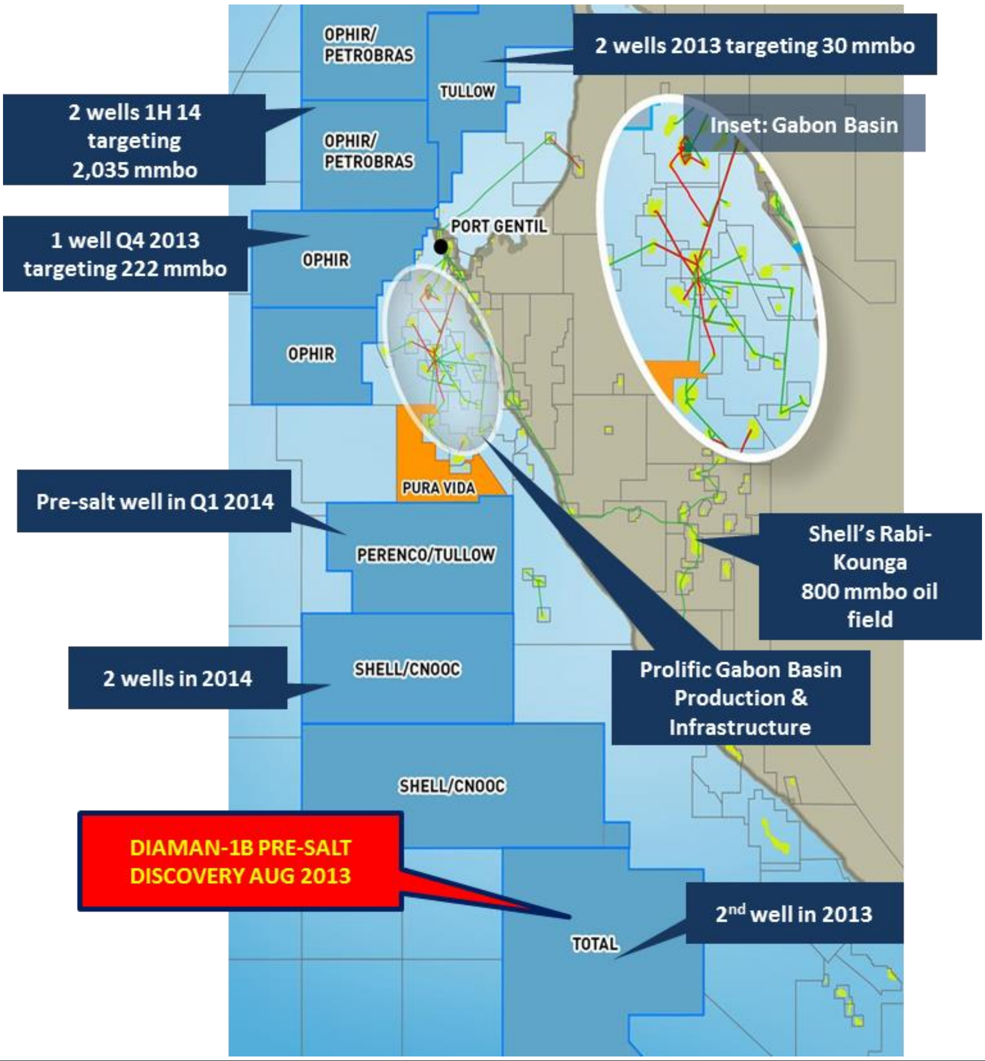
The recent licensing round for exploration blocks offshore Gabon provides encouragement that PVD can deliver a successful farm out of its Gabon acreage. The Gabonese government awarded 13 offshore blocks to 11 companies including Ophir (4 blocks), Exxon, ENI, Marathon and Repsol. Most notable was that BP, Royal Dutch and Total missed out. Gabon hopes these blocks will eventually generate an additional 500,000boe/d of production.

The details of the contracts have not been released but we understand several bidders had offered significant signing bonuses.

The strong demand for Gabonese acreage may be attributable to Total SA's recent discovery offshore Gabon. Total announced recently that its deep-water Diaman well had intersected 160-180ft of gas and condensate. The discovery proves the existence of a working hydrocarbon system in a pre-salt play. Over the next 12 months a further 10 wells are expected to be drilled targeting various play types. Before the end of 2013 Shell and Exxon are expected to drill up to two exploration wells on blocks BC 9/10.

We understand that PVD's farm-out process is progressing well. The final outcome and partners may come down to a decision to chase the larger and riskier salt plays or focus in and around Loba in order to chase nearer term production. We expect the farm out to be completed early 2014

Fig. 4: *Gabon Location Map*



Source: Company Presentation

WHICH WELLS TO WATCH

The wells being drilled by Kosmos are the closest "look alike" targets to Toubkal

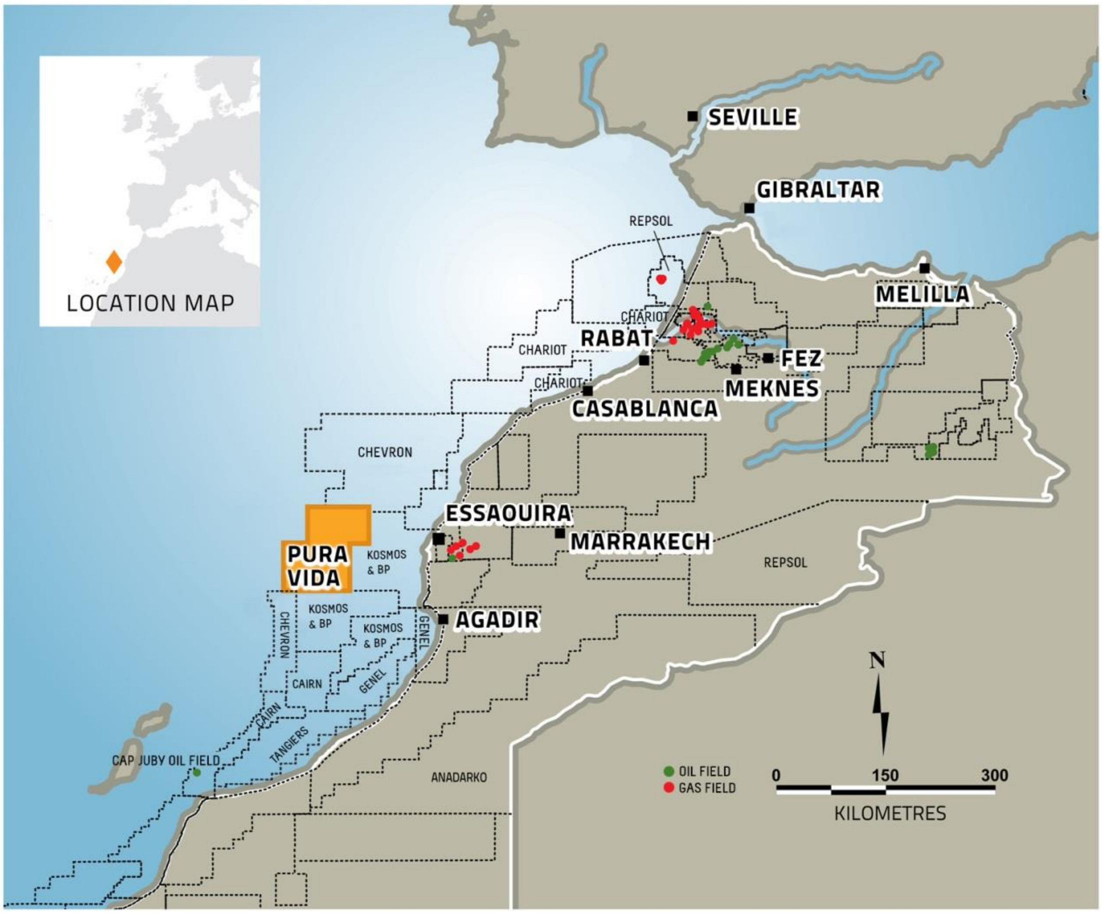
Recently Cairn kicked off an unprecedented level of drilling activity offshore Morocco over the next 12 months. We expect 8 to 10 exploration wells to be drilled by various operators testing a range of play types. With such a high level of activity it will be important to isolate which wells are targeting similar play types to PVD.

In Morocco we think the most important wells to watch will be those planned by Kosmos on its Agadir Basin blocks. These blocks wrap around the eastern and southern borders of Mazagan. Kosmos plan three wells in 2014 offshore Morocco having signed a three year contract securing the drill ship Atwood Achiever (from 2H 2014).

Kosmos claimed to have identified "multiple pre-salt and post-salt prospects" within its three contiguous Agadir Basin blocks. PVD management believe these targets are similar to those being targeted with the Toubkal well.

We understand that Freeport has talked to Kosmos about a rig slot in 2014.

Fig. 5: Morocco – Acreage Map



Source: Various

BALANCE SHEET AND VALUATION

Significant interest in a large prospect

Our valuation is based almost entirely around the drilling of Toubkal. PVD, via an independent consultant, assigns a best prospective resource estimate for Toubkal of 1,168 mmboe with a probability of geological success of 31%. After adjusting for PVD's economic interest and aggressively discounting the probability of commercial success we arrive at a valuation of A$2.04.

As we have flagged before the gulf between a geological success and a commercial success is significant. We therefore assign only a 10% chance of commercial success to Toubkal.

Attempting to place a risked value on a prospective resource has its obvious vagaries. However what we can be reasonably certain of is the uplift PVD's share will receive well before drilling begins. Farm outs and nearology generate noise but real share price appreciation invariably comes from drilling wells.

The impact of a successful well on a small explorer is so significant that the drilling becomes asymmetric to the market (and binary). Numerous examples exist in which stocks have run hard well before drilling begins presenting an opportunity for investors to make money irrespective of the drilling outcome. The announcement that Freeport has secured a drill slot for Toubkal will allow investors to see a clear pathway to a genuine money making opportunity that is agnostic to the underlying market. The table below highlights some historical examples.

Fig. 6: Potential share price appreciation – historic examples

Code	Prev 18mth Low	High	Return	Peak mkt cap	Notes
PCL.AU	3cps	22cps	633%	$250m	15% interest in the unsuccessful Mbawa well drilled by Apache. 50m of gas pay but still not commercial.
MMR.AU	3cps	109cps	3533%	$190m	~45% in 2.5tcf prospect offshore New South Wales. Play opening drilling.
CHAR.LN	19p	306p	3188%	>$1b	Large working interests in several permits offshore Namibia - conjugate to offshore Brazil.
BPC.LN	2.5p	25p	900%	$330m	Large positions offshore Bahamas. Underexplored and requiring a play opening well.

Source: Hartleys, Bloomberg

It is also worth remembering that junior partners are at the mercy of the senior partner when it comes to the release of information. We often return to the Mbawa well drilled by Apache offshore Kenya. A geological success with 50m net gas pay but reality was that commercialisation was unlikely.

Near term catalysts for PVD include the following

- Completion of the Gabon farm-out.
- Announcement that Freeport has secured a rig slot to drill Toubkal and other targets.

Fig. 7: Quarterly Cash Burn

A$ m	FY13 1Q	FY13 2Q	FY13 3Q	FY13 4Q	FY14 1Q
Beginning	3.86	4.53	8.24	1.90	3.41
Operating	-2.18	-1.95	-2.36	-4.79	-2.73
Investing	-0.01	-0.05	-8.68	-0.01	-0.03
Finacing	2.79	5.73	4.72	6.24	6.55
End	4.47	8.26	1.92	3.34	7.20

Source: Company ASX Release

Below we have estimated PVD's cash burn over the next 12 months. We have assumed that PVD recuperate A$10m in back costs associated with back costs in Gabon. In Madagascar we assume the 3D seismic program commences in 3Q CY14.

Fig. 8: Cash flow projection – next 12 months

		US$	A$	
Beginning			**22**	
Outflow				
Madagascar	Entry	1.25	1.3	
	2D, 3D seismic	15	15.8	Maximum carry
Overheads			4.0	Assuming A$1m per quarter
Debt			4.0	Re-payment by May 2014
Sub-total			**25.1**	
Inflow				
Gabon Farm-out		10	10.5	Back costs upon farm-out
Net cash flow			**7.4**	

Source: Company ASX Release

HARTLEYS CORPORATE DIRECTORY

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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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