

17 Dec 2014

Share Price: \$0.365
12mth Price Target: \$0.72

PURA VIDA ENERGY NL (PVD)

Drilling deeper but with cost protection

The announcement that PVD, together with the operator Freeport McMoRan (Freeport), has decided to change the first well location on the Mazagan permit should be a positive catalyst for the PVD stock price. The change in well location clearly demonstrates that Freeport is fully engaged in the JV (contrary to market rumours) and the testing of multiple targets increases the chance of success. Whilst the individual prospects may not be as large as Toubkal the combination of the four stacked targets (and potentially a fifth) have a similar prospective resource size. We maintain our Speculative Buy recommendation on the stock with a target price of 72cps.

What happened?

Following a technical review by the JV partners of the Mazagan permit it was decided to reprioritise the first well location. The technical review included reprocessing of previously acquired 3D seismic data. The new prospect will be known as the Ouanoukrim prospect and the well has been named MZ-1. The MZ-1 well will test 4 stacked objectives with an initial target depth of 5,600m. The JV may elect to test a fifth target by deepening the well to 6,150m.

The rationale behind the change in target is to test a broader range of prospect types within a single well. These targets include both structural and stratigraphic traps in the Cretaceous and Jurassic intervals. Within the Lower Jurassic interval, stacked fan systems (MZ-1 well will test two of these and three if the well is deepened) exist within the Jurassic source rock which increases the chance of oil migrating from source to reservoir.

Protecting costs

The cost of the well has been estimated at US\$136.6m which includes contingencies (approximately US\$20m) but not deepening. Remember under the terms of the initial farm-in agreement PVD is carried to a total of US\$215m with a two well commitment. PVD has negotiated a mechanism within the farm-in agreement that provides protection against cost overruns. The mechanism allows PVD the option to exchange a 1% equity interest for US\$4.5m in gross expenditure over US\$215m with an equity floor of 4%. (PVD currently holds a 23% interest in the Mazagan permit).

Spud now expected towards the end of 1Q 2015

The MZ-1 well is now expected to spud late in 1Q 2015 (previously guidance was for end January 2015). The well is expected to take 60-90 days to reach target depth.

Valuation and Target Price

We have made some adjustments to our 12-month target price because of the change in drill location and the change in risk appetite for oil and gas stocks. Our risked valuation of PVD is \$1.44 / share with a 12-month target price of \$0.72 (see table 4). We have assigned a 15% chance of geological success for the MZ-1 well and used US\$10/bbl NPV. Our valuation of the Gabon assets assumes a final working interest in the Nkembe block of 25% (currently 80%) and an US\$10/bbl NPV. With a change in sentiment towards the oil and gas sector we would hope to see uplift in the share price prior to drilling.

Hartleys Brief Investment Conclusion

Pura Vida (PVD)'s retained a significant free-carried interest in what is potentially a 1bn bbl (plus) resource (Ouanoukrim). Upside also comes from its offshore acreage in Gabon and also Madagascar.

Board of Directors:

Jeff Dowling Non-Executive Chairman
Richard Malcolm Non-Executive Director
Damon Neaves Managing Director

Substantial Shareholders:

Board (Un-diluted) 5.1%

Company Address:

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

Issued Capital:

130.1m

- fully diluted 164.1m

Market Cap: \$47.5m

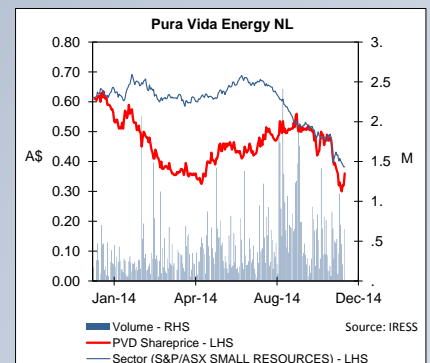
- fully diluted \$59.9m

Cash (current est): \$17.0m

Valuation Summary

Asset	Risked A\$m	Risked A\$/s	Un-risked A\$/s
Ouanoukrim (Morocco)	136	0.83	22.17
Gabon	100	0.61	24.27
	236	1.44	46.44

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 \$ 0.365	Dec-14 Speculative Buy	
Key Market Information			Directors	
Share Price		\$0.365	Jeff Dowling	Non-Executive Chairman
Market Capitalisation	Ordinary	\$47m	Richard Malcolm	Non-Executive Director
	Fully Diluted	\$60m	Damon Neaves	Managing Director
Cash est		\$17.0m	Company Details	
Issued Capital		130.1m		
ITM options		6.5m		
Issued Capital (fully diluted all options)		164.1m		
Enterprise Value (EV)		\$42.9m		
Risked Valuation (per share)		\$1.44		
12Mth Price Target		\$0.72		
Projects			Substantial Shareholders	
Interest	Location	Commodity		%
Mazagan	Morocco	Oil	Board (Un-diluted)	5.1%
Nkembe	Gabon	Oil		
Ambilobe	Madagascar	Oil		
Prospective Resources			Investment Summary	
	Oil mmbbl	Oil Eq mmbbl		
Best Prospective			We expect Pura Vida to spud the MZ-1 well towards the end of 1Q CY15. Should sentiment toward the oil and gas sector improve we would expect the share price to rally prior to the spud date. 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 farm into the Ambilobe Block offshore Madagascar adds to the Company's portfolio of African assets.	
Ouanoukrim	1,424	1,424		
Toubkal	1,507	1,507		
Nkembe	1,434	1,434		
Valuation			Expected Newsflow	
	Risked A\$m	Risked \$/share	Project	Impact
	A\$m	A\$m		
Ouanoukrim (Morocco)	136	0.83	4Q 14 Kosmos drilling	Morocco Indirect
Gabon	100	0.61	1Q 15 Ouanoukrim drilling	Morocco Direct
Gross Valuation		\$1.44	1H 15 Gabon farmout	Gabon Direct
12 Months Price Target		\$0.72	1H 15 Madagascar seismic	Madagascar Direct
Share price - Last		\$0.37		
12 mth total return (% to 12mth target)		97%		
			Quarterly Cash Flow- Historical	
			FY14	FY15
A\$ m	1Q	2Q	3Q	4Q
Beginning	3.41	7.20	28.92	24.92
Operating	-2.73	-5.99	-3.44	-2.15
Investing	-0.03	16.81	0.00	-0.01
Financing	6.55	10.90	0.16	-1.98
End	7.19	28.92	24.92	20.46
			1Q	20.46
			18.82	
Analyst: Simon Andrew			Last Updated: 17/12/2014	
Phone: +618 9286 3020				
Sources: IRESS, Company Information, Hartleys Research				

DRILLING DEEPER, COST PROTECTION

The MZ-1 well is designed to test a range of targets identified from the reprocessing of 3D seismic and other technical work undertaken by the JV. The targets are stacked which means the well provides the opportunity to test a range of stratigraphies contained within the basin.

Within the Cretaceous interval the MZ-1 well will test predominantly structural closures. Deeper into the Jurassic the JV has identified stacked fan systems interbedded with Jurassic source rock which enhances the probability of hydrocarbons migrating into the reservoir system. Furthermore PVD believe that if the Jurassic fan system does not contain an effective seal that hydrocarbons may migrate vertically within the system into the younger Cretaceous traps.

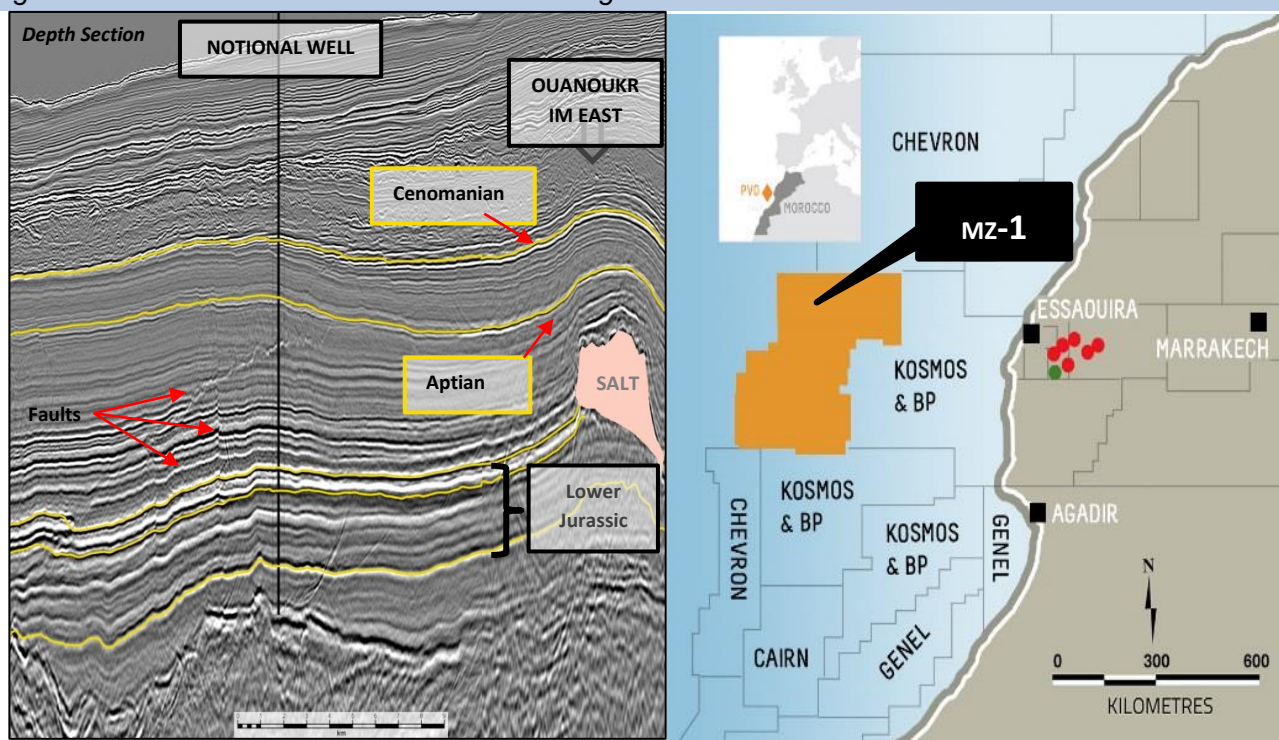
In the table below we have outlined the prospective resource estimates across the five targets within the Ouanoukrim prospect. The largest of these is the shallowest of the Lower Jurassic fan targets which has a mean prospective resource estimate of 588MM boe. In total the five targets have a mean prospective resource estimate of 1.4bn boe.

Fig. 1: Ouanoukrim – prospective resource estimates

MM boe	Gross Prospective Resources Unrisked				Gross Prospective Resources risked		Net Prospective Resources Mean Unrisked
	Low	Best	High	Mean	POS	Mean risked	
Cenomanian	9	39	95	47	23%	10.8	11
Aptian	42	238	680	309	30%	92.7	71
Lower Jurassic – Fan 1	84	450	1290	588	13%	76.4	135
Lower Jurassic – Fan 2	21	79	189	95	12%	11.4	22
Lower Jurassic – Fan 3	60	306	820	385	12%	46.2	89
Total	216	1112	3074	1424		238	328

Source: Pura Vida Energy NL

Fig. 2: Location of MZ-1 Well – notional target intervals and well location



Source: Pura Vida Energy NL

SIGNIFICANT ACTIVITY OFFSHORE GABON

In the past six months there has been significant activity offshore Gabon but more importantly there has been several discoveries. The map in Figure 1 details the recent drilling activity offshore Gabon. The feature of recent activity offshore Gabon has been discoveries in the pre-salt. These pre-salt discoveries significantly de-risk this play type on PVD's Nkembe block and should enhance the Company's chance of securing a farmout in the near future.

Fig. 3: Gabon Location map

October 2014 - ACREAGE AWARD

- Ophir signs PSC for Blocks A3 and A4

July 2014 - DISCOVERY

- Eni in Block D4 offshore
- Nyonie Deep1 well
- 500 MM boe gas / condensate discovery
- Pre-salt reservoir

October 2014 – SEISMIC SHOOT

- Impact Oil & Gas (Private) have started shooting seismic in block D7
- Looking to farm-down

RABI KOUNGA FIELD

- EUR of 900MM bbls, Peak 230,000b/d
- Pre-salt reservoir

October 2014 - TECHNICAL SUCCESS

- Sputnik-1 well
- Hydrocarbons - not commercial volumes
- Pre-salt target

July 2014 - DISCOVERY

- Tullow - Igongo-1 well
- 90m oil / gas pay
- Pre-salt reservoir

August 2014 - DRY HOLE

- N'komi-1 well believed to be dry

October 2014 - DISCOVERY

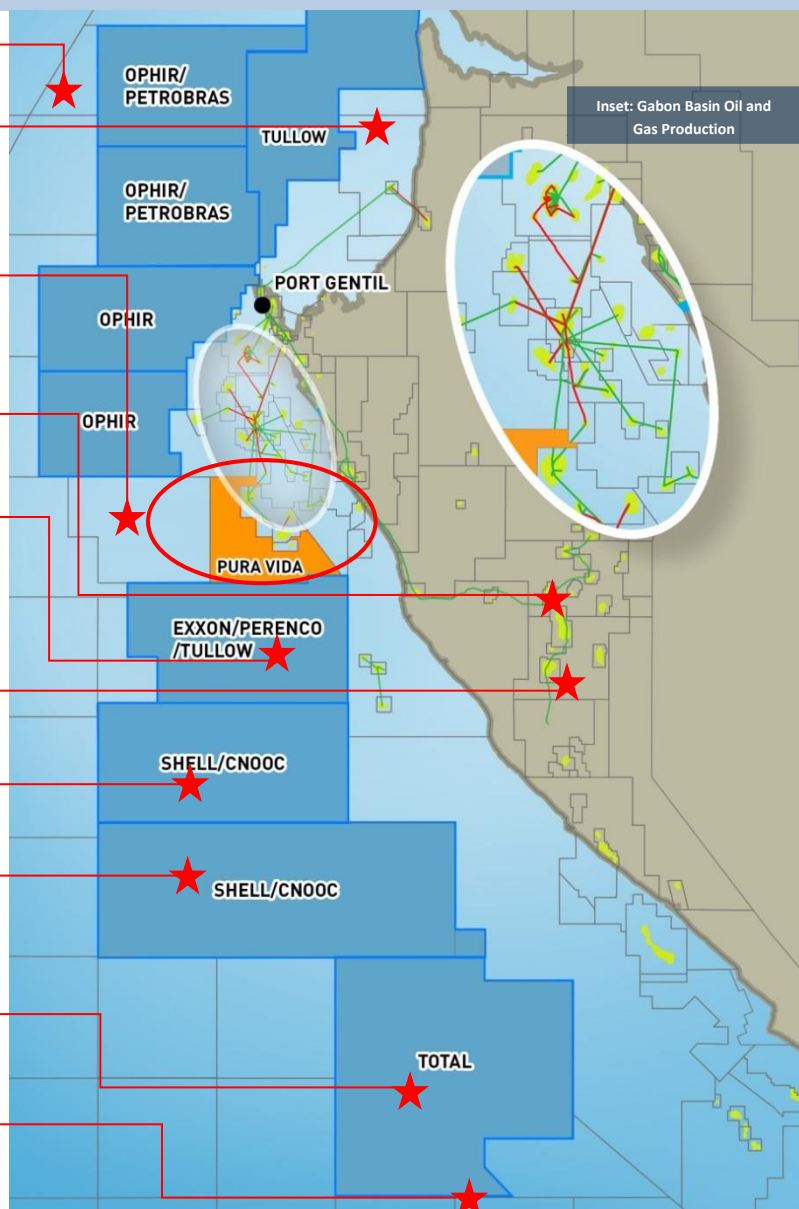
- Leopard-1 well
- 200m of net gas / condensate pay
- Pre-salt reservoir

August 2013 - DISCOVERY

- Diaman-1B well
- 60m net gas / condensate pay
- Pre-salt reservoir

October 2014 – SEISMIC SHOOT

- Impact Oil & Gas (Private) currently shooting seismic over block D13 and D14



Source: Pura Vida Energy NL

VALUATION

We have made some adjustments to our 12-month target price because of the change in drill location and the change in risk appetite for oil and gas stocks. Our risked valuation of PVD is \$1.44 / share with a 12-month target price of \$0.72. We have assigned a 15% chance of geological success for the MZ-1 well and used US\$10/bbl NPV. Our valuation of PVD's assets offshore Gabon assumes a final working interest in the Nkembe block of 25% (currently 80%) and an US\$10/bbl NPV.

Given that we are potentially less than three months away from a significant event for PVD (MZ-1 well) our 12-month target price becomes less relevant. As we have witnessed with other stocks in the sector (FAR, CVN and NEN) there can be significant share price volatility associated with drilling activity.

Fig. 4: Price Target Methodology

PVD Price Target Methodology	Risked		Unrisked
	A\$ m	A\$.share	A\$.share
Ouanoukrim (Morocco)	136	0.83	22.17
Gabon	100	0.61	24.27
Gross Valuation		\$1.44	\$46.44
12 Months Price Target		\$0.72	
Shareprice - Last		\$0.365	
12 mth total return (% to 12mth target)		97%	

Source: Hartleys Research

RISKS

The key risks for PVD (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.

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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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