Equity Flash Note

January 14th 2005

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Providence

Opportunity knocked

Providence Resources has acquired a 6.3% stake in oil-mining lease 113 (OML 113) offshore Nigeria. The licence contains the Aje discovery, on which two wells have been drilled by former operators of the licence. Both wells flowed oil on test from two different horizons. Aje-1 flowed 42 million cubic feet of gas and 2,262 barrels of oil per day and Aje -2 flowed oil at nearly 4,000 barrels of oil per day. The Aje-2 well hit 50 meters of reservoir-quality sand in which oil was contained in the top eight meters. The oil is high API and sweet and both wells were suspended as potential producers. Aje is a deep-water project.

The prospect is covered by good-quality 3D seismic that has recently been reprocessed. This work indicated that the two former wells were drilled in a structurally low position and close to the edge of the reservoir. Given the total thickness of sand encountered and the rate at which the wells flowed, the implication is that substantial hydrocarbons could be present at the high point of the structure.

The seismic data and the two wells drilled so far have enabled a resource/technical reserve assessment to be made. The target structure is believed to contain 2P reserves of 150 million barrels of oil equivalent (75 million of which are liquids). The 3P reserve figure mapped is close to 600 million barrels of oil equivalent (350 of which are liquids). The 3P estimate assumes that the next well, Aje-3 is successful.

It is hoped to drill one appraisal well this year, subject to approval of the current deal by the Nigerian state. It is expected that this well will take place in the second or third quarter. A second appraisal or exploration well close to the Aje structure will follow quickly if the initial appraisal is successful. Wells are likely to be expensive.

The group's technical advisor is Lundin. The local company is YFP. Other non-Nigerian companies are Palace, Challenger Minerals, Howard Energy and Syntroleum.

There is considerable gas present in the structure and while the consortium is focused on the oil play initially, the proprietary gas-to-liquids technology of Syntroleum may be applied to the gas to optimise the economic value of the project.

The project should not be seen as a major change in core strategy, which continues to be the drilling and development of a number of former discoveries in the Celtic Sea.

Valuations at this stage have to be based on prospective/technical reserves. We define this as proven and probable reserves (2P) with a flow-tested well in the structure, but before a specific development plan has been approved. These consist of the Aje prospect offshore Nigeria (9.5m bls) and, offshore Ireland, Dragon (2.8m BOE), Ardmore (8m BOE) and blocks 50/6 &7 (12m bls). Together this is some 32 million barrels of oil equivalent.

The current market capitalisation (at 3.6c) adjusted for net cash is around €65m or $85m. This valuation suggests the market is paying $2.7 per barrel of oil equivalent. Admittedly at this stage such reserves are properly classified as technical, but this valuation is not particularly demanding. Factor in the upside in the Nigerian project or offshore Ireland, such as in block 50/11 in the Celtic Sea, and Providence looks better value now than for some time.

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