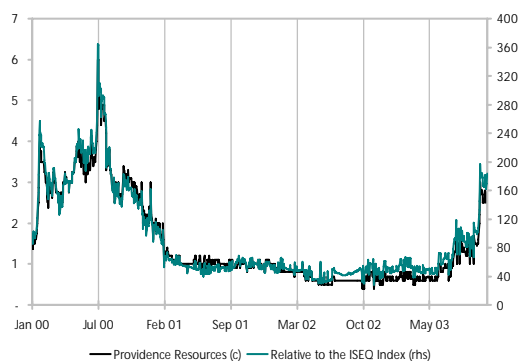


Equity Note

6 November 2003

Share Price Performance (2.8c)



Key Financials (€m)

Year end Dec	2001	2002	2003F
Operating cashflow	-0.7	-0.04	0.0
Net (debt)/ cash	0.3	0.05	-0.3

Company Data

Ticker	PRPI
Sector	Resource
No of shares	1.062m
No of shares (fully diluted)	1,489m
Market Cap	€29.7m
Market Cap (fully diluted)	€41.7m
Quote	ESM
Free Float	67%

Contact Details

Analyst	Job Langbroek
Email	job.langbroek@davy.ie
Research	353 1 6148997
Institutional Equity Sales	353 1 6792816
Website	www.davy.ie
Bloomberg	DAVY<GO>

Providence

Full circle

Providence has come full circle and is once again involved in the search for commercial Celtic Sea oil. It is currently in the process of farming out a large oil prospect in the southwestern end of the Celtic Sea and will, if possible, drill a well in 2004. This prospect, known as Blackrock, has multiple target horizons accessible from one well. If oil filled, even in part, Blackrock will transform Providence.

Recent technological advances and the work of a new generation of smaller companies in the oil industry mean that areas once passed over are being reconsidered. This is also true offshore Ireland, where a re-examination and modern reprocessing of older data is leading to a revival of interest in the Celtic Sea in particular. This is likely to involve a look at former discoveries but also a re-analysis of the overall exploration opportunity. The recent development of the Seven Heads gasfield is a testament to how older areas can produce new opportunities. The development of a high-value gas market in Ireland and the opportunity to export to a gas-short UK have also helped to make the Celtic Sea more attractive.

Given its history of work in the area, Providence has one of the largest databases of information on the Celtic Sea. This information enabled Providence to put together a portfolio of Celtic Sea interests. As well as the Blackrock prospect, Providence has an 80% share in two other licence options covering packages of former discoveries and prospects in the Celtic Sea Basin and the St George's Channel.

Providence is capitalised at €30m (€42m on a fully diluted basis). The investment case for small resource companies is based on above-average returns to compensate for above-average risk. One way to achieve this is if the company's value (market capitalisation) is still small relative to its potential. We believe the current portfolio of licences and assets has the potential to deliver value well in excess of its market capitalisation.

Disclosures

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Blackrock: The oil story

Providence's efforts to find and develop oil and gas in the Irish Celtic Sea have taken an unusual turn. A large geological structure (30,000 acres in area) that was previously believed to be a gas target similar to the Seven Heads gasfield now looks to be a substantial oil prospect. This changes the perspective on the play completely, especially given that there appear to be up to five different oil targets. The structure, known as Blackrock, straddles part of four blocks (48/30, 48/29, 57/4, 57/5) and one full block (49/26) in the southwestern end of the Celtic Sea. Providence holds a 50% share in the licence option covering the Blackrock prospect, with Midmar Energy, a private UK company, holding the balance. However, Providence has an option to increase its interest to 75% during 2003 by contributing a pro-rata share to the 2003 work programme costs.

The first indications that Blackrock was different came about as a result of a review of the oil taken from the core samples belonging to a well drilled on the edge of the structure in 1973 (48/30-1). A total of 10 different samples were taken and analysed for chemical composition. The results showed that no significant trace of wax was present in any sample from the 1973 well. This was completely different to earlier expectations that the oil was typical waxy Wealden-age crude oil. This vital piece of information led to a complete review of all the data associated with this prospect.

It turns out that the reason the oil is non-waxy is due to a combination of factors. Firstly, the oil comes from a different source rock known as the marine Liassic. Normally in the Celtic Sea this source is buried too deep to produce oil and is instead a source of gas. However, Blackrock is at the margin of the basin, which means that this source rock is not buried as deep. This in turn means that temperatures did not rise high enough to convert the organic material in the rock to gas although it was high enough to produce oil. This different burial history at the basin margin also meant that the normal source of waxy oil, which is higher up the system, is not buried deep enough to produce hydrocarbons.

The question as to whether reservoir rock is present was answered by well 48/30-1. This well encountered extensive and high-quality reservoir sands with good oil shows above and below the oil-water contact. However, subsequent analysis of the seismic data available showed that this well was drilled at the edge of the structure and, given the quality of the reservoir rock encountered, higher up the structure the same sands should be very productive if hydrocarbons are present. The trapping mechanism is a well-established four-way dip closed anticlinal structure.

In all, five separate sand horizons have been identified. The top of the section consists of Greensand (the best sand at Kinsale), with separate targets in the upper, middle and lower Wealden. The subsequent review of the seismic data also showed the potential for a structural trap at the Jurassic level in the lowermost part of the section. Several of these sands mapped in the Blackrock structure have the potential to contain large amounts of oil. The work suggests that together the five different sand horizons have the potential to contain up to 613m barrels of recoverable oil. This is an unrisks assessment based on a set of assumptions of the reservoir and structure characteristics. This estimate is best seen as the technical recoverable oil potential.

The biggest risk factors are that the oil column may have been breached and that reservoir communication may be poor. While these are valid fears, data exists to counter both of these arguments.

Rest of Celtic Sea

Providence also has two other licence options in the Celtic Sea. Each consists of a group of discoveries and/or targets and leads. One package is located in the central Celtic Sea area and the other is located next to St George's Channel. Both licence options are valid for three years.

Providence's decision to acquire the licence options partly reflects the fact that the advent of the Seven Heads development changed the way many older oil and gas targets are looked at in the Celtic Sea. This is due to several factors. For instance, modern seismic reprocessing techniques produce new information from older data sets and there is also a realisation that reservoir data based on older wells is often incomplete. The use of the Kinsale platforms as a regional gathering system also provides a model for incremental gas developments in the area.

An interesting feature of both the central Celtic Sea and the St George's Channel licence options is that a bonus scheme arrangement is in place that involves Midmar paying Providence up to \$17m for each field that is brought into production. This is in addition to Providence's 80% interest.

Central Celtic Sea Basin option

The licence option in the central Celtic Sea area contains a number of existing discoveries, some named (such as Helvick and Ardmore), and some unnamed (such as wells on block 50/6 and 50/11). Providence has an 80% share in the licence option, with Midmar holding the other 20% share.

- Helvick, on block 49/9, is an old Jurassic oil discovery made during the early 1980s. Best estimates at this stage are that up to 2-3m barrels of oil may be recoverable. Uncommercial as a stand-alone project, it may be developed at some stage in the future in the context of a wider regional development including other nearby discoveries.
- The 50/6-1 oil discovery is similar to the block 49/9 Helvick discovery. However, it is not as well appraised and needs further work.
- Well 50/11 is an old discovery containing Wealden oil. If oil filled, the structure could contain up to 60m barrels of recoverable oil.
- Ardmore is also a 1970s gas discovery with estimated reserves of about 50-100bn cubic feet (BCF) of gas.
- Blocks 50/8 and 50/9 contain the Glandore prospect. This is a new lead/target built up through a revision of former seismic work. Its attractiveness is that it is a large structure with a potential target size of 300m barrels of recoverable oil.

Taken together and allowing for Providence's level of interest, the central region has an unrisksed recoverable estimate of 322m barrels of oil equivalent. This is based on conservative Providence estimates.

St George's Channel licence option

The St George's licence option is a more conventional exploration play, based on the generation of several prospects and leads using seismic interpretation.

Previous work in the area has already resulted in the Dragon gas discovery in the UK sector. While this is not directly on the blocks held by Providence, it establishes the presence of source hydrocarbons in the area and also the presence of a good-quality Triassic reservoir. The mapped target structure is very large.

According to the company's estimate, the St George's Channel area has an unrisksed mapped potential recoverable of 978 BCF or 163m barrels of oil equivalent. Providence has an 80% interest, with the balance held by Midmar.

North Sea

Providence has a 45% stake in a part block in the Witch Ground Graben area in the UK Central North Sea sector containing the Skye prospect. Again, Midmar is its partner. The target is a Devonian section in a raised fault block. A previous well in the area drilled by Shell in 1973 (14/24-1) has already established the presence of hydrocarbons. The well did not attempt to test these hydrocarbons, as the Jurassic target zone was not present. There are several established fields in the surrounding area, such as Buchan and Claymore. Target size has been estimated at up to 180m barrels recoverable.

There is no well commitment and the licence runs for an initial two-year period.

Total target recoverable volumes

The potential 'unrisked' gross prospect size for Blackrock (613m barrels), central Celtic Sea (402m barrels), St George's Channel (204m barrels) and the Skye prospect in the UK sector (182m barrels) is 1,401m barrels recoverable in total. Net to Providence the equivalent figure is 873m barrels.

Value leverage

To build an investment case for an exploration company, value leverage has to be demonstrated - that is, significant new value relative to the current market value. This means we have to understand the potential value that might be created through its operations. This in turn means making certain assumptions about risk and probability.

The first step is to apply a probability of success to drilling. Then an assumption has to be made about the level of participation Providence will retain in the discovery. This will produce the net barrel or cubic feet of gas attributable. Finally, a generic valuation per barrel of oil in the Celtic Sea is required that can be applied to the net barrels or cubic feet of gas attributable to Providence. Taken together, these allow a range of values to be created.

Below we show a matrix of possible success and final consortium interest. Our success range is from 10% to 20% or one in ten to one in five. This should prove to be a reasonably conservative set of assumptions because several of the targets are already discoveries. Consequently the chance of success should be better than pure exploration risk.

The level of interest will depend on the type and amount of farm-outs Providence can conclude. We assume that Providence will try to not fall below a 30% interest.

Table 1: Million barrels of oil recoverable adjusted for 'finding risk' and final interest level in consortium

Residual interest in consortium	Success ratio of drilling			
	10%	12.5%	15%	20%
30%	26	33	39	52
35%	31	38	46	61
40%	35	44	52	70

Despite the discovery of gas and numerous shows of oil in the early 1970s, there is no precedent for calculating the value of oil in the Celtic Sea. There is, and has been, no production of oil. However, it should be possible to create a generic value of a barrel of oil in the ground based on a number of assumptions. We have chosen our primary value drivers to be oil price and capital costs. Note also that Providence has substantial historic tax losses (€55m) that are available to be offset against production.

Table 2: Generic value per barrel (\$)

Oil price per barrel (\$)	3	Capex per barrel (\$)			
		4	5	6	7
18	5	4.2	3.34	2.5	1.7
20	6	5.2	4.3	3.5	2.7
22	7	6.2	5.3	4.5	3.7
24	8	7.2	6.3	5.5	4.7
26	9	8.2	7.3	6.5	5.7

Assumptions: Average field life of eight years, discount rate of 10%, operating costs of \$3 per barrel, tax at 25%.

The values above can be applied to estimates of field size. It assumes a linear relationship between the size of the field discovered and the cost of developing that field. In reality, this is not likely to be the case, with step changes in costs depending on the size and type of development. However, it should suffice for the purposes of providing a generic type value for oil in the ground.

One set of assumptions might be:

- one-in-eight success;
- 35% residual interest in the consortium;
- capital expenditure per barrel of \$7; and
- oil price of \$24 per barrel.

These assumptions would result in risk adjusted net 38m barrels to Providence which, at a generic valuation of \$4.7 per barrel, would be worth \$179m or €154m.

At the current market price Providence has a market capitalisation of €30m. The market capitalisation to risk-adjusted value is about one to five.

Finances

Providence has a 20% interest in the onshore Singleton oilfield in the UK. At current production rates and oil prices this production stream produces a gross profit after direct operating costs of around €0.4m per annum. This broadly covers the day-to-day running cost of the company. Net debt is in the order of €0.3m with gross debt of €0.3m due to be repaid in June 2004.

While some additional borrowing capacity is available, any large capital expenditure will require an influx of new equity. For this reason we believe Providence will look to farm out as much of its work programme as possible.

The financing of Providence includes €8.45m of convertible bonds. The bond converts to equity in July 2004 at a price of 2c per share.

Newsflow

The most pressing issue for Providence is exercising its option to take its Blackrock interest to 75%. This has to occur before the end of the year.

Providence's original plans focused on a multi-well drilling programme for its Celtic Sea portfolio in 2005. However, in view of the significance of the results obtained on the Blackrock prospect, it has been decided to advance plans as quickly as reasonably possible by pursuing a farm-out of the Blackrock prospect. The next step will be to find a partner to farm into the prospect. A data room is open and several companies have already signed confidentiality agreements with Providence. If possible, the intent is that a Blackrock well will be drilled in 2004, provided time and market conditions allow. Depending on the type of deal that is entered into, it is possible that additional wells may be optioned, or even committed to, on other licences held by Providence.

Disclosures

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