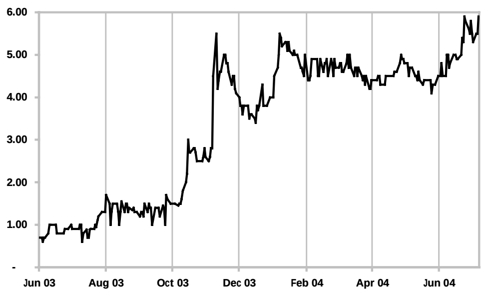
Equity Note

July 9th 2004

Share price performance (5.7c)



Key company data

Sector	Resource
Reuters/Bloomberg	PRR.I / PRP ID
No. of Shares	1,972.5m
Market Cap	€112.4m
Daily Volume	1.252m
Net (Debt)/Cash	€12.0m

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Providence

Ready, steady, go….

Providence will start drilling the Blackrock prospect in the Celtic Sea offshore Ireland around the third week of July. This exploration well has up to five target horizons in a well-defined structure. The total target size is over 600m barrels. The well is expected to take between three and four weeks to reach its scheduled depth of 6,300 ft. If tested, results should be available within another ten days.

As a result of a recent farm-out agreement, Providence now has a net 37.5% stake in the prospect. It will pay 25% of the cost of the drilling phase of the first well but will be fully carried in the event of a second. It will pay the full cost of any testing programme.

Last April, Providence successfully completed a €13m funding programme through a placing and rights issue.

The sheer scale of the Blackrock target has given an impression that Providence is a binary oil play. However, even if this well does not work there is still value in the portfolio. The group has other targets and prospects in the Celtic Sea and North Sea. Several of these are oil and gas discoveries which warrant follow-up wells. Crucially, Providence has more than sufficient funding to continue to work up these projects and maintain momentum.

The share price has performed well (up 40% since the start of the year) in anticipation of the drilling news and the general buoyancy of the sector. Inevitably, this means that some of the possible value is priced into the stock. However, because of the scale of the target, the stock still retains good value leverage—i.e. target value relative to market capitalisation—and if drilling encounters oil and or gas we expect further upside.

Disclosures

Davy is part of Bank of Ireland Group
Davy acts as stockbroker to Providence
Please see full disclosures page 4

Recent developments

We reviewed the Providence portfolio in November 2003 (see our research note *Providence: full circle*, issued November 6th 2003). We looked specifically at the Blackrock target and how the company might seek to progress this play to drill stage. Since then, Providence has succeeded in farming out licence option 03/1, which contains the Blackrock prospect, to a group consisting of Challenger Minerals (a subsidiary of GlobalSantaFe) and Palace Exploration Company. In tandem, Providence also successfully raised equity finance in order to participate in this drilling programme. These milestones brought about a sea change in the prospects for the company.

Farm-out

Providence completed a farm-out deal with a group consisting of Challenger and Palace Exploration. The terms of the farm-out are shown in Table 1. The first well is only partially carried, with two-thirds of the cost of the well paid during the drilling phase. However, a second well is totally carried again in the drilling phase only. Testing programmes are not carried in either well.

A rig has been contracted on the basis of one firm well, with an additional two well option. If the first well on Blackrock is a success, we believe that a second well will follow later in the season.

The latest estimate is that the Blackrock well will commence on July 22nd.

Table 1: Licence and working interest during the drilling phase

	Before farm-out		Well 1 in farm-out		Well 2 in farm-out	
	Equity	To pay	Equity	To pay	Equity	To pay
Providence	75%	75%	37.5%	25%	37.5%	0%
Midmar	25%	25%	12.5%	8.3%	12.5%	0%
Farm-in group*	0%	0%	50%	66.70%	50%	100%

*Challenger Group (a GlobalSantaFe subsidiary) and Palace Exploration Company

Funding for drilling

In April, Providence raised €13.3m gross through a placing and rights issue. Both were priced at 3c per share and had a warrant for 4.5c per share attached. The warrant is not quoted but can be transferred. It is exercisable up to April 2005. If all the warrants are to be exercised, an additional €5m of equity finance will become available to the company.

We believe the Blackrock well will cost between £9–12m, with the variance dependant on whether it is tested or not. Providence's share of this will be c.£2m for the drilling phase and a further £1.1m if the well is tested.

Table 2: Post-financing share structure

Shares pre funding	1,525,391,563
Shares issued in placing	338,333,333
Shares issued in rights	107,045,020
Recent capital bond conversions	1,692,200
Total shares issued now	1,972,462,116
Capital bond and interest conversion	22,434,350
Warrants outstanding	111,344,588
Options outstanding	9,260,200
Fully diluted shares	2,154,132,720

Developments on the other group assets

Apart from Blackrock Providence has quite an extensive Celtic Sea portfolio, including several former sub-commercial discoveries, albeit in a much lower oil price regime at the time. Work continues on these licences and the company will seek farm-in partners in due course. It is believed that preliminary discussions have been initiated with interested parties on both the Celtic Sea, George's Channel and North Sea Skye licences.

Valuation

Our November 2003 research note focussed on the risk-weighted value of the prospects in the Providence portfolio. Our approach was to look at the total amount of target barrels net to Providence and apply a generic valuation on a per barrel basis. We worked on the basis that its whole portfolio contained 1,401m gross recoverable "target" barrels of which the equivalent net figure was 873m barrels. Our valuation at that time was based on a number of assumptions, which allowed us to construct a risk-weighted value for Providence and demonstrate that there was good value leverage in the group.

Since then, a farm-out has been concluded on the Blackrock prospect, the biggest in the portfolio. This removes one of the largest variables at the time of our earlier valuation—namely the level of the residual interest in Blackrock.

Blackrock

Our current valuation strips out Blackrock from the rest of the portfolio. It alone has a cumulative target size of 613m barrels in which Providence has a 38% share—equivalent to a net target size of 232m barrels. We have built a value matrix using per-barrel values, driven by oil prices (which in turn generates the value per barrel) as one input and drilling success ratio as another (Table 3).

Table 3: risk weighted Value matrix for Blackrock target (calculated value per Providence share in Euro c)

		Value per share based on success factor of		
Oil price ($/bl)	Value per barrel ($) *	1 in 20	1 in 8	1 in 5
18	1.8	0.9	2.2	3.5
20	2.7	1.3	3.3	5.3
22	3.6	1.8	4.4	7.1
24	4.5	2.2	5.6	8.9
26	5.4	2.7	6.7	10.7
28	6.4	3.1	7.8	12.5
30	7.3	3.6	9.0	14.4

For the purposes of this analysis we have assumed a constant operating cost per barrel of $4 and a capital cost per barrel of $5.

If the well encounters hydrocarbons, the discussions will begin as to how big the discovery is and the extent of its commerciality. Subject to specific information becoming available, the values per barrel can also be used as a preliminary valuation model to be applied to estimated barrels recoverable (if any).

Other interests

In addition to Blackrock, the remaining Celtic Sea and George's Channel licences and the North Sea licence also have a risk-adjusted value. In this case, we do not know what the eventual percentage interest in the prospects will be as they are still in the process of farm-out. However, we assume that Providence will not have sole risk. The cumulative gross target size is 788m barrels. If we assume that Providence is left with a 30% interest, its net share is 236m barrels. A one in ten success factor would reduce this to just under 24m barrels. At $3.6 per barrel this would have a risk-adjusted value of around $85m or 3.6c per share.

Providence also has in the order of €12m in net cash at present (0.6c per share) and some €58m of tax losses to bring forward (0.7c per share).

The important issue here is that if the Blackrock prospect does not live up to expectations, there is still value in Providence.

Disclosures

Davy is part of Bank of Ireland Group.
Davy acts as stockbroker to Providence.

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