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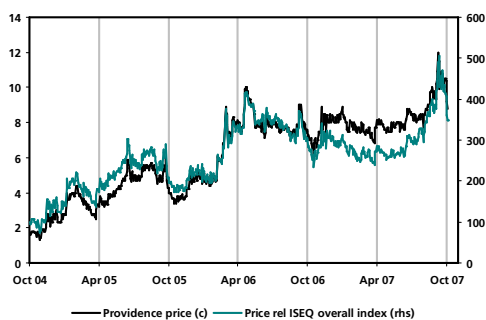
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Share Price Performance**Company data**

Reuters/Bloomberg/Xetra	AIM and IEX
Sector	Resource
12-month High/Low	6/12c
Mkt. Cap (€m)	210

Recent research and research resourcesRecent research and financial data on [Providence](#)Sector research and data on [Resource](#)**Equity Report:** Operational update**Providence**

Price: 9c

Success at Hook Head; could open a Celtic Sea oil play**Oil confirmed as main hydrocarbon type**

- Providence has confirmed that it has found oil with associated gas in its Hook Head well in the Celtic Sea.
- The oil is a good-quality crude (c. 30° API), and its presence is a very positive indicator for other nearby targets in the Celtic Sea.
- The reservoir itself is normally pressured and has excellent porosity (up to 27% in the hydrocarbon bearing zone).

Flow not fully tested but should be fine

- Mechanical problems led to the well not being flow tested before the rig contract expired.
- However, company guidance indicates that a flow rate of between 3,000 and 4,000 bopd could be expected under optimal conditions.
- The company has suspended the well for future re-entry and use as a producer.

Hook Head may be a catalyst for Celtic Sea development

- The development of Hook Head as an oil-producing reservoir would lower the economic development threshold for nearby oil discoveries of a smaller scale.
- Providence has interests in a number of licences with existing oil discoveries in the Celtic Sea.
- Providence has also secured a licence option on the acreage immediately adjacent to its Hook Head licence. This area contains a number of significant mapped structures at a similar level to those which are hydrocarbon-bearing at Hook Head.

Valuation

- Our risked valuation is now 22c per share, of which 5.5c is attributed to Hook Head (we value Hook Head at 9.5c per share unrisks).

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Table 1: Hook Head interests

Partner	Interest
Providence*	43.5%
Challenger Minerals	16.3%
DYAS	16.3%
Forest Gate	7.5%
Atlantic Petroleum	10.9%
Sosina	5.4%

Source: Providence

- **At \$50 per barrel of oil and 35p per therm of gas, the contained oil would be worth twice as much as the contained gas**
- **This is a shallow reservoir; development wells will be reasonably cheap**

- **In the past, many occurrences of oil in the Celtic Sea typically exhibited bio-degradation, waxiness and high viscosity**
- **The discovery of sweet, high-quality oil indicates that the provenance of oil in the Celtic Sea is more complex than previously believed**
- **This potentially opens up a new set of targets in the area**

Hook Head contains oil

Providence has confirmed that the hydrocarbon type recovered from Hook Head is good quality crude oil with associated gas. Reservoir pressure is normal, and porosity is excellent. A sample of the oil has been sent for assay.

Reserves

Pre-drill resource estimates (P10) were for 70m barrels of oil. The drilling results give us confidence in this figure, and we think that the P50 case for Hook Head will now probably be in the range of 50-60m barrels.

Oil is worth more to Providence than gas

Prior to the 50/11-3 well, we did not know whether the Hook Head structure contained oil or gas as testing had not been carried out by Marathon on its wells in the 1970s.

Our pre-drill valuation indicated that an oil discovery would be more valuable to Providence than a gas discovery because development costs would be lower and the commercial value of the contained resources would probably be greater (although operating costs for oil would be higher).

The type of oil Providence has discovered is particularly valuable:

- Sweet 30° API oil is suitable for refining into high-value products such as heating oil, gasoline (petrol) or jet-fuel.
- The oil is reasonably light with low viscosity; this should result in a higher flow rate of oil through the reservoir under natural pressure and also in better responsiveness to stimulation techniques in the future.
- The presence of such high-quality oil in the Celtic Sea comes as a very welcome surprise and is a positive indicator for other targets in the vicinity.

Excellent reservoir quality

- Providence logged a total of 75 feet of net hydrocarbon bearing reservoir in a 484-foot gross hydrocarbon bearing interval.
- The reservoir zone is of a similar age to those encountered in the wells drilled by Marathon in the 1970s.
- Average porosity within the main hydrocarbon bearing interval was up to 27% (this is towards the upper end of the normal range for porosity in this rock type; 27% of the rock volume is void).
- Permeability of 80-100 millidarcies, which was derived from limited test data, also exceeds expectations and indicates excellent productivity within the reservoir.

Full flow test programme not completed

Mechanical problems with the cement casing in the well meant that Providence was unable to carry out a full flow test programme within the time-frame of its rig contract. Allowing for the effect of the mechanical damage, the company has modelled optimised production flow rates of 3,000-4,000 barrels of oil per day based on the limited test data available. The determination of indicative flow rates in such optimised conditions is normal practice in the industry.

Further hydrocarbon pay identified

Three further zones logged a cumulative 20 feet of net hydrocarbon pay overlying the main target zone in the latest Hook Head well. These zones had been identified pre-drill as exploration targets for the well, and results showed both oil and gas. Providence will be assessing the potential of these zones over the coming months.

Hook Head development still some way off

As noted in our research note of August 10th (“Gathering momentum; upcoming drilling programme part of an increasingly attractive portfolio”), the Hook Head structure is split roughly evenly into three distinct fault blocks. The three wells drilled on the prospect have all targeted the central fault block, so appraisal wells will have to be drilled on the two flanking blocks to confirm the presence of hydrocarbon and the continuity of reservoir characteristics throughout. The company has stated that it (with its partners) is already in discussions to secure a rig to drill Hook Head early in the 2008 drilling season. A development plan is unlikely to be made until other prospects in the area have been more thoroughly assessed.

Cashflow from Hook Head is still some way off, but the risked value of Hook Head has increased as the chances of its successful development in the future have increased significantly.

Hook Head could be a catalyst

Hook Head is anticipated to be of a scale that would warrant development by itself, and the recent drilling results strengthen this view. However, development of Hook Head would also lower the economic threshold of surrounding targets in the Celtic Sea as infrastructure costs could be spread across a number of projects.

Providence holds interests (43.5%) in a number of other licences with existing discoveries in the Celtic Sea:

Dunmore (c.20km from Hook Head) and Helvick (c.40km from Hook Head) both have flowing oil discoveries, while Ardmore and Helvick have both flowed gas. Slightly further away (c.100km), the Apollo and Dionysus/Pegasus prospects in the St. George’s Channel also have development potential.

- Mapping indicates that the central and northern panels may be connected (reduces risk of absence of hydrocarbons)

Table 2: Providence Celtic Sea prospects close to Hook Head

<i>Prospect</i>	<i>Oil/gas</i>	<i>Scale</i>	<i>Flow rate</i>
Ardmore	Gas	30 BCF	8 mmscfd
Dunmore	Oil	12 mmbbl	2,100 bopd
Helvick	Both	n/a	5,000-10,000 bopd, 7.5 mmscfd

Source: Providence

On September 13th, Providence announced that it has been awarded a licensing option over acreage surrounding Hook Head; regional mapping carried out by Providence over the area has indicated a number of significant leads and prospects at a similar level to those which are hydrocarbon bearing in the Hook Head structure.

Previous discoveries were often overlooked due to the lack of infrastructure, perceived low oil quality and prevailing economics at the time. In the current economic environment, and with demonstrated potential for good-quality oil, these targets now provide opportunities for incremental additions to the Hook Head project if it is developed.

Progress continues throughout the portfolio

Providence has also been working on other projects while Hook Head has been drilling.

Production base increasing

The two High Island wells in the Gulf of Mexico, in which Providence holds a 5% interest, were brought on stream earlier in September. When ramped up to full production, these wells will contribute 100-130 barrels of oil per day (bopd) net to Providence.

Combined with the c.650 bopd that Providence will acquire in October from the Singleton oil field onshore UK, the US production will bring the company closer to its stated goal of producing at a rate of 2,000 bopd. This provides cashflow to cover overheads and minimises the need for future fundraising.

Other projects

Providence hopes to drill an appraisal well (AJE-4) in Nigeria later this year, subject to rig availability. The most recent reserve estimates for the target indicate a P10 figure of 433 mmboe (P90: 117 mmboe). If a well is drilled in late 2007, first gas could be produced by the end of 2009. The operator, YFP, is currently in discussions with a number of industry partners regarding potential farm-ins and securing of a rig. We anticipate an announcement on this in the next six weeks or so.

Table 3: Hook Head valuation (c per share)

<i>Prospect</i>	<i>Risked</i>	<i>Unrisked</i>
Hook Head	5.5	9.5
Providence total	22	150

Source: Davy

Valuation increases as risk unwinds

We have increased our risked valuation of Providence from 21c to 22c per share. This reflects our increased confidence in the Hook Head project after this season's well.

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