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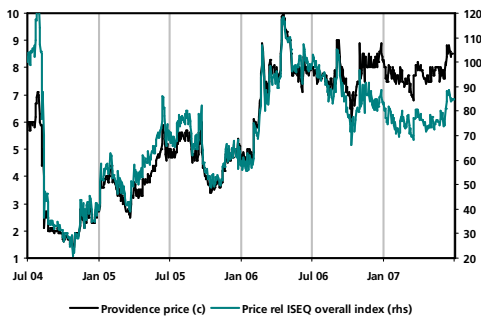
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Share Price Performance



Company data

Reuters/Bloomberg/Xetra	AIM and IEX
Sector	Resource
12-month High/Low	6/9c
Cash in bank (€m)	27.5m

Capital structure

Mkt. Cap (€m)	201m
Net Debt/(Cash)	-11.2m
EV (adj) (€m)	189.8m

Recent research and research resources

Recent research and financial data on [Providence](#)
Sector research and data on [Resource](#)

Equity Report: Company update

Providence

Price: 8c

Gathering momentum; upcoming drilling programme part of an increasingly attractive portfolio

Providence involved in three appraisal wells in H2 2007

- The Hook Head appraisal well will spud in mid-August. Success here would be the first step towards developing Providence's portfolio of Celtic Sea assets.
- Providence also plans to participate in an appraisal well on the AJE field, offshore Nigeria, in Q4 2007.
- A second well at High Island (Gulf of Mexico) has recently added to the company's reserves and is being brought into production imminently.

The planned activity of major oil companies reflects well on Providence's high-impact targets offshore Ireland

- We expect Providence to participate in two wells on the Atlantic Margin in the next two years.
- Three major oil companies will drill four wells on deep-water targets offshore Ireland in 2008.
- This resurgence of activity may increase the market's valuation of Providence's deep-water assets.

Valuation is dominated by high-impact assets; cashflow from current developments will help realise this value

- We value Providence at 21c per share on a risked basis.
- Providence's Atlantic Margin assets offer huge upside potential from the risked valuation.
- Cashflow generated by current production and by projects currently being appraised will be used to unlock the value of these high-impact assets.

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Strategy is clear

Providence Resources is an Irish registered oil and gas exploration and production company with a geographically and operationally diverse portfolio. It has assets in four different countries and at all stages of the project lifecycle and has sufficient funds for its planned exploration and appraisal programme.

Cashflow from current production

- **Cashflow from current production will minimise the need for future fundraising**
- **Providence holds a 5% interest in the High Island project**
- **Providence has agreed to acquire a 99.125% interest in the Singleton oil field**
- Positive results from the second appraisal well at High Island in the Gulf of Mexico have just been announced, and we expect first production from this target in late August 2007 at a rate of c.50 boepd (net to Providence). The previous well on this target will begin producing in September 2007 at a rate of 50-80 boepd (net to Providence).
- This production will add to the c.600 boepd being produced from the Singleton oil field in the UK.
- Providence aims to increase its overall production to 2,000 boepd over the next two years.

Appraisal drilling for near-term development

- Providence will drill an appraisal well in the Celtic Sea this summer on an existing discovery (due to begin in mid-August) and will also be involved in an appraisal well offshore Nigeria (probably in late-2007).

High-impact targets offer significant value-leverage

- **Significant industry endorsement of projects in the Atlantic Margin increases the chances of success in the region and should improve the valuation applied to assets there**
- Providence currently has three high-impact, deep-water exploration targets off the west coast of Ireland which should become more valuable as interest in the area increases.
- Success at any of these targets would transform the scale (and value) of the company.

Drilling programme for 2007

Hook Head appraisal well

Providence holds a 45% interest in the Hook Head prospect in the Celtic Sea, having farmed down from 95% in April 2007.

Hook Head interests

Partner	Interest
Providence*	45%
Challenger Minerals	15%
DYAS	15%
Forest Gate	15%
Atlantic Petroleum	10%

Source: Providence

*Providence is the operator

Marathon Oil drilled the initial discovery well on the Hook Head target in 1971. It encountered c.100ft of hydrocarbons over five reservoir intervals but these were not tested due to operational difficulties. As a result, it is not known whether the hydrocarbons are in oil or gas form.

Marathon drilled an appraisal well on the structure in 1975 but did not encounter a significant hydrocarbon reservoir. Subsequent seismic and mapping work has shown that the original discovery well was drilled approximately 2km away from the crest of the structure and that the second well was drilled at the down-dip edge of the structure.

Providence intends to drill its well this summer at the crest of the structure, which is predicted to be approximately 70 metres structurally higher than the discovery well. It estimates contingent resources of up to 70 mmbbl of oil or 250 BCF of gas (P10 figures), applying a conservative recovery factor of 18% for oil and 70% for gas to estimated quantities of in-place hydrocarbons.

The Hook Head prospect lies approximately 61km south of Hook Head in water that is about 70m deep. Drilling is expected to take up to 20 days to reach target depth and testing to take an additional 15 days. Providence has the rig booked for 50 days, and we expect the total cost of the well (including testing) to be approximately €35m.

The success of this well will be dependent on encountering hydrocarbons and demonstrating good reservoir productivity:

- The Hook Head structure is split roughly evenly into three distinct fault-blocks. Both previous wells have been drilled in the central block, as will be the upcoming appraisal well. The well's Geological Probability of Success, which is a measure of the probability of proving the presence of hydrocarbons, is therefore quite high (80%). Success in the central block will also substantially de-risk the flanking blocks. The current contingent resource estimate is based on resources being contained in all three fault-blocks.
- The commercial viability of Hook Head will be dependent on the productivity of the well. This has yet to be determined. Providence will carry out a range of tests on its appraisal well.

A second well (sidetrack) may be drilled on the target if time permits to create another drainage point from the field and ultimately improve the level of productivity.

- Hook Head drilling will answer two crucial questions: whether the structure contains oil or gas and the rate at which the contained hydrocarbons flow

Hook Head may contain oil or gas

The project economics and mode of development of the Hook Head reservoir will be dependent on whether it contains oil or gas.

The Hook Head structure is surrounded by three other Providence-operated structures with discovered hydrocarbons: one (Ardmore) has flowed gas, one (Dunmore) has flowed oil and one (Helvick) has flowed both oil and gas.

There are a number of development options available to Providence based on the type of hydrocarbon present and the size of the reserve:

- Oil: An oil field would take longer to appraise than a gas field (and would therefore be more expensive), but it could be developed relatively easily by means of a Floating Production Storage and Offloading (FPSO) facility.
- Gas: Depending on the ultimate scale of the reservoir, gas could be piped to existing Celtic Sea infrastructure to the west at Kinsale or directly ashore to Waterford.

Taken in isolation, we think an oil field would be more valuable to Providence than would a gas field. However, the economics and development of the Hook Head target will also be dependent on future drilling of the surrounding targets.

- Hook Head has estimated recoverable reserves of 70mmbbl of oil or 250 BCF of gas

Hook Head may be a catalyst

Hook Head is anticipated to be of a scale that would warrant development by itself. However, success here would also lower the economic threshold of other targets in the region as infrastructure costs could be spread across a number of projects.

The blocks surrounding Hook Head have been shown to contain productive hydrocarbon fields through drilling in the 1970s and 1980s. However, in light of the lack of infrastructure and prevailing economics at the time, the discoveries were not developed. In the current economic environment, these now provide opportunities for incremental additions to the Hook Head project if it is developed.

Providence holds a 45% equity stake in the Celtic Sea licences shown below. Future work on these licences will be dependent on the results from the Hook Head drilling this summer.

<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

AJE interests (paying interests)

<i>Partner</i>	<i>Interest</i>
YFP	65%
Challenger Minerals	12.5%
Providence	12.5%
Energy Equity Resources	10%

Source: Providence

Nigerian appraisal drilling

Providence acquired a 7% interest in the AJE field, offshore Nigeria, in 2004. Two previous wells had encountered hydrocarbons and flowed at rates of 2,262 bopd and 42 mmscfd (AJE-1) and 3,866 bopd (AJE-2).

Providence participated in the third well (AJE-3), which was drilled in 2005. Although it confirmed the presence of both oil and gas in the target reservoirs, the results indicated that a re-assessment of the structure was required.

Since then, independent seismic evaluation has been carried out, and a shallow-water well (AJE-4) is planned to be deviated into the north flank of the field as defined by the new geological interpretation later this year (subject to rig availability).

The most recent reserves estimate indicates P90 reserves of 117 mmboe and P10 reserves of 433 mmboe.

The licence is approximately 15 miles offshore Lagos in western Nigeria; most of the country's oil industry is focussed on the Niger delta in the east of the country. However, the West African Gas Pipeline (operated by Chevron) passes within 5km of the target and could easily provide a route for gas to market, with the liquids being stripped off utilising an FPSO.

Providence is currently contributing 12.5% of costs for its 7% interest and is acting as technical advisor to the operator. If the appraisal well is drilled in late-2007, first gas could be produced by the end of 2009.

The operator, YFP, is in discussion with a number of industry partners regarding potential additional farm-ins and the securing of a rig for late Q4 2007 drilling. We anticipate possible newsflow to this effect over the coming months.

Significant industry endorsement of high-impact exploration projects

Providence has three large projects off the west coast of Ireland: Spanish Point/Burren, Dunquin and Goban Spur.

Spanish Point

- Providence holds a 72% interest in Spanish Point
- The 1981 discovery well flowed oil and gas

- Estimated 1.4 TCF gas and 160 mmbbl oil (~400 mmboe)
- In contrast, the Corrib gas field has reserves of 1 TCF gas (~175 mmboe)

- A drilling syndicate is being formed for an appraisal well in 2008

Spanish Point, 160km off the coast of County Clare, has a discovery well dating to 1981 (drilled by Philips Petroleum) that encountered a 1,343 ft. gross oil and gas column. The well flowed both gas and oil but was not developed due to a combination of low commodity prices, high production costs and lack of gas infrastructure in Ireland at the time.

Independent estimates of contingent resources for Spanish Point are 1.4 TCF of gas and 160 mmbbl of oil. Development feasibility work carried out by independent consultants on behalf of the company indicates robust project economics and a NPV in excess of \$2.2bn.

Tristone Capital, a global energy advisory firm, has recently been appointed to market the Spanish Point project to potential farm-in companies, and we expect a drilling syndicate to be assembled in early 2008 for drilling in summer 2008.

At current daily rig-rates, we estimate that a well in this deep-water location (c.450 metres deep) will cost approximately \$60-80m. Providence currently holds a 72% interest; however, we expect it to farm this down significantly through the syndication process.

Dunquin

- Providence holds a 16% interest in Dunquin
- Seismic suggests large hydrocarbon-bearing reservoirs

- ExxonMobil holds 80% of the project and will fund exploration
- Providence is the operator

- Structures with potential for multi-TCF resources have been identified
- We expect a drilling decision to be made later this year

Dunquin is a deep water prospect (1,600 metres water depth) located 200km off the south west coast of Ireland. Seismic data suggest the presence of two very large deep-water exploration targets.

ExxonMobil farmed into an 80% equity interest in the licence in February 2006, leaving Providence with a 16% carried interest. ExxonMobil has already funded the acquisition of 1,500km of new seismic and reprocessing of 450km of old seismic (2006 programme) and will cover the costs of up to two wells.

The seismic coverage of the region is now very good, and the new data have confirmed the scale of the two structures as well as identifying new prospects. It is estimated that this area hosts numerous multi-TCF targets, and it is expected that the partners will make a drilling decision later this year.

The involvement of ExxonMobil in this project is a very positive endorsement of the assets held by Providence and of offshore Ireland as a re-emerging region for high-impact exploration.

- Providence holds a 16% interest in Goban Spur
- Providence is operator

Goban Spur

ExxonMobil confirmed its belief in the prospectivity of the region by taking a licensing option with Providence over 15 blocks in the Goban Spur area, south of Dunquin. ExxonMobil has already funded the acquisition of 500km of new seismic in the region.

A well drilled on the Goban Spur by Esso in 1981 encountered thin oil-bearing sandstones. However, until more information is available on possible targets, we do not attribute any value to it in our valuation.

Four wells planned by major companies for next year

We believe that three of the world's largest oil companies – Shell, Statoil and ENI – will be drilling four wells on the Atlantic Margin in 2008. This represents an important resurgence in industry interest in offshore Ireland and reflects the combination of historically high oil prices and the increasing difficulty that major companies are facing in finding large quantities of new reserves.

This interest has important ramifications for Providence:

- It raises the profile of exploration in the area. The market seems to be applying a relatively low value to oil and gas projects offshore Ireland. This is presumably partly due to a low historic success rate of converting discoveries into developed projects. The resurgence of activity should increase the market's confidence in, and valuation of, prospective assets in the area.
- Success in any of next year's wells will draw further industry and investor interest to the area; this will increase demand for assets (and farm-in opportunities). One consequence of this may be a reduction in the risk discount that the market applies to its valuation of the assets.
- Infrastructural developments may be of benefit to Providence in developing its discoveries in the future.

Specific information on the majors' plans for drilling is not currently available. Three months notice of drilling is usually required by the Irish offshore regulatory bodies. If the wells are drilled in summer 2008, we do not expect this information until the end of Q1 2008.

We expect the wells themselves to take 40-60 days to drill, which effectively limits each drilling rig used to two wells over the summer period. Rig availability in the region may therefore become an issue for both small and large companies.

The Porcupine Basin licensing round in 2008 will attract industry interest, notwithstanding the recent tax regime changes. We anticipate increased bid competition from international oil companies.

- Financial resources are in place

- The Singleton acquisition will increase Providence's operational cashflow

- Providence is moving towards its stated goal of 2,000 boepd production
- Cashflow generated by current production will help to unlock the potential of its larger assets

Summary of additional tax

Ratio of after-tax (25%) income to invested capital	Additional tax
< 1.5	0
1.5 - 3.0	5%
3.0 - 4.5	10%
> 4.5	15%

Source: Department of Communications, Energy and Natural Resources

Finance

Providence raised €26m through a share placing to institutions in April 2007. These funds will be used for exploration and appraisal purposes – including the development of its Irish assets, the appraisal drilling in Nigeria, further drilling at producing assets in the Gulf of Mexico and at Singleton – and for general working capital.

Providence also has a €50m revolving credit facility through Macquarie Bank that may be used to acquire or develop assets to increase its daily production (but not for exploration).

In April, the company announced the acquisition of the majority shareholding in Singleton from Star Energy. Singleton is an onshore field in the UK that produces c.600 boepd of oil and associated gas. Through this acquisition, the company's annual production revenue will increase fivefold to approximately €10m (net cashflow after tax and financing increase to c.€2.5m), which will make a significant contribution to its general operating costs.

In addition, production from High Island A-268 in the Gulf of Mexico, scheduled to commence in late August 2007, is expected to add a further 100-120 boepd to daily production, bringing Providence closer to its stated goal of achieving 2,000 boepd over the next two years and further improving internal cashflow generation.

New tax regime

The fiscal regime relating to oil and gas activities offshore Ireland has recently been adjusted. The terms now include a profit resource rent tax. This tax will be in addition to the 25% corporate tax rate that currently applies. The tax will be based on a profitability ratio that compares after-tax return to cumulative invested capital. The maximum amount of tax that will be levied is 15% and for small and marginal fields there will be no change (see table in side panel).

The new terms will apply only to licences issued after January 1st 2007.

With respect to Providence, the licence changes will not apply to the Dunquin or Spanish Point licences. However, most of the Celtic Sea licences were converted from licence options in February this year and will consequently be subject to the new terms. However, the scale of these targets suggests that they will fall within the lower end of the tax band, if at all.

- Our risked valuation for Providence is 21c per share
- Our unrisked valuation is 145c per share

Valuation summary by region

	<i>Risked c per share</i>	<i>Unrisked c per share</i>
Ireland		
Celtic Sea	5.2	11.7
Other	12.6	137.2
Overseas	1.8	3.0
Production	1.1	1.2
Net cash	0.5	0.5
Total (fully diluted)	21.4	149.7

Source: Davy

Valuation

We use a Net Asset Value (NAV) approach to value Providence at 21c per share on a risked basis. Our model uses a long-term oil price of \$50 per barrel and a long-term gas price of 35p per therm for offshore Ireland.

These prices are used to produce a generic value of \$11 per barrel for undeveloped oil offshore Ireland (\$6.70 for deeper plays on the Atlantic Margin) and \$1.25 per MCF for Celtic Sea gas (\$1.00 per MCF for west coast gas).

Based on current oil and gas prices (60\$ oil and 30p gas), our risked valuation would be just in excess of 26c per share.

Hook Head

We currently value the Hook Head project based on a recoverable oil reserve of 70mmbbls at 4.7c per share risked (9.5c unrisked). If gas is discovered, our risked valuation would change to 2.0c per share (3.9c unrisked).

Until further plans become available, we have attributed a 50% chance of it being developed; a positive result from the upcoming drilling will lead to the market unwinding some but probably not all of this risk.

Valuation biased towards Porcupine Basin

The Porcupine Basin assets (Spanish Point, Dunquin and Burren) make up 10c (47%) of our risked valuation. We have risked these assets very heavily in our valuation (less than 15% chance of development), and they therefore offer excellent value leverage if future drilling is successful and this risk is unwound (see table in side panel).

Providence's share price has traded between 6c and 9c over the past 12 months, indicating that the market is applying a steeper discount to its assets than we are. We suspect that, in particular, the market is attributing a very small value to the Porcupine Basin assets at this stage in their development.

As attention continues to focus on the resurgent activity in this region, we expect the market to give Providence more credit for its assets there, particularly if future drilling plans at Dunquin are confirmed with ExxonMobil and if any of next year's major wells are successful.

Cash and debt

- Providence raised €26m in April 2007.
- Accounting for existing funds at year-end 2006 and expenditures year-to-date 2007, we estimate that Providence has approximately €27.5m in cash.

- Providence had drawn down approximately €2.5m of its debt facility, but we expect that it has repaid this from the proceeds of the April fundraising.
- We expect Providence to fund its whole investment in Singleton through this facility in October this year.

Table 2: Providence valuation summary by asset

<i>Region</i>	<i>Prospect</i>	<i>Risked value per share (c)</i>	<i>Unrisked value per share (c)</i>
UK onshore production	Singleton	1.0	1.1
US production	High Island	0.1	0.1
UK offshore licences	Crosby	0.3	0.5
Nigeria	AJE	1.5	2.5
Ireland – Celtic Sea	50/6 (Dunmore)	0.2	1.6
	Ardmore	0.2	0.5
	Helvic Head	0.2	0.2
	Hook Head	4.7	9.5
Ireland – St. George's Channel	Dragon		
	Dionysus	0.5	5.7
	Pegasus South	0.4	3.6
	Pegasus North	0.2	1.8
Ireland – south Porcupine	Apollo	1.6	20.0
	Dunquin North	3.5	43.5
	Dunquin South	2.0	25.0
Ireland – central Porcupine	Spanish Point	3.3	21.9
	Burren	0.7	8.9
	Spanish Point deep	0.5	6.7
Net cash		0.5	0.5
Total (fully diluted)		21.4	149.7

Source: Davy; Datastream

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