

15 September 2009

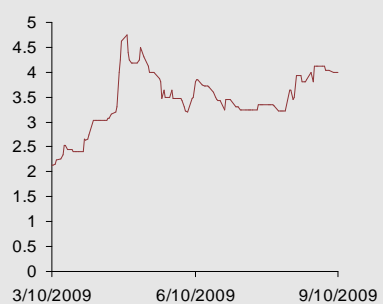
UNITED KINGDOM • OIL & GAS

Buy

Price at 15 September '09 (GBP) 3.93
52-week range (GBP) 5.4 - 1.73

Reuter: PRR Bloomberg: PRP
Exchange: LSE-AIM Ticker: PVR

Share Price Performance



Source: Fidesa

Stock Data

Market cap (GBP)(m)	114.8
Shares outstanding (m)	2900.5

Activities

Providence's active oil and gas portfolio is balanced between production, appraisal and exploration assets, as well as being diversified geographically

Directors & Management

Dr Brian Hillery (Chairman)
Tony O'Reilly (Chief Executive)
Philip O'Quigley (Finance Director)
Lex Gamble (Non-Exec Director)
Peter Kidney (Non-Exec Director)
James McCarthy (Non-Exec Director)
Dr Philip Nolan (Non-Exec Director)
John O'Sullivan (Exploration Manager)

Significant Share Holders

O'Reilly Family	35%
JP Morgan AM (UK) Ltd	8.18%
Artemis Inv Mgmt Ltd	2.53%
Other Directors/Officers	1.5%
Total	47.21%

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Providence Resources

EIRGAS Kinsale Head Option Exercised

Providence announced today that its wholly owned subsidiary, EIRGAS Limited ('EIRGAS'), has exercised its option (the "Option") to acquire a 40% interest in the 100% operated Kinsale Head Area comprising the Kinsale Head, South West Kinsale and Ballycotton gas fields from PETRONAS, the national oil company of Malaysia. As part of the same transaction, EIRGAS has also acquired a 34.6% interest in the adjacent producing Seven Heads gas field ("Seven Heads"). EIRGAS is a special purpose vehicle established by Providence to invest in gas production, storage and trading opportunities offshore Ireland and in the United Kingdom.

Under the terms of the Option Agreement, which was originally entered into on June 15th 2009, EIRGAS will purchase its stakes in the Kinsale Head Area assets on the same pro-rata terms by which PETRONAS acquired its stake from Marathon Oil Corporation in April 2009. That transaction had a total value of US\$ 180 million with an effective date of 1st January 2008. In conjunction with the formal notification of its exercise of the Option, Providence has made an initial cash payment of \$3.8 million to PETRONAS with the balance due at closing.

We estimate that after PETRONAS have distributed out any surplus cash flow generated since December 31st, 2007, including surplus cash generated between now and when EIRGAS complete, this will reduce EIRGAS' net consideration to circa \$40m.

Kinsale Energy

The Kinsale Energy (Kinsale) assets are located in the Celtic Sea, in shallow water off the south coast of Ireland. The assets include producing fields, gas storage operations, two offshore production platforms and onshore processing facilities and associated pipelines.

Gas production was approximately 30 MMCFGD (or 5,000 BOEPD) for the first quarter of 2009. (or 2,000 BOEPD net to EIRGAS). The total net risked resource associated with these assets as of the end of 2007 was 62 BCF, of which 46.2 BCF, or 7.7 MMBOE, were net proved reserves. This gives a rate of 10 BCF per annum declining over the next 4 years.

In 2008, the total income from Kinsale was \$154.8m, with an EBITDA of \$115.867m and a net profit of \$50.732m. It is expected that gas production will reduce over the next 5-6 years as the reserves are depleted; however, there is significant profitability to be had from this gas production. Beyond this gas storage and trading activities are planned to increase to compensate and potentially exceed production income.

Kinsale operates the only gas storage facility in Ireland. Current gas storage capacity at the South West Kinsale gas storage reservoir is 8 BCF. We estimate that these storage operations generated approximately \$3 million revenue per BCF per annum with scope to expand.

Our valuation model shows that for \$40m Providence is initially acquiring a diversification to its portfolio to a value of US\$144m (£86m) or 3p per share, rising to over \$300m as the business is developed for EIRGAS alone.

Assets acquired include:

Production

- Kinsale Head gas field
- Seven Heads gas field
- Ballycotton gas field

Gas Storage

- South West Kinsale gas storage reservoir

Future Gas Storage

- There are a number of significant depleted or near depleted reservoirs in the region that would be ideal candidates for gas storage. These include the potential to expand South West Kinsale and to utilise the soon to be depleted Ballycotton gas field, where a 3D seismic survey has just been completed.
- Ballycotton is a nearly depleted ~ 60 BCF gas reservoir. We estimate that it could be developed into a gas storage facility with a capacity of 25 to 30 BCF using much of the existing infrastructure.
- In addition to existing production and gas storage, there are a number of future opportunities including tying in Providence's various gas projects in the Celtic Sea, such as the Ardmore gas field as well as potential third party tariff arrangements.
- Future development opportunities such as CO₂ sequestration also exist using the installed infrastructure

Rationale

In the 1980's and 90's, gas production from Kinsale Head supplied the majority of Ireland's gas consumption. Natural gas imports in commercial quantities to Ireland commenced in 1993 through an interconnector pipeline connecting Moffat in Scotland to Loughshinney, north of Dublin. Since then, the contribution of local production from Kinsale as a percentage of total national demand has declined from 100% to less than 10%. The Irish gas market is expected to continue to be heavily reliant on interconnection with the UK market for the foreseeable future.

Natural gas storage capability is measured as a percentage of annual gas consumption and, for example Germany, France and Italy each have the capability to store about 20% of annual imports. The UK on the other hand is currently heavily reliant on the North Sea and only has storage capacity for about 4% of annual consumption and with declining North Sea production it has been suggested that 80% of gas is predicted to be imported by 2015.

At its simplest, gas storage is an efficient mechanism for balancing gas supply and demand, but more importantly, it improves the security of gas supplies. Natural gas consumption has its peak periods with large increases in consumption during cold spells. Gas storage provides a mechanism whereby relatively large volumes of gas can be introduced to the market for short periods of time helping to balance supply with peak demand.

The investment case for gas storage is compelling.

Security of Supply is a significant factor. Kinsale Head provides reliable indigenous gas production for the next 5-6 years, but equally, it provides Ireland's only working gas storage facility.

Both the UK and Ireland have low gas storage capacity (c.4%), whilst the EU have set out a requirement for member states to have c.25% gas storage capacity. The current installed capacity is roughly equivalent to 15 days storage.

Current and past investments in infrastructure for gas and gas related operations, over the past 5 years, are over €3 billion in southern Ireland and south Wales alone. Companies who have invested in the 2 LNG facilities at Milford Haven include Qatargas, Exxon Mobil, PETRONAS, Total, British Gas, and 4Gas.

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By combining the operational, technical & financial capabilities of PETRONAS and the local input of Providence, the consortium has significant operations experience offshore Ireland and proven gas storage & trading expertise. We feel the group is well positioned to develop the future potential of these assets.

Depleted Field Gas Storage

Offshore depleted fields are economically attractive because they allow the re-use, with suitable modification, of the extraction and distribution infrastructure remaining from the productive life of the gas field which reduces the start-up costs. Depleted reservoirs are also attractive because their geological and physical characteristics have already been studied by geologists and petroleum engineers and are usually well known. Consequently, depleted reservoirs are generally the cheapest and easiest to develop, operate, and maintain of the various types of gas storage.

In order to maintain working pressures in depleted reservoirs, about 50 percent of the natural gas in the formation must be kept as cushion gas or be injected with the balance being utilised as a gas storage facility. Hence, our assumption above in relation to the potential development of Ballycotton as a sizeable storage facility (with a storage facility of 30 BCF). Typically, these facilities are operated on a single annual cycle; gas is injected during the off-peak summer months and withdrawn during the winter months of peak demand.

Celtic Sea Area Assets

In addition to the production and storage assets* being acquired at Kinsale Head through the exercise of this Option, Providence also has an interest in a further 10 prospects in the Celtic Sea/NE Celtic Sea region, including a number of gas discoveries and prospects, as below.

Celtic Sea Area Assets

Asset	Location	Operator	%	Type
Kinsale Head *	Celtic Sea	Kinsale Energy	40.00%	Gas Production
Ballycotton *	Celtic Sea	Kinsale Energy	40.00%	Gas Production
South West Kinsale *	Celtic Sea	Kinsale Energy	40.00%	Gas Storage & Trading
Seven Heads *	Celtic Sea	Kinsale Energy	34.60%	Gas production
Hook Head	Celtic Sea	Providence	72.50%	Oil & Gas discovery
Dunmore	Celtic Sea	Providence	72.50%	Oil discovery
Helvick	Celtic Sea	Providence	72.50%	Oil & Gas discovery
Ardmore	Celtic Sea	Providence	72.50%	Gas discovery
Blackrock	Celtic Sea	Providence	72.50%	Oil discovery
Barryroe	Celtic Sea	Lansdowne	30.00%	Oil & Gas discovery
Pegasus	NE Celtic Sea	Providence	100.00%	Oil and gas exploration
Orpheus	NE Celtic Sea	Providence	100.00%	Oil and gas exploration
Dionysus	NE Celtic Sea	Providence	100.00%	Oil and gas exploration
Dragon (part)	NE Celtic Sea	Marathon	c. 25.0%	Gas development

Source: Providence

Value to Providence

EIRGAS should be valued on three areas with valuations per BCF from gas production, working storage and development storage.

- Current gas production is valued at up to \$3m per BCF.
- Working storage attracts values of between \$18m and \$30m per BCF
- Development storage is currently trading at between \$3 and \$4 million per BCF capacity.

Not only does this investment provide great potential for highly profitable operations in both gas production and gas storage/trading, but it also gives the company access to infrastructure in the region. Providence has a number of gas projects in the Celtic Sea which have not yet been developed due to the inability to access infrastructure, which this acquisition now provides.

Gas storage economics

The main economics of gas storage are run on the Commodity Differential Charge (CDC). Each BCF of storage gas generates annual income based on the difference between the following prior periods: Q1 average price less the average price of Q2 and Q3. Irish gas prices are directly linked to the UK NBP pricing (National Balancing Point) which is a virtual trading location for the sale and purchase of UK natural gas. It is the pricing and delivery point for the IPE (International Petroleum Exchange) natural gas futures contract.

Typically, the differential works out at 17p to 20p per therm. There are approximately 10,000,000 therms in one BCF of natural gas. Therefore revenue generated from one BCF is approximately £1.85m (\$3m).

Irish tax on gas trading and storage activities is 12.5%

In addition to the above CDC there are many other third party factors such as:

- Transportation Differential Charge (TDC) - this is a charge levied on a customer that stores their own gas.
- Injection and Withdrawal Fee, This is a fee charged for injecting and withdrawing the gas each year.

Based on historical analysis we estimate that the total gross income generated at S.W. Kinsale therefore amounts to \$25m or \$3.125m per BCF.

We estimate that the total gross income generated at South West Kinsale therefore amounts to \$25m or \$3.125m per BCF. We estimate costs at South West Kinsale gas storage to be approximately \$1m per BCF resulting in EBITDA of \$2.125m/BCF with cost savings due to further development. This gives an NPV^{10%} of approximately \$18m/BCF over 10 years and with a residual value of \$18m/BCF as the asset will continue gives an NPV^{10%} of approximately \$25m/BCF. We are assuming a value of \$20m/BCF for current gas storage operations as this is a utility business.

Recent Transactions in Gas Storage Point to Significant Value

The general view on valuations for an undeveloped gas storage facility seems to come in around £2.5m (\$4m) per undeveloped BCF. This is the value put on the potential storage facility prior to significant capital investment being made. We are assuming a conservative \$3m/BCF of value. A number of gas storage transactions are discussed below.

The Bains facility, owned by Centrica (52.8%) GDF (34%) and First Oil (13.2%), is planned to come online in the winter of 2012 with a capacity of 20 BCF. Centrica have given no indication of the costs involved. But industry sources said such a facility would likely cost over \$450m or \$22m per BCF.

In addition to Bain, Centrica also plans to spend approximately £1.2 billion (\$1.75 billion) on converting the Baird gas field in the North Sea into Britain's second largest storage facility with an estimated capacity of 60 BCF. Centrica acquired a 70% interest from Perenco for an

initial payment of £25 million. Perenco will retain the remaining 30% stake in the project. To take the project to completion, Centrica's total potential investment in the project is estimated to be approximately \$2 billion or \$30m per BCF. It is anticipated that the project will commence commercial operations in 2013.

Gas Storage Transactions

Date	Facility	Seller	Acquirer	BCF	£m/BCF	Total Trans. £m	% Acquired
16.07.01	Rough Facility	BG	Dynergy	118	3.57	421	100%
11.12.02	Rough Facility	Dynergy	Centrica	118	2.58	304	100%
01.12.08	Hewett Unit Field	Tullow	ENI	176	2.2	201	52%
26.02.09	Baird Facility	Perenco	Centrica	60	0.6	25	70%
Average					2.23		

Source: Cenkos Securities

The potential to increase gas storage capacity at Kinsale is significant with South West Kinsale, Ballycotton and further larger reservoirs in the area. Whilst it may be possible to expand storage capacity at South West Kinsale, we see the real value driver being the likely development of a 30 BCF gas storage facility at Ballycotton.

Summary Valuation

As shown below, the potential near term valuation for EIRGAS is US\$144m (£86m) or 3p per share.

Current EIRGAS Valuation

Gas Production	Remaining Reserves		Value per BCF		Total	EIRGAS Share
	BCF	US\$m	US\$m	US\$m		
Kinsale gas production	34	3	102	41		
Seven Heads gas production	4	2	8	3		
Total gas production	38		110	44		
Gas Storage	Storage Capacity		Value per BCF		Total	EIRGAS Share
	BCF	US\$m	US\$m	US\$m		
S.W. Kinsale gas storage	8	20	160	64		
Ballycotton/other	30	3	90	36		
Total Storage	38		250	100		
Total Value			US\$360m	US\$144m		

Source: Cenkos Securities

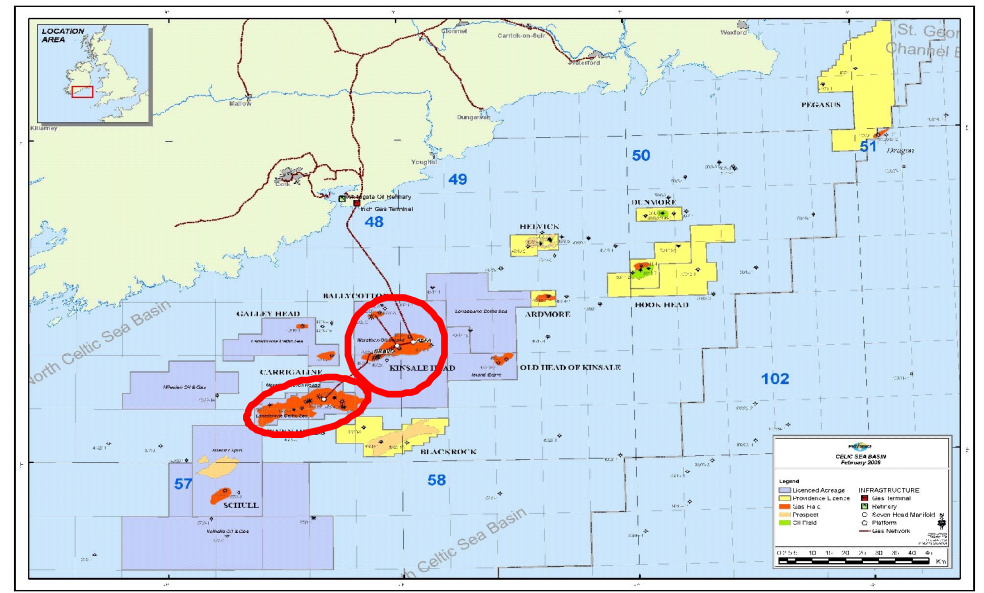
The potential for further growth in this gas storage area in the local area and Celtic Sea is significant and as such, the valuation of EIRGAS should continue to grow as further news on developments is released.

Future EIRGAS Value

Expanded storage opportunities could add a further net \$240 to \$250 million to our potential valuation for EIRGAS. So whilst we value Ballycotton/other at \$36 million today (based on \$3m per BCF), once operating, this valuation would jump to \$240 million based on our valuation criteria of \$20m per BCF. Combined with the existing operations, this pushes the EIRGAS valuation matrix to over \$300 million or nearly 8 times its initial investment.

This indicative value in summary shows that for less than \$40m Providence is acquiring a significant diversification to its portfolio to an initial value of US\$144m(3p per share), with potential value uplift to over \$300 million. The current valuation of EIRGAS alone almost equates to Providence current market capitalisation, highlighting the truly unique value proposition that this deal brings to Providence.

Asset Location Map



Source: Providence

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