

25 MAY 2010

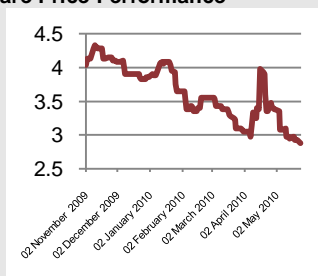
UNITED KINGDOM • OIL & GAS

# Buy

Price at 24 May 2010 (GBP) 2.88  
 Price Target (GBP) 9  
 52-week range (GBP) 2.93 - 4.48

Reuter: PRR.L Bloomberg: PVR:LN  
 Exchange: AIM Ticker: PVR

## Share Price Performance



Source: Fidessa

## Stock Data

Market cap (GBP)(m) 97.09  
 Shares outstanding (m) 3371

## 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
James McCarthy	Non-Exec Director
Dr Philip Nolan	Non-Exec Director
John O'Sullivan	Exploration Manager

## Significant Share Holders

O'Reilly Family	35.0%
Artemis Inv Mgmt Ltd	2.99%
JP Morgan AM (UK) Ltd	8.48%
Other Directors/Officers	1.16%
<b>Total</b>	<b>47.3%</b>

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# Providence Resources

## Kinsale Questions

Providence today announced that it will not be completing the acquisition of 40% of the Kinsale Head Assets and has advised PETRONAS accordingly. An Option, exercised in September 2009 with an initial cash deposit of \$3.8 million, gave Providence's wholly owned subsidiary, EIRGAS, the right to acquire a 40% interest in the 100% operated Kinsale Head Area (comprising the Kinsale Head, South West Kinsale and Ballycotton gas fields) and a 40% interest in the 86.5% operated adjacent producing Seven Heads gas field (collectively referred to as the "Kinsale Head Area assets"). The initial deposit (incl. interest) will now be refunded in full.

## Key Points

- Providence advises Petronas that it has elected not to proceed with the Kinsale head transaction
- Upfront investment at significant variance to original proposal and impacts on deal economics

Under the terms of the Option Agreement, EIRGAS was to purchase its stake 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. The Closing of this transaction was subject to regulatory approval with its financing being met from cash resources and banking facilities.

Given the change in the gas market and on review of updated financial data and increased funding requirements, the value of Kinsale to Providence changed. Kinsale initially represented an incremental opportunity but on review it had the potential to require significant extra funding. The change to the phased investment program made the Company feel that additional equity requirements would be needed. Reviews of cash generated by Kinsale would not cover the investment required.

Whilst the long term economics of gas storage are compelling as a medium to long term opportunity the Company felt that it had other more effective opportunities for deployment of capital i.e. drilling.

## Kinsale Assets:

### Production

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

### Gas Storage and Future Gas Storage

- South West Kinsale gas storage reservoir
- 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

### Value to Providence

We valued EIRGAS 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. (US\$37.8 risked)
- Working storage attracts values of between \$18m and \$30m per BCF (S.W. Kinsale gas storage 8 BCF Gross US\$64m to Eirgas)
- Development storage is currently trading at between \$3 and \$4 million per BCF capacity (Ballycotton 30BCF Gross US\$36m net to Eirgas)

As such Eirgas represented an option that if exercised made up US\$137.8m (3p per share) of our US\$1094 (20p per share) future valuation. Other key components of our upside valuation were the development assets at Spanish Point with Chrysoar and the Company's exploration assets at Dunquin with Exxon and ENI. This is on top of the company's current market capitalisation underpinned by its producing assets in the GOM and Onshore UK.

### Production update

The Company re-instated oil production from its Ship Shoal 253 field, following hurricane-related repairs to the production facility. A well recompletion programme for 2010 has been agreed on a number of producing assets which is designed to boost daily production rates. This field produced approx 250 BOEPD net to Providence before the shutdown. The Company also continues to review a number of drilling opportunities across the region.

### Appraisal/Development

At the Spanish Point gas and Burren oil discoveries offshore Ireland, 3D seismic data was acquired for well planning. Initial results looked promising and a comprehensive update on both Spanish Point and Burren, with updated volumetrics and an outline of the forward plan towards drilling, will be provided once the 3D seismic interpretation has been completed during Q2 2010.

At Baxter's Copse, PEDL 233, onshore UK RPS Energy recently completed a third party reserve audit, attributing 2P and 3P gross undeveloped reserves of c. 5.4 MMBO and 15 MMBO respectively (2.7 MMBO and 7.5 MMBO respectively net to Providence). First oil is planned for 2011 via a third party tieback to Singleton.

Following the declaration of Commerciality of the AJE field OML113, Offshore Nigeria Providence continues to evaluate its options with Chevron preparing a development plan.

### Exploration

At the Dunquin Prospect off shore Ireland a drilling commitment has been made by Operator ExxonMobil and ENI. Estimated P10 volumes are 9.5 TCF and 340 million barrels of condensate (Dunquin South) and 8.6 TCF and 322 million barrels of condensate (Dunquin North). Elsewhere in the porcupine Basin Providence is in discussions with third parties in relation to a large deep exploration target at Drombeg, whilst the Newgrange area is currently the subject of a new licensing application.

### EXOLA

Providence established EXOLA Limited as a special purpose vehicle (SPV) to invest in unconventional oil developments and opportunities offshore Ireland and the UK. The assets covered by EXOLA include Helvick, Hook Head, Dunmore, Barryroe, Ardmore and Baltimore. A number of studies have already been completed, and the Company is in discussions with various industry players on possible development options.

This includes a recent study of the Heavy Oil potential at Ardmore where the Company suggests an in place resource potential of up to c. 230 MMBO. And also Unmanned Production Buoy Limited is assessing the development feasibility for a minimal facilities unmanned buoy development of the Helvick oil field.

**Summary Outlook**

Providence continues to operate a portfolio approach with the key aim for 2010 to strengthen its balance sheet and reduce debt levels. Whilst the long term economics of gas storage are compelling as a medium to long term opportunity the Company felt that it had opportunities for more effective deployment of capital. On the production front Singleton has an ongoing production enhancement programme, with a planned drilling programme for later this year as well as advancement of Baxter's Copse. On the development side, Spanish Point and Burren are expected to release results of the 3D seismic programme. And not least on the exploration side the key event will be the site survey and preparation for the eagerly anticipated upcoming drilling at Dunquin.

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