

7 May 2008

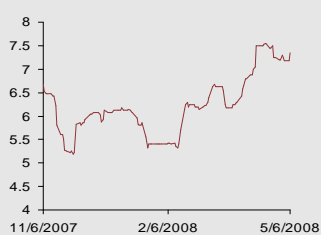
UNITED KINGDOM • OIL AND GAS

# Buy

Price at 6 May 2008 (GBP) 7.3  
 52-week range (GBP) 8 - 5.05

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

## Share Price Performance



Source: Fidessa

## Stock Data

Market cap (GBP)(m) 181.94  
 Shares outstanding (m) 2473.41

## 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)  
 Stephen Carroll (Finance Director)  
 Lex Gamble (Non-Exec Director)  
 Peter Kidney (Non-Exec Director)  
 James McCarthy (Non-Exec Director)  
 Dr Philip Nolan (Non-Exec Director)  
 Tony Odone (Chief Operating Officer)  
 Barry Ridley (Commercial Manager)  
 John O'Sullivan (Exploration Manager)

## Significant Share Holders

O'Reilly Family	41%
Artemis Inv Mgmt Ltd	4.26%
JP Morgan AM (UK) Ltd	3.18%
Other Directors/Officers	1.16%
Total	49.6%

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# Providence Resources

## Acquisition to treble Providence production

**Providence has announced a significant production acquisition in the Gulf of Mexico which will provide cash flow to the company going forward as it continues to realise the potential of its promising exploration portfolio.**

### Triangle Key Points

- Providence has acquired 7 producing blocks in federal waters and 1 onshore property in Louisiana from Triangle Oil and Gas Inc. The Current Production is 1,300\* BOEPD (300 BOPD and 6MMCFD).
- The Company has agreed an acquisition cost of \$67.5 million (or €43.5 million) financed by Macquarie Bank Ltd.
- The fee to Macquarie is 10 million shares (in lieu of cash fee) and 30 million share warrants at 12 € cents. Taken together, and assuming warrants are exercised, this represents a maximum possible dilution of some 1.6%. In return, Providence would receive cash of €3.6 million.
- Providence has secured financing for the Triangle acquisition in this tight credit market. It is notable that there is a lack of M&A in the oil and gas industry despite the high prices and this is partially due to the credit squeeze.
- On an earnings basis considering the depletion and assuming only 3 years proven developed production and PNDP reserves at 08 levels the acquisition would give an additional value of £54m or 2.19p/share while not taking into account any proved but Undeveloped Reserves. If the Company increases production, as indicated, this would increase to £90m conservatively or 3.6p. This increase is for Triangle alone and on top of the Company's current portfolio which we valued at 15p in May '07.

### Providence Overview

- The Company has recently announced a successful well from AJE having exceeded pre-drill expectations with further news expected.
- In the Gulf of Mexico Providence reported a successful well at Galveston A155 with production planned for later this year in the region of circa 200 – 250 BOEPD expected net to the Company, Again having exceeded pre-drill expectations.
- In the Celtic Sea the Company has an upcoming 2 + 1 drilling programme at Hook Head, following on from last years oil discovery. A Rig has been secured and there is likely to be a well on Hook Head and Dunmore due to be spudded in July/August
- ExxonMobil, as operator of Dunquin, is expected to make a decision on drilling in the near future A Seismic Acquisition programme on Drombeg (ExxonMobil) is now scheduled for June '08
- Spanish Point Farm out is on going
- The Portfolio Pipeline looks strong with multiple projects at multiple stages
- Providence, with the majority of the \$250 million facility un-drawn still has the financial resources to pursue other opportunities.
- '07 Financial Results are due in mid May where we expect an update on activities

**Triangle**

Providence has acquired 7 producing blocks in federal waters and 1 onshore property in Louisiana from Triangle Oil and Gas Inc. The Current Production is 1,300\* BOEPD (300 BOPD and 6MMCFD) with a product mix of 70% gas (proved reserves on a 6:1mcf). \*There are 6 wells shut in waiting on construction or to be re-completed up-hole.

**Indicated Production Profile**

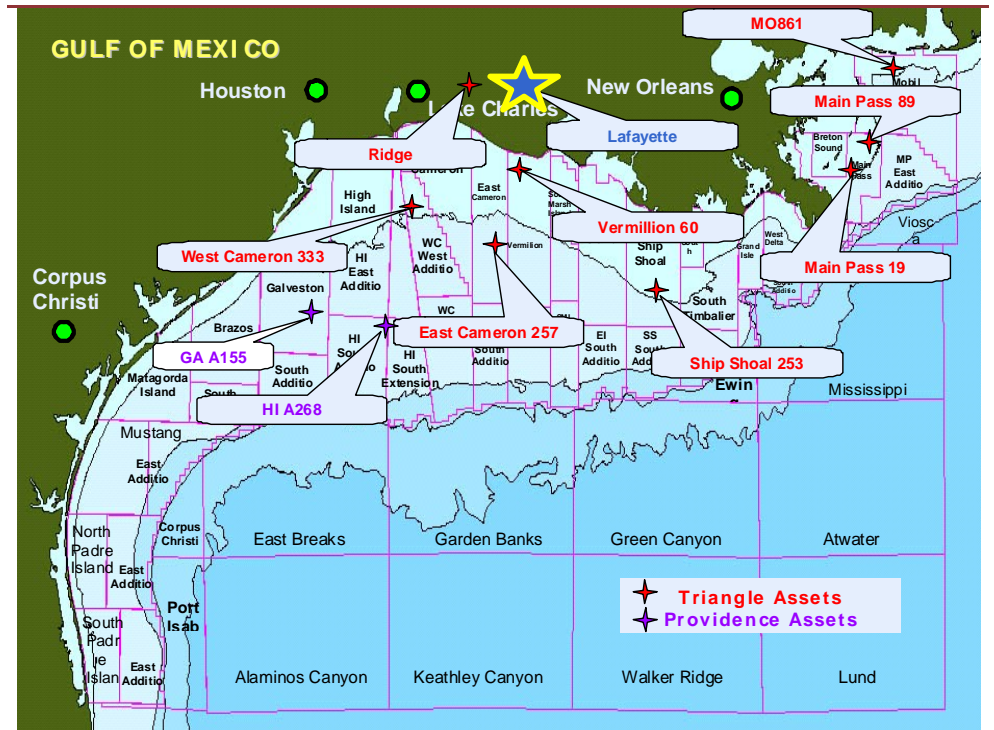
BOEPD	2008*	2009	2010
Triangle	1,300	2,500	3,500-4,000

Source: Providence Resources \* 9 months

Triangle Oil and Gas Inc. was founded in Louisiana in 1998. It is a privately owned independent oil and gas company focused in the shallow waters (0 – 300 feet) of the central Gulf of Mexico. Triangle is centrally located in the gulf coast region with its office in Lafayette, LA. The Company is a qualified operator with the MMS.

Triangle primarily generates its projects in house with its own geological and geophysical prospecting operation. It has a team of very experienced Gulf of Mexico personnel. The emphasis is on carefully integrating engineering and geologic data to develop bi-passed or new reserves in and around old fields. Triangle has a proven track record of finding and producing commercial reserves.

**Asset Location Map**



Source: Providence Resources

The deal will provide the acquisition of production and development assets of Triangle plus the retention of the 3 Principals of Triangle for a minimum period of 2 years to help Providence run/expand the portfolio. They will also assist Providence with other opportunities in the Gulf of Mexico.

The Company has agreed an acquisition cost of \$67.5 million (or €43.5 million) financed by Macquarie Bank Ltd. The fee to Macquarie is 10 million shares (in lieu of cash fee) and 30 million share warrants at 12 € cents. Taken together, and assuming warrants are exercised,

this represents a maximum possible dilution of some 1.6%. In return, Providence would receive cash of €3.6 million.

Triangle operates the MO 863 property with the rest operated by SPN, Mariner or Petsec. Triangle has historically operated all the drilling operations on SPN partnered properties and SPN operates during the production phase. Going forward, we expect that SPN will operate both phases.

#### Net Un-risked Proved Reserves

Oil	1.7 MMBL
Gas	25.4 BCF
Total MMBOE	5.9 MMBOE

Source: Providence Resources

Triangle offers a significant amount of production behind pipe – i.e. proven reserves which have not yet been produced. (PDNP's). Additionally, there are significant proved but Undeveloped Reserves (PUD's) which will be the main feature of a concentrated drilling plan over the next 18 months.

Drilling in the Gulf of Mexico is very cost effective due to the use of existing platforms using jack ups which has a lower day rate than using a semi submersible. Importantly, as pipeline infrastructure is already in place, the time from drilling to production is relatively fast.

Providence, working in conjunction with its partners, SPN, Mariner and Petsec, are currently finalising a detailed drilling programme of Proven Undeveloped Reserves drilling as well as certain re-completes with the objective of accelerated production.

#### Triangle Portfolio

Asset	Interest	Oil/Gas	Operator
Ship Shoal - SS252/253/267	50%	Oil/Gas	SPN
Main Pass - MP19	45%	Oil/Gas	Petsec
East Cameron - EC257	12.5%	Gas	SPN
Mobile - MO861	50%	Gas	Triangle
Vermillion - VR60	50%	Gas	SPN
West Cameron - WC333	32.5%	Gas	Mariner
Main Pass – MP 89 (back in Rights for 25% of 70%*)		Gas	Beryl
Ridge (30%) – Onshore	30%	Gas	Brammer

Source: Providence Resources

\* Back in rights means that Triangle has the right to take 16.8% working interest in Main Pass 89 lease once the Operator, Beryl, has achieved Project payout. Details on Project payout are still awaited from the Operator. No consideration is payable by Triangle to acquire this working interest.

#### Valuation of Triangle Acquisition

Based on the potential value added through the increase of Providence's reserves, we calculate that the recent acquisition could add a further 2.19p to the current share price. This valuation has used \$20/BOE as the reserves are in or are near to production.

#### Triangle Reserve Valuation

Year End	Total	\$	Risk Factor	Value £m	VPS £(p)
Oil	1.7 MMBO	\$20/BBL	90%	30.6	0.63
Gas	25.4 BCF	\$3.33/BCF	90%	76.14	1.56
Total	5.93 MMBOE			54.0	2.19

Source: Cenkos securities estimates, company data. The USD/GBP exchange used is 0.507.

Whilst obviously subject to change, using production forecasts given above, (and assuming oil price of \$90/BBL, gas price of \$9/MMSCF, FX rate of 0.5), the Triangle assets currently generate an annualised EBITDA of £18 to £19.5 million. '08 production is for 9 months only as the acquisition is effective at the end of Q1.

On an earnings basis considering the depletion and assuming only 3 years proven developed production and PNDP reserves at '08 levels this would give a value of £54m or 2.19p/share while not taking into account any proved but Undeveloped Reserves. If the Company increases production as indicated this would increase to £90m conservatively or 3.6p.

The Company will have outstanding debt (including Triangle acquisition) of €54 million (pre any debt amortisation).

The '09 production numbers for the Group are expected to be higher than '08 but at present the Company has offered no guidance as to what levels these will be. The actual numbers will depend on Singleton drilling and Galveston Island A-155 coming on stream in Q4 '08. An update is expected at the half year results. The Company also has potential for income from upgraded facilities (including CNG) at Singleton.

#### Expected Group Production Profile

Asset	BOEPD 2008	BOEPD 2009	BOEPD 2010
Triangle (100%)	1,300*	2,500	3,500-4,000
High Island (5%)	100	100	100
Singleton (99.125%)	600	800	800
Galveston (10.8%)	-	200	200
<b>Total</b>	<b>2,000</b>	<b>3,600</b>	<b>4,600-5,100</b>

Source: Cenkos Securities estimates \* 9 months

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