

## Oil & Gas

### Buy

12 October 2010

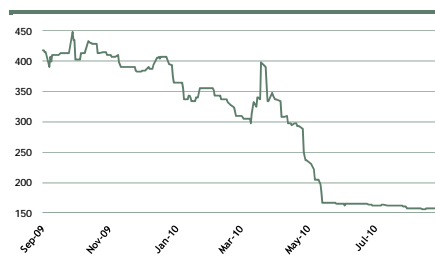
Providence Resources is an international upstream oil and gas company currently actively involved in Ireland, the UK, Nigeria and the Gulf of Mexico

Market cap	£59.6m
Ticker	PVR
Price	177p
Target Price	788p
Shares in issue	33.712m

#### Top shareholders

Tony O'Reilly	29.55%
JP Morgan Chase Nominees	8.72%
Cenkos Nominees	3.75%
JPM Clearing Corp	3.37%
Credit Suisse Nominees	3.05%
Artemis	2.30%
Harewood Nominees	2.22%

#### Share Price Performance (p)



Source: Fidessa

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# Providence Resources

## Initiation of Coverage

Providence Resources (AIM: PVR) is an exploration and production company with an asset base focused primarily offshore Ireland, onshore UK and the US Gulf of Mexico (GoM). Providence was incorporated in 1997 as a result of a de-merger which saw Arcon International Resources spin out its O&G assets into a new company that subsequently listed on the Exploration Securities Market (ESM) of the Irish Stock Exchange. In 2005 Providence was listed on the Alternative Investment Market (AIM) in London; it remains listed on both indices.

#### Main Asset Overview

Country	Asset	Interest	HC Type	Status
Ireland	Celtic Sea (Exola)	Various	Heavy Oil	Appraisal
Ireland	Irish Sea (Eirgas)	Various	Gas	Exploration/Appraisal
Ireland	Dunquin	16%	Gas	Exploration
Ireland	Burren/Spanish Point	56%	Oil/Gas	Exploration/Appraisal
US	Offshore GoM	Various	Gas	Production
UK	Singleton/Bax Copse	50-100%	Oil	Exploration/Production

Source: Providence

Providence has established an asset portfolio spanning the entire E&P cycle from early-stage frontier exploration to existing oil and gas development and production. In addition to the traditional E&P business, management has established two SPVs that offer investors exposure to other parts of the E&P value chain. These include Eirgas, a gas storage development play, and Exola, a heavy oil unit created to exploit discovered but as yet undeveloped heavy oil resources in the Celtic Sea.

Unlike many of its small-cap peers, Providence has a meaningful production-related revenue stream, which is derived from its UK Singleton and US GoM assets. These cashflows provide a valuable revenue stream which will facilitate ongoing portfolio investment.

In our opinion the assets with the greatest chance of generating a step-change in value in the short-to-medium term are the three Irish exploration/appraisal stage projects: Dunquin (8.4Tcf and 316MMbbl recoverable prospect), Spanish Point (multi-Tcf gas condensate accumulation) and Burren (resource upgrade expected 4Q10).

We see short-term price drivers being focused primarily on the high-impact exploration portfolio. Following extensive G&G work we anticipate a resource upgrade at Burren in 4Q10, which we think has potential to surprise on the upside. We also expect ongoing project development in the rest of the portfolio to help generate shareholder value as Providence embarks on a major offshore Ireland drilling campaign.

Valuation Summary	(US\$m)	Contribution per Share (p)
Core NAV	411.6	788
Risked Exploration Upside	236.3	452
Total	647.8	1,240

We initiate with a BUY recommendation and a 788p target price.

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Providence has a 16% fully carried interest in Dunquin, the 8.4Tcf exploration prospect West of Ireland

## Investment Thesis

Providence Resources is a diversified small-cap E&P company with a spread of assets ranging from early-stage exploration through to existing production. Its main areas of focus are the UK & Ireland and the US Gulf of Mexico. In the UK and US GoM, Providence's production assets provide the company with an invaluable revenue stream that covers G&A and provides sufficient operational cashflow to service its interest-bearing debt.

### Key Points

- **Diversified asset base** – Portfolio comprises assets from all stages of the E&P cycle.
- **Production growth** – Anticipated 2010 year-end production rate of 1,500boe/d, with Singleton production expected to rise from 750 to 1,500boe/d over the next 24 months.
- **High-impact exploration** – Providence holds a 16% carried interest in Dunquin, an 8.4Tcf mid-case recoverable gas condensate prospect.
- **Material appraisal stage assets** – Providence owns a 56% interest in Spanish Point and Burren.
- **Multiple development stage assets** – Through the Exola portfolio.
- **Major operating partner relationships** – Including, amongst others, ExxonMobil, Petronas, Chevron and ENI.

### Balanced Portfolio

Growing level of production with a 2010 targeted exit rate of 1,500boe/d

Providence has material 2P reserves of 17.2MMboe that are expected to support a growing production base – forecast to rise throughout 2H10 and into 2011. The UK and US GoM assets will contribute roughly evenly towards a guided year-end exit production rate of around 1,500boe/d. This will generate sufficient revenue to allow ongoing portfolio reinvestment.

### Short-term Drivers

We see continued progress with respect to the development of Burren and Spanish Point as likely short-term catalysts. Based on interpretation of 300km<sup>2</sup> of new high-quality 3D seismic, we are anticipating an updated resource report for Burren by 4Q10. Following this, we would then expect management to attempt to secure another farm-in partner to mitigate its financial exposure ahead of further drilling activity in 2012.

In conjunction with operating super major ExxonMobil, we see completion of the site survey at Dunquin as a further positive development ahead of a more active phase of exploration activity, with a potential drill date of summer 2011.

### Outlook

Over the next 24 months Providence will enter the most active operational phase in its history. With an extensive portfolio of over 12 drill-ready prospects, we foresee activity levels increasing significantly, with a number of potentially transformational events due to take place.

We believe Providence has the opportunity to create a meaningful Ireland-focused E&P business, and with drilling due to take place on many of its exploration, appraisal and development projects, we highlight that there are numerous events that could add substantial shareholder value. We feel Providence has a deep, quality portfolio that belies its current market cap (£60.0m). We suggest that if one or more of the upcoming high-impact opportunities are successful there is a chance for shareholders to realise significant capital growth.

## Valuation

For a small company, Providence has an extensive asset base spanning a range of related segments of the upstream industry, including assets at various stages of the cycle from exploration, appraisal and production, to gas storage and heavy oil field developments.

We present our valuation in terms of Core NAV along with an indication of risked upside. Typically our Core NAV comprises an evaluation of proved producing reserves along with an assessment of development assets adjusted for net cash/(debt).

Figure 1: Portfolio Valuation Summary

Asset	WI	Classification	Gross Oil MMbbl	Gross Gas Bcf	Gross MMboe	Net Oil MMbbl	Net Gas Bcf	Net MMboe	Un-risked value \$m	Risked value \$m	Risked value £/share
<b>Production Assets</b>											
GOM*	Various	Reserves				3	34	9	96.0	91.2	1.75
Singleton*	99.13%	Reserves				6	4	7	96.0	86.4	1.65
<b>Production Assets</b>						9.0	38.0	15.3	192.0	177.6	3.40
<b>Development Assets</b>											
AJE*	6.7%	Contingent	143	850	285	10	57	19	71.3	21.4	0.41
Dragon*	100.0%	Contingent	-	70	12	-	18	3	17.5	5.3	0.10
Spanish Point*	56.0%	Contingent	160	1,400	393	90	784	220	918.4	275.5	5.27
Burren - volumes to be confirmed in Q4 10	56.0%	Contingent	-	-	-	-	-	-	0.0	0.0	-
Nemo	72.5%	Contingent	20	-	20	15	-	15	21.8	5.4	0.10
Baltimore	60.0%	Contingent	30	-	30	18	-	18	27.0	6.8	0.13
Barryroe*	30.0%	Contingent	59	52	68	18	16	20	42.2	10.5	0.20
Helvick	72.5%	Contingent	3.5	-	3.5	2.5	-	2.5	7.6	1.9	0.04
Hook Head	72.5%	Contingent	20	-	20	15	-	15	21.8	5.4	0.10
Baxters Copse*	50.0%	Contingent	5.0	-	5.0	2.5	-	2.5	10.0	3.0	0.06
<b>Development Upside</b>			440.5	2,372.0	835.8	168.9	874.1	314.6	1,137.5	335.2	6.42
<b>Net Cash/(Debt)</b>									-101.3	-101.3	-1.94
<b>Core NAV</b>		Reserves + Contingent				177.9	912.1	329.9	1,228.2	411.6	7.88
<b>Exploration Assets</b>											
Orpheus	100.0%	Prospective	-	290	48	-	290	48	145.0	14.5	0.28
Pegasus (Central)	100.0%	Prospective	-	300	50	-	300	50	150.0	15.0	0.29
Dunquin*	16.0%	Prospective	316	8,400	1,716	51	1,344	275	721.5	144.3	2.76
Drombeg*	16.0%	Prospective	-	6,000	1,000	-	960	160	480.0	48.0	0.92
Dalkey Island	50.0%	Prospective	250	-	250	125	-	125	122.4	12.2	0.23
Marlin	60.0%	Prospective	-	74	12	-	44	7	22.2	2.2	0.04
<b>Exploration Upside</b>			566.0	15,064.0	3,076.7	175.6	2,938.4	665.3	1,641.1	236.3	4.52
<b>RENAV</b>									<b>2,869.3</b>	<b>647.8</b>	<b>12.40</b>

\*Externally generated volumes; Source: Providence Resources, Ambrian estimates

Our calculation of Core NAV is 788p/share, and comprises US\$91.2m of asset value, or 175p/share for US GoM, US\$86.4m (165p/share) for Singleton, in addition to 642p/share for its development-stage assets. From this we deduct 194p/share to account for €74.5 of net debt.

Beyond our estimation of Core NAV we draw attention to Providence's considerable exploration pipeline. When we take into account the exploration upside we point to a further US\$236.3m of risked exploration asset value, equivalent to an additional 452p/share.

We acknowledge the valuation gap between our Core NAV and Providence's current market value and point to several potential catalysts that will help bridge it. The first is newsflow; with activity levels rising at all of Providence's key projects, we anticipate more regular newsflow that could unlock additional shareholder value. We also suggest the proceeds of a potential asset disposal (US GoM or Aje) will help reduce gearing levels. This, in turn, would remove any discount the market may be applying resulting from uncertainty surrounding a relatively high level of gearing.

### Financial Summary

For the six months ended 30 June 2010 Providence recorded revenue of €11.34m, up 8.3% from €10.46m 1H09. Lower realisations in the period of US\$78.4/bbl vs. US\$87.6/bbl for oil and US\$5.65/Mcf vs. US\$6.32/Mcf for gas were offset by higher YoY production volumes, which were up 19% in boe terms.

In June 2009 Providence carried out an equity placing to raise €16.9m, and in February 2010 an additional placing was completed raising a total €16.3m. The proceeds of both funding rounds were used to reduce net debt levels in addition to providing working capital. We estimate that current net debt stands at €74.5m, comprising €89.7m of loans and long-term liabilities and €15.2m of unrestricted cash.

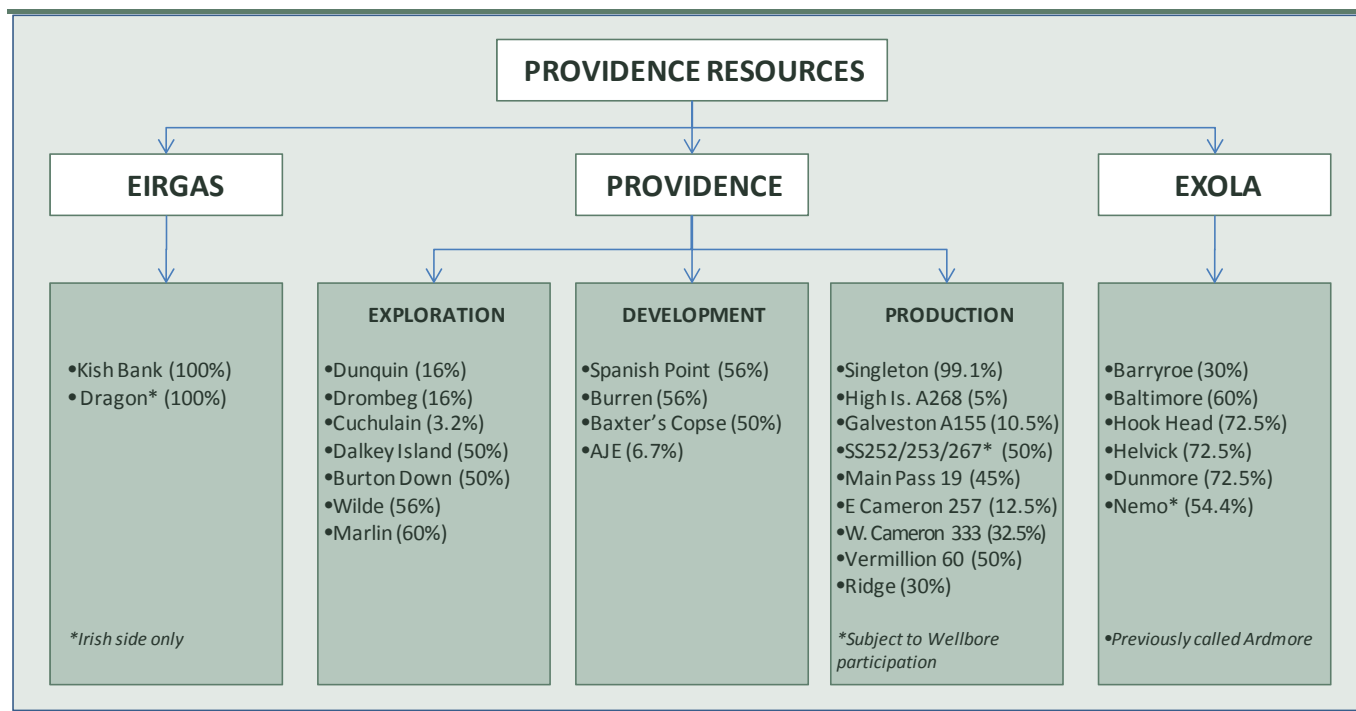
### Strategy

Providence has created a portfolio of assets that includes a mixture of high-impact exploration, appraisal/pre-development and existing production. In building its portfolio, the overriding approach has been to operate in geopolitically stable countries where the risk of asset expropriation is low.

In order to exploit the opportunities within its overall licence inventory, Providence has created a corporate structure that has three main segments.

In addition to the traditional E&P business that contains all of the West of Ireland exploration/appraisal assets along with the US and UK production, Providence also owns 100% of two SPVs (Exola and Eirgas) that are focused on heavy oil and gas storage respectively.

Figure 2: Corporate Structure



Source: Ambrian

## Outlook

The next 6-18 months will be the most active period in Providence's history as progress is made on all parts of its portfolio. We see opportunities to create substantive shareholder value from all of its core assets: Exola, the offshore Ireland E&P business, and Eirgas, in addition to disposing of non-core assets in Nigeria and potentially the US GoM. We also see continued growth in production and free cashflow as a result of ongoing development work at Singleton; we expect this to contribute a further 750boe/d to a total field production level of around 1,500boe/d within two years.

In its existing portfolio Providence has a number of potential catalysts that may generate significant capital growth. We feel the breadth and depth of Providence's asset base belies its current market value and that there is considerable underlying potential that — with successful exploitation over the next 6-18 months — could unlock significant additional shareholder value.

## Key Asset Review

Providence has a balanced portfolio that comprises a mix of exploration, appraisal/development and production across four main geographic areas:

- Ireland
- The UK
- The US
- Nigeria

In total, Providence holds an interest in 20 exploration and/or production licences. Nine of these are located offshore Ireland, two onshore UK, eight offshore US GoM and one offshore Nigeria. A review of these key assets follows and a summary sheet listing a breakdown of assets by region and type can be found in the Appendix.

Portfolio comprises a mix of high-impact exploration, appraisal and development opportunities

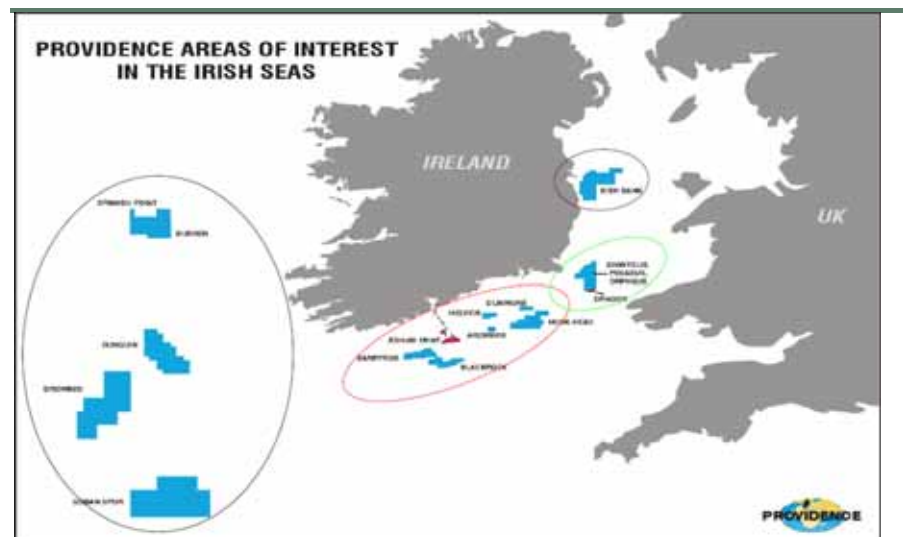
### Ireland

Ireland represents Providence’s main area of geographic focus and, thus, half of its licence interests can be found here. The licence position can be sub-divided into three distinct areas:

- Celtic Sea (Exola)
- St George’s Channel and East Irish Sea (Eirgas/E&P)
- Offshore West of Ireland (E&P)

Providence currently produces no oil or gas from Ireland; however, with two significant appraisal-stage projects (Burren and Spanish Point) off the west coast and the whole Exola portfolio in the Celtic Sea, efforts are ongoing to change this and current management expectations are that first oil is likely to occur in 2013.

Figure 3: Offshore Ireland Licence Areas



Source: Providence Resources

### Celtic Sea (Exola)

In early 2010 Providence spun-off its unconventional oil assets located in the Celtic Sea with the formation of a special purpose vehicle (SPV) – Exola. Previously these assets were considered to pose both a significant technical and/or financial challenge and include heavy oils, waxy oils and marginal fields.

The development of Exola's six key assets – Hook Head, Barryroe, Helvick, Dunmore, Baltimore and Nemo (discussed in more detail below) – has until recently been considered uneconomic due to low oil prices. However, prices recovered through 2009 and YTD in 2010 they have stabilised and have been predominantly range-bound between US\$70-85/bbl. This is a level that makes a number of projects economic.

In addition to higher oil prices, advances in technology and the close proximity of these assets to existing infrastructure mean they now represent a much more compelling investment proposition. Subject to necessary access to capital, management is confident that first oil could be achieved by 2013. Furthermore, in an attempt to mitigate the company's financial risk, it has focused on farming out part of its licence interests to new interested parties that have technical knowhow to assist in exploitation (recent examples of this strategy include the farm-out of Baltimore and Nemo to Nautical Petroleum). Looking forward, we anticipate further deal-related newsflow as Providence uses both its relatively high level of equity interests on a per project basis and its tax losses to negotiate a number of 'carrys' through to first oil/gas.

In conjunction with Nautical Petroleum, Providence's heavy oil-focused SPV Exola will appraise Irish Sea development opportunities

**Baltimore (60%, operated)**

Located in Licensing Option 10/1, the initial discovery well 48/19-2 was drilled in 1992 and discovered heavy oil. However, due to the nature of the crude (11° API) and weak market fundamentals (low oil price and low demand for heavy crudes) the well was plugged and abandoned.

Providence was awarded Licence Option 10/1 over the block in February 2010 and in April farmed out 40% to Nautical Petroleum, with initial studies of existing data indicating significant in-place resource potential. As part of the farm-in agreement Nautical is in the process of carrying out a detailed feasibility study with a view to identifying the most appropriate development solution for Baltimore. In addition to this we point out that recent work identified a separate 74Bcf gas prospect called Marlin near to the currently-producing Kinsale Head gas field.

**Nemo (54.375%, operated)**

The initial discovery well at Nemo was drilled in 1974 by Marathon, finding a small gas cap overlying a heavy 16°API oil leg in deeper horizons. In 2006 Providence acquired a new 3D seismic survey over the area; subsequent interpretation work led to the identification of around 30Bcf in the gas cap and an estimated 230MMbbls of oil in the deeper formations. On 28 September Providence secured its second farm-out with Nautical Petroleum, whereby Nautical will earn an initial 25% in Nemo by agreeing to carry out a development feasibility study. Further to this, Nautical holds an option to increase its interest to 65% in return for funding the drilling of an appraisal well before year-end 2011.

**Barryroe (30%, non-operated)**

The Barryroe licence area is located directly beneath the Seven Heads gas field. Production testing of three wells drilled previously on the licence demonstrated flow rates between 1,300 and 1,600bbl/d. Despite being light 44° API crude, the oil has a high wax content (up to 20%); this implies that a more complex and costly production/processing solution will be required.

Since the initial discovery by Esso in 1973 two further wells were drilled, with both intercepting oil-saturated sands. A recent resource report by RPS Energy estimated that Barryroe could contain up to 500MMbbls of oil in place, and with an assumed recovery factor of 15%, Providence's net share of the recoverable resource would be 22.5MMbbls. Partners in this licence are San Leon (30%) and Lansdowne (40% and operator). As is the case with Nemo, we understand the partners are looking to farm down their equity interests in exchange for a new 3D seismic survey and a free carry on another well.

Figure 4: Exola Licence Area



Source: Providence Resources

**Hook Head (72.5%, operated)**

To date four individual well penetrations have tested the Hook Head structure (a large mid-basinal anticline) and all encountered hydrocarbons. The first two (50/11-1 initial discovery and 50/11-2 appraisal) were drilled by Marathon in 1971 and 1975, with post-drill analysis suggesting the location of the structural-crest was to the NW of the initial discovery. This was later confirmed by a seismic survey acquired by Providence in 2006, and then by appraisal well 50/11-3 drilled in 2007. In 2008 the company drilled a further appraisal well (50/11-4) on the north-west flank of the structure, which also encountered a gas-bearing zone; however, the well was subsequently plugged and abandoned.

The future work programme will see Providence concentrate on the central part of the structure. Latest internal volumetric estimates suggest a potential in-place resource of c.120MMbbls. As with many other oil accumulations in the area, the Hook Head crude is waxy (10-20%), but unlike Baltimore and Nemo, it is lighter, with an API gravity of 24°.

On 4 October management closed its second farm-out deal in as many weeks, this time with Sosina Exploration Limited for an initial 10% interest in Hook Head. In return Sosina will fund and carry out a number of studies on potential appraisal drilling locations and the development feasibility of Hook Head. It has the option to increase its holding to 50% by fully funding an appraisal well by the end of 2011.

**Helvick (72.5%, operated)**

The 49/9-2 Helvick discovery was drilled in 1983 by Gulf Oil and flowed light 44° API oil on test at a cumulative rate of 9,900bbl/d in addition to 7.5MMcf/d of gas. The discovery was appraised by three further wells in the late 1980s before Providence drilled its first well in 2000, which replicated the success of the initial appraisals by flowing oil on test at around 5,200bbl/d. Subsequent post-drill technical work showed the reservoir to be structurally complex and that the level of compartmentalisation would require further appraisal. Based on the level of additional work at the time, a standalone development could not be justified and so the asset was put on hold.

With around 10MMbbls of oil in place, Helvick is expected to produce around 3-4MMbbls over a period of about 3-4 years. This implies production of around 1MMbbls pa, or 2,783bbl/d, and will therefore pay back quickly. With first oil scheduled for 2013, Helvick is likely to be Providence's first oil production from Ireland. We also point out that the importance of Helvick to Providence is not limited simply to the cashflow it will generate; we expect the development of a light oil field offshore Ireland to attract considerable positive sentiment and refocus the industry's attention on a province that – with only 170 oil and gas wells drilled in total – is still significantly underexplored.

**Dunmore (72.5%, operated)**

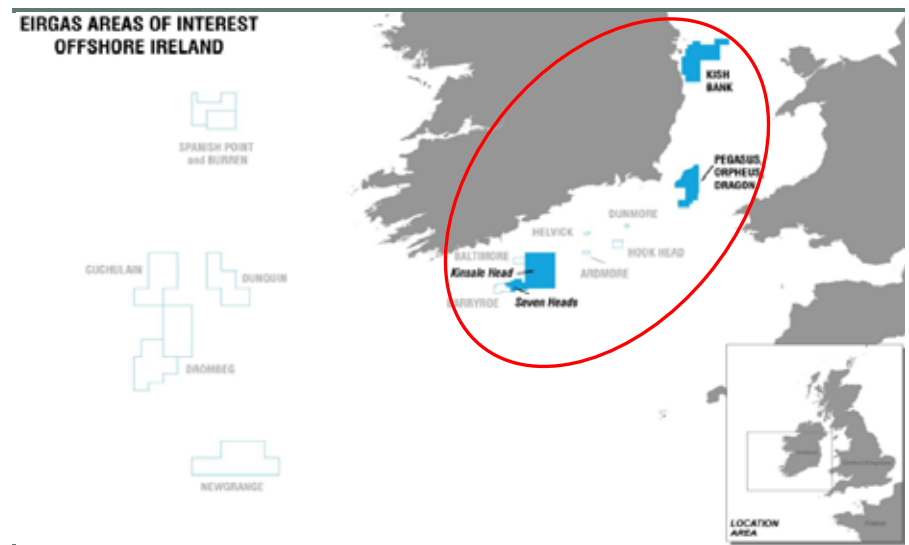
Gulf Oil also drilled discovery well 50/6-1 on Dunmore in the 1980s; subsequent flow testing demonstrated that the reservoir was capable of producing high quality 44° API crude at a rate of 2,100bbl/d. Appraisal well 50/6-4 was then drilled by Providence in 2008 and, although the well failed to identify similarly oil-saturated reservoir sands as in the initial discovery well, a new, previously unidentified Jurassic carbonate interval also shown to be oil-bearing was encountered. In conjunction with the JV partners, work aimed at understanding the potential of this 'new' reservoir section is being carried out.

**St George's Channel and East Irish Sea (Eirgas/E&P)**

Providence's gas storage assets in the St George's Channel (Dragon) and the East Irish Sea (Kish Bank) exist in a separate SPV called Eirgas. Eirgas was established in early 2010 to capitalise on gas production and storage opportunities offshore Ireland and in the UK.

Earlier this year Eirgas held an option over the Kinsale Head and Seven Heads gas field; however, in May the company chose not to exercise the option, which subsequently expired. We feel this represents a clear indication by management that it considers this asset to be non-core. Following the expiry of the option, Eirgas has remaining interests in two gas assets: the Dragon field in St George's Channel and Kish Bank in the East Irish Sea.

Figure 5: Eirgas Assets



Source: Providence Resources

**Dragon (100%, operated)**

Licence 1/07 is located in the St George’s Channel Basin and contains 25% of the Dragon gas field which was discovered in 1994 and is estimated to hold some 70Bcf of recoverable gas. The field is predominantly located in the licence directly adjacent in UK waters. Marathon Oil, the previous owner of Dragon in the UK sector, recently relinquished the licence, meaning that it is available for re-application. Providence reacted swiftly to this situation and reapplied for the newly available licence area; it is now awaiting licence approval. Assuming Providence is awarded the licence, it would hold 100% of the field and at this point we understand the intention is to farm down and bring in a new strategic partner to assist in drilling several new appraisal/development wells.

In addition to representing another important near-term development project for Providence (due to its location in the Irish Sea in close proximity to Milford Haven and the Irish gas market), any infrastructure that is installed in response to a large gas discovery will be of strategic importance and will likely form a key part of a more significant gas infrastructure network between Ireland and the UK.

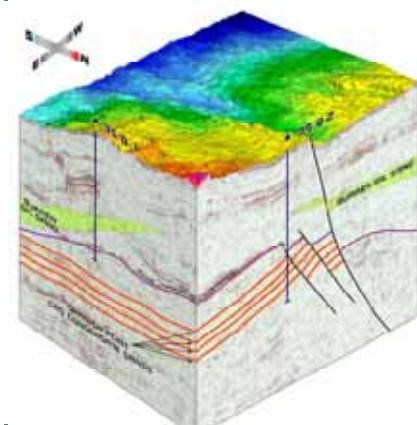
Underlying Dragon is the Orpheus prospect along with other intervals that are also thought to be hydrocarbon-bearing and have a combined attributed prospective resource of 290Bcf. In addition to Orpheus, Providence has a 100% interest in Pegasus, a larger Jurassic prospect with 890Bcf of associated prospective gas resources.

**Kish Bank Basin (100%, operated)**

Acquired in August 2008, Providence is exploring the potential of CO<sub>2</sub> sequestration and gas storage opportunities (CCS) in the Kish Basin through Undersea Large-Scale Saline Sequestration & Enhanced Storage (ULYSSES).



Figure 8: Burren & Spanish Point



Source: Providence Resources

**Spanish Point (56%, operated)**

Located in the Porcupine Basin, the licences containing Spanish Point and the Burren oil discovery were awarded in 2004. Spanish Point was originally discovered in 1981 (well 35/8-2); a well test flowed light oil at 1,000bbl/d in addition to 5MMcf/d, decisively demonstrating that there is an active, regional hydrocarbon system. However, at that time a lack of existing infrastructure, low commodity prices and high production costs meant that an expensive standalone development was uneconomic.

After extensive efforts, in August 2008 Providence successfully completed a farm-out to Chrysaor (the Barclays Capital-backed fracture stimulation specialist). Following this, in 2009 some 300km<sup>2</sup> of high-quality 3D seismic was acquired, with results indicating a large structural closure and an undrilled interval (750ft) that may be hydrocarbon-bearing above the section drilled in 1981 (35/8-2). As part of the farm-in agreement, pending results from the seismic, Chrysaor may choose to drill two appraisal wells, funding at least 60% of the costs, which will allow it to increase its interest from 30% to 60%. Results of the 3D seismic interpretation will be known over the next few months, and will be used to determine the final resource estimates.

**Burren (56%, operated)**

The initial oil discovery well was drilled in 1978 (35/8-1) and flowed oil to surface at around 730bbl/d from a Cretaceous sandstone reservoir. Post-well analysis showed that the primary target lower Jurassic sands were never penetrated due to high down-hole pressures, and so there is still significant untested resource potential.

In 2009 300km<sup>2</sup> of new 3D seismic was acquired over the Burren/Spanish Point area and, since then, processing and preliminary interpretation work has shown the data quality to be excellent. In conjunction with Chrysaor, using the new seismic we understand the JV is building a detailed reservoir model that will enhance the understanding of both reservoir and hydrocarbon distribution. From this we anticipate new resource potential to be identified and this will serve as the basis for an accurate volumetric resource estimate and upgrade later this year.

**Dunquin (16%, non-operated)**

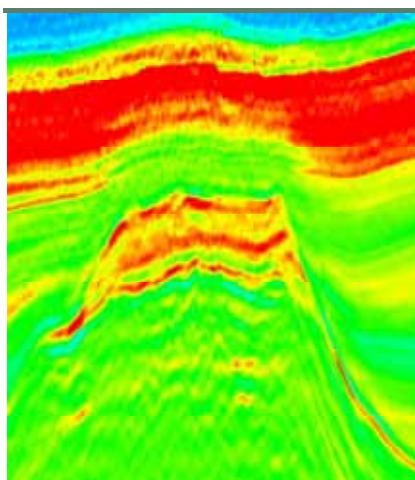
Providence was awarded Frontier Exploration Licence 3/04, which contains the giant Dunquin prospect, in 2004. In February 2006 ExxonMobil farmed into the licence, taking an 80% stake by committing to a US\$40m work programme, and beyond the US\$40m cost pool Providence will pay 8% of all costs thereafter.

Subsequent to the Exxon farm-out and as part of the US\$40m cost pool, a 2D seismic survey was shot in 2006 and it was this that revealed the giant 8.4Tcf mid-case Dunquin prospect. Geologically, Dunquin is an isolated carbonate platform build-up that has developed on top of a giant ridge that is centrally located in the South Porcupine Basin.

In 2009 Exxon farmed out 50% of its 80% interest to ENI and a commitment to drill a well to test the integrity of the structure was made (Providence is fully carried on this). We understand that a site survey to assess an appropriate drilling location has been carried out and that a firm decision from Exxon with respect to a more definitive drilling schedule may be close.

Dunquin *will* be drilled either in summer 2011 or summer 2012 and we understand the key determinant as to precisely when the well will spud revolves around a decision the JV partners will make with respect to choosing a suitable drilling rig. This is expected before year end.

Figure 9: Dunquin Prospect



Source: Providence Resources

Dunquin is a giant 8.4Tcf gas prospect with transformational potential

Due to its size, along with Spanish Point and Burren, Dunquin is one of Providence's main assets and is considered to have transformational potential. We point out that, in the case of success, Dunquin will open up a new exploration province in the South Porcupine Basin and will likely initiate a land-grab by other major operators that are keen not to miss out on gaining access to a potentially valuable new hydrocarbon play that contains giant prospects.

### Drombeg (16%, non-operated)

Awarded in March 2008, the Drombeg licences (FEL 1/08 & 2/08) are located to the south-west of Dunquin and contain the Drombeg prospect. In an effort to enhance its understanding of the subsurface, in June 2008, along with operating partners ExxonMobil (80%) and Sosina (4%), Providence acquired and interpreted a new 2D seismic survey.

### The UK

Providence owns two fields onshore UK in the Weald Basin, West Sussex: Singleton and Baxter's Copse.

Figure 11: Singleton



Source: Providence Resources

Figure 10: UK Licence Area



Source: Providence Resources

Singleton forms a large part of Providence's total current group level production and is one of its key assets that will provide production and revenue growth over the years ahead. In conjunction with Northern Petroleum, Providence also has an interest in Baxter's Copse, an onshore oil field development project in West Sussex.

### Singleton (99.125%, operated)

Providence has held an interest in Singleton since the early 1990s, and in 2007 moved to increase its ownership to 99.125% by acquiring Star Energy's interest for US\$15.5m. A new field evaluation study was completed in 2008; this led to the implementation of a new FDP in 2009, which in turn improved field production levels by 50%.

Singleton was first brought on-stream in 1989, with production peaking at 1,000boe/d in 1996 from four wells. Current production runs at around 750boe/d following a 50% increase from the X-10 well, which was brought on-stream in May 2009. Providence will complete two development wells in 2010, helping to bring the total number of production wells to seven and it is expected this will raise overall field production to around 1,500boe/d over the next two years.

Figure 12: Singleton



Source: Ambrian

Providence’s 2010 drilling programme includes sidetracking the X9 well in addition to two new lateral sections on the currently producing X8 well; this is expected to add incremental production of c.350boe/d. We point out that the X9 sidetrack will be fracture-stimulated this forms part of the company’s overall plan to increase oil recovery from Singleton.

**Baxter’s Copse (50%, operated)**

Providence has a 50% interest with partner Northern Petroleum in the Baxter’s Copse oil discovery and Burton Down exploration prospect. The licence is directly adjacent to Singleton and provides further exploration and development potential.

Baxter’s Copse was drilled by Conoco in 1983 and tested 50bbl/d; since this time reinterpretation of existing 2D seismic has improved the understanding of the subsurface and latest indications suggest a larger accumulation than first thought. Current gross 2P reserves stand at 5.4MMbbls. Baxter’s Copse is now scheduled for development, with the first horizontal well to be drilled from the Singleton facilities planned for 2012. First oil is expected in the same year.

**The US**

The US portfolio contains ten producing oil and gas assets, nine in the Gulf of Mexico and one onshore Louisiana.

Figure 13: Offshore US Licences



Source: Providence Resources

Having been affected by hurricanes Gustav and Ike in 2008, Providence’s GoM production from Ship Shoal and High Island is still not yet back to pre-hurricane levels. The most recent assessment of lost production for 2009 suggested around 350boe/d was shut-in as a result of hurricane damage.

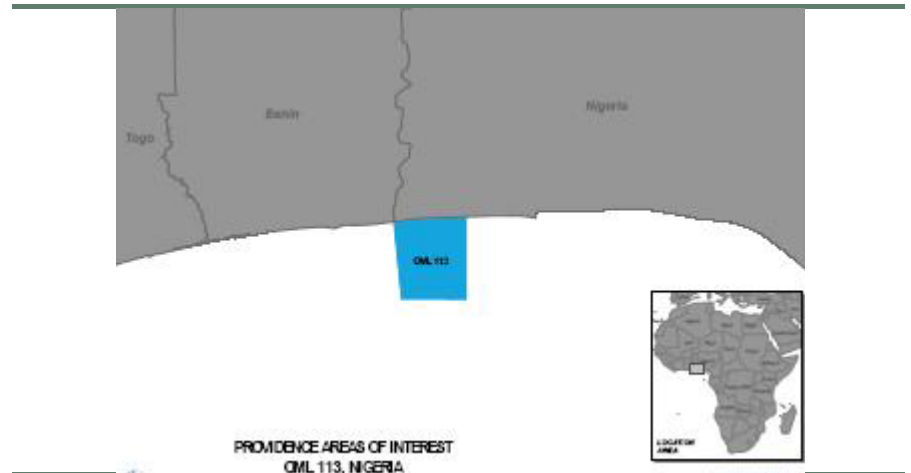
The current combined rate of oil and gas production from all GoM assets is approximately 800boe/d, and we anticipate this will remain flat for the next few years. The production profile is not expected to grow significantly, primarily due to a low level of commitment with respect to development capex from the operating partner. In this regard, as a minority holder of a number of non-operated interests, Providence’s options are constrained by the willingness of its operating partner to continue to invest (or not).

Going forward, we consider Providence’s US production as one of its less important areas with respect to potential drivers of future growth. In time we anticipate that, should a buyer of these assets materialise with a bid considered to be satisfactory for shareholders, management may agree to dispose of them and focus on its core assets – located in Ireland.

**Nigeria**

Providence currently owns a 5% interest in the Aje field located in OML 113 offshore Nigeria. This asset is now considered non-core and we anticipate at some point in the next few months that management will move to sell it. We would expect proceeds from the asset disposal to be used to pay down a portion of the company’s outstanding long-term liabilities.

Figure 14: OML 113 Licence Location Map



Source: Providence Resources

## Management

### **Tony O'Reilly, Chief Executive**

Tony O'Reilly is a graduate of Brown University in Rhode Island. He is Chief Executive of Providence Resources plc, having served on the Board since incorporation. He has previously worked in mergers and acquisitions at Dillon Read and in corporate finance at Coopers and Lybrand, advising natural resource companies. He served as Chairman of Arcon International Resources plc (having been Chief Executive from 1996 to 2000) until April 2005, when Arcon merged with Lundin Mining Corporation. He joined Wedgwood in 2001, becoming Chief Executive (2002 to 2005), following which he became Chief Executive of Providence. He is a non-executive director of Independent News and Media plc, Fitzwilton Limited, Zenergy Power plc and a number of other companies.

### **Philip O'Quigley, Finance Director**

Philip O'Quigley is a Fellow of the Institute of Chartered Accountants in Ireland. Having trained with Ernst & Young, Dublin, he moved into finance positions within the oil and gas industry in the early 1990s. He joined Glencar Mining plc, the IEX- and AIM-quoted gold mining company, in 1997 as Finance Director. In 2002 he left Glencar Mining plc as an Executive Director and since that time has been involved in a number of private and public companies in the oil and gas industry, including Petroceltic International plc, where he was Finance Director.

### **John O'Sullivan, Executive Director**

John O'Sullivan is a geology graduate of University College, Cork, and holds a Masters in Applied Geophysics from the National University of Ireland, Galway. He also holds a Masters in Technology Management from the Smurfit Graduate School of Business at University College, Dublin, and is completing a dissertation leading to a PhD in Geology at Trinity College, Dublin. He is a Fellow of the Geological Society and a member of both the Energy Institute and the Petroleum Exploration Society of Great Britain. He has 19 years' experience in the oil and gas exploration and production industry with both Mobil and Marathon and is a qualified person as defined in the guidance note for Mining Oil & Gas Companies, March 2006, of the London Stock Exchange.

### **Dr Brian Hillery, Non-executive Chairman**

Has served as Chairman of the Board of Directors since the company's incorporation. He is Non-executive Chairman of Independent News & Media plc and is a Director of the Central Bank of Ireland. A former Professor at the Graduate School of Business, University College Dublin, he has also served as a member of the Irish Parliament as a TD and Senator (1977-1994). He was an Executive Director of the European Bank for Reconstruction and Development (EBRD) London (1994-1997) and was Non-executive Chairman of UniCredit Bank (Ireland) plc.

**Lex Gamble, Non-executive Director**

Lex Gamble was appointed as a Non-executive Director of the company in August 2005. Mr Gamble holds a Bachelor of Arts Degree from the University of Washington, and a Masters Degree from Harvard Business School. Mr Gamble has been an investment banker for over 35 years and has provided strategic advice to more than 200 US and international companies, including several in the FTSE 100 and Fortune 500. During his time as Managing Director with Smith Barney Group Inc, Morgan Grenfell plc and Kidder Peabody & Co Inc, he advised corporate clients on capital raisings totalling in excess of US\$40bn. Mr Gamble is a Director of the Harris Bank and Trust Company (Chicago), Crosswater Financial Corporation (Minneapolis), Ashford Castle (Ireland), the University of Washington Foundation, and the University Of Washington School Of Business (Seattle) and was a Founding Principal of Lockwood Financial Group a leading provider of consulting and wealth management services to high net worth individuals.

**James SD McCarthy, Non-executive Director**

Appointed as a Non-executive Director of the company in May 2005, Mr McCarthy holds a Bachelor Degree in Civil Law, an MBA from the University of Pittsburgh and is a qualified solicitor. He is managing Director of Corporate Finance Ireland Limited and a Director of Windsor Motors Limited and Rockall Technologies Limited and a number of other companies. Mr McCarthy is a former Director of Arcon International Resources plc.

**Dr Philip Nolan, Non-executive Director**

Appointed as a Non-executive Director of the company in May 2004, Dr Nolan was CEO of Eircom plc from 2002 to 2006. He is currently Chairman of Infinis Ltd and Sepura Ltd, two privately-owned companies. He is also a Non-executive Director of De La Rue plc and of the Ulster Bank Group. He is Chairman of the Irish Management Institute and is a member of the Board of the Ireland Fund and The Queens University Foundation. Dr Nolan, graduated from Queen's University in Belfast with a BSc and a PhD in geology and has an MBA from the London Business School.

## Appendix

Table 1: Providence's Assets by Region

ASSET	LOCATION	OPERATOR (%)	TYPE
<b>IRELAND</b>			
Spanish Point	North Porcupine Basin	Providence 56.0%	Gas development
Burren	North Porcupine Basin	Providence 56.0%	Oil discovery
Wilde	North Porcupine Basin	Providence 56.0%	Oil & Gas Exploration
FEL 4/08	North Porcupine Basin	Providence 56.0%	Oil & Gas Exploration
Dunquin	Porcupine Basin	ExxonMobil 16.0%	Oil & Gas Exploration
Drombeg	Porcupine Basin	ExxonMobil 16.0%	Oil & Gas Exploration
Cuchulain	Porcupine Basin	ENI 3.2%	Oil & Gas Exploration
Dalkey Island	Kish Bank Basin	Providence 50.0%	Oil exploration
ULYSSES	Kish Bank Basin	Providence 100.0%	Gas storage
Pegasus	NE Celtic Sea	EIRGAS** 100.0%	Oil & Gas Exploration
Orpheus	NE Celtic Sea	EIRGAS** 100.0%	Oil & Gas Exploration
Dionysus	NE Celtic Sea	EIRGAS** 100.0%	Oil & Gas Exploration
Dragon (part)	NE Celtic Sea	EIRGAS** c.25.0%	Gas development
Hook Head	Celtic Sea	EXOLA** 72.5%	Oil and gas discovery
Dunmore	Celtic Sea	EXOLA** 72.5%	Oil discovery
Helvick	Celtic Sea	EXOLA** 72.5%	Oil and gas discovery
Nemo*	Celtic Sea	EXOLA** 72.5%	Oil and gas discovery
Barryroe	Celtic Sea	Lansdowne 30.0%	Oil discovery
Baltimore	Celtic Sea	Providence 60.0%	Oil discovery
Marlin	Celtic Sea	Providence 60.0%	Oil discovery
*Previously called Ardmore			
**100%-owned subsidiaries of Providence Resources plc; subject to licence transfer			
<b>UNITED KINGDOM</b>			
Singleton	Onshore	Providence 99.1%	Oil and Gas production
Baxter's Copse	Onshore	Providence 50.0%	Oil discovery
Burton Down	Onshore	Providence 50.0%	Oil and gas exploration
<b>UNITED STATES</b>			
High Island A-268	Gulf of Mexico	Peregrine 5.0%	Oil and Gas production
Galveston A-155	Gulf of Mexico	Peregrine 10.8%	Gas production
Ship Shoal 252*	Gulf of Mexico	SPN 50.0%	Oil and Gas production
Ship Shoal 253*	Gulf of Mexico	SPN 50.0%	Oil and Gas production
Ship Shoal 267*	Gulf of Mexico	SPN 50.0%	Oil and Gas production
Main Pass 19	Gulf of Mexico	Petsec 45.0%	Oil and Gas production
East Cameron 257	Gulf of Mexico	SPN 12.5%	Gas production
West Cameron 333	Gulf of Mexico	Mariner 32.5%	Gas production
Vermillion 60	Gulf of Mexico	SPN 50.0%	Gas production
Ridge	Onshore Louisiana	Brammer 30.0%	Gas production
*Earned interest through well bore participation			
<b>NIGERIA</b>			
AJE, OML 113	Offshore Nigeria	YFP/Chevron 6.7%	Oil and gas development

Source: Providence Resources

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