Pura Vida Energy

Pura opportunity

Initiation of coverage

Oil & gas

Pura Vida offers investors near-term material exploration exposure, with a fully funded well drilling offshore Morocco within days (and a funded well to follow). Success at MZ-1 would be game-changing, with best estimate gross prospective resources in five stacked targets (internally assessed) of more than 1.1bnbbl. Moroccan fiscal terms are attractive and result in a RENAV for MZ-1 of A$1.42/share, while the as yet unspecified but contracted and funded second well offers further potential upside. With Madagascan seismic underway and prospectivity in Gabon, 2015 will be a major year for Pura Vida.

Year end	Revenue (A$m)	PBT (A$m)	Operating cash flow (A$m)	Net (debt)/cash (A$m)	Capex (A$m)
06/13	0.1	(5.1)	(3.2)	(0.2)	(15.9)
06/14	11.6	5.3	(5.5)	20.5	(8.8)
06/15e	0.0	(4.6)	(4.5)	4.7	(15.2)
06/16e	0.0	(5.1)	(5.0)	(12.3)	(12.0)

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Immediate catalyst

The central catalyst is the Freeport-McMoRan operated well offshore Morocco, which will be spudded in days. The MZ-1 well, in 2,176m of water, is targeting up to five stacked Cretaceous and Jurassic targets and is estimated to cost c US$137m. Pura Vida is fully funded for two wells up to a gross maximum of US$215m with a cost overrun funding mechanism. The Moroccan offshore remains an exciting exploration development area, and while wider exploration in 2014 was not overly successful the basin still holds potential. Independent evaluation puts more than 7bnbbl of gross prospective resources in 13 prospects, with company-assessed gross best estimate prospective resources of 1.1bnbbl for the five MZ-1 targets.

Balanced portfolio

For its size, Pura Vida has significant experience in assessing sub-salt exploration and has built a portfolio around this strength. The current portfolio of assets spreads risk across basins, geological time periods and geopolitically. 3D seismic has just commenced off Madagascar and work is continuing in Gabon, but the company will need to raise further funding or farm down to get activity underway.

Valuation: 2015 will dictate

The Freeport farm-in values the Moroccan block at c A$127m for Pura Vida's 23% share. Our DCF-derived assessment of US$9.5/bbl for MZ-1 is risked by a 7.2% chance of success, giving a RENAV of A$1.42/share. The company is funded through 2015, but will need a farm-down or further equity for any Gabon work. The upside case for a discovery is significant, but the first steps are the MZ-1 well followed by the second as this will set the direction for the share price. The company entered exploration plays with an eye on delivering near-term shareholder value and has executed timely and value-accretive farm-outs. The ongoing volatility in the sector should play into this strategy.

26 May 2015

Price	**A$0.42**
Market cap	**A$62m**
	US$/A$1.3
Estimated current net cash (A$m) post February raise	5.5
Shares in issue	147.7m
Free float	88%
Code	PVD
Primary exchange	ASX
Secondary exchange	n/a

Share price performance

%	1m	3m	12m
Abs	(4.6)	(4.6)	22.1
Rel (local)	(1.6)	(1.5)	16.5
52-week high/low		A$0.56	A$0.30

Business description

Pura Vida has a varied African exploration portfolio and is currently drilling the MZ-1 well in Morocco and undertaking 3D seismic in Madagascar. It has executed timely and commercial astute farm-outs to increase shareholder exposure to world-class exploration.

Next events

Morocco drilling	Q215

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Investment summary

Company description: African adventure

The company is about to commence drilling the MZ-1 well targeting Cretaceous and Jurassic horizons, with the latter the most likely source of petroleum in the area. The well targets five stacked plays in structural and stratigraphic settings and leaves a potential shallower Miocene target for the follow-up well. The company executed a solid farm-out with Plains Exploration (now Freeport-McMoRan Oil & Gas, FMOG) in January 2013 for up to two wells at a maximum gross cost of US$215m plus US$15m in cash. An additional farm-down provision, giving up 1% interest for every US$4.5m of gross additional spend, protects from cost overruns. With current drilling, Morocco is the catalyst for growth.

Madagascar and Gabon are also exploration assets, but provide mitigation through different geology, deposition and basin origin, as well as geopolitical risk. A growing expertise in sub-salt geology in Pura Vida gives it an edge over other juniors and the potential upside from the size of fields found in pre-salt plays means West Africa could emulate Brazil if the theory pays off.

Valuation: Volatility, but activity

As a pure exploration play in a market that has, in general, been anti-commodity, Pura Vida has executed solid farm-outs and raised capital to comfortably see it through the next 12 months. Needless to say, further farm-outs and capital raisings will be required, but newsflow catalysts from the Moroccan MZ-1 well should drive the share price in the near term.

Exploration plays are impossible to fairly value, but the farm-out deal underpins the share price and, while complex, our assessment of MZ-1 yields a RENAV of A$1.42/share with further upside possible from the second funded well once a location has been determined. With a burn rate of approximately A$4m, overheads are high, but we note that the skill set held in the management and technical teams, especially with reference to sub-salt plays, is a genuine asset.

Gabon provides some interesting options for farm-downs including a stranded oil discovery, Loba M1 drilled by Elf in the mid-1970s, with deeper sub-salt upside plus a new syn-rift play proven in Angola and analogous to plays in Brazil. Seismic and a well (to 2,000m subsurface) need to be completed by the end of 2017 to meet licence requirements. Pura Vida-funded seismic is underway in Madagascar and decisions around drilling will be made subsequently.

Financials: 2015 covered

On 24 February, Pura Vida raised A$4m by issuing 11.165m shares at A$0.36 for general working capital. As at 31 December 2014 the company had A$18.1m on the balance sheet, but was called on the US$9.7m seismic for Madagascar. As such, taking into account the recent fund-raise, the company holds around A$5.5m and, with no other planned E&P on the immediate horizon, is funded through 2015, but will need a farm-down or further equity for any Gabon work.

Sensitivities: Exploration focus

It is certainly interesting times in the industry and no more so than for exploration-focused juniors. However, Pura Vida has demonstrated the ability to secure high-quality, risk-aware assets in exciting exploration frontiers and proven basins, as well as executing farm-ins that can be leveraged for shareholder benefit. Exploration brings huge risks and uncertainty and this company is no different. However, it has differentiated itself with its activities to date and newsflow over the coming months will be critical to delivering shareholder value. While it has plenty of activity planned for 2015, we do not discount further new deals.

Company description: African adventure

Pura Vida has built a strong exploration-focused portfolio that spreads geographic and geological risk while capturing three active basins with wide-ranging activity.

In a depressed market, the company has achieved a number of successes for a junior E&P, including ownership of significant acreage positions. These can be levered and farmed down to expose shareholders to upside exploration drilling while maintaining a significant ownership.

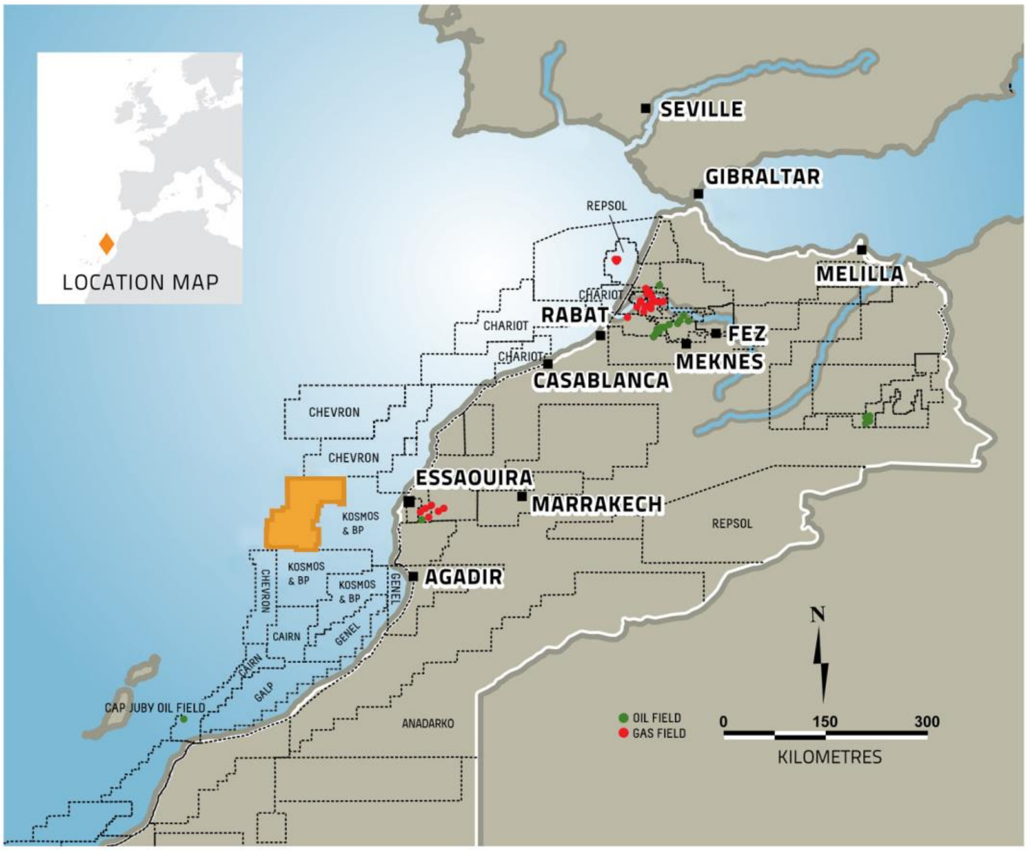
Of note, Pura Vida has achieved this offshore Morocco, where fully carried drilling is about to commence on the MZ-1 well on the Ouanoukrim prospect. The well is expected to take 60-90 days.

Morocco: Carried drilling; offshore Mazagan

Pura Vida secured 75% ownership of the Mazagan permit in late 2011, with the remaining 25% held by ONHYM, the Moroccan state oil company. The total area of the permit currently covers 8,717 km^2 and is located in the Essaouira Basin off the Atlantic coast of Morocco in water depths of between 1,000 and 2,500m.

The offshore Moroccan margin has seen much activity over the last few years, including Chevron and BP, having been historically overlooked due to water depths and lack of meaningful near-shore and onshore activity. There has been significant recent exploration activity in the area, and while it has been almost exclusively to the south of Pura Vida, there has not been much in the way of commercial success. However, the lack of early success in frontier basins is to be expected and the extensive area, proven hydrocarbon systems and application of solid exploration experience make the Pura Vida asset a potential game-changer. Morocco also offers favourable fiscal terms.

Exhibit 1: Mazagan permit



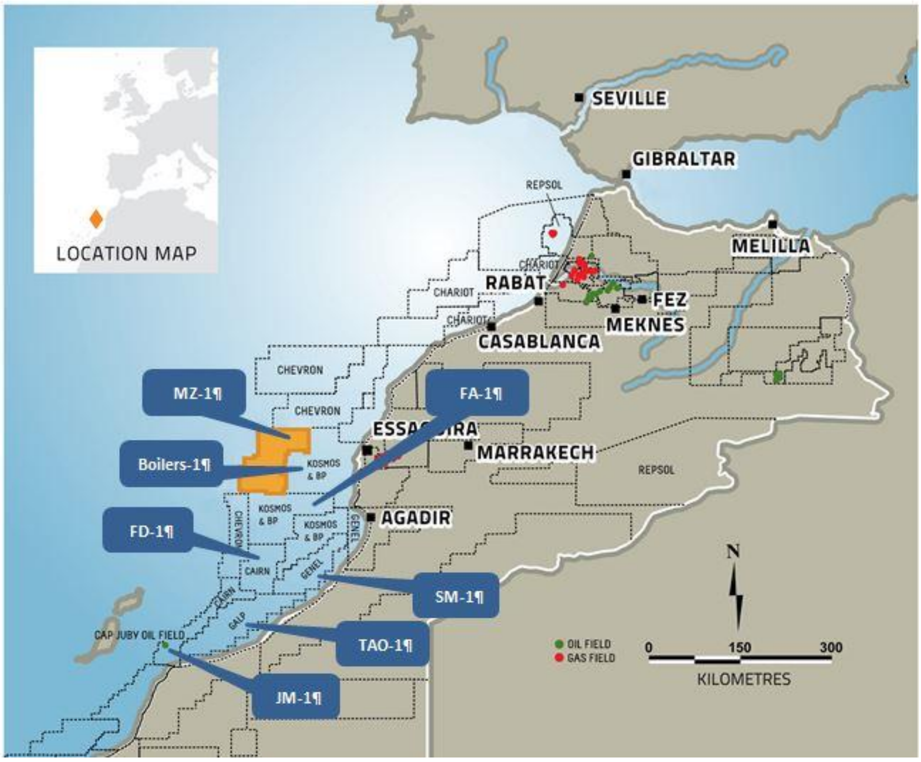
Source: Pura Vida

Exhibit 2: Offset drilling activity (Morocco)

Well(Prospect)/Block	Company	Timing (est.)	Play	Relevance
FA-1 (Eagle)	Kosmos	Q2 2014	Lower Cretaceous turbidite sands	Seal and trap failure most likely as oil & gas shows provide evidence of working petroleum within thin interbedded reservoirs (predictable given location to salt flank). Well is relevant for Cretaceous play in Mazagan but not main prospects which have lower risk 4 way dip closed anticlinal traps.
JM-1 (Cap Juby Field)	Cairn	Q1 2014	Appraisal of Upper Jurassic Carbonates, exploration of Middle & Lower Jurassic carbonate plays	Upper Jurassic oil pay confirmed by this appraisal of original discovery (petroleum system working). Middle and Lower Jurassic carbonate reservoirs absent. Key risk in Carbonate bank play is reservoir. Play not present in Mazagan.
TAO-1 (Trident)	GALP	Q3 2014	Jurassic carbonates	Middle Jurassic Carbonate bank play failed due to lack of reservoir (Key risk in Carbonate play). Upper Jurassic encountered reservoir but no shows raising question on charge / migration. Plays not present in Mazagan.
SM-1 (Nour)	Genel	Q4 2014	Jurassic carbonates	Heavy oil (26 API) encountered in Upper Jurassic analogous play to Cap Juby but well did not flow sustainable rates. Jurassic petroleum system proven. Play not present in Mazagan
Boilers-1/Essaouira	Kosmos	1H 2016	Upper & Lower Cretaceous turbidite sands	Cretaceous turbidites in a four way dip closed structure, directly relevant and analogous to Cretaceous prospects in Mazagan
FD-1/Foum Draa	Cairn	Q4 13	Lower Cretaceous turbidite sands	Dry hole, No reservoir. Anomalous amplitude is ambiguous. Hydrocarbon shows encountered suggesting Jurassic petroleum system is present. Play is present in Mazagan and as a consequence reservoir presence and effectiveness regarded as a key risk
CB-1 aka Al Kayr-1 (Gagaa Prospect)	Kosmos	Q1 2015	Lower Cretaceous turbidite sands	14m net gas and condensate pay over a gross 500m hydrocarbon bearing zone at main target proves working petroleum system, good trap and seal. Finding thicker better developed sands is key to commerciality. Reservoir risk remains key for play

Source: Pura Vida

Exhibit 2: Offset drilling locations (Morocco)



Source: Pura Vida

Geology

The Mazagan permit forms part of the Atlantic rift and is similar to other north African Atlantic margins, with syn-rift continental clastics, carbonates and evaporates overlain by Cretaceous and Tertiary marine clastics. The orogeny and rifting events created half-grabens into which the sediments were deposited. Evidence from the Shark B-1 well shows that deposition occurred extensively across the geological age, but that reservoir development is not ubiquitous. However, it has been concluded that the well was placed between sand channels.

In its 2011 report, Resource Investment Strategy Consultants (RISC) noted that the Jurassic is key to providing an active source for the Mazagan permit and notes the analogous timing of the basin to that of the Kimmeridge Clay in the North Sea and Canadian equivalents, which would have been located close by during this geological period of early Atlantic rifting. Onshore fields and other offshore fields in the region are linked to Jurassic sources and provide encouragement that a working petroleum system exists and that analogues to the Jubilee field are not without merit for the Miocene play at Mazagan.

In September 2012, DeGoyler and MacNaughton (D&M) noted that gross prospective resources in 13 identified prospects in the Mid Miocene in the block were 6.72bn on a best estimate basis (P50) and 1.87bn assuming an overall 26% geological chance of success (GCoS). Of note, the report does not include the Ouanoukrim prospect on which the MZ-1 well is to be drilled.

Exhibit 3: Gross prospective resources

Prospect	Low estimate	Best estimate	High estimate	Mean estimate	Pgeo*	Adjusted mean
Zagora	19,642	50,827	132,165	65,325	0.336	21,949
Amchad	22,336	62,157	161,486	79,635	0.336	26,757
Tafraroute	294,154	807,164	2,114,579	1,047,164	0.322	337,187
Amtoudi East	166,764	477,681	1,136,689	590,448	0.322	190,124
Amtoudi West	121,665	342,123	869,398	434,737	0.322	139,985
Toubaki	436,718	1,167,668	3,074,209	1,507,489	0.312	470,337
Jbel Ayachi	55,392	156,635	414,355	202,548	0.192	38,889
Jbel Musa	78,090	217,457	570,525	280,844	0.192	53,922
Jbel Lakhar	58,420	166,772	400,290	208,499	0.192	40,032
Jbel Talmest	130,468	369,985	952,778	474,891	0.192	91,179
Jbel Aroudane	120,905	322,221	850,978	417,326	0.192	80,127
Jbel Tadrat	237,533	688,942	1,779,864	879,128	0.192	168,793
Jbel Azayza	229,564	640,335	1,687,129	829,438	0.192	159,252
Statistical aggregatre	**4,614,235**	**6,721,521**	**9,791,762**	**7,017,474**	**0.259**	**1,818,533**

Source: DeGoyler and MacNaughton. Note: *Pgeo = geological chance of success.

The MZ-1 well is commercially robust and is interesting from a technical and operational standpoint, as it is located and designed to intersect five stacked targets as well as source rocks. These targets are in the Cretaceous (Cenomanian/Aptian), where two four-way closed traps have been identified, and in the Jurassic where three fans have been identified. We draw readers' attention to the fact that the targets are not in the Miocene, which D&M and RISC rate as the primary target in their assessments, albeit in work that was undertaken nearly three years ago.

The targets have the following assessed prospective resources by Pura Vida and we note there are similar geological risk factors to those presented by D&M, but note the numbers have not been independently verified.

Exhibit 4: MZ-1 stacked targets

	Gross prospective resource unrisked (mmboe)					
Interval	Low	Best	High	Mean	GCoS	Net risked mean prospective
Cenomanian	9	39	95	47	23%	11
Aptian	42	238	680	309	30%	71
Lower Jurassic Fan 1	84	450	1290	588	13%	135
Lower Jurassic Fan 2	21	79	189	95	12%	22
Lower Jurassic Fan 3	60	306	820	385	12%	89
Total (arithmetic)				**1424**		**328**

Source: Pura Vida

The well is located in 2,176m of water and the firm total depth (TD) is assessed to be 5,600m (TVDSS) to penetrate Fan 2. Exhibit 5 shows that two of the targets, Cenomanian and Fan 2, would be sub-commercial in our opinion if found in isolation, as we assess a 200mmbbl field to be the viable cut-off for economic development in the current price environment. Needless to say, just one of the remaining three targets would be significant.

Licence

The licence was previously operated by Vanco, a US independent, which drilled the Shark B-1 well to the Aptian but encountered no hydrocarbons. In addition, the Deep Sea Drilling Project (DSDP) well 415 is located in the south-west of the permit. Pura Vida acquired the licence in 2011.

The terms of the block were for an initial two-year period (which ended in 2013) after which Pura Vida had to exit the permit or extend the permit for a further two-year period while relinquishing 20% of the block (original area 10,897km^2). Following the expiry of the first extension at the end of 2015, Pura Vida may exit the licence or extend for another four years by relinquishing a further 30% of the original area.

The drilling of the well is being undertaken by the Atwood Achiever under a rig sharing agreement with Kosmos Energy. The vessel is an ultra-deepwater vessel capable of drilling in over 3,500m of water and to depths of 12km. The well is expected to spud in the coming days and is expected to reach bottom hole target in 60-90days, with an estimated cost of US$136.6m.

Farm-down deal

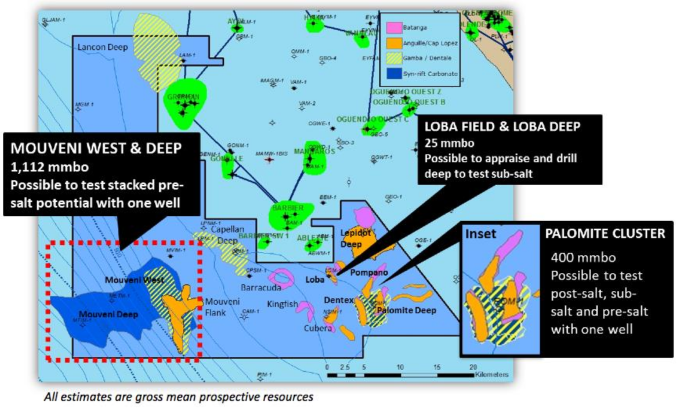
In 2013 Pura Vida announced the successful farm-down of its 52% interest to Plains Exploration, which was subsequently acquired by FMOG. Under the farm-down deal, Pura Vida retains 23% of the licence and its costs are carried as part of a maximum US$215m gross costs two-well programme, plus a cash payment of US$15m. The costs include ONHYM's 25% share of exploration costs.

The deal therefore values the asset at US$442m, with Pura Vida's share being US$102m/A$127m on a post-drill basis. An additional option exists, if required, for Pura Vida to farm down further interest to FMOG to carry it for any well costs above the US$215m cap. Under the deal, Pura Vida will give up 1% of its interest for every US$4.5m of gross well costs. This equates to 1% for every $1.035m of net costs or an implied gross block value of US$103.5m (or $24m net to Pura Vida).

Gabon: Proven basin

Recent discoveries in the area have proved the presence of pre-salt reservoirs, analogous to the huge fields discovered in similar settings offshore Angola and Brazil. Pura Vida holds a 100% interest (with state participation at 20%) in the Nkembe block, located 30km off the coast in water depths of 50-1,000m. The block, 1,210km^2 in area, lies in the Gabon basin.

Exhibit 5: Nkembe block and prospects



Source: Pura Vida

The technical work undertaken by the company has focused on the pre-salt potential in carbonate reservoirs and, like Morocco, has identified multiple stacked plays that could be tested from a single vertical well, thereby greatly reducing the cost to explore.

In June 2014 the company announced unrisked mean prospective resources of 1,344mmbbl. One area, the Mouveni region of the block, could be the location of a single well that could test a potential 890mmbbl. In addition, the Loba Oil field lies in the block (a 20mmbbl 2C discovery drilled by Elf in 1976) and the company may decide to further appraise this field with the added benefit of drilling a deeper sub-salt target simultaneously. The company has inspected available cores from the Loba-1 well, confirming a 46m net oil column.

Since being awarded the block in 2013, there have been pre-salt discoveries by Total (50m gas/condensate column), ENI (c 500mmboe), Shell (200m net gas pay) and Tullow (90m net pay).

Exhibit 6: Nkembe prospective resource estimates

Prospect name	Target	Gross prospective resource unrisked (mmboe)					Net prospective mean	
		Low	Best	High	Mean	Pgeo*	Unrisked	Risked
Loba Discovery	Batanga/P. Clairette	6	10	14	10	50%	8	4
Loba East	Batanga/P. Clairette	6	10	15	10	30%	8	2.4
Loba Deep	L. Anguille	7	11	16	11	20%	9	1.8
Cubera	Batanga	6	14	26	15	26%	12	3.12
	L. Anguille/Azile	6	10	15	10	18%	8	1.44
Lepidote Deep	L. Azile/Cap Lopez	25	60	114	65	18%	52	9.36
Pompano	Batanga/P. Clairette	3	5	10	6	26%	5	1.3
	L. Anguille	7	15	26	16	18%	13	2.34
	Cap Lopez	21	43	74	46	10%	37	3.7
Dentex	Batanga/P. Clairette	9	18	34	20	20%	16	3.2
	L. Anguille	14	26	43	27	10%	22	2.2
Mouveni West	Gamba	23	50	91	54	20%	43	8.6
	Dentale	65	245	627	304	15%	243	36.45
Mouveni West (Deep)	Syn-rift carbonates	152	608	1506	754	10%	603	60.3
Palomite Deep	Gamba	20	34	51	36	20%	29	5.8
	Dentale	52	160	353	185	15%	148	22.2
	Syn-rift carbonates	58	105	172	111	10%	89	8.9
					1,680		1,344	177.11

Source: Pura Vida. Note: *Pgeo = geological chance of success.

While these figures have not been independently verified, they show the potential in the portfolio. Of note is the potential for a syn-rift play, analogous to the plays in Brazil, which have yielded some of the best discoveries in Brazil in the last decade. They are carbonate plays, which have developed over basement highs, created from earlier rifting, and have been shown on Nkembe seismic. Of particular relevance to this analogue is the fact that these plays have been discovered in Angola in the Orca discovery (400-700 mmbbl), and as such are a genuine target with world-class potential, that should attract quality farm-ins.

Pura Vida will focus on pre- and post-salt exploration targets and, in the light of ongoing regional success by the super majors plus new technology in acquisition and processing of sub-salt plays, the potential is enormous.

Current activity is focused on acquiring 550km^2 of 3D seismic and farming out the first well, which must be at least 2,000m and drilled by 2017. The Loba discovery, with potential for nearby shallow prospects and deeper sub-salt exploration, could also create a lower-risk, cash-generative upside in a short space of time if the company elected to take that path.

Madagascar: Seismic pending

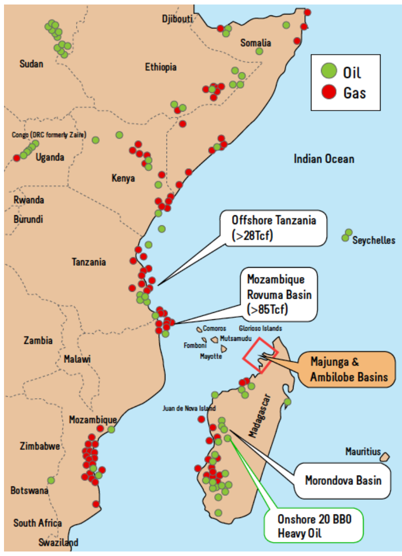
Pura Vida holds a 50% interest in the Ambilobe block, located off the north-west coast of Madagascar. Covering an area of 17,650km^2, it is the biggest asset in the portfolio currently but also the least developed. However, located in the East African province, it is an area where a number of major discoveries have been made over the last decade. The block is operated by LSE-listed Sterling Energy.

A 3D seismic survey has just commenced and is planned to cover a 1,250km^2 region. Pura Vida farmed into the block and as such is liable for funding the acquisition and processing the 3D survey up to a maximum of US$15m, with the estimated cost c US$9.7m.

Exhibit 7: Ambilobe Block

Source: Pura Vida

Exhibit 8: East African E&P



Source: Pura Vida

The water depths in the block range from 0 to 1,000m and, like Gabon, the plays in the block relate to salt and thus the potential for large discoveries exists in these settings. A number of Cretaceous and Tertiary leads have been identified in both the shallow and deep sections of the block. One, Lead 5, has three stacked targets sealed against a salt dome and there is an opportunity for leads to be generated on other faces of the salt feature during the seismic operation.

The licence is in the second phase and expires in July 2016, although the work commitments have been fulfilled. On electing to enter Phase 3 a well must be drilled by July 2017.

The immediate vicinity of the block has not experienced the level of activity seen elsewhere in East Africa, in particular the activity across the Mozambique Channel, which has resulted in substantial gas discoveries. However, the existence of a working petroleum system has long been established with the significant onshore heavy oil discoveries. The company believes that these heavy oil fields are sourced in the deeper offshore area and that any discoveries would lead to lighter grades being discovered.

ExxonMobil operated the adjacent Ampasindava block to south of Pura Vida's. It was required to drill a well by the end of the third licence phase (mid-2016) and has identified a potential 1.2bn prospective resource prospect. However, following the acquisition of seismic and further technical work the company believed that the risk remained too high to drill amid concerns of poor reservoir quality and a significant risk of gas, rather than oil, being discovered. ExxonMobil announced it was reassigning the licence back to the Madagascan state oil company (OMNIS) in May 2015. We note that Sterling held 30% of this licence.

In late December 2014 Afren completed a borehole programme in the onshore adjacent area to Ambilobe and announced the discovery of oil at various levels in two of these holes.

Management

Pura Vida has a strong management team, which has proved itself with the acquisition and farm-out deals executed in a relatively short period of time.

Damon Neaves (MD): founder of Pura Vida and previously led BD commercial and legal teams in mid-cap E&Ps in Africa and Asia Pacific including Tap Oil. Damon has experience in the domestic Australian gas business and project management experience on the NW shelf.

Jeff Dowling (non-executive chairman): formerly the managing partner of E&Y in Perth with a particular focus on the extractive industries. With over 35 years' experience in audit, risk management and finance Jeff is also the chairman of Sirius Resources and NED of Atlas Iron and NRW Holdings.

Ric Malcom (NED): has 33 years' experience in geoscience in seven international markets. Having held various exploration roles, Ric has extensive leadership experience including MD of OMV (UK) and the CEO of AIM-listed Gulfsands Petroleum between 2008 and 2013.

As well as the executive team's experience, Pura Vida has a depth of experience in the management team including strong experience of salt play assessment and development. Also, the company has very high-quality exploration staff with significant experience in sub-salt exploration and development in both West Africa and Brazil, in particular Maersk. This should not be underestimated in such a small company and allows Pura Vida excellent leverage, not just in attaining new acreage but also in working alongside major partners.

Sensitivities

Pura Vida set out to build a diversified portfolio of exploration and has achieved it remarkably quickly. In addition, it has executed a farm-out deal, which more than underpins the company's current value.

While it has covered the cost of the Moroccan wells, Pura Vida needs to fund seismic acquisition costs in Madagascar (US$9.7m to a maximum of US$15m) and Gabon. With burn rates of c A$4m pa the company will need to access further capital from equity markets or execute a further farm-down (namely Gabon) in time.

In the event of a discovery, the company will have to fund appraisal and development of any fields. This could require billions of dollars, and it will have to reduce its stake to fund development (or raise equity).

While capital risks have been mitigated for initial drilling in Morocco, significant technical risk remains alongside the significant upside. The major risks are migration and reservoir, although this is exploration and Pura Vida has taken the right path in terms of technical and commercial assessment of the location. It remains for the operator to execute a good well.

Pura Vida raised capital in the markets in February and should be commended for being able to secure capital in the current economic climate. The cost overrun mechanism recently negotiated provides a security blanket for the Moroccan wells (we note that it would only be triggered if the wells encounter serious overruns), but does not help with the other assets. A farm-out of the Gabon assets would help to reduce the need to raise significant funds.

Investors should also be aware that time is a factor often overlooked in exploration-focused plays. Project timetables are prone to significant slippage and even though service costs and schedules are reducing in light of the current oil price declines, so have the decision-making timelines of oil companies.

Valuation

As a solely exploration-focused stock it is very difficult to pin a firm value on Pura Vida. However, the Moroccan drilling is a near-term catalyst that should focus investor attention. The success of the MZ-1 well will dictate the future of Pura Vida's involvement in Morocco and shape the development of its other assets.

Morocco: Good fiscal regime drives high oil value

Morocco has good fiscal terms and we believe that even with the softening commodity process an oil discovery would be extremely valuable. We can cross-reference a number of methodologies:

- The farm-down deal saw Pura Vida farm down from 75% to 23%, giving away 52% for a full carry on two wells to a maximum of US$215m plus $15m cash (equivalent to A$.86/share). It has recently negotiated a ratchet for overspend such that for every US$4.5m gross overspend it will give up an additional 1%. This equates to 1% for every $1.035m of net costs or an implied gross block value of US$103.5m (or $24m net to Pura Vida or A$0.2/share).
- Our primary tool is a risked DCF approach. Pura Vida's analysis indicates a gross prospective unrisked P50 resource of 1,112mmbbl. Although the targets of the MZ-1 have not been independently verified, the risking is in line with both RISC and D&M independent analysis for the Miocene targets. Our modelled field development arrives at a value of $9.5/bbl. According to the company, the geological chance of success is 14.4%. To this we apply a 50% commercial risking, given the company is not funded for development. This risking is indicative only, as to fully appraise and develop any discovery will require further reduction in working interest (in return for a carry) or equity issue, which could be a great deal more than 50%. We note that that not all five targets are likely to be all commercially viable on a standalone basis.

The RENAV on this basis is US$167m or A$1.42/share, over three times the current share price. Given the well is underway, we would not be surprised to see the share price climb ahead of a final announcement. While the asset in Gabon has a contingent resource it is too small for a standalone development and we ascribe no value to it at present. However if seismic, once completed, leads to further exploration around this location, the immediate upside could be positive for investors. In addition, proving up a syn-rift play could be game-changing.

Madagascar is some way from adding definable value to the company but, with seismic funded and soon to be underway, clarity on a route forward could be forthcoming by the end of the year. However, it has not helped that Exxon has exited the area.

Exhibit 9: NAV summary

Asset					Overall	Recoverable reserves				
	Country	WI	GCoS	CCoS	CoS	Gross	Net	NPV/boe	Net risked value	
		%	%	%	%	mmboe	mmboe	$/boe	US$m	A$/share
Net (debt)/cash – June 2015e									3	0.03
SG&A									(10)	(0.09)
2015 Exploration (seismic included in H115 expenditure and hence net cash)									0	0.00
Core NAV									**(7)**	**(0.06)**
Exploration										
MZ-1	Morocco	23%	14.4%	50.0%	7.2%	1,112	256	9.5	175	1.48
RENAV									**167**	**1.42**

Source: Edison Investment Research

Financials

On 24 February 2015, Pura Vida raised A$4m by issuing 11.165m shares at A$0.36 for general working capital. As at 31 December 2014 it had A$18.1m on the balance sheet, but was called on the US$9.7m seismic for Madagascar. Therefore, taking into account the recent fund-raise, the company holds around A$5.5m. However, G&A cash burn of c A$4m pa needs to be managed carefully. Pura Vida has been very proactive and agile in the way it has managed its balance sheet and cash flow to date and has executed timely deals demonstrating both commercial and technical acumen.

Treadmill of success: Exploration is an expensive game

Pura Vida is at an inflection point and the coming months will reveal whether Morocco will need further financing to progress the outcome of MZ-1 and the yet-to-be-located second well will dictate the scale of any discovery. Gabon will need farming down or further capital to be raised to execute the seismic and, while seismic is funded for Madagascar, any progression will require either further farm-downs or further capital to be raised. Rightly or wrongly, the success of Morocco will determine the ease with which the company can execute the other assets in the portfolio.

Exhibit 10: Financial summary

A$'000s	2012	2013	2014	2015	2016
June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	30	56	11,636	45	45
Cost of Sales	0	0	0	0	0
Gross Profit	30	56	11,636	45	45
EBITDA	(2,221)	(4,798)	6,555	(4,955)	(5,080)
Operating Profit (before amort. and except.)	(2,242)	(4,867)	6,476	(5,035)	(5,160)
Intangible Amortisation	0	0	0	0	0
Share based payments	(519)	(1,250)	(804)	(1,000)	(1,000)
Other	0	0	0	0	0
Operating Profit	(2,761)	(6,117)	5,672	(6,035)	(6,160)
Net Interest	(193)	(259)	(1,155)	409	94
Profit Before Tax (norm)	(2,435)	(5,126)	5,321	(4,626)	(5,066)
Profit Before Tax (FRS 3)	(2,954)	(6,376)	4,517	(5,626)	(6,066)
Tax	0	0	0	0	0
Profit After Tax (norm)	(2,435)	(5,126)	5,321	(4,626)	(5,066)
Profit After Tax (FRS 3)	(2,954)	(6,376)	4,517	(5,626)	(6,066)
Average Number of Shares Outstanding (m)	21	65	145	147	147
EPS - normalised (p)	(11.4)	(7.9)	3.7	(3.1)	(3.4)
EPS - (IFRS) (p)	(13.8)	(9.8)	3.1	(3.8)	(4.1)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets	1,082	12,120	22,435	37,584	49,504
Intangible Assets	992	12,005	22,361	37,510	49,430
Tangible Assets	89	115	74	74	74
Investments	0	0	0	0	0
Current Assets	3,831	8,361	20,619	17,000	12,314
Stocks	0	4,824	0	0	0
Debtors	94	159	159	159	159
Cash	3,738	3,378	20,460	4,686	0
JV Cash	0	0	0	12,155	12,155
Current Liabilities	(653)	(4,174)	(1,745)	(1,745)	(1,745)
Creditors	(653)	(640)	(1,745)	(1,745)	(1,745)
Short term borrowings	0	(3,534)	0	0	0
Long Term Liabilities	0	0	0	0	(12,301)
Long term borrowings	0	0	0	0	(12,301)
Other long term liabilities	0	0	0	0	0
Net Assets	4,261	16,307	41,309	52,838	47,772
CASH FLOW					
Operating Cash Flow	(1,949)	(3,185)	(5,452)	(4,546)	(4,986)
Net Interest	0	0	0	0	0
Tax	0	0	0	0	0
Capex	(815)	(15,863)	(8,827)	(15,229)	(12,000)
Acquisitions/disposals	0	0	15,739	0	0
Financing	6,502	16,258	19,741	4,000	0
Dividends	0	0	0	0	0
Net Cash Flow	3,738	(2,790)	21,200	(15,775)	(16,986)
Opening net debt/(cash)	0	(3,738)	155	(20,460)	(4,686)
HP finance leases initiated	0	0	0	0	0
Other	0	(1,103)	(585)	0	0
Closing net debt/(cash)*	(3,738)	155	(20,460)	(4,686)	12,301

Source: Company accounts, Edison Investment Research. *Note: excludes JV cash

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Contact details	Revenue by geography
Pura Vida Level 3, 89 St Georges Terrace Perth, WA 6000 Australia +61 8 9226 2001 www.puravida.com.au	N/A

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 2012-16e	N/A	ROCE 2015e	N/A	Gearing 2015e	N/A	Litigation/regulatory	●
EPS 2014-16e	N/A	Avg ROCE 2012-16e	N/A	Interest cover 2015e	N/A	Pensions	○
EBITDA 2012-16e	N/A	ROE 2015e	N/A	CA/CL 2015e	N/A	Currency	◖
EBITDA 2014-16e	N/A	Gross margin 2015e	N/A	Stock days 2015e	N/A	Stock overhang	○
Sales 2012-16e	N/A	Operating margin 2015e	N/A	Debtor days 2015e	N/A	Interest rates	◖
Sales 2014-16e	N/A	Gr mgn / Op mgn	N/A	Creditor days 2015e	N/A	Oil/commodity prices	●

Management team

Non-executive chairman: Jeff Dowling

Mr Dowling was the managing partner at Ernst & Young in Perth, where he held a number of senior leadership roles, with particular focus on the mining and oil and gas sectors. He has over 35 years' experience in the professional services industry with significant experience in audit, risk management and finance.

Managing irector : Damon Neaves

Mr Neaves is a founding director and shareholder of Pura Vida Energy. He has worked in various commercial, operational and management roles and brings a wealth of international oil and gas expertise. Before forming Pura Vida, he was the business development manager of a mid-cap international E&P company.

Non-executive director : Ric Malcolm

Mr Malcolm is a professional geoscientist with 33 years of varied oil and gas experience in seven international markets. He began his career as a petroleum geologist with Woodside Petroleum in Perth, exploring for oil and gas on the North West Shelf. Between 2008 and 2013 he was the CEO of Gulfsands Petroleum.

Chief financial officer: Bevan Tarratt

Bevan has an accounting industry background focused on small/mid-cap resource companies, with experience of IPOs, fund-raisings and restructures. He currently holds a number of director roles with ASX-listed entities.

Principal shareholders	(%)
Neaves Damon	3.8%
Stone Axe	1.4%
BT Portfolio Services	0.9%

Companies named in this report

Premier Oil, Afren, Freeport-McMoRan Oil & Gas, ExxonMobil, Sterling Energy