



Business Review 2007

Chairman's Report

Dear Shareholder,

Once again it is a pleasure to write to you at the end of another exciting year for Gippsland Offshore Petroleum. I hope that you enjoy reading this overview of the company's progress and gain an appreciation of the potential of our portfolio.

Against a background of continued buoyancy in the global oil and gas industry we have continued to roll out our exploration strategy to position the company for major discovery success.

Access to the FALCON® airborne gravity gradiometer system, combined with the capabilities and dedication of the company's management and staff, are continuing to present us with exciting new opportunities as well as delivering positive results from our current projects. The company is rapidly evolving away from its founding roots in the Gippsland basin.

Operationally, much has been achieved in the past year with our Jamaican and Kenyan projects advancing to key stages. In both cases significant FALCON® and seismic programs were carried out. On the Jamaica project Interpretation and identification of targets was completed and a comprehensive data package assembled and circulated to potential joint venture partners. Field data from Kenya has been received and interpretation is well under way.

On the new project development front, our application for permits in the Aquitaine basin in France is progressing. More importantly, in joint venture with East African Exploration Limited, Gippsland Offshore, as operator, was awarded a high potential permit in Madagascar, part of the under-explored east African margin.

Only ten wells have been drilled in the basins surrounding Madagascar, an island where onshore it is estimated that 20 billion barrels of oil occur in yet to be developed tar

sand deposits confirming the high potential of the adjacent sedimentary basins.

Expenditure during the year was in line with expectations. The company appreciated the support of shareholders who exercised their listed options prior to the expiry date. A total of 14,842,370 options were exercised at a price of \$0.20 contributing \$2,968,474 to the company's cash position. The board will continue to monitor the cash requirements of the company with a view to funding the company in a way that best delivers value to our shareholders.

All of this achievement in the space of one year would not have occurred without the tireless dedication of the company's management and staff and on behalf of the shareholders I pass on my sincere thanks for the excellent work of Cath Norman and her team. I would also like to thank my fellow directors for their contribution during the year.

Finally I thank you the shareholder for your continued interest and support in the company.

At the conclusion of my report last year I promised an exciting year ahead. I believe that this has more than been the case and I am gratified to see that it has been reflected in the performance of the company's share price. I believe that Gippsland Offshore's portfolio of projects, combined with inherent potential of the Finder acquisition, promise an even more exciting year ahead.

Phil Harman

Chairman





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Managing Director's Report

This report marks the end of the second full year of activity for Gippsland Offshore Petroleum Limited which has now been listed on the Australian Securities Exchange since January, 2005. It also marks the first year of a new legislative environment whereby our annual report does not get posted automatically to all of our shareholders. To keep you updated on our activities over the past year and at the same time keep our costs low and be "greener" in our use of paper, we have opted to send you our 2007 Business Review. We do hope you enjoy this update prior to our Annual General Meeting at the end of November.

A significant post year end announcement was that the directors of Finder Exploration Pty Ltd of Perth have accepted a takeover offer by Gippsland Offshore subject to final due diligence and final agreement. At the time of writing, this process is underway. Finder is our current JV partner in our Jamaica project and we have been working with them to develop other projects in the Caribbean region. For some time we have recognised that their technical skills are complementary to our own and the acquisition is a logical first step in growing our company into a true exploration and production company in the future. Coupled with our synergies, Finder have a portfolio of projects that complements our own.

It has been a year of immense activity and achievement for us as we continue to put our strategy into action. That is, to explore basins of the world where there is a petroleum generating system working but where conventional exploration techniques are challenged either by the geology or the geography. We aim to unlock the oil and gas prospects in these areas by using new exploration technologies and by forming strategic partnerships with companies that can complement our skills.

This often involves taking a fresh look with new technologies at areas that have been overlooked in recent years. The BHP Billiton FALCON® alliance remains important to us in allowing us to achieve this.

We left last year amid the processing of our large geophysical data acquisition program off Jamaica and signing an agreement to farm into the L-6 permit offshore Kenya. Since this time, we have passed many milestones including:

- Raising of approximately \$3M through the exercise of options in November 2006
- Bid submission with East African Exploration (EAX) for acreage offshore Madagascar in December 2006
- Formal ratification of our farm-in to the L-6 block in Kenya by the Kenyan Ministry of Energy in January 2007. The block is 4,918km² in area.
- Final delivery of all Jamaica exploration data in Feb 2007, only 1 year after signing our PSC with the Jamaican government
- Acquisition of 1,240 line kms of 2D seismic over our L-6 permit in Kenya completed on time and ahead of budget in February 2007
- Presentation of Madagascar bid to the Malagasy Government body (OMNIS) and initial contract negotiations in February 2007
- Commencement of the L-6 block FALCON® survey consisting of 6,273 line kms of data in March 2007
- Completion of the L-6 FALCON® survey in April 2007
- Completion of the lead and prospect mapping in Jamaica and expressions of interest sought from potential partner companies in May 2007
- Signing confidentiality agreements with potential partners for the Jamaica project from June to August 2007 and data room opens in Melbourne and Houston for potential partners to review exploration data and opportunity





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- Offer to takeover Finder Exploration Pty Ltd accepted by the board of Finder in August 2007
- Delivery of final seismic and FALCON® data products for L-6 in Kenya in late August 2007. Our team has been working to have our prospects mapped and drill ready by the end of this quarter
- Award of Cape D'Ambre exploration permit in Madagascar in late September 2007 subject to final contract negotiations in Antananarivo in early November
- Signing collaboration agreement with EAX to jointly look for further opportunities in Kenya in late September 2007
- Formal award of the France exploration project to Gippsland Offshore and our partner Gas2Grid Limited (GGX) of Sydney in early October 2007

We have made excellent progress in moving both our Kenya and Jamaica projects closer to having drillable prospects mapped and ready to drill or seek a partner for the ongoing work. Both projects are shaping up to be very interesting and Jamaica in particular has leads and prospects of a scale that is attractive to large oil companies. Progress with our farm-out of Jamaica has been slow thanks to us commencing the process as the northern hemisphere parties were all heading on summer breaks. All companies are back to business now and we are reigniting pursuit of a partner to join us in the next phase of exploration involving, most likely, further seismic and drilling.

Our new ventures activity has also been continuing, especially in east Africa where we have been building a knowledge base since reviewing our Kenyan opportunity last year. It prompted our bid in Madagascar with EAX and we are looking forward to commencing our exploration program there early next year.

We have also agreed to jointly look for opportunities in Kenya with EAX who are a Dubai based private oil and gas

company with links to a seismic acquisition company. They are seasoned explorers in east Africa and have exploration acreage in Madagascar, Tanzania, Mozambique, Kenya and the Seychelles in their own right.

Of course we are also pleased that our long application process for our French acreage is over and we have been awarded the St Griede permit in the Aquitaine Basin. Together with Gas2Grid, we will commence our 5 year exploration program in the new year. Although the 1,300km² project is smaller than our other areas, it is an important part of our portfolio. It will allow us to use FALCON® and existing data in a near field exploration play where geological and market risk is very low. By mapping extensions of existing fields using an environmentally friendly exploration tool such as FALCON®, we will develop a model for exploring this type of setting world-wide.

A detailed report on each of our projects is attached to this Business Review 2007.

The addition of these projects coupled with the fact that we are carrying out all of the geophysical work on behalf of our Kenyan and Jamaica joint ventures has meant we have expanded our team this year. We now have five geoscientists and a company secretary on our staff.

Throughout the year, all of our operations have been carried out in a safe and professional manner and there has been no major HSE incident.

During this year Gippsland Offshore has been continuing to lay the foundation for the future by building a strong portfolio of exploration assets with diverse objectives. This will continue to give our shareholders exposure to many growth options. We will also continue to apply our expertise in developing current assets and bringing on board more new projects with exciting prospects.

**Gippsland Offshore
Portfolio of projects**

France ★

★ Jamaica

★ Kenya

★ Madagascar

★
Gippsland
Basin





Business Review 2007 Outlook

At this time last year, we reported that in the climate of high oil prices, there is strong competition to secure quality exploration acreage around the world and, with high demand for exploration services and short supply comes increasing costs. Gippsland Offshore have proven to be successful at identifying, assessing and winning projects that offer potentially high rewards to our shareholders. Our strategy to seek acreage that has been ignored due to the failings of past technology and unlock the oil exploration potential with new technology has been working for us. Using the FALCON® technology as a lever and an exploration tool, we have added projects in Kenya, Madagascar and finally France to our portfolio this year.

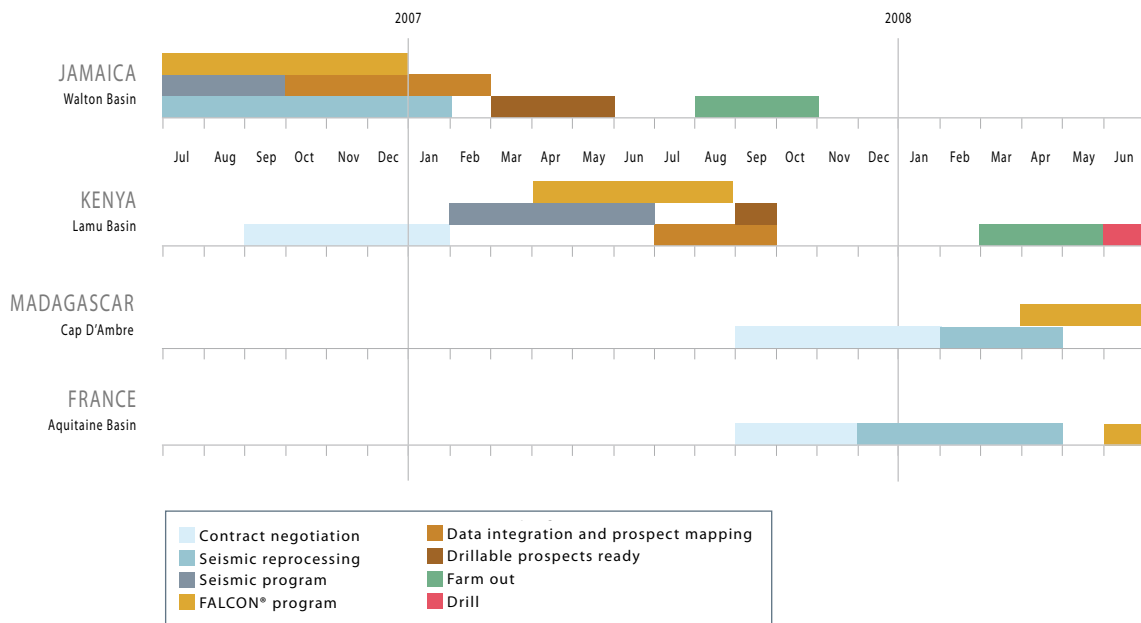
The following diagram shows our expected exploration plan for the coming year. Our projects are managed as best as we can so that as one project is finished in its technical requirements the next project is commencing. This has proven to be an effective way of most efficiently applying our resources and keeping our overheads low. Indeed, this year we have added three new members to our technical team including Ric Jason as Chief Geologist.

Ric's extensive experience throughout Africa and Australia whilst working with Hardman Resources and BHP Billiton Petroleum will be an exciting addition to our team. Our high quality projects and aggressive exploration philosophy is attractive to explorers like Ric.

Gippsland Offshore will continue to build on its success and expertise in using the airborne magnetic and airborne gravity data (in particular FALCON® data) to solve specific structural and lithological problems. The company's expertise in the use of these data is also allowing it to form strategic partnerships with other oil exploration companies to exploit opportunities outside and within Australia. We have added one strategic alliance this year – our alliance with East African Exploration to pursue additional exploration opportunities in Kenya.

Our offer to purchase Finder is the first step in our plan to grow our business and hence gain exposure to more and better projects and build our team's skills at the same time. We are continually reviewing opportunities for growth and to add strength to our portfolio.

Project Timetable



Jamaica Project

In January 2006, Gippsland Offshore together with their joint venture partners Finder Exploration Pty Ltd of Perth were jointly awarded exploration permits over 4 blocks in the Walton Basin, Offshore Jamaica. A fifth block was awarded out of round subsequent to this and the Jamaica Joint Venture (JJV) commenced their exploration program of the area shortly after.

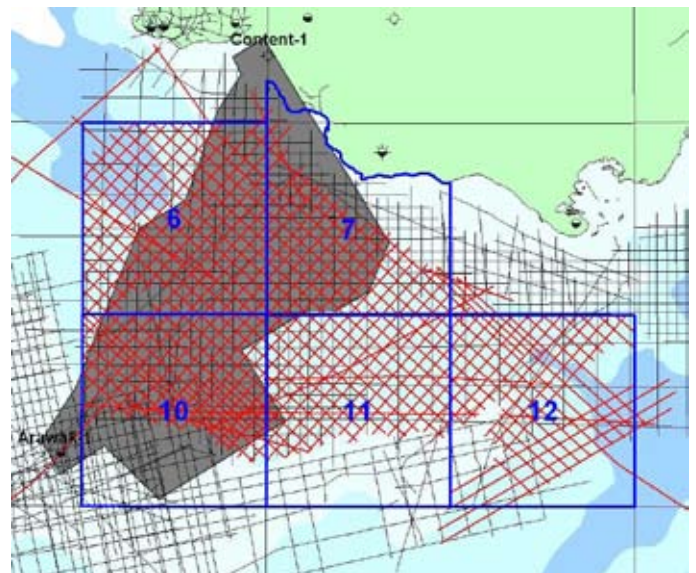
The Walton Basin had not been explored since the mid 1980's where the exploration was dictated by the poor quality seismic data available at the time. The area was of interest to Gippsland Offshore as 10 of the 11 wells drilled in the region had encountered hydrocarbons and there were a number of active seeps on the island of Jamaica itself. Reprocessing of four of the old seismic lines prior to the bid showed evidence for buried source rocks deep in the basin and opened up plays for the area primarily in the extensive reef system and titled fault block closures.

The five blocks awarded to the JJV cover an area of approximately 14,500km². The JJV has rights to explore the four blocks for a period of five years with an optional well commitment in the fifth year.

In March 2006, the Fugro operated Akademik Shatskiy began acquisition of approximately 7,000 line kms of long offset, 2D seismic data. Close cooperation with the fisherman in the Pedro Keys region on the southern margin of the Walton Basin was established to create minimum disturbance to their activities and acquisition was completed by the end of May with final products delivered to the joint venture in October.

The long offset (8km) streamer length was designed to acquire high quality data beneath the extensive reef system in the basin. It is here that the source rocks and deeper potential traps are located in the section.

The FALCON[®] technology was employed primarily to map structure, lithology of the basins and in particular to provide detailed information on the reefs which are the key exploration play for most of the region.



JJV extensive work program completed this year
New seismic program (red)
New FALCON[®] program (grey area)
Existing seismic data reprocessed (grey)





Jamaica Project

The FALCON® aircraft mobilised to Jamaica in April, 2006 and was the first survey that Gippsland Offshore flew with BHP Billiton under the FALCON® technology agreement. It was indeed, the largest FALCON® survey ever flown at 24,000 line kms. The survey was completed in August 2006 with final deliverables provided in early 2007.

This massive data acquisition program, the largest ever acquired in Jamaica, was completed well ahead of schedule, within nine months of awarding of the blocks. The permit terms allow for bringing forward work commitments and costs, and the JV has effectively completed the first four year data acquisition obligations in under one year.

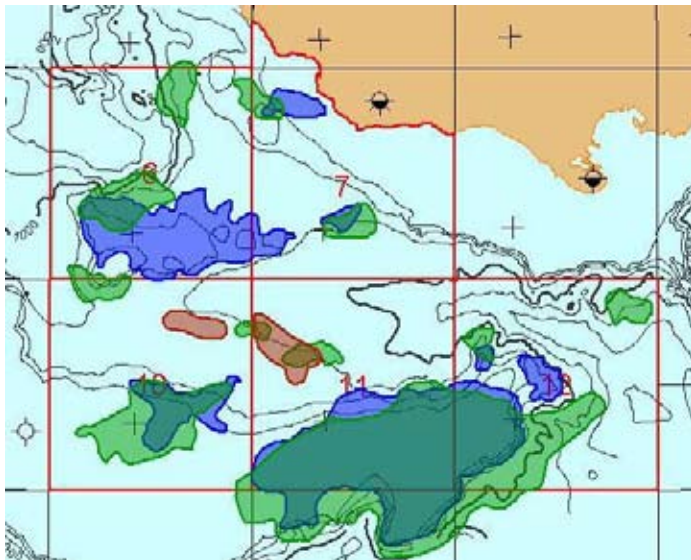
Since the delivery of the final data in the beginning of this year, Gippsland Offshore have been undertaking the data integration and interpretation of the Walton Basin data on behalf of the JVV.

The interpretation to date has revealed at least 16 leads, five of which have been increased to prospect status and are shown on the map below. These leads and prospects have significant potential with the prospects totalling an estimated, unrisks recoverable volume of approximately 3bbbls of oil equivalent. Because of this large potential, a number of large international oil and gas exploration companies have expressed interest in participating in the exploration going forward. It is our intention to bring in a partner who will share in the costs of drilling.

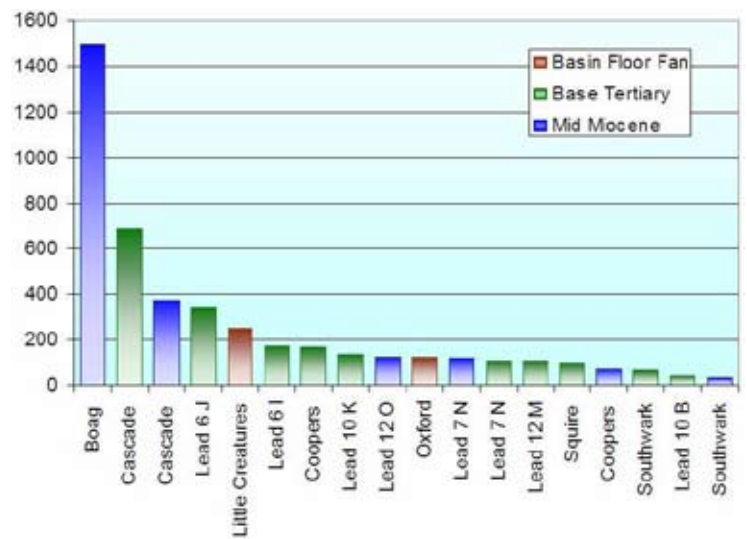
The JVV remains very excited about the exploration in the Walton Basin in the future.

Participants in the Jamaica Joint Venture are:

Gippsland Offshore Petroleum	50%
Finder Exploration Pty Ltd (Operator)	50%



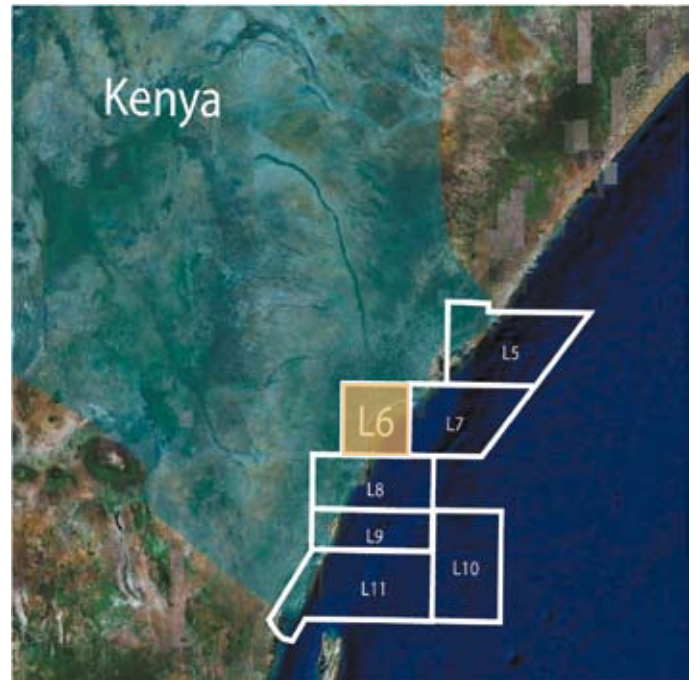
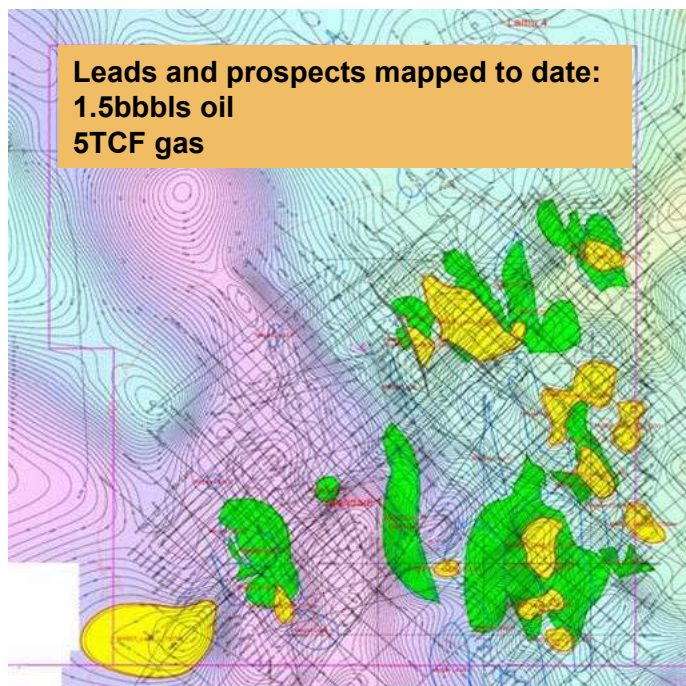
Leads and prospects
Colour coded by type
Red : Basin floor fan
Green : Base tertiary
Blue : Mid Miocene



Kenya Project

In January 2007, the Kenyan Government ratified the Gippsland Offshore farm-in to the Pancontinental Oil and Gas Production Sharing Contract (PSC) for Block L-6 offshore Lamu Basin. The image to the right shows the location of the L-6 block.

The addition of L-6 to the Gippsland Offshore portfolio is in line with our strategy as the area is poorly explored and understood but wells in the block indicate oil and gas prospectivity. To date, mapping in the block (by Woodside Offshore Petroleum and Pancontinental Oil and Gas) has located four key leads with potential to house an unrisked 1.1bbbls of oil and 5.5TCF of gas as shown in the figure below. The combination of the FALCON® data in the onshore and shallow water near shore areas, which comprise 27% of the block, together with the 2D seismic data in the deeper water offshore areas will accelerate the definition and evaluation of these prospects and aid in understanding the onshore tertiary basin which so far is covered by very little data.



Gippsland Offshore will operate the joint venture and has 60% equity following the spending of USD1.9M on exploration as agreed.

The L-6 area encompasses 4,918km² and due to the sparse data onshore, the mapped prospects are all currently offshore with hints of onshore potential.

One month after signing, the joint venture had completed its seismic commitment of 1,240 line kms and within four months of signing, the 6,273 line km FALCON® survey was completed. The location of the new seismic program (white lines) and FALCON® (red outline) are shown overleaf.

Gippsland Offshore is now undertaking the interpretation and integration of both data sets with the existing geological and geophysical data and defining drillable prospects. This process will be completed by the end of October, 2007.





Kenya Project

The L-6 joint venture, headed by Gippsland Offshore, will be entering a new phase of its PSC with the Kenyan Government towards the end of the year.

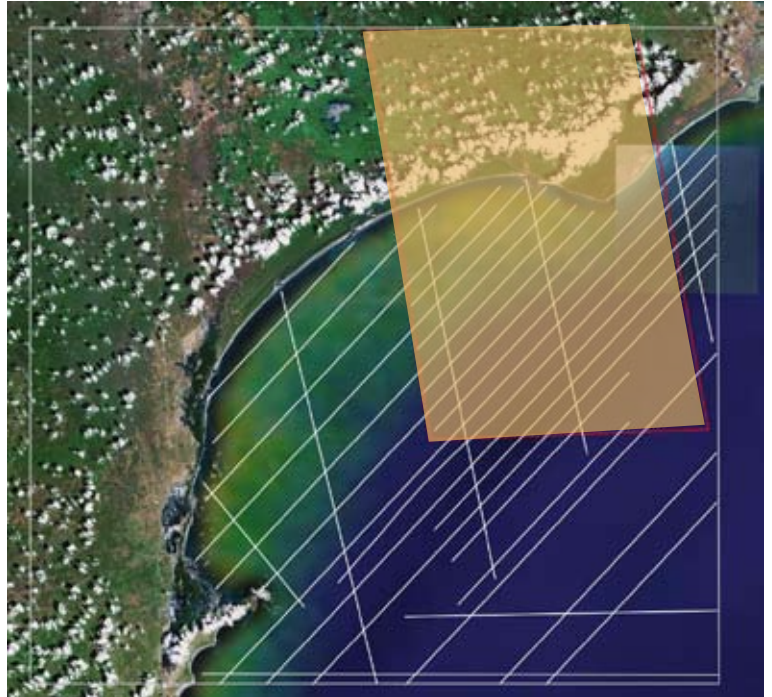
This next phase of exploration requires the joint venture to drill two wells in the next four years. These exploration wells may either be on or offshore.

The disappointing results of the Woodside offshore Pomboo-1 well in L-5 in early 2007 have not discouraged Gippsland Offshore from proceeding with significant investments in its Kenyan exploration activities. The prospectivity of the L-6 block is significantly different to that in the Pomboo area. Unlike L-5, in L-6 there is the presence of two major sediment depocentres believed to contain hydrocarbon generative source rocks. The presence of thick, good quality sandstone reservoirs in the Pomboo well was indeed a positive element for L-6.

Gippsland Offshore is using its experience in Kenya to look for other exploration opportunities in the country. We have recently announced that we have signed an agreement with East African Exploration Limited (EAX) to jointly bid on acreage in the country. EAX is Gippsland Offshore's JV partner in the Cape D'Ambre exploration permit offshore Madagascar and has acreage in their own right in Tanzania, Madagascar, Mozambique and Kenya.

EAX has exclusive access to Goresorber® surface geochemistry tool. Both the Goresorber® and FALCON® techniques are non invasive and allow exploration of vast areas both on and offshore cost effectively.

EAX, a wholly owned subsidiary of Black Marlin Energy, has built up a regional oil data base, with GeoMark Research in Houston which continues to be an invaluable tool assisting in acreage selection. It also has access to onshore, transition and marine seismic and petroleum seabed coring, through sister company Upstream Petroleum Services Limited.



L-6 work program
Seismic : white lines
FALCON® : yellow area

Participants in the L-6 joint venture are:

Gippsland Offshore Petroleum (Operator)	60%
Pancontinental Oil and Gas (PCL)	40%



Madagascar

Gippsland Offshore and its joint venture partner East African Exploration (EAX) of Dubai applied for two high potential offshore exploration permits from the Government of Madagascar in December 2006.

Following this, representatives from both companies were invited to present the bid and negotiate the contract terms in February of this year.

The Office for National Mining and Strategic Industries (OMNIS) have since offered a the Production Sharing Contract for the Cape D'Ambre area to the joint venture and at the time of writing, final contract negotiations are taking place.

Gippsland Offshore and EAX submitted bids for the Isle St Marie basin on the east of the Island and the Cape D'Ambre area to the north of the island.



Cape D'Ambre area in the north of Madagascar is shown in the pink box



Award area is shown in green



OMNIS viewed favourably our bid for the Isle St Marie Basin but after pressure from environmental lobbyists elected to not allocate this block for exploration for the foreseeable future due to the whale breeding in the area.

Offshore Madagascar is part of the under-explored East African margin which is generating considerable interest in the oil exploration sector following recent discoveries in the region. Since 2004, Madagascar petroleum exploration levels have increased with OMNIS having signed PSC's with ExxonMobil, Vanco Energy, Sterling Energy, Vuna Energy, Aminex and Tullow.

The FALCON® airborne gravity surveying technology played an important role in winning the exploration acreage as it will be crucial to geologically mapping these large, frontier areas before acquiring seismic data.

The Cape D'Ambre bid area encloses 16,000km². This large area will be explored over an 8 year period with drill or drop well obligations in the final phase of exploration.

In line with our strategy to fast track the exploration and targeting process, the JV will be commencing both the airborne geophysical and seismic data acquisition as soon as practical after the signing of the PSC.

To date, there is an estimated 20 billion barrels of oil in the yet undeveloped tar sands and heavy oil accumulations on the island's west coast. With only 10 exploration wells having been drilled in the offshore basins, the area is truly underexplored.

Early mapping of the two areas indicates excellent opportunity for oil and gas accumulations in the two areas.

Participants in the L-6 joint venture are:

Gippsland Offshore Petroleum (Operator)	60%
Pancontinental Oil and Gas (PCL)	40%



France

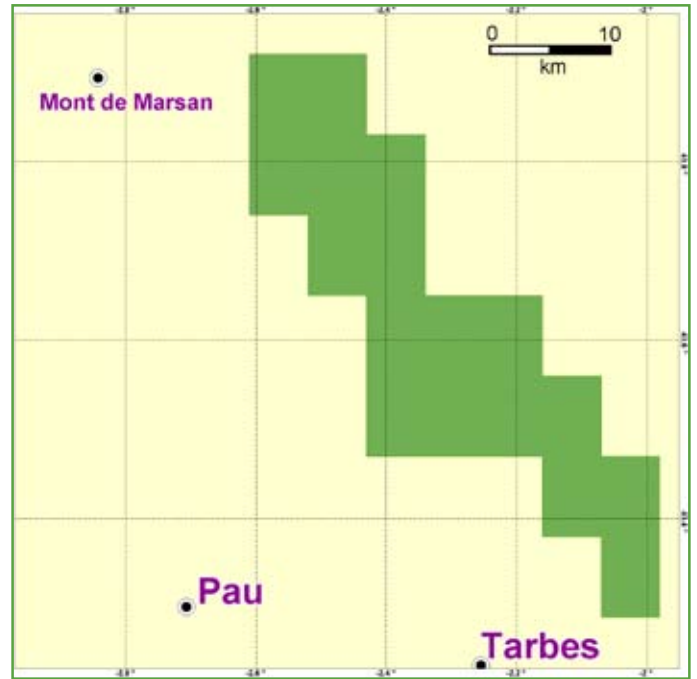
In mid 2005, Gippsland Offshore and Sydney based Gas2Grid Limited (GGX) formed a study group to review the opportunities in the Aquitaine Basin in France given Exxon had retreated from oil and gas exploration in the country. There has been no active exploration in the basin since the mid-1980's even though there have been 13TCF of gas and 450mmbbls of oil discovered to date. Markets and infrastructure are well developed, and the commercialization of even small discoveries is unlikely to be problematic.

The withdrawal of Exxon left the opportunity to access prospective acreage between known producing fields. Coupled with this, the eastern flank of the basin is very poorly explored and offers considerable "upside" opportunity.

We submitted a bid for exploration acreage in January 2006 and our application was formally granted at the end of September this year.

The area is centred on the small town of St Griede to the northeast of the regional centre of Pau within the Mirande Sub-basin.

The BHP Billiton FALCON® technology will play an important role in exploration of the block. As the system is airborne, we will make minimal disturbance to the ground in our initial geological mapping and prospect identification phase. This involves reprocessing of the existing seismic data, integration with the FALCON® and existing well data. The use of FALCON® in "near field" exploration to extrapolate knowledge from producing fields to neighbouring prospects we view as an important application of FALCON®, particularly in areas where ground access could be a problem.



The St Griede block sits west of the oil and gas fields of Lacq (9TCF gas, 31mmbbls oil), Meillon (2.3TCF gas), Vic Bilh (32mmbbls oil, 40bcf gas) and Pecorade (21mmbbls oil, 38bcf gas) as shown on the accompanying map.

Our exploration of the 1,300km² block will consist of new FALCON[®] data acquisition, seismic reprocessing and studies for the first three years and the drilling of two wells in the remaining two years. The joint venture will spend AUD6.5M in this five year period.

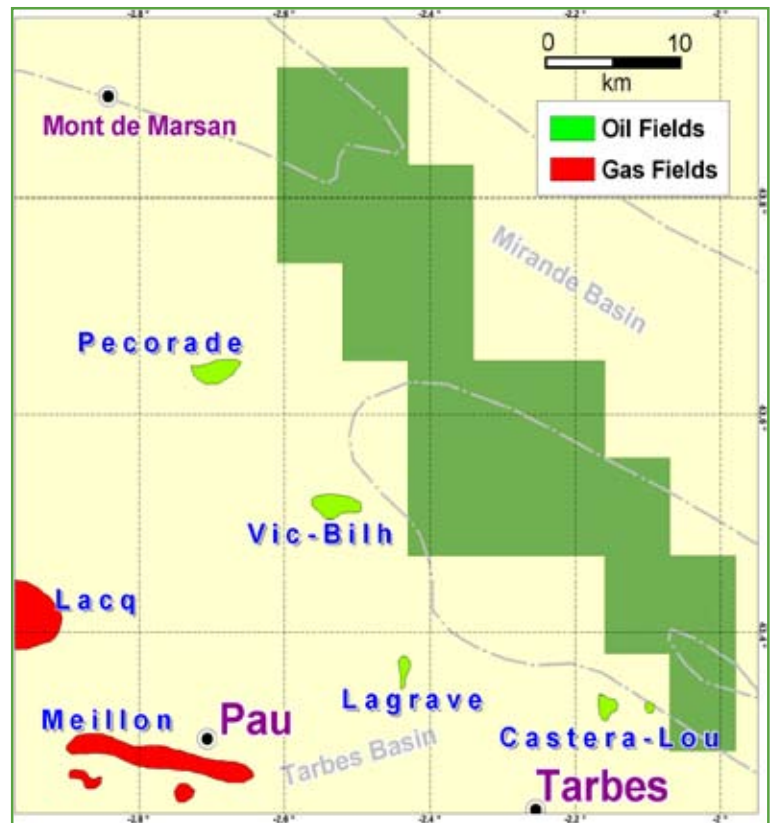
In our typical style, we will look to fast track the mapping of our drillable prospects with a view to bringing the wells forward in the program.

Indeed this model for near-field exploration, when fully implemented, will open up many more opportunities in similar areas where acquiring new seismic data is difficult.

We look forward to commencing our exploration program in the coming months.

Participants in the St Griede block are:

Gippsland Offshore Petroleum	50%
Gas2Grid (GGX) (Operator)	50%



St Griede permit area showing proximity to producing fields



St Griede church and surrounding countryside



Gippsland Offshore began life by farming into three blocks on the margin of the Gippsland basin by drilling three wells in late 2005.

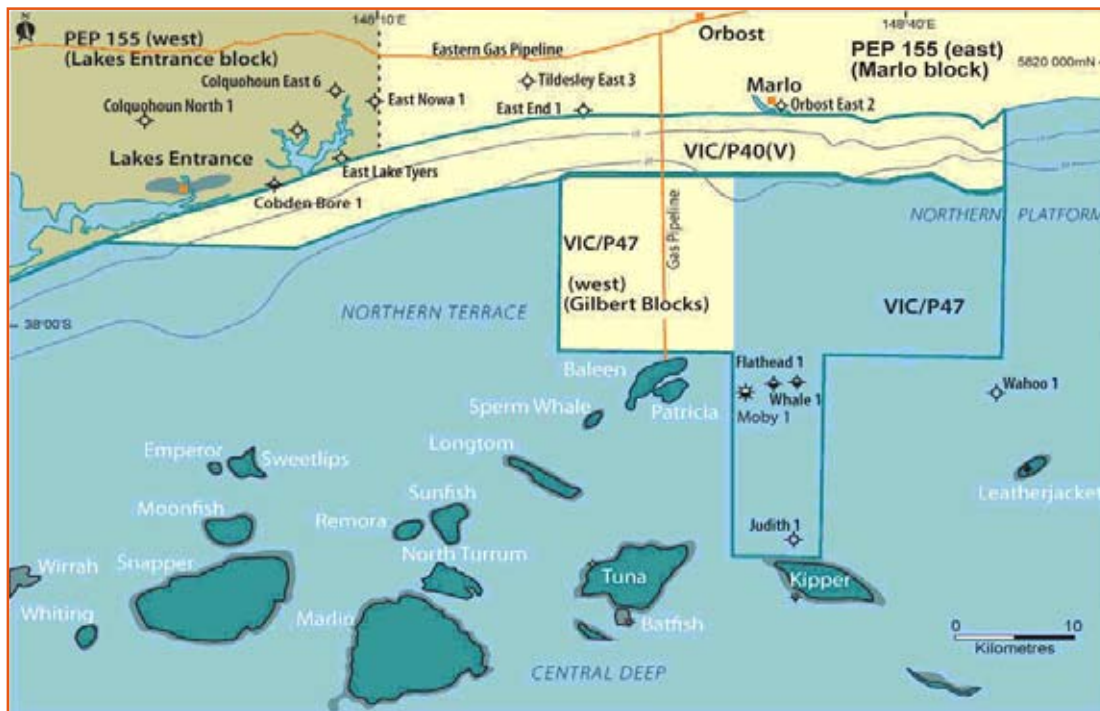
The three blocks were VIC-P-47 (Gilbert Block), VIC-P-40(V) and PEP-155 (Marlo Block) as shown in the location map following.

The margins of the Gippsland Basin remain relatively unexplored regardless of oils in the basin known to be migrating “up dip” towards these flanks. The three wells drilled by Gippsland Offshore did not discover commercial quantities of hydrocarbons and although this is disappointing for the company, the objective of proving hydrocarbon migration and accumulation towards the margin has been achieved for the Gilbert Block through the presence of residual and biodegraded oils found in the Gilbert-1 well.

The results of the Gilbert-1 well and subsequent geological studies revealed that the onshore blocks were unlikely to contain commercial quantities of hydrocarbons and on this basis, only VIC-P-47 remains in our portfolio.

The Gippsland basin permits were effectively and efficiently explored using the BHP Billiton FALCON® system. In this area there was little seismic data and the integration of these data and the detailed FALCON® data allowed us to define the structural framework of the region and in particular, the pathway along which oil spilt from offshore fields would be focused towards the Marlo area onshore.

It was Gippsland Offshore’s first experience of FALCON® and its impact on exploration. Since then it has proven an important tool in allowing us to achieve our goals.



VIC-P-47 Gilbert Block





Participants in the VIC-P-47 (Gilbert Block) are:

Gippsland Offshore Petroleum	51%
Bass Strait Oil (BAS) (Operator)	0%
Eagle Bay Resources (EBR)	10%
Lakes Oil (LKO)	26%
Moby Oil and Gas (MOG)	10%
Stellar Resources (SRZ)	3%





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Notes from AGM 25 November





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