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## Gippsland Offshore Petroleum 07 Mar, 2007

### Local Explorer With a Global Vision

#### **GOP; Buy up to 20c**

Petroleum exploration is a high risk, but potentially a spectacularly high reward game. At the junior end of the market, it is not for the faint-hearted as it requires experienced personnel, innovative ideas, financial backing and the ability to forge strategic alliances and joint ventures.

Gippsland Offshore Petroleum Ltd (GOP) is a Melbourne based company that provides all of these facets in its aggressive quest to explore in frontier territories around the globe. Don't be fooled by the name – this is a company searching the globe for untapped petroleum wealth with the technical support of this country's biggest resource player – BHP Billiton.

*“Gippsland Offshore Petroleum is quickly gaining a reputation within the petroleum industry for its frontier exploration plays, something of an embryonic ROC Oil or Hardman Resources. The current low point in the GOP price cycle provides an opportunity into the speculative end of the petroleum sector.”*

In addition to coastal and offshore Gippsland Basin acreage, where GOP drilled three unsuccessful wells in late 2005, the company has since accumulated strategic positions in:

- 5 large blocks offshore Jamaica (50%);
- a 60% interest in Lamu Basin block offshore Kenya; and
- a bid pending within the highly productive onshore Aquitaine Basin in southern France.

Gippsland Offshore Petroleum executive management has strong petroleum industry experience:

- Chairman, Phillip Harman: a geophysicist with over 30 years with BHP Billiton
- Managing Director, Catherine Norman: a petroleum geophysicist with 20 years experience. Previously she headed World Geoscience's Eastern European and Middle East businesses, providing her with extensive global experience and was closely involved in cutting edge airborne survey technology
- Exploration Manager, Peter Nicholls: also has over 20 years experience as a petroleum industry geophysicist with BHP Billiton Petroleum.

*GOP's strategy 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."*

A key component of GOP's strategy is a strong alliance with BHP Billiton through its FALCON® airborne gravity gradiometry technology. Chairman, Phillip Harman, was first involved in bringing FALCON® to the wider market through his involvement in ASX listed Gravity Capital (now Gravity Diamonds).

Following the success of the FALCON® system in helping GOP to unlock the geological story in the Gippsland Basin, the company signed an agreement with BHP Billiton in March 2006 to access this propriety technology on an exclusive and global basis. The agreement gives BHP Billiton the option to participate in GOP projects in which the FALCON® technology is used and hence, GOP has a possible large partner in the event of a discovery. Any new application of FALCON® technology for oil exploration developed under the agreement is available for the independent use of either party.

Not only has the exclusive access to this technology assisted GOP to assess and understand the geology of its properties in a more rapid manner, but it has also been a significant negotiating tool in GOP's acquisition of large strategic exploration areas, such as Jamaica. It also allows GOP to apply high resolution gravity technology in exploration areas where seismic methods may be challenged for either logistical or geological reasons.

### **The FALCON® Technology**

The FALCON® airborne gravity gradiometry technology, developed by the US military and BHP Billiton, was first commissioned by BHP Billiton and commenced flying in 1999. It is mounted in a light aircraft and its deployment is very similar to conventional airborne magnetic, electromagnetic and radiometric systems. It measures subtle changes in the Earth's gravitational field over distances of a few hundred metres.

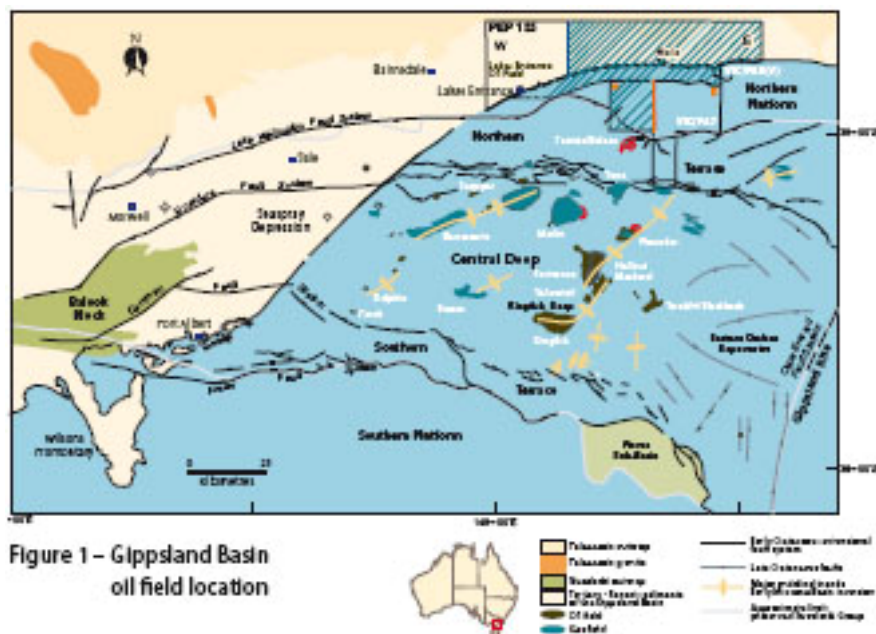
The technique has the advantage of being capable of measuring shorter wavelengths (ie. higher spatial resolution) than conventional airborne gravity methods can achieve. It has applications in unexplored, underexplored and more mature regions. In relation to petroleum exploration, the system aids the detailed mapping of deep geological structures which can be combined with other exploration techniques to pinpoint hydrocarbon accumulations.

The FALCON® technology not only makes high resolution rock density (and hence, maybe porosity) mapping possible, but it also leads to an accelerated exploration process, reducing costs and increasing the rate at which targets are identified, ranked and drilled.

## Gippsland Basin

Gippsland Offshore Petroleum was formed in late 2004, and listed on the ASX in January 2005, to explore and test new theories on the hydrocarbon migration and traps in the mature Gippsland Basin, offshore Victoria, Australia. This world class hydrocarbon province accounted for 21% of Australia's total gas sales and 17% of the country's crude oil production in the 2002-2003 financial year. However, little was known about the up-dip position from the productive basin, along the onshore and coastal Gippsland zone.

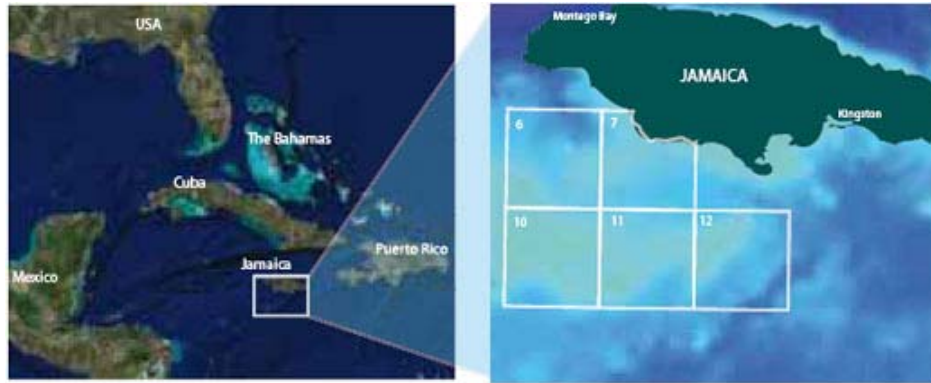
Gippsland farmed in (51%) to 3 exploration blocks on the margin of the Gippsland Basin: the onshore PEP-155 Marlo Block, VIC-P-40(V) along the coastal strip and the offshore VIC-P-47 Gilbert Block.



The FALCON® system was first tested by GOP in this region, successfully aiding the geological interpretation of the near shore Gippsland Basin. While a 3-well drill campaign in 2005 was technically successful in pinpointing interpreted reservoirs with evidence of migrated hydrocarbons, it was not commercially successful. GOP has retained its 51% interest in the Gippsland Basin blocks however is re-evaluating its position.

## Jamaican Joint Venture

After the technical success of the FALCON® system in the Gippsland Basin, and subsequent exclusive agreement to use that technology globally, GOP went in search of suitable areas where the technology would provide a distinct advantage in exploration. The first area identified in which GOP was able to obtain an interest was the Walton Basin, offshore Jamaica. In early 2006, the Jamaica Joint Venture (GOP 50%) was awarded 5 exploration blocks for a 5 year period, covering about 14,500 sq km of the highly prospective Walton Basin, immediately southwest of Jamaica in the Caribbean Sea (see below).

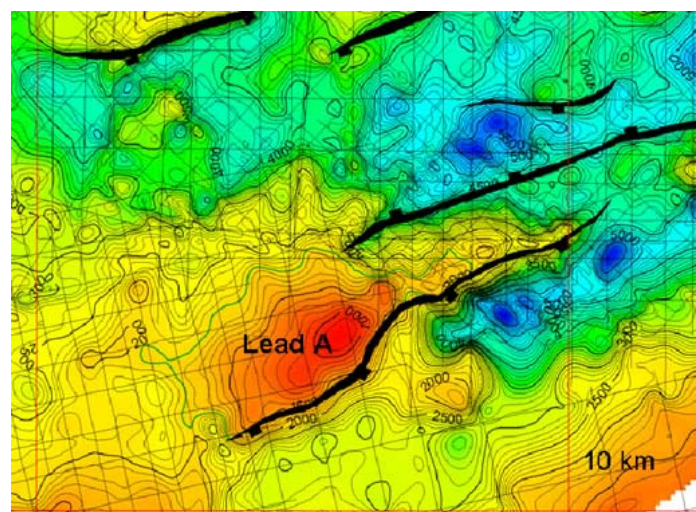


Source: Company

This is the first time in 20 years that Jamaican petroleum exploration licences had been awarded. The area was viewed as a sleeping giant, with unrisken potential for 3 billion barrels of oil, as only poor quality seismic data had been utilised up to the 1980s. Despite this fact, 10 of 11 wells previously drilled in the region recorded oil shows. This provided GOP with the opportunity to use its cutting edge FALCON® technology.

At a time of high petroleum exploration activity worldwide and a shortage of equipment, GOP was able to fast track its exploration program on the Jamaican venture area during 2006. Acquisition of 2-D seismic data commenced in March 2006, with the FALCON® survey commencing in April. By September 2006 data from these programs had been delivered to GOP. This massive data acquisition program, the largest ever acquired in Jamaica, was completed well ahead of schedule, within nine months of award of the blocks. The joint venture has effectively completed the first four year data acquisition obligations in one year.

Integration, processing and interpretation of the data set by GOP (as operator) has been underway, in conjunction with additional technical expertise from BHP Billiton, since late 2006 and many leads have been mapped to date. This work is continuing and leads will be ranked according to their priority. GOP released an image of one of its leads in the December quarterly report. According to GOP, this lead has the potential to contain 1.5bbbls of oil (see below).

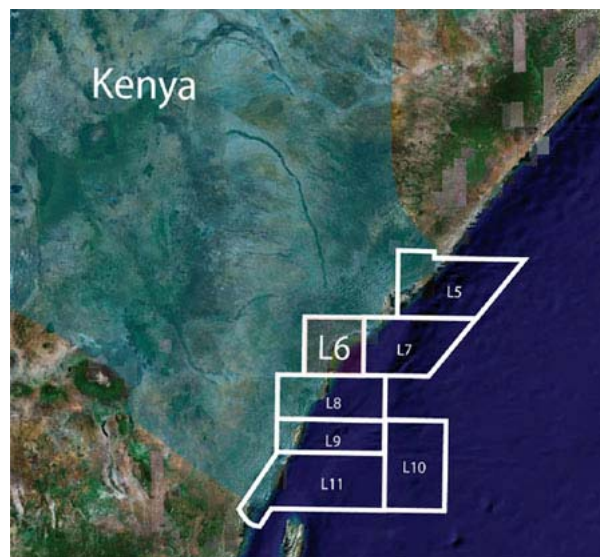


Source: Company

Stock Resource anticipates that, following an outlay of around \$10m to date, to further the Jamaican project, once targets have been prioritised in the first half of 2007, GOP will need to introduce a larger cashed-up partner to help fund any drilling activity.

### **Kenyan Lamu Basin**

In September 2006, GOP announced a successful farm-in agreement with ASX listed Pancontinental Oil & Gas NL on the Production Sharing Contract (PSC) for Block L-6 offshore Lamu Basin, Kenya. The location of the block, encompassing 4,918 sq km, is shown superimposed on a GoogleEarth™ image below. Woodside has recently been drilling in the same basin.



Source: Company

The addition of this project to the GOP portfolio is in line with the strategy of using FALCON® to gain access to prospective ground where the application of seismic data is more difficult. The area is poorly explored and understood but previous wells in the block indicate oil and gas prospectivity.

To date, mapping in the block has located four key leads with potential to house an unrisks 1.1bbbls of oil and 5.5TCF of gas. The combination of the FALCON® data in the onshore and shallow water near shore areas, which are 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 is currently covered by very little data. Kenya has high petroleum prospectivity, attractive Government commercial terms, and proximity to the growing East African and Indian energy markets.

GOP announced on 28 February 2007 that the 1,240 line km seismic program had been completed, on time and under budget. The FALCON® airborne survey is now scheduled for start up in mid-March. By spending US\$1.9m (as operator) on these two surveys GOP will have earned its 60% equity in the Lamu L-6 Block. Interpretation of the data from these surveys is expected by August 2007 in preparation for the drilling phase.

### **Aquitaine Basin, France**

In mid 2005, GOP and ASX-listed Gas2Grid Limited formed a study group to review opportunities in the Aquitaine Basin in southern France. There has been no active exploration in the basin since the mid-1980s even though there has been 13TCF of gas and 450mmbbls of oil discovered to date.

Markets and infrastructure are well developed, and the commercialisation of even small discoveries is likely to be feasible. Prospective acreage between producing fields has become available recently. Coupled with this, the eastern flank of the basin is very poorly explored and offers considerable opportunity. The company bid on approximately 2,500 sq km of exploration acreage in January 2006. The application remains in process at national and regional government levels in France, with a determination expected within coming months.

The area is centred to the northeast of the regional centre of Pau within the Mirande Sub-Basin as shown in the figure below. The BHP Billiton FALCON® technology is expected to play an important role in exploration of the block. As the system is airborne, it will make minimal disturbance to the ground in the initial geological mapping and prospect identification phase. This involves reprocessing of the existing seismic data, and integration with the FALCON® and existing well data.



Source: Company

### **Discussion and Recommendation**

Stock Resource believes that GOP is well managed and is comfortable with its proven ability to raise funds. Despite a large exploration outlay in 2006, particularly on the Jamaican blocks, GOP ended the year with \$7.1m in the bank which we expect to cover the forecast expenditure for 2007 – the target generation phase. While the news flow over the first half of 2007 is expected to concentrate on outlining drill targets, we anticipate that GOP will continue to aggressively pursue strategic positions in underexplored petroleum basins around the globe.

Gippsland Offshore Petroleum has in a matter of just over twelve months picked up large tracts of acreage in highly prospective, frontier petroleum exploration regions of Jamaica and Kenya. The company has in that time shown a proficiency for fast tracking exploration programs on these projects. Interpretation of the acquired geophysical data will lead to drill plans on both projects later in 2007. At that time the company would need to look at the funding alternatives available to go forward to drilling phases.

The strategic alliance that GOP has formed with BHP Billiton via exclusive global rights to its FALCON® airborne technology will continue to be instrumental in its ability to become the preferred partner in future prospective hydrocarbon exploration opportunities. And remember that BHP has the right to participate in any exploration success by GOP.

As a result, we believe that GOP is positioning itself well to reap the rewards from an aggressive exploration strategy. The current price weakness provides an opportunity to get set in a good quality, speculative petroleum explorer. Hence, **Stock Resource recommends Gippsland Offshore Petroleum as a Buy for all Members up to 20c.** As Gippsland Offshore Petroleum can be a thinly traded stock, Members may need to exercise a degree of patience to achieve an entry point as recommended by Stock Resource.

### Share Price Graph



The author discloses that he is a shareholder of Gippsland Offshore Petroleum.

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