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Gippsland Offshore Petroleum Ltd (GOP)

Speculative Buy

High equity interests in prospective exploration acreage world-wide

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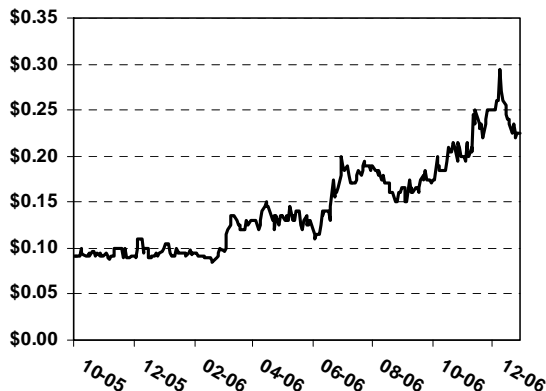
Summary

Market Cap \$M	\$27.9
Share Price	\$0.215
52 Week Low	\$0.09
52 Week High	\$0.33

KEY POINTS

- Large equity positions in highly prospective exploration projects
- Exclusive rights to BHP Billiton developed and owned FALCON® airborne gravity tool for oil and gas exploration
- Quality management on both a technical and corporate front.
- Small market cap compared to peers

Share Price Graph (\$A)



Key Points

- Gippsland Offshore Petroleum Limited (“Gippsland Offshore”) was born after the raising of A\$12M at the end of 2004 to farm into 3 blocks on the margin of the Gippsland Basin.
- After listing on the ASX in 2005, Gippsland Offshore drilled two onshore wells in PEP-155 and the offshore Gilbert Prospect in VIC-P-47 which, although encountered hydrocarbons, was non-commercial.
- Gippsland Offshore has secured exclusivity over the use of the BHP Billiton developed and owned FALCON® airborne gravity gradiometer tool for oil and gas exploration. This gives the company a unique position in being able to use this technology in their exploration projects and under their agreement with BHP Billiton, has a large potential partner in the event of a discovery. BHP Billiton retains an option to buy into projects Gippsland Offshore generates or it can match any JV proposal that they receive.
- Gippsland Offshore holds a 50% interest share in a large exploration acreage (14,500km²) in the highly prospective Walton Basin offshore Jamaica. The company committed to spend A\$5M on exploration in 2006 to identify drillable prospects. Early mapping done in the basin indicates the potential for 3 billion barrels of oil in place in the reef plays.
- Gippsland Offshore announced 29th August 2006 that they have signed a Farm-in Agreement with Pancontinental Oil and Gas NL to earn a 60% interest and operatorship of the L-6 block in the Lamu Basin in Kenya through the spending of US\$1.9M on a seismic/FALCON® program over the next 12 months with a view to drilling in late 2007.
- Gippsland Offshore’s strategy to take large equity positions in highly prospective areas and add significant value through their expertise and technology makes them an attractive small capped stock with considerable upside.

Directors

Philip Harman
Cathy Norman
Nicholas Limb
Robert Annells
Bill Michaelidis

Chairman
Managing Director
Director
Director
Company Secretary

Background

Gippsland Offshore listed on the ASX in Jan 2005 after the raising of A\$12M in late 2004.

Gippsland Offshore Petroleum Limited ("Gippsland Offshore") was born after the raising of A\$12M at the end of 2004 to farm into 3 blocks on the margin of the Gippsland Basin. Three wells were drilled to test for the trapping of hydrocarbons migrated up dip from the main accumulations in the basin. The company subsequently listed in January, 2005.

The company spent approximately A\$7M in 2005 by drilling two onshore wells in PEP-155 east of Lakes Entrance and the offshore Gilbert Prospect in VIC-P-47 which, although successful in encountering hydrocarbons, was non-commercial.

Gippsland Offshore have shifted their focus from the margin of the Gippsland Basin in Victoria to the Walton Basin offshore Jamaica.

During this time, Gippsland Offshore bid on acreage offshore Jamaica in the Walton Basin with Finder Exploration Pty Limited ("**Finder**"). The area had not been licenced for over 20 years and the company recognised that the application of new technologies such as long offset seismic and the FALCON® airborne gravity gradiometer system would be important in exploring the region. Extensive, thick sea floor carbonates had rendered the pre-1985 seismic surveys limited in mapping the underlying source rocks and the potential intra-carbonate reef reservoirs.

Gippsland Offshore signed an exclusive agreement with BHP Billiton for access to their FALCON® airborne gravity gradiometer system on a global basis.

The award of the Jamaican acreage and signing of the agreement with BHP Billiton to access their FALCON® technology on an exclusive, world-wide basis for oil and gas exploration together with the contacts and expertise of the Managing Director and Exploration Manager shifted the focus of the company away from the Gippsland Basin.

Gippsland Offshore have strong shareholder support for their projects and raised a further A\$6M in June 2006.

In June 2006 Gippsland Offshore raised A\$6M through a private placement to continue exploration in Jamaica and investigate new venture activities.

The company is expanding their offshore ventures by farming into the Lamu Basin offshore Kenya with Woodside Petroleum, Origin Energy and CNOOC (Chinese National Oil Operating Company) as their neighbours.

The company announced on 29th August 2006 the signing of a farmin agreement with Pancontinental Oil and Gas NL to earn a 60% interest and operatorship of the L-6 block in the Lamu Basin in Kenya. Gippsland Offshore will earn its interest through the spending of US\$1.9M on a seismic/FALCON® program over the next 12 months with a view to drilling in late 2007. The Lamu Basin is viewed by many companies as being a highly prospective, under explored region where Woodside Petroleum and Origin Energy have secured interests in neighbouring blocks in the last 3 years. Woodside recently announced a 2 well program in Blocks L-5 and L-7 with Repsol scheduled for late 2006. Gippsland Offshore will have a commitment to drill in the L-6 block in late 2007 if a suitable target is found following the forthcoming exploration program.

Gippsland Offshore advised its shareholders that together with joint venture partner (50%) Gas2Grid Limited (GGX) it had lodged an exploration licence application with the French Government for an area within the prolific Aquitaine Basin. A determination of the application is anticipated in early 2007. The Aquitaine Basin is a proven hydrocarbon basin with over 13TCF of gas and 450 mmbbls of liquid hydrocarbons having been discovered.

The expansion into high quality international projects has been well received by the Gippsland Offshore shareholders and the share price has risen from the post non-commercial Gilbert-1 well price of A8.5c to A21.5c with announcements of the company's new deals. The market capitalisation of the company has grown from A\$5M to A\$27.9M during this period.

Projects

Gippsland Offshore's projects are:

- Walton Basin, Jamaica (50% Blocks 6, 7, 10, 11, 12) totalling 14,500km²
- Gippsland Basin margin, Victoria (51% VIC-P-40(V), 51% VIC-P-47 Gilbert Block) totalling approximately 1,000km²
- Lamu Basin, Kenya (earning 60% L-6) totalling 4,500km²
- Aquitaine Basin, France (50%)

JAMAICA

Gippsland Offshore are a 50% equity holder in the Jamaica Joint Venture (“JJV”) that signed the PSA’s for blocks 6, 7, 10, 11 and 12 in the Walton Basin with the Petroleum Corporation of Jamaica in January 2006. The JJV commenced acquisition of 7,000 kms of long offset 2D seismic 2 weeks after the signing and the program was completed in May 2006. The BHP Billiton FALCON® survey commenced at the end of April and was completed in late August.

The company was committed to spending A\$5M on this exploration program in 2006.

Gippsland Offshore committed to A\$5M in expenditure in Jamaica during the 2006 calendar year.

Gippsland Offshore will be undertaking the geophysical interpretation of the data on behalf of the JJV and are aiming to have prospects identified for drilling by the end of the year.

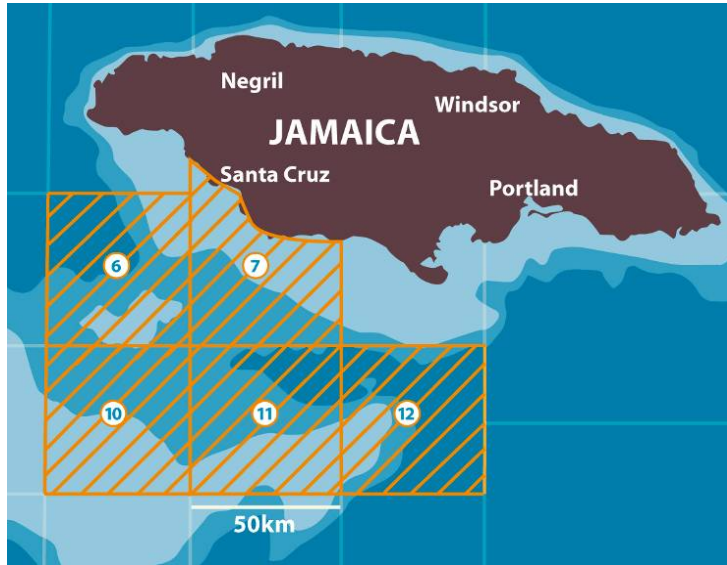
Gippsland Offshore was attracted to the Jamaica project as previous mapping of the reef structures shows the potential for 3 billion barrels (unrisked) of oil, 10 of the 11 wells drilled in to the region have oil and gas shows and for the projects close proximity to the US market.

Initial mapping calculates 3bbbls of unrisked potential oil inground reserves in Jamaica. The company, with their partners have a large stake in the Walton Basin, offshore Jamaica

The company's aim is to drill or seek a partner for drilling in the new year.

It is unusual for a junior sized company to undertake such a thorough exploration program in such a short time frame. It is likely that given the technical skills of the company and the identification of drillable prospects that a potential farmout JV to a larger oil company for drilling is well on track.

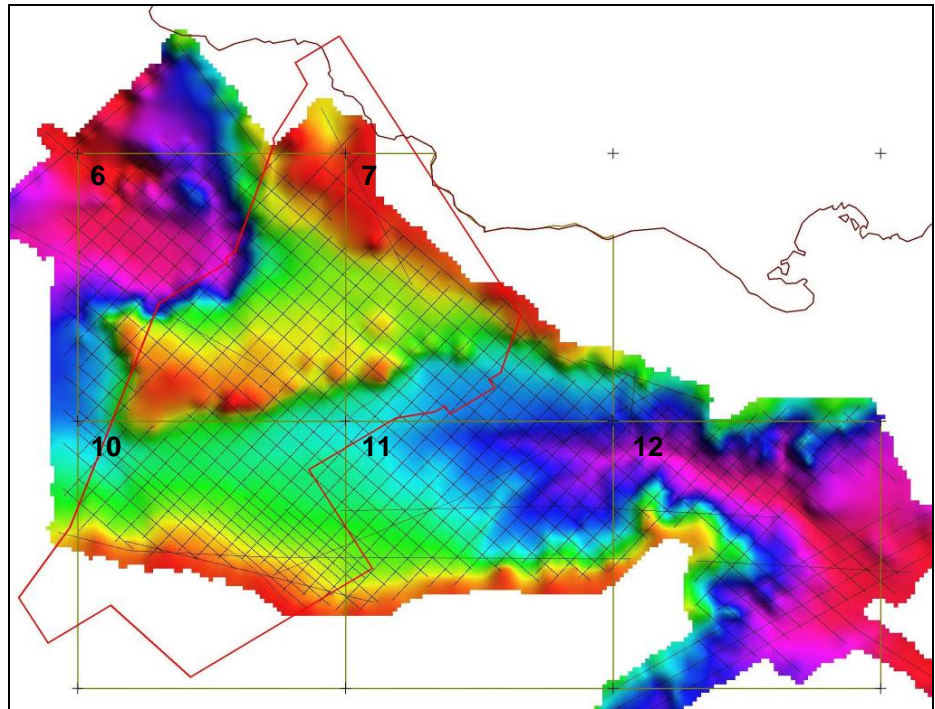
It is worthy to note that the Jamaican Government has previously announced that Petrobras, the Brazilian state oil company is considering prospecting off the coast of Jamaica. Petrobras have recognised that the region is under explored and potentially highly prospective.



(Source: image from Gippsland Offshore web page)

Acreage location map showing Gippsland Offshore's landholding offshore Jamaica

Gippsland Offshore have completed their 3 year geophysical exploration program in 8 months.



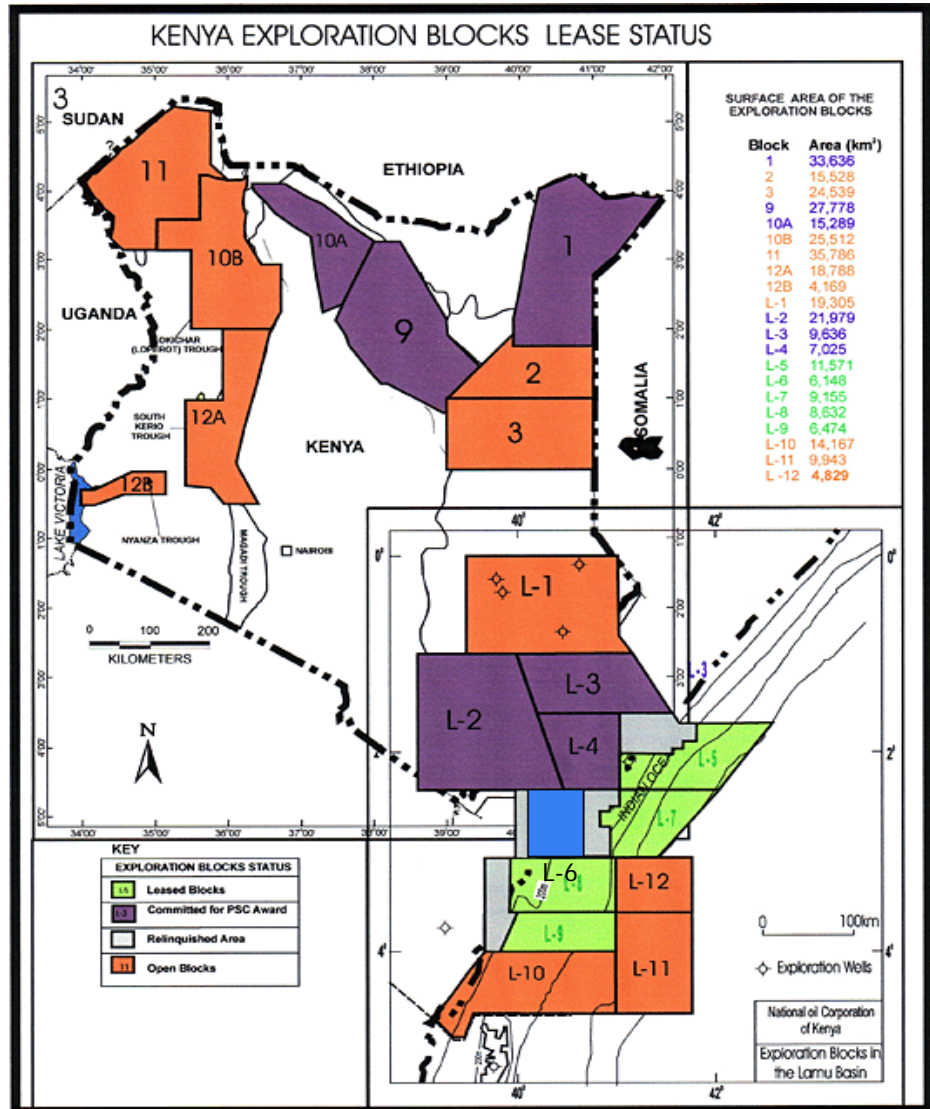
(Source: image from Gippsland Offshore web page)

Gippsland Offshore's Jamaica work program : seismic grid and FALCON® survey outline (red), shown over the bathymetry image

KENYA

Gippsland Offshore earning 60% of the L-6 block offshore Kenya.

Gippsland Offshore announced in August 2006 that they have signed a Farm-in agreement with Pancontinental Oil and Gas NL to earn a 60% interest and operatorship of the L-6 block in the Lamu Basin in Kenya. The company will spend US\$1.9M on a seismic/FALCON® program over the next 12 months with a view to drilling in late 2007. The Lamu Basin is viewed by many companies as being a highly prospective, underexplored region where Woodside Petroleum and Origin Energy (L-8, L-9) have secured interests in neighbouring blocks in the last 3 years. Woodside recently announced a 2 well program in Blocks L-5 and L-7 with Repsol.



Kenya licence map :showing the Gippsland Offshore L-6 block location.

BHP Billiton FALCON® application key to exploration in the block

Gippsland Offshore will have a commitment to drill in the L-6 block in late 2007 if a suitable target is found following the forthcoming exploration program. The company will use a seismic crew currently shooting 2D seismic for Origin Energy in blocks L-8 and L-9 to reduce mobilisation charges.

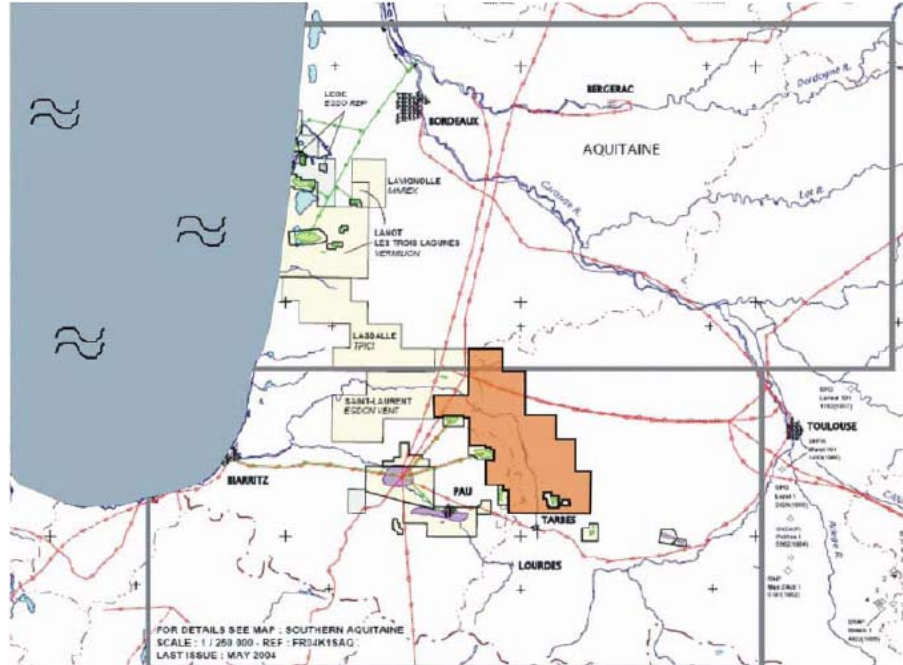
Mapping to date shows leads of 1.1bbbls of oil and 5TCF of gas (unrisked) in the block.

FRANCE

The Company together with joint venture partner (50%) Gas2Grid Limited of Sydney (GGX) has lodged an exploration licence application in the Aquitaine Basin.

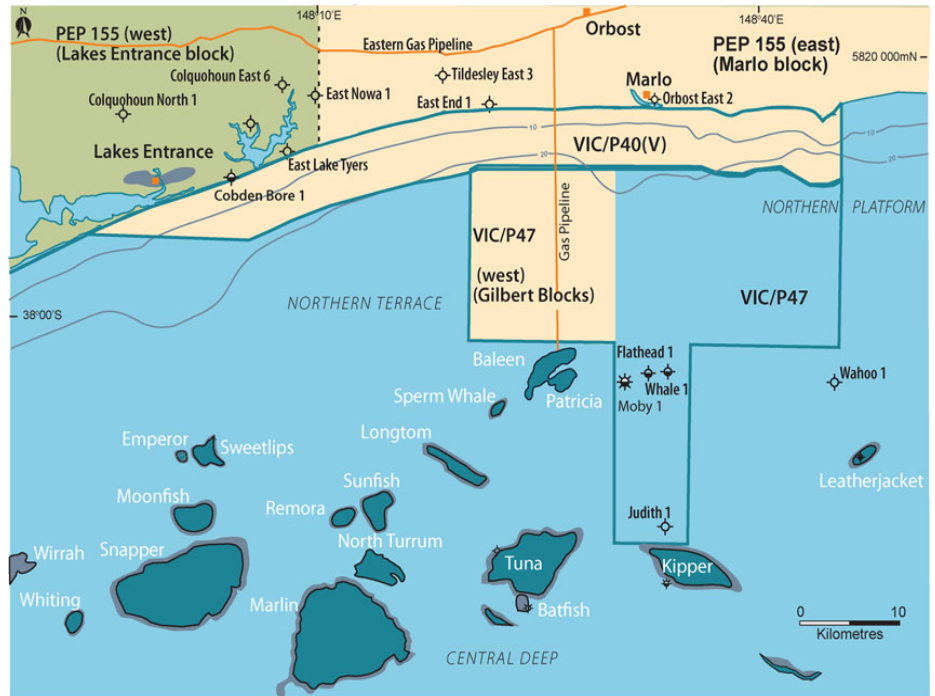
The Aquitaine Basin is a proven hydrocarbon basin with a long history of discovery and production with discoveries of over 13TCF of gas and 450 mmbbls of liquid hydrocarbons having been discovered.

The application remains in process with a decision anticipated early in 2007.



Aquitaine Basin – Area of interest location map showing Gippsland Offshore’s landholding

GIPPSLAND BASIN



(Source: image from Gippsland Offshore 2005 Annual Report – captions appended independently)
Acreage location map showing Gippsland Offshore’s landholding

Gippsland Offshore’s Gippsland Basin acreage is shown highlighted in the above map. Required activity on these blocks is minimal for the forthcoming year with an optional well planned for VIC-P-40(V) in 2008. The company is still collating the information resulting from last year’s drilling program before planning future exploration of the blocks.

Exploration Focus and Strategy

The company's focus is to deliver prospects ready for drilling at the Jamaica project by the end of 2006 and by the middle of 2007 for Kenya.

The company has a strategy of looking for opportunities in areas where traditional exploration techniques have been challenged either by the geology or geography. They have a mandate of focusing on areas known to be producing oil and gas where they can unlock this potential using their expertise.

Through the identification of under explored prospective areas, the use of FALCON® and the forming of strategic alliances with companies that can bring required expertise enables Gippsland Offshore to pursue its growth strategy.

Conclusion and Recommendations

The well planned and fast-tracked exploration in Jamaica and Kenya together with the highly prospective acreage holdings and the BHP Billiton technology agreement underpins our future confidence in Gippsland Offshore.

The Company is well managed by MD Cathy Norman. Cathy is a professional geophysicist with over twenty years experience in the minerals and oil and gas industries. Her previous role was MD of Fugro Airborne Surveys UK, generating and carrying out airborne mapping projects in Europe, Middle East and North Africa.

The company is well funded with A\$7.2M (end Dec) in cash, of which \$0.7M is committed to Jamaica and \$2.5M is committed to Kenya to year end.

Gippsland Offshore has demonstrated its ability to apply for large acreages in frontier locations. We see similarities in this business model to Hardman Resources.

From a junior explorer Hardman Resources capitalised on its successful Mauritanian oil play before a friendly takeover by London's Tullow Oil when its market capitalisation had reached A\$1.47 billion.

We consider Gippsland Offshore to represent the next junior explorer to gain market recognition for its recipe of acquiring large prospective area of hydrocarbon basins that have been ignored by the main players.

Gippsland Offshore's market capitalisation of \$27.9M makes an attractive buy versus similar explorers such as Baraka Petroleum (MCap \$91mill) and First Australian Resources (MCap \$51M).

Gippsland Offshore represents an attractive small capped stock with further upside.

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