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Gippsland Offshore Petroleum 11 Jul, 2007

Exploring Jamaican farm-out options

GOP; Buy up to 31c

Stock Resource first recommended Gippsland Offshore Petroleum as a Buy on 7 March 2007 on the back of its aggressive exploration of frontier petroleum regions globally, with the support of BHP Billiton and the FALCON® technology.

The company has commenced a formal farm-out process, inviting expressions of interest from large companies to fund ongoing exploration and drilling at its major project, offshore Jamaica, where its successful exploration campaign over the past year has identified large potential leads. The company is also awaiting approval on another strategic exploration package, offshore Madagascar, to enhance its portfolio.

“GOP has begun the process to entice participation of global petroleum majors to its prospective offshore Jamaican JV acreage. Approval of additional frontier acreage, now under application offshore Madagascar, will further enhance GOP’s portfolio.”

As detailed in our initial speculative Buy report, Gippsland Offshore Petroleum (GOP) has focused on building up an impressive portfolio of prospective exploration ground in Jamaica and Kenya, along with an application pending in France and lower priority acreage in the Gippsland Basin.

Stock Resource Members will remember that the company has an agreement with BHP Billiton to access the proprietary FALCON® airborne gravity gradiometry 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.

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 and, now, potentially in Madagascar as well. It allows GOP to apply high resolution gravity technology in exploration areas where seismic methods may be challenged for either logistical or geological reasons.

Project Update

Jamaican Joint Venture (GOP 50%)

GOP has a 50% interest in five large offshore blocks covering about 14,500 sq km of

the highly prospective Walton Basin, off the Jamaican southwest coast, in partnership with Perth-based Finder Exploration (50%).

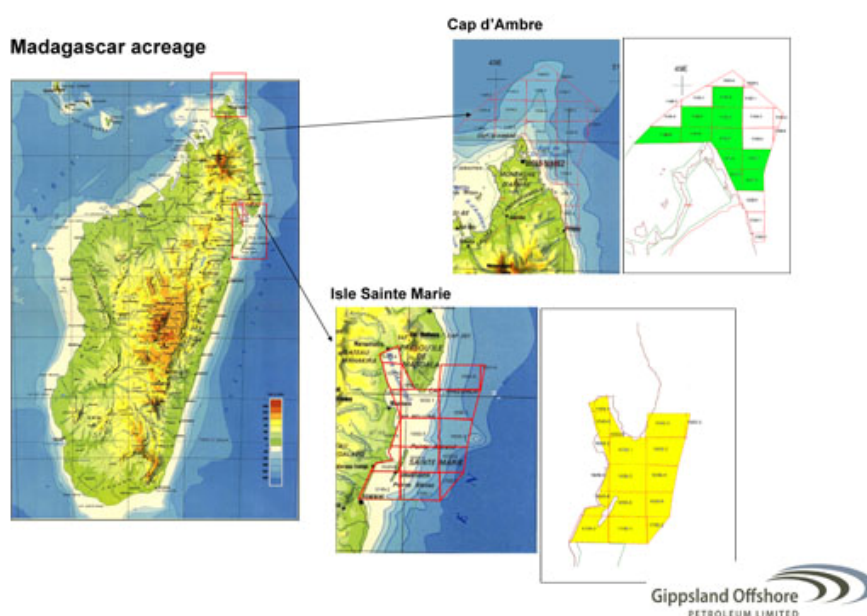
GOP was able to fast track its exploration program on the Jamaican joint venture area during 2006. By September 2006, data from the acquisition of 2-D seismic data and from the FALCON® survey had been delivered to GOP. Interpretation of this data is now complete and numerous leads and prospects have been identified.

As suggested by Stock Resource in its March report, to take this project to the next level, the JV partners require a cashed-up partner to become involved. While GOP is a successful technical explorer, drilling of the generated targets requires significant expense. In April, the JV partners initiated a farm-out process, calling for expressions of interest, to attract major companies into the project to participate in the drill-testing phase.

Although the company has already received expressions of interest from a number of companies and the data-room is due to commence, it is expected that the selection process will not be completed until around October as potential northern hemisphere candidates enter the summer holiday period. It is understood that the current JV partners will each look to cede 25% to the successful bidder, giving it a 50% ongoing share of the project. While GOP would have a reduced interest after a farm-out, the introduction of a cashed-up major to fund drilling provides significant upside and reduced risk.

Madagascar Joint Venture (GOP 70%)

The company has recently announced a bid for new exploration acreage offshore Madagascar, in East Africa. The bid was made in conjunction with the Dubai-based East Africa Exploration Limited (30%). The joint venture partners were invited to present their bid and negotiate contract terms in February this year, with the successful companies expected to be offered Production Sharing Contracts (PSCs) shortly.



Source: Company

GOP and its partner submitted bids for the Isle St Marie region (20,000km sq) on the east of the island and the Cape D'Ambre area (16,000km sq), to the north of the island, as shown in the diagram above.

This under-explored region is generating interest of late following discoveries in the region. Since 2004, petroleum exploration around Madagascar has gone up a notch with the likes of ExxonMobil, Tullow, Vanco Energy, Vuna Energy and Aminex having signed PSCs.

If successful with this bid, GOP and its JV partner will look to fast track the exploration and targeting process, involving airborne geophysical (FALCON®) and seismic data acquisition.

Kenyan Lamu Basin (GOP 60%)

In April 2007, GOP advanced its detailed knowledge of the Lamu Basin, offshore Kenya, where it holds a 60% share of the Block L-6 (Pancontinental Oil and Gas NL 40%).

L-6 is a coastal block with around 30% of its area being onshore. The airborne survey, incorporating the FALCON® technology, is a key in linking the known onshore geology to the offshore geology to unlock the basin's structural setting.

GOP will integrate this data into recently acquired seismic data and drillable prospects mapped by the end of August. The JV partners can then proceed to the next phase which requires the drilling of 2 wells in 4 years if suitable drill targets can be identified.

Discussion and Recommendation

Gippsland Offshore Petroleum continues the quest to diversify its portfolio of frontier petroleum exploration properties, with applications pending approval in the south of France and also in Madagascar. It has also proven to be an efficient explorer thanks to an aggressive approach and strategic access to the FALCON® technology. In little more than a year it has carried out seismic and FALCON® surveys over its JV properties in Jamaica and Kenya, with rapid progress to target generation.

We anticipate that GOP management will maintain its aggressive exploration strategy and will continue to pursue opportunities in frontier petroleum basins around the globe.

In the petroleum industry drilling of wells is the key to a company stepping up to the next level. While GOP had \$4.5 million cash at bank at 31 March, a farm out process has commenced to lure a cashed up partner into the Jamaica JV to defray the financial risk and test the leads and prospects generated. A successful farm-out in the second half of 2007 will provide this project with significant impetus. Stock Resource believes that GOP is one of the better credentialled petroleum explorers at the speculative end of the market.

With this in mind, **Stock Resource recommends Gippsland Offshore Petroleum as a Buy for Members without current exposure up to 31c.**

Share Price Graph



Disclosure: the author holds shares in Gippsland Offshore Petroleum.

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Reference within the Stock Resource Report to the "Stock Resource Portfolio" is a reference to the hypothetical portfolio on the "Past Predictions" page, which includes details on the methodology used to derive the performance figures.