

## GROUNDSTAR RESOURCES LIMITED

TSX-V: GSA

Price (January 5): \$0.54  
52-Week Range: \$0.69-\$0.27

Shares O/S: 68.74 million  
Market Cap: \$37.1 million

### PROFILE: Oil & gas exploration outside North America



Source: [www.BigCharts.com](http://www.BigCharts.com)

## OVERVIEW

With drilling activity now underway on all of Groundstar Resources' three properties, the odds that positive developments may be forthcoming over the course of the next quarter have materially increased. While such frontier drilling activity remains high risk in nature, the impact of a potential positive outcome on any of these plays should continue to support the trend towards a more positive assessment of the Company's prospects by investors. Already this seems to be taking place with the Company's shares up smartly in the past two trading days. However, they still remain well below our 12-month Target Price of \$0.87. Speculative Buy.

## THE COMPANY

Groundstar Resources Limited (“Groundstar” or the “Company”) is a Calgary-based junior oil and gas company actively pursuing international exploration and production opportunities. The Company currently has interests in several prospective oil and gas properties in the Middle East (Iraq), North Africa (Egypt), and South America (Guyana).

## OPERATIONS UPDATE

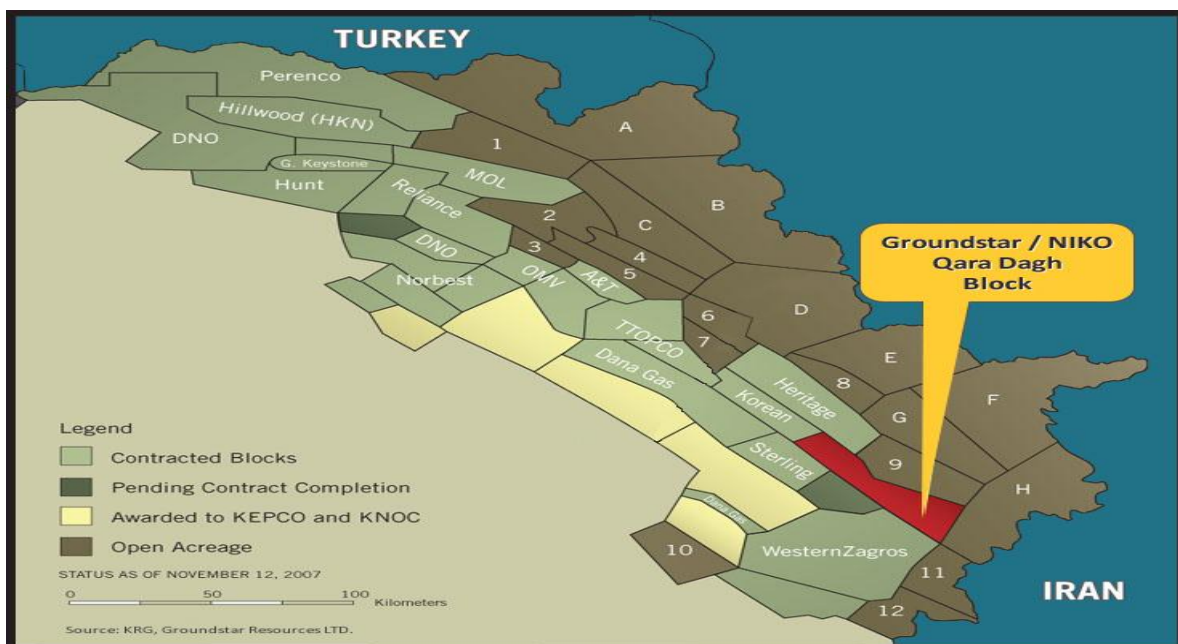
Groundstar Resources Limited has recently published updates on its operations in:

- (1) the Kurdistan region of Iraq;
- (2) Guyana; and
- (3) Egypt.

### Kurdistan, Iraq

As part of a consortium, Groundstar holds a 6% net participating interest in a production sharing contract with the Kurdistan Regional Government - Iraq for the exploration, development, and production of petroleum resources of the 846-square-kilometre Qara Dagh block in Kurdistan. The Qara Dagh block lies on trend with existing discoveries, including Heritage Oil’s Miran West #1 and the Kurdamir #1 being drilled by Western Zagros.

Niko Resources Ltd., the operator of the Qara Dagh - 1 exploration well in Kurdistan, announced that the plan to install an intermediate 11 ¾-inch expendable liner in the Tanjero formation had been completed. The liner is designed to prevent or eliminate rock cavings that had been causing delays in the drilling process. The drilling is evaluating the three primary Cretaceous targets: Shiranish, Kometan, and Qamchuga.

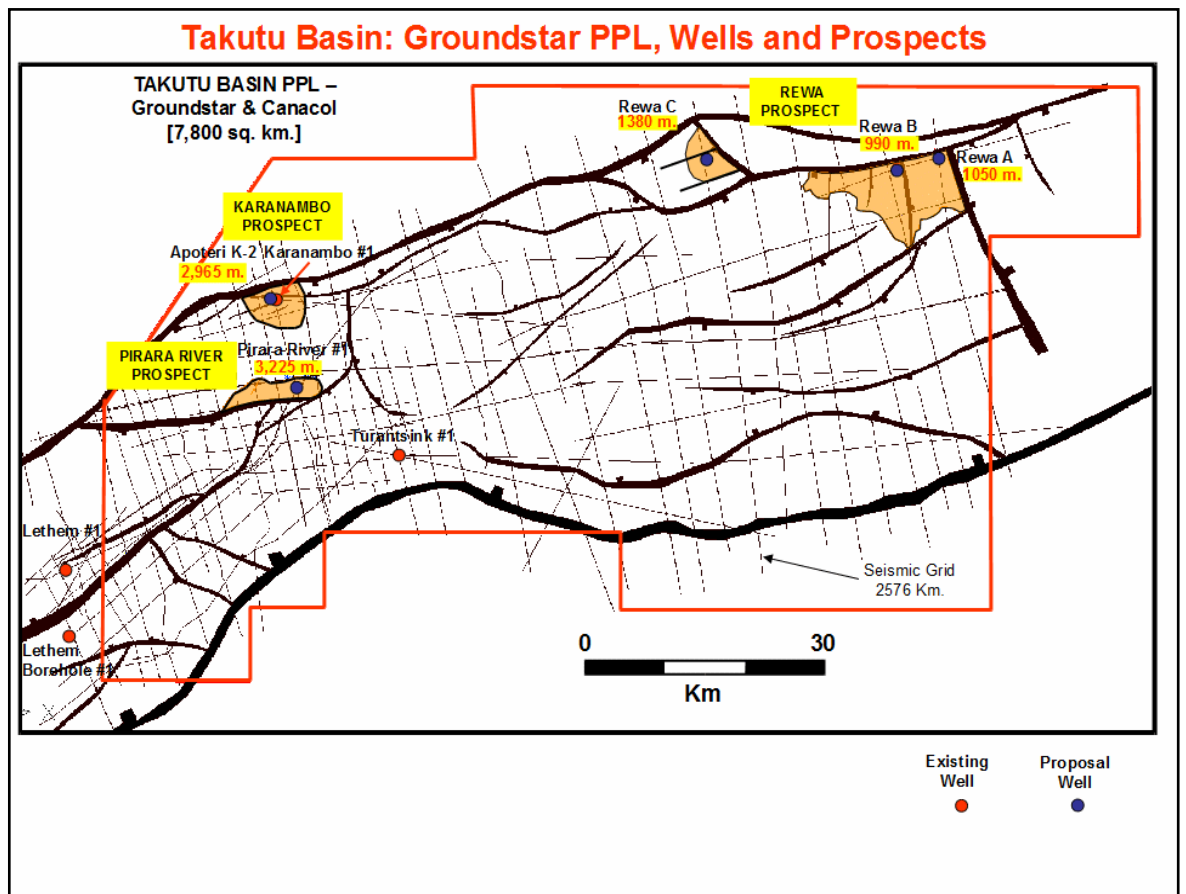


## Guyana

Groundstar holds a 10% net working interest in a petroleum prospecting licence in the Takutu Basin in Guyana. Farm-in partner, Canacol Energy Ltd., holds the balance and will carry Groundstar's net interest to first commercial production. Groundstar remains operator of the block through to completion of the first exploratory well. The block is 400 kilometres south of Georgetown, the capital of Guyana.

In late December 2010, Groundstar announced the imminent spudding of the Apoteri K-2 exploration well on the Takutu block on the Karanambo prospect in the Takutu Basin. The well is a 600-metre offset to Home Oil's Karanambo-1 discovery well. Groundstar is the operator of Apoteri K-2. Mean recoverable prospective resources of 138 million barrels of oil (12.8 million barrels net to Groundstar) were attributed to the Karanambo prospect in a 2009 report.

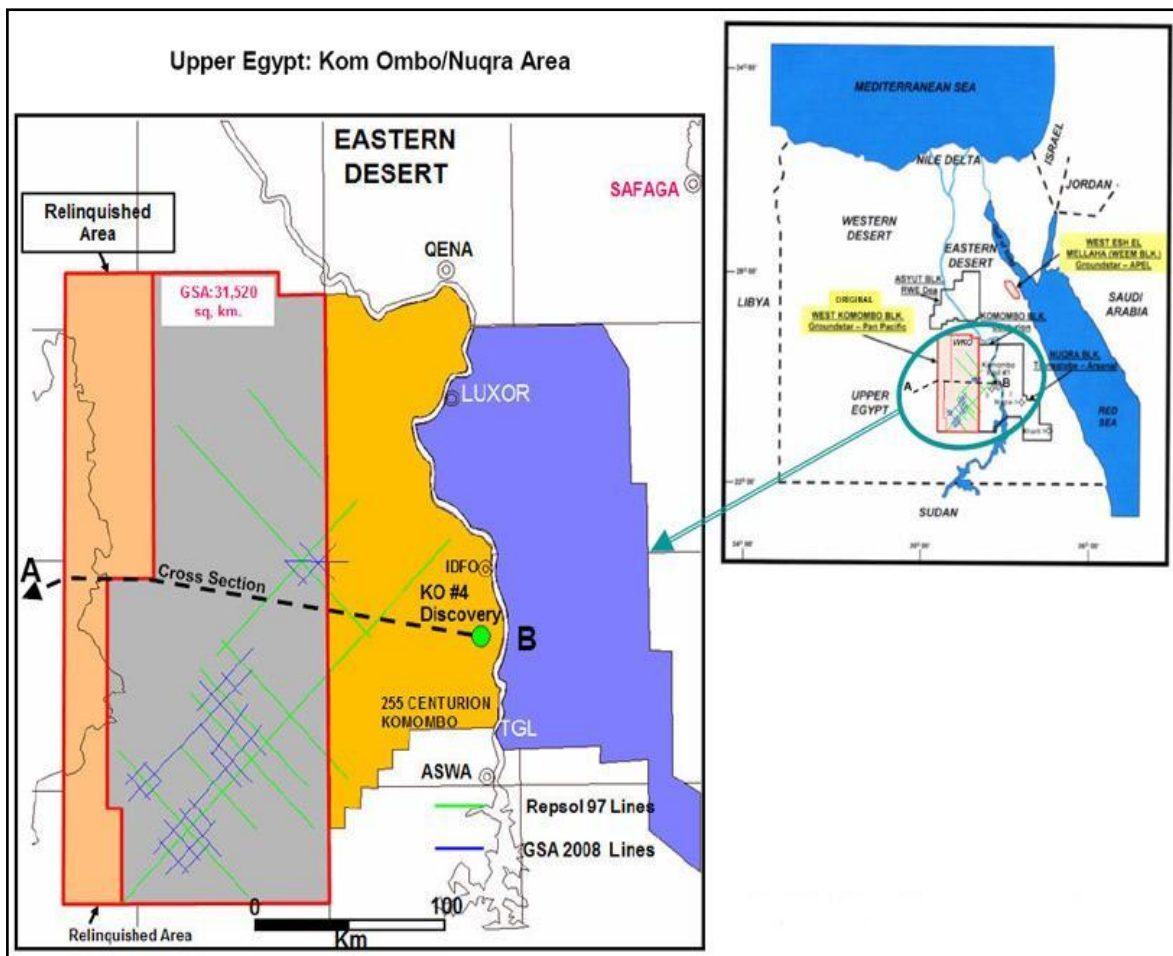
Plans for a second exploration well on the block by May 2011 are underway, with the choice of prospect (either the Rewa or the Pirara River) dependent on drilling results from Apoteri K-2. The second well will be operated by Canacol Energy; Groundstar will be carried for a 10% net interest.



## Egypt

Groundstar, in conjunction with Energean Oil & Gas, announced on January 4, 2011 the spud of the West Kom Ombo - 1 exploration well on the West Kom Ombo block in Upper Egypt, one of the largest onshore blocks in the country. The well is the first of two firm commitment wells and two additional optional wells with a capital expenditure of up to US\$30 million gross. Groundstar is carried for a 10% net interest through the exploration drilling stage.

The well, located on area B, will be drilled to about 2,370 metres, and is expected to reach its total depth in about 45 days. The rig will be moved, on completion of drilling, to prospect B 100 kilometres south.



Maps courtesy of Groundstar Resources Limited.



## PERSPECTIVE

**COMMENT:** All three of Groundstar's exploration interests are focused on high-impact light oil potential. The Qara Dagh Block in Kurdistan, with a total of seven prospective formations, is estimated to contain 450 million barrels of ultimately recoverable oil. The West Kom Ombo Block could hold an estimated 570 million barrels of recoverable reserves. And the Company's Takutu exploration block in Guyana has been estimated to hold a gross mean recoverable reserve of 128 million barrels. Based on its percentage interest in these wells, Groundstar has a combined net exposure to an estimated 495 million barrels of recoverable reserves from these plays. Because it has successfully negotiated carried working interest terms on two of these plays, Groundstar's exploration spending obligation is just \$2.76 million, an amount that is fully funded.

## RECOMMENDATION

We continue to rate the shares of Groundstar as a Speculative Buy for risk-tolerant investors. Our Target Price remains \$0.87 per share.

## RATING HISTORY

| <u>Date</u>      | <u>Report Type</u> | <u>Recommendation</u> | <u>Stock Price</u> | <u>Target Price</u> |
|------------------|--------------------|-----------------------|--------------------|---------------------|
| October 25, 2010 | Initiating         | Speculative Buy       | \$0.40             | \$0.87              |
| January 5, 2011  | Perspective        | No Change             | \$0.54             | No Change           |

### **eResearch Analysts:**

Eugene Bukoveczky, MBA, CFA  
Bob Weir, B.Sc., B. Comm., CFA

**Declaration:** I, Eugene Bukoveczky, and I, Bob Weir, hereby state that I do not own, directly or indirectly, any shares in Groundstar Resources Limited.

**NOTE:** For more on Groundstar Resources Limited, see eResearch's October 25, 2010 *Initiating Report*. The reports on Groundstar and other companies are available FREE on our website at [www.eresearch.ca](http://www.eresearch.ca). You must REGISTER to gain access to these reports.



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