

GEOPETRO RESOURCES COMPANY (US\$3.95, GEPS:TSX, GPR-AMEX)

Recommendation

Changed to : Hold

Risk

High

Price (Nov 9)

US\$3.95

52-Week Range

US\$6.25 - \$2.25

% Below High:

37%

% Above Low:

75%

Target Price

Changed to:
UNDER REVIEW

Potential Return

N/A

Shares O/S

31.6 million

Market Cap

US\$124.5 million

Average Daily Volume



Data Source: www.BigCharts.com

Madisonville Gas Plant Expansion Now Online

On November 6, 2007, GeoPetro issued a press release announcing the operational start-up of the expanded gas treatment facilities at its Madisonville Project located in East Texas. Madisonville Gas Processing LP (“MGP”), the company which GeoPetro has contracted to process the gas it produces at Madisonville, indicated that it is currently accepting 20 million cubic feet of gas per day at the inlet of the expanded portion of the plant. MGP has further indicated that, barring unforeseen circumstances, the full expansion of the plant’s designed capacity from 18 Mmcfd to 68 Mmcfd of natural gas should be completed by the end of the month.

GeoPetro also indicated that it expects to produce gas at higher rates from its Fannin and Magness wells now that the plant capacity expansion is in place. Previously, production from these wells had been restricted due to processing capacity limitations. Production from the Company’s Mitchell well, which had been shut-in awaiting a work-over, is also expected to commence. In addition, production from GeoPetro’s fourth gas well in the Madisonville field, the Wilson well, is anticipated to begin in early 2008, provided a planned fracture stimulation of the well is successful.

Bengara II Block Drilling Update

GeoPetro also provided an update on its 2007 drilling program on the Bengara II Block in Borneo, a property in which it has a 12% interest. The Bengara II Block is a conventional oil prospect. Funding for the drilling program in the amount of US\$41.3 million is being exclusively provided by CNPC (Hong Kong) Ltd., a public company which itself is a 52%-owned subsidiary of the China National Petroleum Company based in Beijing in the People’s Republic of China. GeoPetro is not required to provide any funding into the current drilling program.

Analysts

Eugene Bukoveczky, MBA, CFA

Bob Weir, B.Sc., B.Comm., CFA

The Seberaba-1 was originally planned to reach a total depth of 4,000 meters (13,120 feet). Drilling of the Seberaba-1 terminated at a depth of 2,914 meters (9,558 feet) in the third of three sidetracks made from the original wellbore. Testing activity of the Seberaba-1 has been suspended. Approximately 150 barrels of crude oil has been recovered by swabbing. Flow test and pressure build-up tests to date have proved inconclusive due to apparent formation damage. Any future re-entry would be conducted with a different drilling mud and testing fluid program to avoid damage to the target reservoir intervals.

Drilling activity on the Seberaba-3 well is continuing. Currently, an attempt is being made to sidetrack the Seberaba-3 after stuck drill pipe resulted in an 800 meter (2,624 foot) long fish being lost in the original hole before logs could be obtained. The Seberaba-3 is planned to a total depth of 2,800 meters (9,184 feet) to test possible reservoir zones below 2,400 meters (7,872 feet).

Drilling activity on the Seberaba-4 has been terminated. Seberaba-4 failed to encounter an expected reservoir sand anticipated at 2,450 meters (8,036 feet) probably because the wellbore penetrated a normal fault and the expected reservoir interval was faulted out. The Seberaba-4 wellbore has been suspended and preserved for possible re-entry.

Drilling of the Punga-1 well continues below 1,700 meters (5,576 feet) to a planned total depth of 2,800 meters (9,184 feet). No objective formations have been encountered yet.

Despite the inconclusive results of the Seberaba wells, the Company remains positive that the Seberaba prospect can be properly drilled and evaluated for future commerciality.

Overview

The long awaited gas plant expansion at Madisonville should now allow GeoPetro to increase immediately its gross gas production from just under 18 Mmcf/d to 26 Mmcf/d. Assuming that the fracture stimulation of the Wilson gas well is successful, 8-12 Mmcf/d of additional production could come on-line sometime in 2008. As a total of 68 Mmcf/d of processing capacity is now available at Madisonville, the Company has ample incentive to proceed with its stated desire to drill a deep gas well at Madisonville to tap potential new gas reserves below the currently producing Rodessa formation.

The generally disappointing drilling results from results from the Bengara II Block will likely result, at best, in a protracted moratorium on further exploration or, at worst, the complete abandonment of this prospect.

Recommendation

Absent any further near-term exploration catalysts, GeoPetro now reverts to being a pure natural gas play with share value driven primarily by changes in the gas price and incremental volume growth. Assuming an average natural gas price just under US\$8/mcf, and the earlier stated production volume gains for next year, our preliminary projection is that the Company should report EPS and CFPS in 2008 of US\$0.30 and US\$0.62, respectively. This level of earnings and cash flow should be sufficient to provide a valuation floor on the shares in the US\$3.75 range. A 6x cash flow multiple for GeoPetro seems appropriate at this time.

We are therefore changing our recommendation from Buy to Hold. Our Target Price is placed Under Review pending the completion of our Update Report.

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eResearch analysts on this report: Eugene Bukoveczky, MBA, CFA. Eugene Bukoveczky has considerable international oil and gas research experience. In Dubai, as a Senior Investment Analyst, he performed various responsibilities for one of the largest private client asset management operations in the Middle East, including establishing and managing a global emerging market equity investment portfolio that focused on large value-equity transactions. He also worked in Abu Dhabi as a Senior Business Analyst. Eugene also has extensive experience with risk management systems and derivatives trading assessment.

Bob Weir, B.Sc., B. Comm, CFA. Bob Weir has 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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eResearch Recommendation System

Strong Buy:	Expected total return within the next 12 months is at least 40%.
Buy:	Expected total return within the next 12 months is between 10% and 40%.
Speculative Buy:	Expected total return within the next 12 months is substantial, but Risk is High (see below).
Hold:	Expected total return within the next 12 months is between 0% and 10%.
Sell:	Expected total return within the next 12 months is negative.

eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

High Risk:	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
Medium Risk:	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
Low Risk:	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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