

GROUNDSTAR RESOURCES LIMITED

TSX-V: GSA

Price (September 14): \$0.35
52-Week Range: \$0.69-\$0.27

Shares O/S: 68.74 million
Market Cap: \$24.06 million

PROFILE: oil & gas exploration outside North America



Source: www.BigCharts.com

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).

Groundstar acquires prospective oil and gas properties that major oil companies, in the course of exploring large tracts of international acreage, frequently choose to ignore or abandon due to the small size of discoveries or special infrastructure requirements. By employing careful due diligence, planning and local intelligence, Groundstar believes it can acquire and transform such prospects into economical and profitable developments. Preference is given to acquiring properties with low- to medium-risk drilling prospects with near-term “on-stream” characteristics to generate cash flow. Funding to cover exploration and drilling costs is arranged through farm-in arrangements with other oil & gas exploration companies which sometimes act as operators.



**(1) OPERATIONS UPDATE;
(2) FINANCIAL RESULTS: Q4 AND FULL YEAR FISCAL 2010; and
(3) LOAN FUNDING**

(1) OPERATIONS UPDATE

Groundstar Resources Limited has published an update on its operations in (1) the Kurdistan region of Iraq; (2) Guyana; and (3) Egypt.

Iraq

The Company's Qara Dagh-1 well in the Kurdistan region of Iraq is drilling a 12 ¼-inch hole at about 2,200 metres. The well was spudded in May 2010, with a planned total depth of 4,000 metres. Groundstar had earlier reported strong indications of hydrocarbons, and petrophysical analysis of reservoir-quality sandstones has confirmed the possible presence of hydrocarbons. Completion of the drilling operation is planned for November 2010. As a member of a consortium operated by Niko Resources, Groundstar holds a 6% net participating interest in the 846-square-kilometre Qara Dagh Block, which lies on trend with existing discoveries, including Heritage Oil's Miran West #1 and the Kurdamir #1 being drilled by Western Zagros.

Guyana

Pre-drilling operations are underway at the Apoteri K2 well in Guyana. Groundstar plans to spud Apoteri K2 in mid-October 2010, and it is expected that the well will take 50 days to drill. An exploratory well will also be drilled at Takutu PPL (Petroleum Prospecting Licence), at no cost to Groundstar, and additional exploratory wells will be drilled in 2011 in Guyana (also at no cost to Groundstar). The Company holds a 10% net working interest in the PPL in the Takutu Basin, and its partner, Cancellor Energy Ltd., holds the balance and will carry Groundstar's net interest to first commercial production.

Egypt

Operations for the drilling of an exploration well at the West Kom Ombo Block in Upper Egypt (80% working interest, 31,520 square kilometres) are underway, with an access road to the proposed drilling sites 70% complete. Groundstar has awarded a drilling contract for two firm exploratory wells and two additional optional wells. The planned spud date for the first well is mid-November 2010. Additional exploration wells will be drilled in Egypt in 2011 at no cost to Groundstar.

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 127 million barrels. The current exploratory drilling on these blocks in which Groundstar holds an interest are all located in direct proximity to earlier discovery wells, thus enhancing the probability of success.*



(2) FINANCIAL RESULTS

Groundstar reported results for the fourth quarter and full year ended April 30, 2010 as shown in the table below.

FINANCIAL RESULTS (ending April 30)

	<u>F2009</u>	<u>F2010</u>	<u>Q4/F2010</u>
Revenue	271,869	314,194	134,864
General & Administration	(408,036)	(1,000,349)	(256,545)
Interest Expense	<u>(166,008)</u>	<u>(47,826)</u>	<u>(1,046)</u>
Operating Profit/(Loss)	(302,175)	(733,981)	(122,727)
Amortization	(43,563)	(4,680)	(1,219)
Stock-based Compensation	(332,725)	(367,537)	(61,413)
Gain on Sale of Subsidiary	0	1,411,119	0
Other Income/Expense Items	182,906	(413,901)	(57,702)
Asset Impairment	<u>0</u>	<u>(4,749,818)</u>	<u>(4,749,818)</u>
Net Earnings (Loss)	(495,557)	(4,858,798)	(4,992,879)
Operating Cash Flow	583,795	(944,132)	(78,051)
Capital Expenditures	11,554,401	3,700,986	551,028
Total Assets	18,668,650	15,892,692	
Current Assets	2,239,095	3,223,629	
Current Liabilities	840,770	618,315	
Working Capital	1,398,325	2,605,314	
Working Capital Ratio (to 1)	2.66	5.21	

(a) Commentary on Fourth-Quarter Fiscal 2010 Results

In Q4/F2010, Groundstar's revenue was \$134,864 compared with \$13,513 in Q4/F2009. The increase was a result of management fee income of \$45,000 per month that began in F2010. Groundstar recorded an increase in general and administrative costs from: (1) an increased level of corporate activity, and (2) an operator contract in Guyana that commenced in October 2009.

There were considerable non-recurring items that were recorded in Q4/F2010 that distort quarter-over-quarter comparisons. The biggest item was an asset impairment charge of \$4,749,817. There was also a \$191,266 foreign exchange loss that resulted from a strengthening in the Canadian dollar compared with the U.S. dollar.

The net loss for Q4/F2010 was \$4,992,879 compared with earnings of \$20,032 in Q4/F2009.



(b) Commentary on Full-Year Fiscal 2010 Results

For the full fiscal year 2010, revenue was \$314,194 compared with \$271,869 in F2009, an increase of 16% that was mainly due to the contract management fees that began in Q2/F2010. There was a decrease in interest income in the fiscal year, stemming from a decline in average cash and term deposit balances on hand, and a decline in interest-bearing instruments held. Amounts on deposit were reduced as a result of significant capital expenditures for the Company's exploration programs.

General & Administration expense rose significantly from \$408,036 to \$1,000,349 as a result of a decline in the expense recoveries that Groundstar was able to charge through the Egyptian concession agreements.

The Operating Loss increased from (\$302,175) to (\$733,981). There were considerable non-recurring items recorded in F2010.

The asset impairment charge amounted to \$4,749,818. There was also the forfeiture of Syrian bid bonds in the amount of \$289,418, and an increase in foreign exchange loss of \$314,179.

Groundstar also reported a gain of \$1,411,119 in fiscal 2010 on the disposal of a subsidiary, Groundstar Resources (Guyana) Inc.

The net loss for F2010 was \$4,858,798 compared with a net loss of \$495,557 in F2009, with the increase of \$4,363,242 primarily a result of the impairment charge, the forfeiture of bid bonds, the increase in the foreign exchange loss, and lower cost recoveries.

Cash used in operations for F2010 was \$1,391,419, compared to cash provided by operations of \$185,455 in F2009. The change is primarily due to the increase in net loss from higher expenses combined with a year-over-year increase in accounts receivable of \$0.2 million and a year-over-year decrease in accounts payable of \$0.2 million.

Operating Cash Flow of \$583,795 in F2009 went decidedly negative in F2010, reaching (\$944,132).

(3) LOAN FUNDING

In accordance with the Sale Agreement terms with Aegean Energy S.A. for the West Kom Ombo Block in Upper Egypt announced on June 6, 2010, Groundstar has received a US\$1 million interest-free loan from Aegean Energy for the purpose of undertaking activities such as road building, long-lead items procurement, and engagement of contractors, in preparation for the drilling of the first exploration well on the Block. Upon approval of the deeds of assignment by the Egyptian authorities, which will transfer a 70% net interest in the Block to Aegean Energy, Groundstar will receive US\$5 million from Aegean. In June 2010, Groundstar received a US \$2 million six-month term loan from Aegean at a rate of LIBOR plus 4%, also pursuant to the earlier-announced Sale Agreement. Groundstar will retain a 10% net carried interest in the Block up to September 16, 2014.



COMMENT: *Once Groundstar's Sales Agreement with Aegean closes, the Company will realize an immediate cash payment of US\$5 million. Assuming US\$3 million plus interest will be used to pay off the outstanding loans to Aegean, Groundstar should have roughly US\$2 million to add to the net working capital of US\$2.6 million it had as of April 30, 2010. This suggests that sufficient funds should be available to meet a sole outstanding exploration commitment of US\$2.47 million, which is the Company's share of the cost of drilling an exploration well on the Qara Dagħ Block in Kurdistan, to be completed by May 14, 2011. Groundstar has a net working interest of 6% in the Block, which is estimated to hold 2.7 billion barrels of oil-in-place on an unrisksed basis.*

Note: *eResearch issued a StockPotentials report on Groundstar Resources Limited on March 8, 2010. It is available at our link: http://www.eresearch.ca/report/GSA_030810-SP.pdf*

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