GROUNDSTAR RESOURCES LIMITED

($0.40; TSX-V: GSA)

Recommendation
Speculative Buy

Risk
High

Price (October 25, 2010)
$0.40

52-Week Range
$0.69 - $0.27

Target Price (12 Months)
$0.87

Shares O/S
68.7 million (basic)
75.7 million (fully diluted)

Market Cap
$27.4 million

Average Daily Volume
50-day: 87,200
200-day: 110,300

Year-End
April 30

Salient Statistics

Book Value Per Share	$0.22
Price/Book Value	1.6x
Properties Per Share	$0.20
Monthly Burn (2011e)	$100,000
Monthly Burn (2012e)	$110,000

Analysts
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UPFRONT

The global hunt for the remaining untapped reserves of conventional crude oil is increasing the level of exploration interest in the so-called "frontier" regions. Characterized by challenging logistics and geology, and comparatively high geo-political risks, these jurisdictions nevertheless have the potential to offer high-impact discoveries that justify these risks. With its seasoned management, access to capital, information technology, and services, Groundstar Resources has secured a number of international exploration opportunities that fit this description. Intensifying drilling activity during the final calendar quarter of 2010, including initial results from a current drilling well in Kurdistan, provide a number of catalysts that should support a more positive assessment of the Company's shares.

RECOMMENDATION

Speculative Buy for risk-tolerant investors. Target Price is $0.87 per share.

PROFILE

Groundstar Resources Limited ("Groundstar" or the "Company") is a development-stage oil and gas company actively pursuing high-impact international exploration and production opportunities. The Company currently has interests in several prospective oil and gas properties in the Middle East, North Africa, and South America.

CORPORATE STRATEGY

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. Funding to cover exploration and drilling costs are arranged through farm-in arrangements with other oil & gas exploration companies which sometimes act as operators. Of the three prospects in which the Company currently has an interest, two are fully carried, requiring no further capital commitment by Groundstar.

INVESTMENT CONSIDERATIONS

Strengths

- Seasoned management with extensive experience in oil & gas exploration in the Middle East.
- Established deal-making track record.
- Sufficient cash on hand to meet upcoming drilling obligations.

Challenges

- All operations and assets are located in countries which may be considered to be politically and economically unstable.
- Exploration or development activities in such countries may require protracted negotiations with host governments, national oil companies, or third parties, with no guarantee of success.
- Exploration and drilling activities are dependent on suitable farm-in arrangements being secured.

PROPERTY INTERESTS

Currently, Groundstar holds interests in three exploration blocks located in the Kurdistan region of Iraq, Egypt, and Guyana in South America. The following table summarizes key details related to these property interests. A detailed description of each property is presented in Appendix 2.

Table 1: Property Summary

Country	Property	Interest Description	Interest %	Gross Acres	Net Acres	Prospective Reserves P50 – Gross (mm/bbls)	Development Status	Commitments
Kurdistan	Qara Dagh Block	Net Working Interest	6%	209,047	12,543	450	2D seismic program identified 3 potential drilling locations First well spud May/2010 for completion Nov/Dec 2010.	Consortium is committed to acquire 300 km of 2-D seismic and to drill one exploratory well by May 14, 2011. Groundstar share of initial well cost ($34.5 million total) is $2.76 million.
Guyana	Takutu PPL	Carried Working Interest. Net interest carried by partner Canacol Energy Ltd. (90% interest) to first production.	10%	1,927,380	192,738	127	Five prospects identified using 2D seismic. Rig being set-up at first drill site for anticipated spud Oct 2010.	Groundstar will remain well operator until completion of the first well. It is obliged to drill one exploration well by May 22 2011. Initial well cost to Canacol is $6 million with Groundstar carrying operating and administrative costs.
Egypt	West Kom Ombo Block	Net Carried Interest. Groundstar's interest will be carried by partner Aegean Energy Ltd. (70% interest) for the first $30 million in expenditures.	10%	7,788,839	778,884	570	Five drilling prospects confirmed by 2D seismic. Drilling contract awarded for initial two exploratory wells, and two optional wells. Anticipated spud date for first well Nov/2010.	Partner Aegean is required to drill 2 exploration wells by Sept/2010 and 2 further wells by Sept/2013. No funding obligation anticipated from Groundstar during initial exploration phase.
			Total	9,925,266	984,165	1,147		

Source: Groundstar Resources

COMMENT: *Despite holding relative small property interests on a percentage basis, Groundstar nevertheless has exploration exposure to a total of eight prospective drilling locations, three of which will be operating during the fourth quarter of 2010 with gross prospective "Best Estimate" reserves in excess of 1.1 billion barrels of light crude oil, and an exploration land inventory just under 10 million acres. The Company has successfully negotiated cost-carrying terms with partners on two of its three exploration properties, thus limiting its exploration spending obligation to just $2.76 million, an amount that is currently fully funded.*

VALUATION

We have valued Groundstar using two methodologies:

- Peer Comparison (Market Cap/Prospective Reserves Ratio); and
- Risked Value of Attributable Oil Resource

1. Peer Comparison

Groundstar is compared to six peers, based upon a comparative value approach that considers the ratio of each company's market capitalization (based on basic shares outstanding times current market price) divided by the net Prospective (P50) reserves identified by independent geological assessments as being attributable to the respective current property interests. The company selection in this peer sample was based on the following criteria:

- Companies having properties that host similar oil formations;
- Companies at the same stage in the production cycle; and
- Companies located in the same region or in regions that are geologically similar.

Our peers selection is comprised of the following companies, most of which, like Groundstar, are listed on the TSX-V.

Petrodorado Energy (PDQ - TSX.V)
Petrodorado Energy Ltd. is a Canadian international oil exploration company with oil operations in South America. To date, Petrodorado has been successful in acquiring high-quality exploration blocks with significant drilling upside in Colombia, Peru, and Paraguay. The company recently announced a three-well drilling program in Colombia.

WesternZagros (WZR – TSX.V)
WesternZagros Resources Ltd. is engaged in acquiring properties and exploring for, developing, and producing crude oil and natural gas. The company holds a Production Sharing Contract ("PSC") with the Kurdistan Regional Government in the Kurdistan region of Iraq. The company participated in the recently completed Kurdamir-1 wildcat exploration well in Kurdistan, with its partner Talisman Energy. The project experienced significant well control difficulties as a result of encountering high-pressure sour gas.

Vast Exploration (VST - TSX.V)
Vast is partnered with Niko Resources Ltd. and Groundstar, holding a 37% interest in the Qara Dagh block in Kurdistan. Like Groundstar, Vast is a development-stage company with no current production or proven reserves.

ShaMaran Petroleum (SNM – TSX.V)
ShaMaran Petroleum Corp. is another Kurdistan-focused development-stage exploration vehicle. Its initial four projects in the region are the Pulkhana development/appraisal block, the Arbat and K42 exploration blocks, as well as the newly-acquired Atrush block where it plans to spud a well in September/October 2010. The company recently closed a $50 million private placement financing to help fund the estimated $30 million cost of drilling this well.

Longford Energy Inc. (LFD – TSX.V)
Longford Energy Inc., is also a development-stage junior Canadian oil and gas exploration and production company. Longford has acquired a 40% (after back-in) interest in the Chia Surkh Block Production Sharing Contract in the Kurdistan Region in Iraq. The Block offers a field development opportunity and multiple exploration prospects.

Gulf Keystone (GKP – LSE)
Gulf Keystone is a London UK-based development and exploration company focused on exploration activity in the Middle East and North Africa. The Company holds interests in two Production Sharing Contracts in the Kurdistan Region in Iraq and, until its recent decision to divest its ownership there, had an interest in Algeria. Successful oil discoveries have been made on both properties in Kurdistan.

The results of our comparative analysis are presented in the following table:

Table 2: Peer Comparison Analysis

Name	Ticker	Share Price ($ Cdn)	Shares O/S (Basic)	Market Cap. ($mm)	Net Prospective P50 Reserves (mmbbls)	Mkt. Cap/P50 Prospective Reserves
Petrodorado Energy	PDQ.V	$0.35	395.2	$136.3	418	$0.33
WesternZagros	WZR.V	$0.40	207.5	$82.0	957	$0.09
Vast Exploration	VST.V	$0.70	175.1	$122.6	167	$0.74
ShaMaran Petroleum	SNM.V	$0.64	610.7	$390.8	567	$0.69
Longford Energy	LFD.V	$0.25	144.1	$36.0	53	$0.68
Gulf Keystone	GKP.L	$2.32	519.9	$1,208.6	1,095	$1.10
Groundstar Resources	GSA.V	$0.43	68.7	$29.5	96.7	$0.31

Mkt. Cap/P50 Prospective Reserves – Average	$0.56
Groundstar – Gross Value Based On Average	$54.27
Groundstar – Shares O/S (Basic)	68.7
Groundstar – Implied Per Share Value	$0.79

Source: eResearch

Valuation on the basis of the Market Capitalization to Prospective Reserves (P50) Ratio varies considerably across our sample from a low of $0.09 per barrel for WesternZagros to $1.10 per barrel for Gulf Keystone. Given the different exploration outcomes realized by both of these companies, highly positive in the case of Gulf Keystone, and decidedly less so in the case of WesternZagros, these two valuations can be regarded as the end points of the valuation range the market currently assigns to junior prospective oil and gas companies. On the basis of this criteria, Groundstar records the second-lowest valuation, with just $0.31 per net prospective barrel. Given the Company's well-funded position, and its diversified interests in a number of high-impact exploration plays, its current valuation understates it prospects.

If we derive the average per barrel valuation from our sample, which equates to $0.56, and apply that to Groundstar's net prospective reserves of 96.7 million barrels, we obtain a gross value of $54.3 million. This, divided by the basic shares outstanding, yields an intrinsic value of $0.79 per share.

2. Risked Value of Attributable Oil Resource

Our second valuation approach considers the probability of drilling success for each of the ongoing or declared drilling programs in which Groundstar has interests. While the assignment of such probabilities is highly subjective, some guidance can be obtained from specific disclosures by other exploration companies. Of relevance to our analysis is that fact that Sterling Energy plc, another exploration company active in the Kurdistan region, assigned a 27% chance of success to its drilling efforts in the region, and Petrodorado, which is active in frontier areas of South America, has declared a range of exploration success probabilities from 10% to 28%. Using these figures as a guide, we assigned our probabilities accordingly to Groundstar's drilling activities, which appear in the following table.

Table 3: Risked Prospective Reserves Analysis

Country	Property	Interest %	Prospective Reserves P50 – Gross (mm/bbls)	Success Probability	Net Risked Prospective Reserves
Kurdistan	Qara Dagh Block	6%	450	25%	6.75
Guyana	Takutu PPL	10%	127	30%	3.81
Egypt	West Kom Ombo Block	10%	570	20%	11.4
	Total Prospective Reserves (Risked)	22.0			
	Value Per (US$/Bbl)	$3.00			
	Gross Value	$65.88			
	Shares O/S (Basic)	68.7			
	Shares O/S (F/D)	75.7			
	Per Share Value (Basic)	$0.96			
	Per Share Value (F/D)	$0.87			

Source: eResearch

The probability, or risk-weighted, prospective reserve value derived by this analysis was then valued employing a base case valuation measure: the recent global per barrel discovery cost of $3 per barrel as compiled by UK upstream consultant Wood MacKenzie. This statistic can be regarded as a suitable proxy of the value of discovered, but undeveloped, reserves.

Based on this analysis, Groundstar's per share value is estimated at $0.96 on a basic-shares-outstanding basis, and $0.87 on a fully-diluted shares basis.

Target Price Determination

Our estimate of a 12-month Target Price is based on the combination of:

- The estimate obtained from the Peer Comparison analysis: $0.79 per share.
- The risked value of the prospective oil reserves: $0.96 per share.

Based on an equal-weighted average of the values obtained from these two valuation approaches, we have derived an intrinsic value per share of C$0.87.

FINANCIAL REVIEW

Financial Year End

April 30.

Revenues

Groundstar realizes a modest level of revenue from interest from funds on deposit as well as the operating fee of US$45,000 per month from the Takutu Block in Guyana. That operating fee will cease when the Company completes the initial well, which is no later than May 22, 2011 under the terms of the existing agreement. No meaningful level of operating revenues will be realized and, thus, losses will continue to be reported, until Groundstar achieves production status.

Cash Burn Rate

The non-discretionary administrative charges for the three-month period ending July 31, 2010 increased significantly over the same period in the prior year due to higher general and administrative costs of $100,819 associated with the operator contract in Guyana. This suggests that the monthly cash-burn rate is now likely to average in excess of $100,000 per month until May 2011, compared with the average monthly cash burn rate of $83,300 realized during fiscal 2010.

Cash Position

As of July 31, 2010, the Company had working capital of $1,131,976, consisting of the following:

Cash	$2,060,523
Term deposits	52,578
Restricted cash	600,000
Accounts receivable	1,345,117
Accounts payable and accrued liabilities	(926,242)
Loan payable	(2,000,000)
Working Capital	$1,131,976

On May 10, 2010, the Company entered into a purchase and sale agreement with Aegean, an unrelated third party, to dispose of 7/8ths of its interest in the WKO Block in Egypt for cash consideration of US$5.0 million. In accordance with this agreement, Aegean has advanced Groundstar US$2 million in loans. On approval of the deeds of assignment by the Egyptian authorities, the loans plus accrued interest will be repaid. On August 31 the Corporation received US$1.0 million interest free loan from Aegean for its future activity in West Kom Ombo.

Groundstar also expects to receive a $600,000 cash payment related to an earlier asset-exchange agreement with Karl Thomson Energy Ltd., pursuant to the acquisition of a 20% interest in the WKO Block. This arrangement is also subject to approval by Egyptian authorities.

COMMENT: *We anticipate that both transactions will receive final approval from Egyptian authorities in the very near future. This should provide Groundstar with an additional $3.6 million in cash which, when combined with the current $2 million in cash on hand, is more than sufficient to meet its outstanding $2.76 million exploration spending obligation and to cover non-discretionary cash expenses of $100,000 per month for the foreseeable future (see below).*

Capital Expenditures for Exploration

Pursuant to the ongoing drilling of the Qara Dagh-1 well in Kurdistan, Groundstar is obliged to contribute $2.76 million to cover its share of the cost of drilling this well. All remaining planned exploration activities are currently being carried out by farm-in partners under various terms. Therefore, we do not foresee any additional cash calls on Groundstar for exploration purposes for at least the next 12 months.

Share Structure

Current Issued and Outstanding Shares	68,735,728
Options	6,540,000
Warrants	404,700
Fully Diluted	75,680,428

At September 23, 2010, there were 68,735,728 common shares outstanding, and 404,700 warrants outstanding that are exchangeable into an equal number of common shares upon the payment of US$0.15 (C$0.16) per share, for a period of five years expiring May 28, 2014.

At July 31, 2010, the Company had outstanding stock options to purchase 6,540,000 common shares at prices between US$0.30 (C$0.31) and US$1.18 (C$1.19) per share. These options will expire at various dates between September 27, 2010 and July 28, 2015. As at July 31, 2010, there were 5,188,335 options exercisable.

On April 28, 2010, the Company issued 638,700 common shares at US$0.15 (C$0.16) per share upon the exercise of warrants.

In July 2010, the Corporation granted 1,190,000 stock options that are exercisable at US$0.30 (C$0.31) per share for a period of five years, expiring July 2015. The options vest 1/3 immediately and 1/3 on each of the first two anniversaries of the grant date.

On July 21, 2010, the Corporation issued 159,000 common shares at US$0.15 (C$0.16) per share upon the exercise of warrants.

As of September 28, 2010 the directors, officers and senior managers of the Company, as group, beneficially owned, directly or indirectly, 5,331,035 common shares, or 7.76% of the outstanding common shares.

Financial Statements

Set out on the following page are abridged historical and pro-forma financial statements of net income/loss, cash flow, and the balance sheet.

Table 4: Selected Financial Information

Note: All amounts in US$	Three Months to July 31: 2009	2010	Year Ended April 30: 2009	2010	2011E	2012E
Statement of Income/(Loss):						
Operating Income	0	0	0	0	0	0
Non-Operating Income	135,076	25,402	271,869	314,194	325,000	300,000
General & Administrative Expense	(302,499)	(193,889)	(414,826)	(1,000,349)	(1,200,000)	(1,320,000)
Amortization	(1,057)	(1,106)	(43,563)	(4,680)	(6,000)	(7,200)
Stock-based Compensation	(134,268)	(176,268)	(332,725)	(367,537)	(375,000)	(400,000)
Property Write-Offs	0	0	0	(4,749,817)	0	0
Other Non-Cash Items	(20,579)	43,879	189,696	(124,483)	50,000	(25,000)
Other Income/(Expenses)	(136,179)	0	(166,008)	1,073,874	(150,000)	(50,000)
Net Income/(Loss)	(459,506)	(301,982)	(495,557)	(4,858,798)	(1,356,000)	(1,502,200)
Total Shares Outstanding (Basic)	68,735,728	67,713,028	54,213,028	68,576,728	69,201,728	72,951,728
Weighted Average Shares Outstanding	68,594,011	63,604,332	54,187,892	66,801,733	68,889,228	71,076,728
Earnings (Loss) Per Share	($0.01)	($0.00)	($0.01)	($0.07)	($0.02)	($0.02)
Statement of Cash Flow:						
Net Income (Loss)	(459,506)	(301,982)	(495,557)	(4,858,798)	(1,356,000)	(1,502,200)
All Non-Cash Items	155,904	133,495	186,592	5,045,408	131,000	232,200
Cash Flow from Operations	(303,602)	(168,487)	(308,965)	186,610	(1,225,000)	(1,270,000)
Capital Expenditures (Properties)	(1,169,442)	(1,574,642)	(11,554,401)	421,110	(3,500,000)	0
Other Investing Items	0	1,199,617	8,354,268	(99,703)	5,000,000	(75,000)
Free Cash Flow	(1,473,044)	(543,512)	(3,509,098)	508,017	275,000	(1,345,000)
Working Capital Changes	(1,081,222)	(13,980)	185,455	(1,350,825)	(1,895,902)	(47,200)
Equity Financing	24,400	1,575,348	308,581	1,708,436	250,000	1,500,000
Debt Financing	2,000,000	0	0	0	(2,000,000)	0
Change in Cash	(226,264)	1,186,343	(2,706,097)	679,018	(2,145,902)	107,800
Cash, Beginning of the Period	2,286,787	1,607,769	4,313,866	1,607,769	2,286,787	140,885
Cash, End of the Period	2,060,523	2,794,112	1,607,769	2,286,787	140,885	248,685

	July 31/2010	Apr 30/2009	Apr 30/2010	Apr/2011E	Apr/2012E
Balance Sheet:					
Cash	2,060,523	1,607,769	2,286,787	140,885	248,685
Other Current Assets	1,997,695	631,326	936,842	1,000,000	150,000
Oil & Gas Properties	8,802,850	16,399,017	12,634,465	13,877,492	13,877,492
Other Assets	5,034,013	30,538	34,598	50,000	55,000
Total Assets	17,895,081	18,668,650	15,892,692	15,068,377	14,331,177
Current Liabilities	926,242	840,770	618,315	900,000	165,000
Other Liabilities	0	0	0	0	0
Debt Obligations	2,000,000	0	0	0	0
Total Liabilities	2,926,242	840,770	618,315	900,000	165,000
Shareholders' Equity	14,968,839	17,827,880	15,274,377	14,168,377	14,166,177
Total Liabilities & Equity	17,895,081	18,668,650	15,892,692	15,068,377	14,331,177
Book Value (S.E.) Per Share	$0.22	$0.33	$0.22	$0.20	$0.19

APPENDIX 1: MANAGEMENT & DIRECTORS

A. MANAGEMENT

Kam A. Fard, P.Eng. - President & Chief Executive Officer, Director

Kam Fard has been President and CEO of Groundstar since its reorganization in November 2004. Mr. Fard has 30 years of experience in the oil and gas industry, specializing in reservoir engineering. He worked for 12 years for Mobil Oil Libya/ Veba Oil Operations as Reservoir Engineering Supervisor, Chief Production and Reservoir Engineer and Acting Engineering Manager. He has worked for Chevron, Sun Oil, and Home Oil on production and acquisition of oil and gas properties. Since 1994, Mr. Fard has provided engineering consultancy in Canada and Libya. He was V.P. Production and a founding member of Dundee Petroleum Corp., Durness Resources Inc., and Bowood Energy Corp.

Darryl J. Raymaker, Q.C. - Chief Financial Officer & Director

Darryl Raymaker has been a Director and CFO of Groundstar since August 2005. Mr. Raymaker is presently Counsel to the law firm of McNally Cuming Raymaker in Calgary. He has also been a Director of First Calgary Petroleums Ltd. and the Canada Deposit Insurance Corporation. Mr. Raymaker received his Bachelor of Arts and Bachelor of Laws Degrees from the University of Alberta, and on his Admission to the Alberta Bar in 1964, he entered private law practice with specific emphasis on litigation and negotiations.

David Johnson - Corporate Secretary

David Johnson has been Corporate Secretary of Groundstar since January 2006. Mr. Johnson was previously Corporate Secretary of Bowood Energy Corp. He has worked in the oil and gas industry for 30 years, including positions with Chevron and Talisman, and directorships with several junior companies. Mr. Johnson received his Bachelor of Laws from the University of British Columbia in 1978.

Frank Crawford, P.Geol. - Chief Geologist

Frank Crawford has 25 years of exploration experience in Canadian and international projects, with specialization in structural geology and stratigraphy. Mr. Crawford has expertise in Devonian carbonates and has spent over six years in Canadian frontier exploration. He has completed major exploration projects in Guyana, Libya, Venezuela, West Africa, and southeast Asia, with Petro Canada, Home Oil Company, Alconsult International, PDVSA, and Veba Oil.

Samir Zidan - Deputy General Manager, Cairo Office

Samir Zidan is a exploration geophysicist with 40 years' experience in seismic acquisition, processing, and interpretation. For the past 10 years, Mr. Zidan has been working as an independent consultant with Sinopex and Aminex-Egypt in Cairo. From 1973 to 1980, he worked initially as a geophysicist and later as Chief Geophysicist of Sonatrach in Algeria. From 1981 to 1996, he was Chief Geophysicist with ADNOC in Abu Dhabi.

Klaus Weber, MBA - General Manager, Egypt

Klaus Weber has 28 years' experience with Veba Oil/Petro Canada in international oil and gas accounting and joint venture audit. Mr. Weber has worked as finance manager in Algeria, planning manager in Texas, branch manager in Libya, and audit manager in Germany.

B. DIRECTORS

Stuart B. McDowall

Stuart McDowall has been a director of Groundstar since June 2005. Mr. McDowall has international experience with the Government of Canada for 28 years, including being Canadian Ambassador to the United Arab Emirates from 1996 to 1999. In the private sector, Mr. McDowall has served in a public relations role for Talisman Energy, and also as Chief Executive Officer of Blue Mountain Resources Limited and Fosters Resources Limited, two oil and gas companies involved in exploration and development opportunities in Africa, Latin America, the Far East, and the Middle East.

John van der Welle

John van der Welle has been actively involved in the oil industry for 25 years. Mr. van der Welle is currently Chief Financial Officer and a Director of Stratic Energy Corporation. He has also served as Chief Financial Officer and a Director of First Calgary Petroleums Limited, and was Head of Oil & Gas in Corporate Finance for the Royal Bank of Scotland.

Kenneth D. Taylor

Kenneth Taylor has been a Director of Groundstar since 2008. Mr. Taylor had a distinguished career in the Canadian Foreign Service from 1959 to 1984, serving in various diplomatic posts. He was Director General, Foreign Trade Service in Ottawa, Ambassador to Iran, and Consul General at the Canadian Consulate General in New York. In the private sector, he has served as a Senior Vice President with Nabisco Brands Inc. and RJR Nabisco, Inc. in New York. Since 1991, he has been Chairman of the consulting firm of Taylor and Ryan in New York. Mr. Taylor has served on the boards of Rockwater Capital, Hydro One, Security Biometrics, Devine Entertainment Corp., and Jaffra Cosmetics International, and currently serves on the advisory board of J. and H. Marsh and McLennan, and on the board of SkyLink Aviation Ltd.

APPENDIX 2: PROPERTIES

A. Kurdistan: Qara Dagh Block

As a member of a consortium that includes Niko Resources Ltd. and Vast Exploration Inc., Groundstar holds a 6% net participating interest in the 846-square-kilometre Qara Dagh Block. The terms of the arrangement are covered under a Production Sharing Contract ("PSC") with the Kurdistan Regional Government - Iraq (KRG).

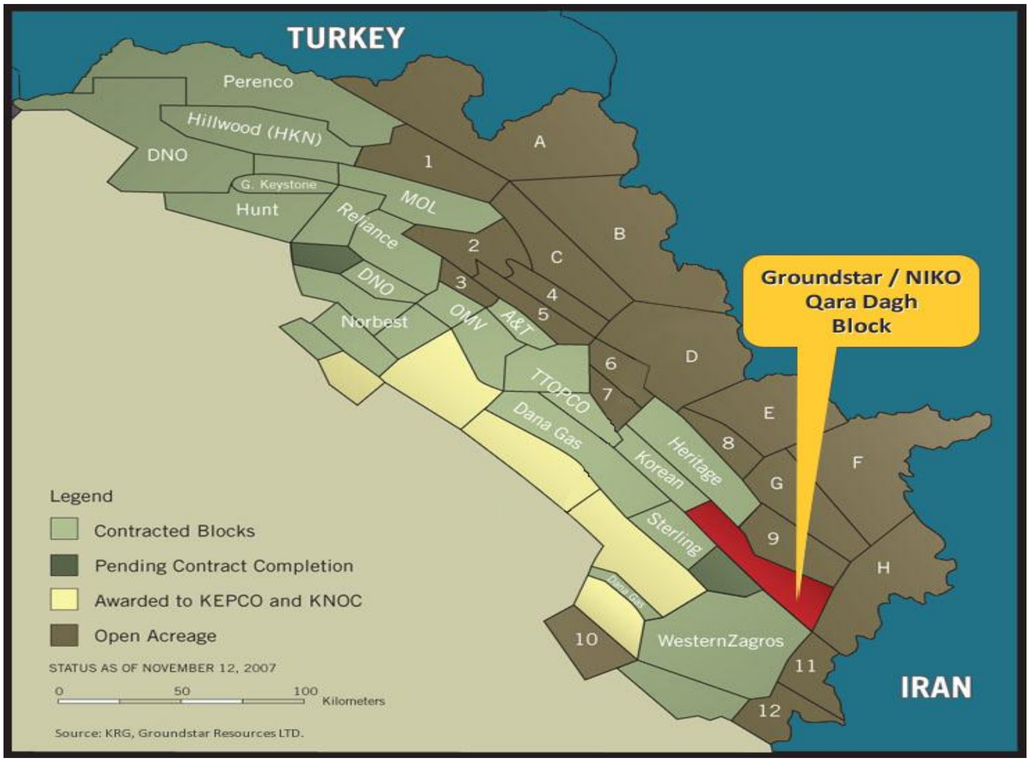
While the draft Iraqi federal Oil and Gas Law of February 2007 provided that the Kurdistan region would receive 17% of total Iraq petroleum revenue, the law must still be approved by the Iraqi Council of Representatives (Parliament). As a political impasse in Baghdad has prevented the formation of a new Iraqi federal government following inconclusive elections in March 2010, it remains unclear when a federal Oil and Gas Law will be passed.

The importance of the federal Oil and Gas Law will be to set out the framework for payment of crude oil export revenues to the KRG, marketing of crude oil, and legitimacy of oil and gas contracts signed. The KRG has stated its belief that Articles 112/141 of the Iraqi Constitution reinforce the KRG's authority to negotiate, administer, and agree to long-term oil contracts.

Groundstar acquired a 6% net participating interest in a PSC with the KRG for the exploration, development and production of petroleum resources of the Qara Dagh Block (the "Block") as part of a consortium. Groundstar and its partners ("the Consortium") have a total of 80% net participating interest and are responsible for exclusively carrying the government's 20% net participating interest. Any petroleum costs incurred by the consortium on behalf of the government will be recovered once the project enters the production and development phase.

The PSC contract covers an exploration period and a development period. The exploration period is for an initial term of five years and can be extended for up to seven years. The PSC contemplates two exploration sub-periods of three years and two years, respectively, with two possible one-year extensions. The first exploration sub-period ends May 14, 2011.The consortium is committed to acquire 300 km of 2-D seismic and to drill one exploratory well by that date.

Figure 1: Kurdistan - Qara Dagh Block Location

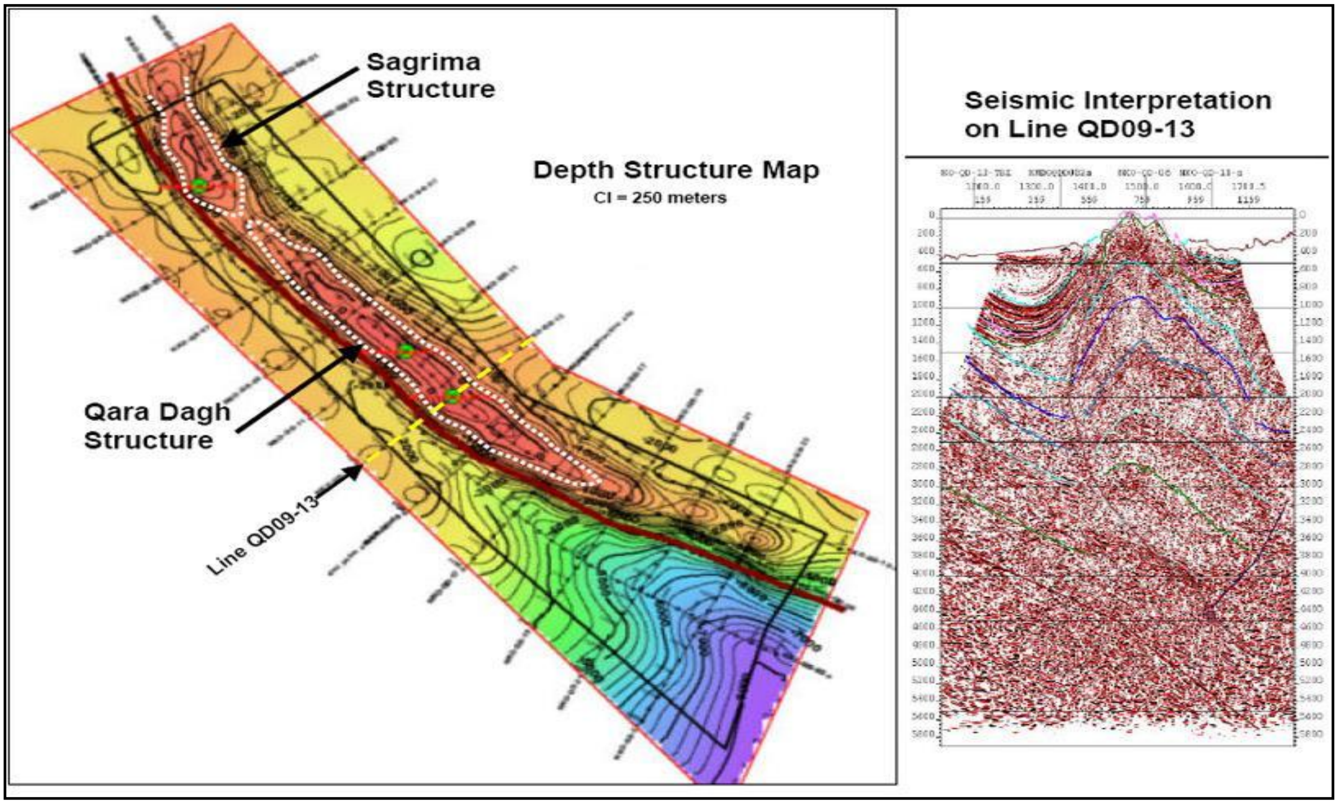


Source: Groundstar Resources

The Qara Dagh Block is located in the prolific Zagros foldbelt which extends from southern Turkey across northern Iraq and into southwest Iran. Large anticlinal structures, which formed during collision and formation of the Zagros Mountains, contain giant and super-giant accumulations of oil. The large-surface structure on the block is known as Qara Dagh Mountain (“Black Mountain” in Kurdish) and is a prominent anticline which rises as high as 600 metres above adjacent valley floors. This 65-kilometrr by 5-kilometre feature has steeply dipping limbs and an exhumed central valley which exposes progressively older stratigraphy towards the anticlinal core. The Eocene and Paleocene Pila Spi, Gercus and Sinjar formations of lower Tertiary age extend along the interior slopes of the mountain and the central valley is covered by the Paleocene Kolosh shale. There has been no prior oil exploration on the Qara Dagh Block and the entire Kurdish area of northern Iraq was virtually unexplored until the Kurdish Regional Government issued new exploration contracts in 2007.

The Block lies on trend with existing discoveries, including Heritage Oil's Miran West #1 and the Kurdamir #1 currently being drilled by Western Zagros, a portion of which covers a large unexplored 65-kilometre-long by 6-kilometre-wide surface structure with existing oil seeps.

Figure 2: Kurdistan - Qara Dagh Block - Geology



Source: Groundstar Resources

In December 2009, AJM Petroleum Consultants ("AJM") completed an NI 51-101 compliant initial resource assessment of the Company's Qara Dagh Block. AJM has estimated an unrisked "Best Estimate" of 2.7 billion barrels of Petroleum Initially in Place (PIIP) and Best Estimate (P50) of 450 million barrels of recoverable oil. The details of this assessment appear in the following table:

Table 5: Kurdistan - Qara Dagh Block - Resource Estimate

Petroleum Initially–In-Place (PIIP) and Prospective Resources (Unrisked)[1][5][6][7] Qara Dagh Block As of December 31, 2009			
	Oil (millions of Barrels)		
Category	Low Estimate P90[2]	Best Estimate P50[3]	High Estimate P10[4]
Petroleum Initially in Place	1,674	2,742	4,896
Prospective Gross Ultimate Recovery	269	450	849

Source: AJM Petroleum Consultants, Groundstar Resources

In June 2009, the consortium completed the acquisition of 355 kilometres of 2D seismic over the surface structure that dominates the Qara Dagh block. Processing has been completed and three potential drilling locations have been identified from interpretation of the seismic.

In May 2010, the first of these planned wells, Qara Dagh-1, was spudded. The well has a planned total depth of 4,000 metres targeting seven prospective formations in Cretaceous and Jurassic strata. Based on current estimates, the total cost of the well is expected to be $34.5 million ($2.76 million net to Groundstar), an 11.7% increase over earlier estimates. Drilling is expected to be completed by November/December 2010.

As of September 30, 2010, 2,200 metres of drilling had been completed and several reservoir quality sandstones, including a thick Aliiji section, have been penetrated with strong indications of hydrocarbons. Petrophysical analysis of the sandstones has confirmed possible presence of hydrocarbons. These horizons will be further evaluated after completion of the drilling.

B. Egypt: West Kom Ombo Block (WKO)

Subject to the finalization of an Asset Exchange Agreement and subsequent Purchase and Sale Agreement, both of which are subject to Egyptian government approval, Groundstar will hold a carried 10% working interest in the West Kom Ombo block (31,520 square kilometres) in Upper Egypt, one of the largest onshore blocks in the country.

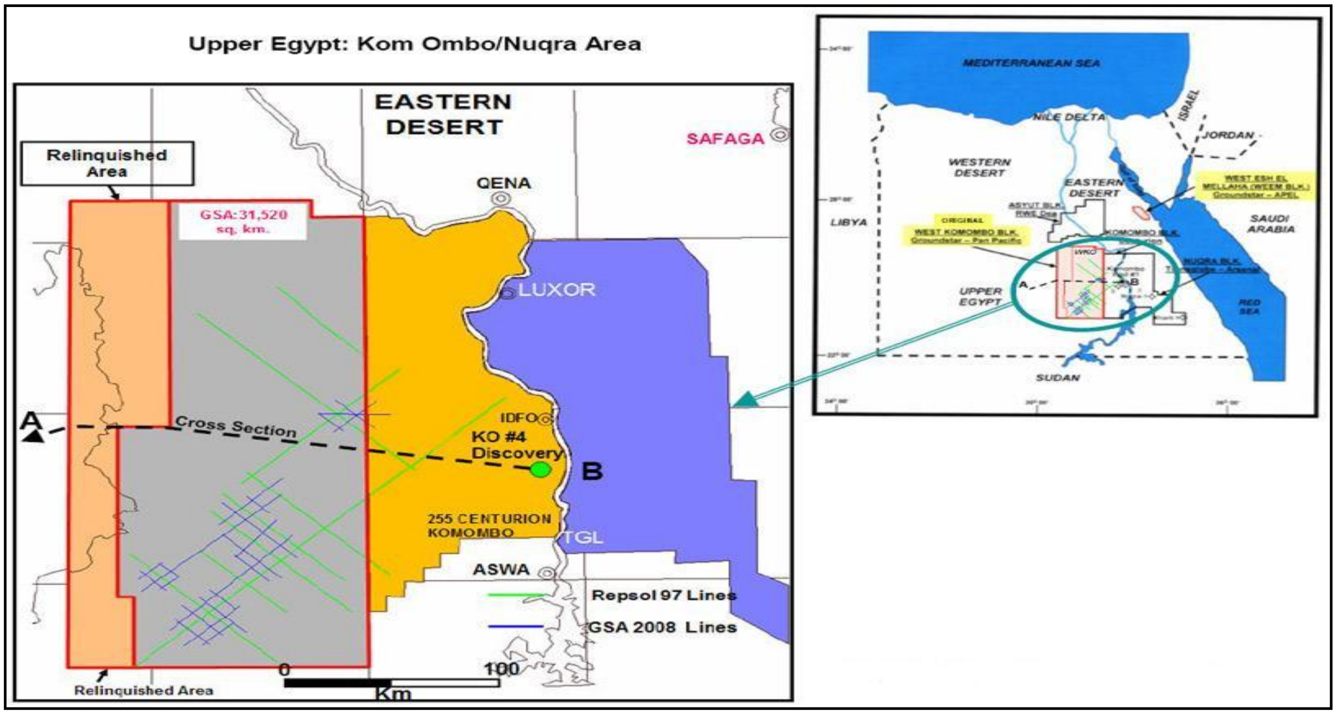
On January 25, 2010, the Company entered into an Asset Exchange Agreement with Karl Thomson Energy Limited, corporate successor to its partners in Egypt, which provided that the Company would assign its remaining 20% working interest in another Egyptian holding, the WEEM Block, in exchange for an additional 20% working interest in WKO Block, raising Groundstar's interest to 80%. The agreement contains provisions for monetary adjustments and is subject to Egyptian government approval, which is expected in the second quarter of fiscal 2011.

On June 6, 2010, the Company entered into a Purchase and Sale Agreement with Aegean Energy Limited, an unrelated third party, to dispose of seven-eighths of its interest (after giving effect to the Asset Exchange Agreement) in the WKO Block for cash consideration of $5.0 million. In accordance with the agreement, the Company’s remaining one-eighth interest will be carried by Aegean for the first $30.0 million in expenditures ($3.0 million net to Groundstar). Aegean is required to drill a minimum of four exploration wells by September 2013. The first exploration phase ends in September 2011 and requires Aegean to drill two exploratory wells. Upon completion of a commercial discovery, the Company is entitled to a bonus of an additional $1.0 million. As part of the agreement, Aegean will provide Groundstar with a $2.0 million dollar loan that bears interest at LIBOR plus 4% per annum for a term of six months, as well as a US$1.0 million interest-free loan for its future activity in WKO. Upon closing of the asset sale, the loan and accrued interest thereon is repayable in full. The agreement is subject to: (a) completion of the Asset Exchange Agreement between the Company and Karl Thomson Energy Limited, an unrelated third party; and (b) receiving the appropriate Egyptian governmental authority approvals. The Company expects to complete the assignment of its entire working interest in the second quarter of fiscal 2011.

Interpretation of seismic, gravity, and aeromagnetic data has indicated the potential presence of a “Rift Basin”, a geological environment similar to highly productive areas in Sudan, Yemen and the Gulf of Suez area in Egypt. Exploration activity on the Block has taken place since the 1990s when Repsol drilled several wells there. Currently, Centurion Energy, now a subsidiary of Dana Gas, is conducting a successful exploration program. The Centurion Kom Ombo #4 (Al Baraka #1) well discovered the Lower Cretaceous El Baraka Field in 2007, recovering 150 barrels/day of light gravity oil (37° API) on test establishing the presence of an active petroleum system in the area. The Centurion Al Baraka #2 appraisal well recently discovered a new Lower Cretaceous reservoir which has significantly increased the oil reserves of the field. Centurion started a two-to-four well drilling program on the Kom Ombo block in late September 2009. The first well is an appraisal in the Al Baraka field, which will be followed by a wildcat on a separate structure.

In January 2010, Dana Gas Egypt announced the completion of the Al Baraka-4 well, with a flow rate of 1,300 bopd with artificial lift, and 220 bopd with natural flow. The well is currently on-stream and producing at a rate more than five times the sustained flow rate from any previous well in the field. Groundstar believes that the geology at this producing well extends into its own adjacent block, with the potential for multiple pay zones in Cretaceous and Jurassic formations.

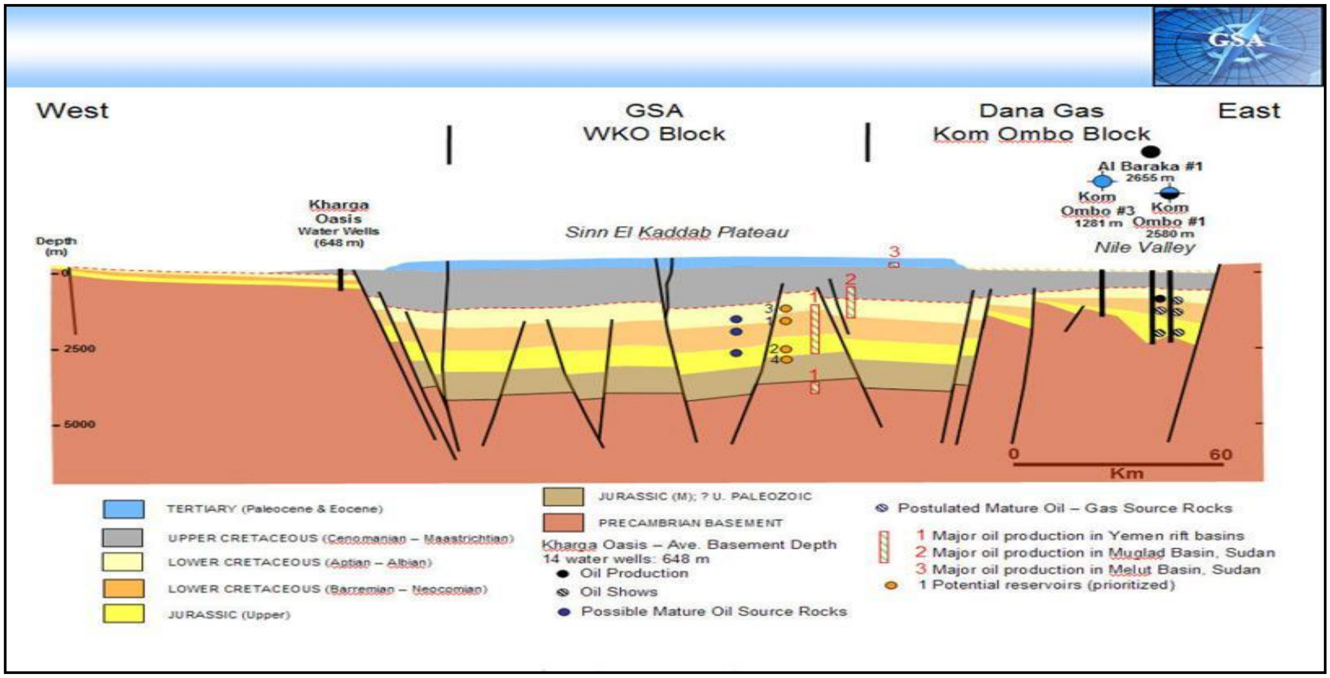
Figure 3: Egypt - West Kom Ombo Block - Location



Source: Groundstar Resources

On January 13, 2010, Sea Dragon Energy (SDX-TSX-Venture) announced that its wholly owned subsidiary, Sea Dragon Energy (Kom Ombo) Ltd., has signed a Farm-out Agreement with Dana Gas Egypt Ltd., whereby Sea Dragon will acquire a 50% participating interest in the Kom Ombo Block. The total consideration paid by Sea Dragon is US$45 million, subject to working capital adjustments. Sea Dragon will pay its 50% share of future expenses.

Figure 4: Egypt -West Kom Ombo Block - Geology



Source: Groundstar Resources

Groundstar completed a 700-kilometre 2D seismic program in 2009, which confirmed two prospects and 13 leads. Operations to drill the initial exploration well are now in progress. The access road to the proposed drilling sites in Area A of the block is now complete. A drilling contract has been awarded for two firm exploratory wells and two additional optional wells. The anticipated spud date for the first well is the middle of November 2010.

The Deed of Assignment (DOA) for a 60% net interest in West Kom Ombo to Aegean Energy was approved by Ganope and is now waiting for approval from the Ministry of Petroleum. A DOA for an additional 10% net interest to Aegean Energy will be submitted before the end of 2010.

In 2008, Gustavson Associates, LLC, completed an independent NI 51-101 compliant resource assessment of the block, based on legacy 2D seismic data Gustavson's probabilistic resource estimate of the five prospects, yielded a best estimate (P50) prospective recoverable oil resource of 569 million. The full estimate appears below.

Table 6: Egypt - West Kombo Ombo Block - Resource Estimate

Prospective Oil Resources, Millions of Barrels

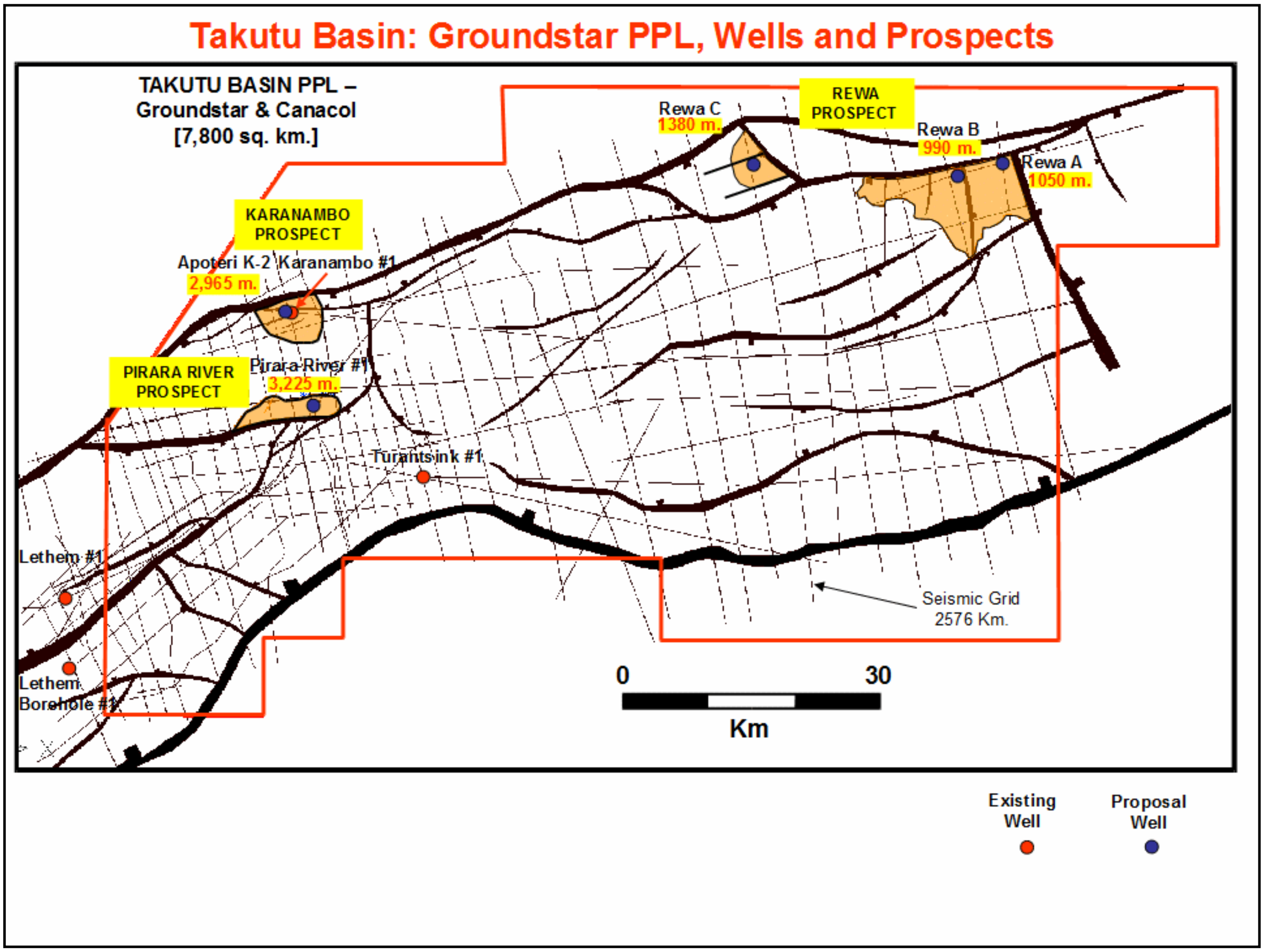
Prospect	Low Estimate	Best Estimate	High Estimate
A	37	76	156
B	107	258	543
C	36	74	143
D	67	138	266
E	9	23	50
Totals	**256**	**569**	**1,158**

Source: Gustavson Associates LLC, Groundstar Resources

C. Guyana: Takutu Basin PPL

Groundstar currently holds a 10% net working interest in a Petroleum Prospecting Licence (PPL) 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 will remain operator of the block through to completion of the first exploratory well. The block lies 400 kilometres to the south of Georgetown, Guyana's capital.

Figure 5: Guyana - Takutu Basin - Drilling Locations



Source: Groundstar Resources

The Takutu basin is an intracratonic graben 280 km (174 miles) long and 40 km (25 miles) wide in northern Brazil and adjoining Guyana, lying entirely within the center of the early Precambrian Guyana shield. Triassic basalt forms a wide band of outcrop along the southern and eastern margins of the rift. A basal Jurassic clastic-carbonate sequence overlies the eroded basalt. It is overlain by thick Cretaceous Aptian salt and interbedded shales that were deposited over most of the basin and contain good oil source rocks. Two main structural styles, namely pre-salt and post-salt, occur in the basin. Three widely spaced exploratory wells have been drilled down to the mafic volcanics. Two of the tests were dry and abandoned while Home Karanambo No. 1 was classed as a noncommercial oil discovery in fractured shale and basalt. A large, cross-basin arch, known as the Savannah Arch, is present on the western side of the basin. Two prospective areas, Karanambo and Pirara River, are located on the Arch. Several prospective areas with potential drilling locations are on the north-eastern side of the PPL known as the Rewa area.

Under the terms of its current three-Year Petroleum Agreement, the operator is obliged to drill two exploration wells by May 22, 2011. Based on analysis of legacy 2D seismic of the Basin, five prospects have been identified. Pursuant to this obligation, drilling and tubular equipment have been procured, and a drill-site pad and staging area have been prepared. Rewa #1 will be drilled to a proposed depth of 950 metres, and the first well, Apoteri K-2, will be drilled to a proposed depth of 2,770 metres. The Apoteri K-2 well site is roughly 600 metres from the 1982 Home Oil Karanambo #1 well, which tested 42° API oil at a rate of 411 bopd.

Based on a report prepared by Gaffney, Cline & Associates, dated December 2009, the mean risked recoverable prospective resources associated with the Karanambo discovery are 128 million barrels gross. The block also contains two exploration areas, Pirara and Rewa High, with mean prospective resources of 133 million barrels in Pirara and 169 million barrels gross in Rewa High.

As of September 2010, Apoteri K-2 pre-drill operations continue. The majority of the Tuscany Rig-110 drilling rig has arrived at the well location, while the remainder is currently in the process of clearing customs in Manaus, Brazil, prior to being mobilized. The contracts for drilling services were awarded to Schlumberger, MI - SWACO, BJ Services, Baker Hughes, Weatherford and Northstar. The Corporation expects to spud the Apoteri K-2 well in November 2010. If successful, the well will be put on a long-term production test to establish the deliverability and performance of the reservoir. All exploration costs are carried by Canacol et al to first commercial production. Upon completion of drilling operations, operatorship will be transferred from Groundstar to Canacol. The parties are currently licensing four drilling locations. The second obligatory well will be selected from this group of wells, based on the result of Apoteri K-2 well.

APPENDIX 3: CORPORATE INFORMATION

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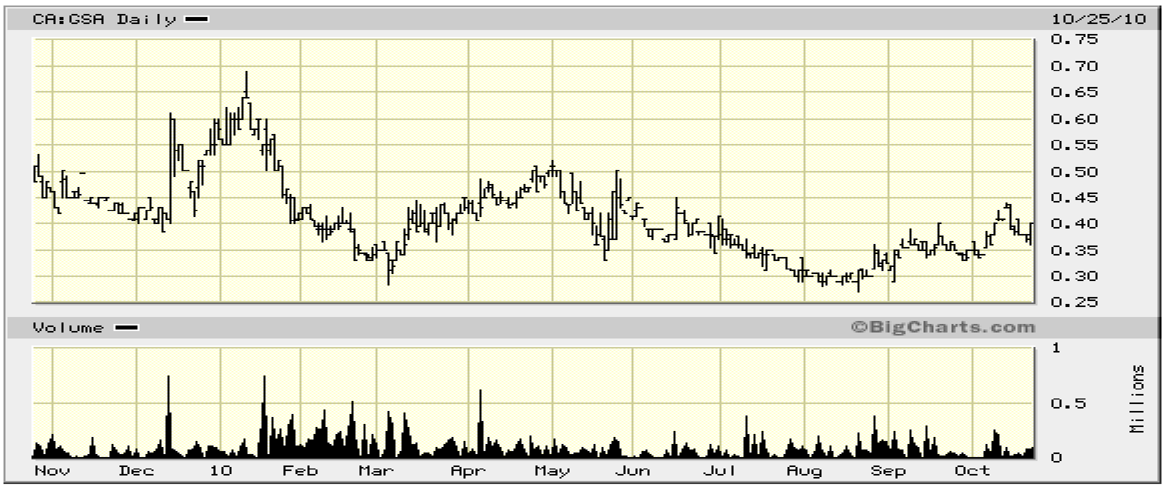
GROUNDSTAR
RESOURCES LIMITED.

APPENDIX 4: STOCK CHARTS

1. Two-Year

2. One-Year



3. Six-Months

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*e*Research Analysts on this Report:

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

Bob Weir, B.Sc., B. Comm., CFA: Bob Weir has 43 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He joined *e*Research in 2004 and has been its President, CEO, and Managing Director, Research Services since May 2005. Prior to joining *e*Research, Mr. Weir was at Dominion Bond Rating Service (DBRS), latterly as Executive Vice-President responsible for supervising the firm's 34 analysts and conducting the day-to-day management affairs of the company.

Analyst Affirmation: I, Eugene Bukoveczky, and I, Bob Weir, hereby state that, at the time of issuance of this research report, I do not own, directly or indirectly, any shares of Groundstar Resources Limited.

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Operational - 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: *Financial* - 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.
Operational - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.

Low Risk: *Financial* - 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.
Operational - 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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