



Grand Gulf Energy Ltd Building A Cash Flow Base

Corporate Structure

Code	GGE
Shares	3740 m.
Options	1650 m @ 1.53 cts
Total	5390 m.
Price	0.004
Market cap	\$15.0 m.
Cash (est)	\$ 1.8 m.

Directors

Charles Morgan	Chairman
Mark Freeman	Executive Director
Stephen Keenihan	Non-Exec Director
Allan Boss	Non-Exec Director
Jim Trimble	Non-Exec Director

Shareholders

Charles Morgan	19.9%
Craig Burton	7.9%
Macquarie Bank	6.69%

Assessed Valuation

Field	Value		
	\$m.	undil cps	diluted cps
La Posada	\$ 27	0.73	0.51
D&L#3	\$ 5.0	0.13	0.09
Abita	\$ 3.0	0.08	0.06
Cash (est)	\$ 1.8	0.05	0.03
Opt cash	\$ 25.8	0.00	0.48
Corporate	-\$ 3.2	-0.09	-0.06
		0.91	1.11
Exploration	\$ 3.6	0.10	0.07
Total		1.01	1.18

Source: Strachan Corporate

Opinion*

Strachan Corporate assesses Grand Gulf Energy's oil and gas assets to have an estimated value of 0.9 cents per share, while risked exploration lifts assessed target value to 1 cent per share.

Success value for planned and funded exploration would take total assessed value to 1.4 cents per share, more than three times its current share price of 0.4 cents per share.

During H1 2012, the company should establish a net income of about \$1.5 million per quarter, freeing it to pursue additional project acquisition and development.

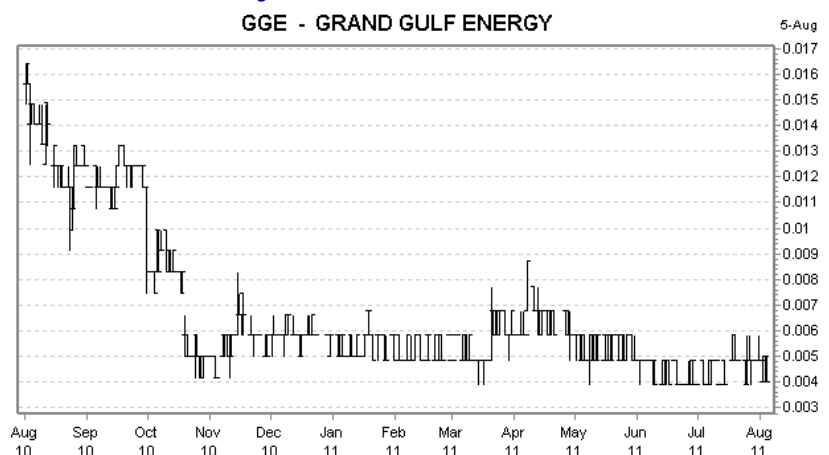
Peter Strachan.

*No recommendation is offered for commissioned research.

Investment Drivers

- ◆ Grand Gulf is on track to lift production towards an estimated 200 BOPD plus 2.3 mmcuft per day of gas as its discovery wells come on stream by early 2012, increasing net revenue to approximately US\$550,000 per month.
- ◆ Strachan Corporate calculates that Grand Gulf's discovered petroleum assets have an assessed value of 0.9 cents per share to the company, while risked exploration lifts total target value to 1 cent per share.
- ◆ Grand Gulf has established oil and gas production from its 39.5% owned Napoleonville Salt Dome project. Once a deeper gas and condensate zone is depleted, net income is expected to lift to about US\$250,000 per month in December '11, from expected production of around 120 BOPD plus 300 Mcf/d of gas to its account from the main reservoir zone.
- ◆ The La Posada discovery indicates a potential of 300 Bcf of gas plus 10 mmbbls of condensate, which should be worth over \$27 million to GGE. Production is expected to commence at over 30 mmcuft and up to 1,100 bbls of condensate per day by March '12, adding about US\$200,000 per month to operating cash flow from Grand Gulf's initial 4.75% working interest.
- ◆ Grand Gulf has an initial 20% WI, reducing to 15% post payout at the Abita discovery, which is expected to deliver 8 Bcf of gas, plus about 400,000 bbls of condensate, worth over \$4.5 million to the company.
- ◆ Three additional exploration prospects which the company has scheduled for drilling over the coming months will expose Grand Gulf to over 1.1 mmbbls of oil equivalent in the event of success, offering value upside of over US\$16 million, equal to the company's current market capitalisation.

1 Year Price History



Introduction

Louisiana based

Grand Gulf Energy is focused on low-risk, conventional oil and gas plays in the US State of Louisiana, close to existing infrastructure. Recent discoveries have begun to come on-stream and should lift net revenue to over \$1.5 million per quarter H1, 2012.

Recent Discoveries

Discoveries underpin value of close to 0.9 cents per share

Prospect	WI %	Target				Success Value cps	POS %	Cost \$m	Risked Value cps
		Gas Bcf	Oil mmbbl	NPV Gas	NPV Oil				
La Posada	4.28%	300	10	1.40	22	0.75	95%	0.7	0.68
D&L#3	39.5%	1.7	0.40	1.40	26	0.13	95%	2.0	0.13
Abita	15.0%	8	0.40	1.40	22	0.11	95%	1.0	0.08
						<u>0.99</u>			<u>0.88</u>

Source: Company Announcements & Strachan Corporate

La Posada

4.75% - 4.28% WI post payback

Long term gas & condensate producer from Q1 '12

The La Posada well logged 75.5 metres of net pay above 5,608 metres and the well is continuing to drill ahead targeting similar Cris R massive sand for a further 750ft. This reservoir intersection was logged as 40% larger than initially expected and may boost ultimate reserves beyond a pre-drill estimate of 10.3 mmbbls of condensate plus 300 Bcf of gas. Success has prompted partners at this project to plan a further development well, which is expected to spud during Q1, 2012.

Excellent reservoir characteristics and nearby field performance analogues, indicate that each well should be capable of initial production rates of over 30 mmcft per day plus at least 1,000 bbls of condensate per day. Completion of this well will be followed by preparations for production, which is expected during the March quarter of 2012.

Dugas & Leblanc 39.5% WI

Sustaining cash flow has commenced

The company participated in an oil and gas discovery at the Napoleonville salt dome, with drilling of the D&L#3 well. In mid July, a deep gas zone (Stray B) commenced production and is now delivering about 4 mmcft per day plus 30-35 bbls per day of associated condensate. An estimated 0.5 Bcf of gas will be drawn down from the Stray B sand by December, after which the main 'M' oil sand will be completed for production. Initial production in December is expected to be about 350 bbls of condensate plus 900 Mcf of gas per day, which should deliver net revenue of about US\$250,000 per months to Grand Gulf

Abita

20% - 15% WI post Payback

Production by end '11

The Abita discovery was completed during June 2011. It located 9 separate potentially productive zones over a total of 52 metres of net pay. Early estimates for recoverable reserves range from 350K to 700K bbls of oil plus 8 Bcf of gas. Testing is scheduled for August with production likely to commence in December 2011.

Initial production from dual completion over productive zones is likely to range between 200 and 400 bbls per day plus up to 5 mmcft per day of gas, delivering net revenue of about US\$100,000 per month to Grand Gulf. The Abita permit contains a large deeper target requiring an additional well, in a zone which has proven productive in a nearby trap.

Target Valuation

Total risked target value of 1 cps

Grand Gulf is in the process of raising \$2.5 million by an underwritten, 1:5 issue at 0.4 cents. Provided that this action can be completed under current market conditions, Grand Gulf will be funded for ongoing drilling and development activity into 2012, after which operating cash flow should support a modest drilling and development program through 2012 and 2013.

Exploration Targets

The company has acquired a 15.5% WI in the **West Klondike Prospect** and will fund 20.6% of drilling costs, expected to be \$0.66 million. Drilling to 3,322 metres is expected during October, with results in early November. The well targets 2 mmbbls of condensate plus 6 Bcf of gas and would be worth about \$7.5 million or 0.2 cps to the company on success.

Field	Valuation Matrix		
	Value		
	\$m.	undil cps	diluted cps
La Posada	\$ 27	0.73	0.51
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Source: Strachan Corporate

Nearby analogous fault block traps that show production from target Formations, provide support for the project.

Exploration Projects

Funded exploration program into 2012

Prospect	WI %	Target				Success Value cps	POS %	Cost \$m	Risky Value cps
		Gas Bcf	Oil mmbbl	NPV					
				Gas	Oil				
Desiree	54.5%	0	0.6	1.40	20	0.17	35%	0.7	0.04
Josephine	39.5%	5	0	1.40	20	0.07	30%	0.6	0.01
West Klondike	15.5%	6	2	1.40	20	0.20	35%	0.8	0.05

Source: Company Announcements & Strachan Corporate

Grand Gulf has an initial 54.5% WI at the **Desiree Prospect**. This low risk well targets about 600,000 barrels of oil at a depth of ~3,660 metres, in an up-dip location from an interval that produced 2.3 mmbbls or oil equivalent. Success would be worth about \$6.5 million or 0.17 cps to the company.

The Josephine Prospect targets 5 Bcf of gas above 2,440 metres, in a reservoir exhibiting a seismic amplitude anomaly, direct hydrocarbon indicator. Success is estimated to be worth \$2.8 million or 0.07 cents per share for Grand Gulf's 39.5% WI.

0.1 cps of risky exploration value

Board

Charles Morgan

Charlie is an experienced corporate executive who has founded several petroleum exploration companies.

Mark Freeman CA,

Mark is an experienced oil and gas executive, with over 16 years experience in the resources sector .

Stephen Keenihan

Stephen is a geologist with more than 30 years experience in upstream oil and gas activities. He was previously exploration manager for Apache Australia and LASMO.

Chairman

Executive Director

Non Exec Director

Allan Boss

Allan is a Houston based banker and lawyer with 30 years of experience in the industry.

Jim Trimble

Jim has more than 35 years of experience in the US and all aspects of the oil and gas industry.

Non Exec Director

Non Exec Director

S.W.O.T Analysis

Strengths

MANAGEMENT: The company has skilled local technical management in the USA and a supportive Board of seasoned investors.

PETROLEUM ASSETS: Grand Gulf has discovered oil & gas fields from which production will support ongoing activities over the medium to longer term.

LOCATION: Grand Gulf is operating in a relatively low cost & low risk jurisdiction, on conventional petroleum targets where the path to operating cash flow is short.

Opportunities

SHARE CONSOLIDATION: The company has an option to simplify its structure and consolidate its shares on issue.

PROJECT ACQUISITION: Grand Gulf is well placed to continue its path of organic growth by exploration success and incremental project acquisition.

Weaknesses

FUNDING: All smaller companies face challenges to secure funding for growth, but GGE has the prospect of sufficient funding from operations to maintain organic growth.

LARGE SHARE REGISTER: With 3.7 billion share on issue, liquidity is not an issue, but some inertia to growth may exist.

MATERIALITY: While Grand Gulf looks undervalued in comparison to the long term value of its underlying assets, the company remains small and may not present a material investment choice for some investors.

Threats

COMMODITY PRICES AND COSTS: The oil price outlook is favourable but the price of natural gas in the USA is likely to remain weak for several years.

COSTS & SKILLS: Currently, exploration and field development costs in the USA are inflated by the shale oil & gas boom. Conditions are likely to ease into 2012 as more equipment and trained staff are recruited.

Disclaimer

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