

3D Oil Limited

Leverage to VIC/P57 Gippsland Basin drilling

West Seahorse oil field appraisal well (100%)

- TDO is to spud the West Seahorse appraisal well in late March 2008. The 100% owned oil field contains 10.3MMbo in reserves (5.8MMbo) and contingent resources (4.5MMbo) on a best estimate basis
- Upon a successful flow test we anticipate a FEED study would be concluded by mid 2008 with start up in early 2010
- A low operating cost (<A\$5/bbl) onshore development for the field is preferred via an unmanned monotower with oil piped to a small onshore stabilisation plant

Wardie exploration upside (100%)

- The Wardie-1 exploration well will be drilled immediately after West Seahorse. If successful (55% COS) the Wardie prospect could contain prospective recoverable volumes >10MMbo
- The Wardie prospect would be developed in conjunction with West Seahorse as it lies 1km to the SW and will be drilled from the same location providing commercialisation synergies

Investment drivers

- TDO provides leveraged upside to a 100% equity interest in VIC/P57 and the West Seahorse oil field
- The underexplored permit is adjacent to producing and static oil fields in Australia's most prolific basin, the Gippsland Basin
- Development upside from higher volumes in West Seahorse beyond the 10.3MMbo in P50 reserves and contingent resources
- Exploration upside from the adjacent Wardie Prospect and other prospects and leads in the permit (Sea Lion, Felix etc..)

Positive valuation impact

- We maintain our West Seahorse base case value on the successful development of the 10.3MMb West Seahorse oil field but have increased our risked exploration value with a 55% COS for Wardie to 31cps (from 10cps) for a revised short term price target of A\$0.92 per share (from A\$0.69/sh)
- Our dcf valuation for a P50 recoverable 31.3MMbo combined West Seahorse & Wardie field development is A\$2.27/sh

Recommendation

- We recommend a BUY with a short term price target of A\$0.92 per share as we approach the spudding and drilling of the West Seahorse appraisal/development and Wardie exploration wells commencing in late March 2008.

TDO.ASX

BUY

Friday 15 February 2008

Price	\$0.57
Short term price target	\$0.92
Valuation	\$0.92
Valuation Method	DCF

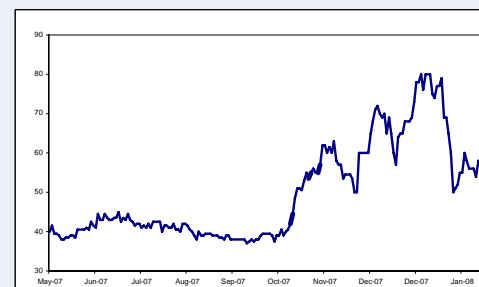
GICS sector	Energy
Market Capitalisation	\$m 110
Shares on Issue	m 193
Enterprise value	\$m 69
Previous rating	BUY

Year Ended June 30		08e	09e	10e	11e
Production (mboe)		0.00	0.00	1.10	2.19
Sales revenue	\$m	0.0	0.0	108.8	198.6
EBITDA	\$m	-3.8	-3.0	102.6	140.2
EBITDA margin	%			94.3	70.6
Reported NPAT	\$m	-1.6	-7.3	54.3	71.6
Adjusted NPAT	\$m	-1.6	-7.3	54.3	71.6

EPS adj	c	-0.8	-3.5	26.1	34.4
EPS adj growth	%				32
DPS	c	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0
PER	x	na	na	0.6	0.4
Dividend yield	%	na	na	na	na

EBITDA/Sales	%	na	na	94	71
ROA	%	na	na	352	96
ROE	%	na	na	61	43
Debt / Debt + equity	%	0.0	81	58	19

TDOCA (adjusted to FP shares) & TDO



Source: IRESS

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3D Oil Limited preliminary base case financial summary

Profit & Loss (A\$m)

Year ending June	2008e	2009e	2010e	2011e	2012e
Sales	0.0	0.0	108.8	198.6	133.8
Op. costs	0.0	0.0	1.7	3.3	3.4
Corporate	3.0	3.0	4.5	5.0	5.0
Exploration Writeoff	0.0	0.0	0.0	0.0	0.0
PRRT	0.8	0.0	0.0	50.1	52.2
EBITDA	-3.8	-3.0	102.6	140.2	73.3
Dep/Amtz	0.0	0.0	22.8	38.8	27.1
EBIT	-3.8	-3.0	79.8	101.4	46.1
Net Interest	2.2	-4.3	-7.4	0.9	4.9
Pre-Tax Profit	-1.6	-7.3	72.4	102.3	51.0
Tax Provision	0.0	0.0	18.1	30.7	15.3
Net Profit/(Loss)	-1.6	-7.3	54.3	71.6	35.7
Abnormals	0.0	0.0	0.0	0.0	0.0
Reported Net Profit	-1.6	-7.3	54.3	71.6	35.7

Balance Sheet (A\$m)

Year ending June	2008e	2009e	2010e	2011e	2012e
Cash	4.7	15.4	73.2	93.9	93.8
Receivables	0.0	0.0	6.0	6.0	6.0
Fixed assets	35.8	167.8	152.5	128.8	116.7
Other assets	1.0	1.0	1.0	1.0	1.0
Total Assets	41.6	184.3	232.7	229.7	217.4
Creditors	0.0	0.0	6.0	6.0	6.0
Borrowings	0.0	150.0	120.0	40.0	0.0
Other liabilities	0.0	0.0	18.1	15.5	7.6
Total Liabilities	0.0	150.0	144.1	61.5	13.6
Net Assets	41.6	34.3	88.6	168.1	203.9
Share capital	44.9	44.9	44.9	52.9	52.9
Retained earnings	-5.2	-12.5	41.8	113.4	149.2
Shareholders Funds	41.6	34.2	88.6	168.1	203.9

Cashflow (A\$m)

Year ending June	2008e	2009e	2010e	2011e	2012e
Sales Revenue	0.0	0.0	108.8	198.6	133.8
Less Outflows	0.0	0.0	-1.7	-3.3	-3.4
Prod. costs in exc. sales	-3.0	-3.0	-4.5	-5.0	-5.0
Net interest	2.2	-4.3	-7.4	0.9	4.9
Income tax paid/PRRT	-0.8	0.0	0.0	-83.4	-75.5
Operational Cash Flow	-1.6	-7.3	95.2	107.8	54.9
Exploration	-13.8	0.0	-7.5	-15.0	-15.0
Capex	-22.0	-132.0	0.0	0.0	0.0
Asset (Purchases)/Sales	0.0	0.0	0.0	0.0	0.0
C/Flow from Investing	-35.8	-132.0	-7.5	-15.0	-15.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Debt (Repay)/Borrowings	0.0	150.0	-30.0	-80.0	-40.0
Equity Raised	16.5	0.0	0.0	8.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
C/Flow from Financing	16.5	150.0	-30.0	-72.1	-40.0
Cash at Beginning	25.7	4.7	15.4	73.2	93.9
Net Increase/(Decrease)	-20.9	10.7	57.7	20.7	-0.1
Cash at end	4.7	15.4	73.2	93.9	93.8

Company Description

3D Oil is an oil exploration and development company focusing on the Gippsland Basin and the development of the West Seahorse oil field. With the successful drilling of the West Seahorse-3 appraisal well in March quarter 2008, the Company will be on target for first production in early 2010.

Market Measures

Year ending June		2008e	2009e	2010e	2011e	2012e
EPS adjusted	cps	-0.8	-3.5	26.1	34.4	17.2
EPS growth	%				31.9	-50.1
PE multiple	x	na	na	0.6	0.4	0.9
CFPS	cps	-7.4	-3.5	42.2	44.6	19.2
CF multiple	x	na	na	0.4	0.3	0.8
DPS	cps	0.0	0.0	0.0	0.0	0.0
Dividend Yield	%	na	na	na	na	na
Enterprise value	\$m	26.5	166	78.1	-22.7	31.2

Profitability & Liquidity ratios

Year ending June		2008e	2009e	2010e	2011e	2012e
ROE	%	na	na	61.3	42.6	17.5
ROA	%	na	na	352.3	96.5	32.4
NPAT / Sales	%	na	na	49.9	36.1	26.7
EBITDA / sales	%	na	na	94.3	70.6	54.7
Gearing (ND/(ND+E))	%	0.0	81.4	57.5	19.2	0.0

Valuation

	Equity	dr @ 10%		dr @ 8%	
		A\$m	A\$ps	A\$m	A\$ps
West Seahorse	100%	128.6	0.62	149.7	0.72
Other		0.0	0.00	0.0	0.00
Exploration		65.0	0.31	65.0	0.31
Option Value		7.6	0.04	0.0	0.00
Cash & Liquids^		4.7	0.02	4.7	0.02
Total Borrowings/Payables		0.0	0.00	0.0	0.00
Corporate/Other		-14.7	-0.07	-15.6	-0.07
Total Valuation		191.2	0.92	211.6	1.02

Production

Year ending June	2008e	2009e	2010e	2011e	2012e
Attrib. Prod (mmbob)	0.00	0.00	1.10	2.19	2.01
Cash Costs (A\$/bbl)	0.0	0.0	1.5	1.5	1.7

Price Assumptions

Year ending June	2008e	2009e	2010e	2011e	2012e
Exchange Rate (A\$/US\$)	0.87	0.84	0.81	0.78	0.75
WTI - Oil (\$US/bbl)	87	81	75	68	60
WTI - Oil (\$A/bbl)	99	97	92	87	80

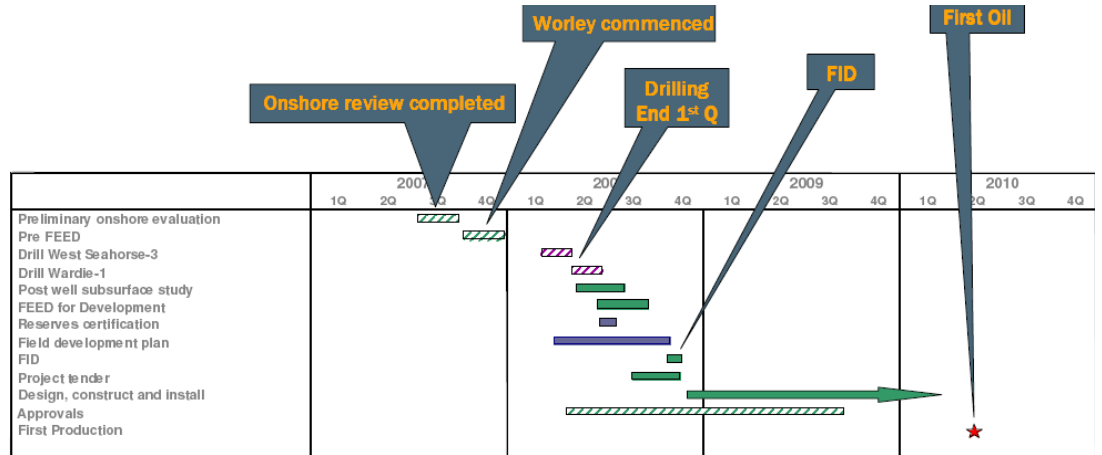
Reserves and Contingent Resources

	Company		Veritas estimate	
	mmbob		mmbob	
West Seahorse	10.3		10.3	
Other	0.0		0.0	
Total Reserves	10.3		10.3	

^ Cash post drilling of West Seahorse-3 and Wardie-1 in March quarter 2008

Timetable: The timetable for development will currently see TDO in production with first oil in June half 2010 on a stand alone basis with an onshore development. Alternative production routes via third parties etc. would see production earlier and reduce capital costs.

Figure 1: Timetable of events to first production from West Seahorse



Source: 3D Oil Limited

Field and well location: West Seahorse is ideally located to take advantage of third party infrastructure and if the Wardie exploration well is successful the development option will see Wardie commercial with as little as 1MMbo in reserves as both wells are drilled from the same location and deviated down hole to reach the target reservoirs. Higher volumes would see enhanced daily production impacting substantially on project value.

Figure 2: Schematic cross section of well traces

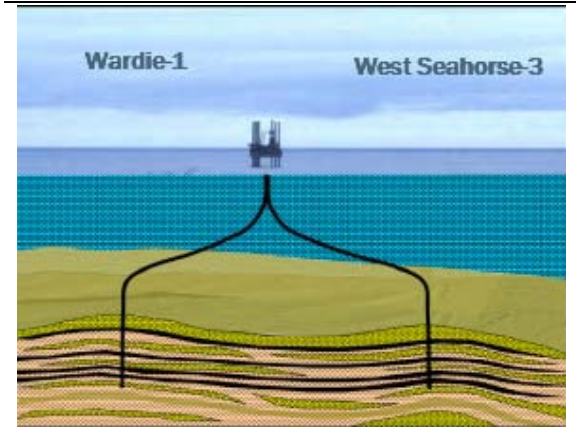
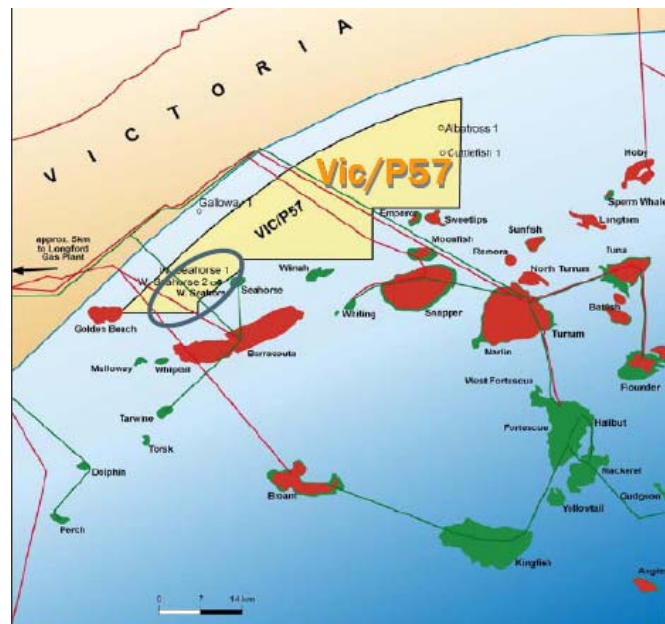


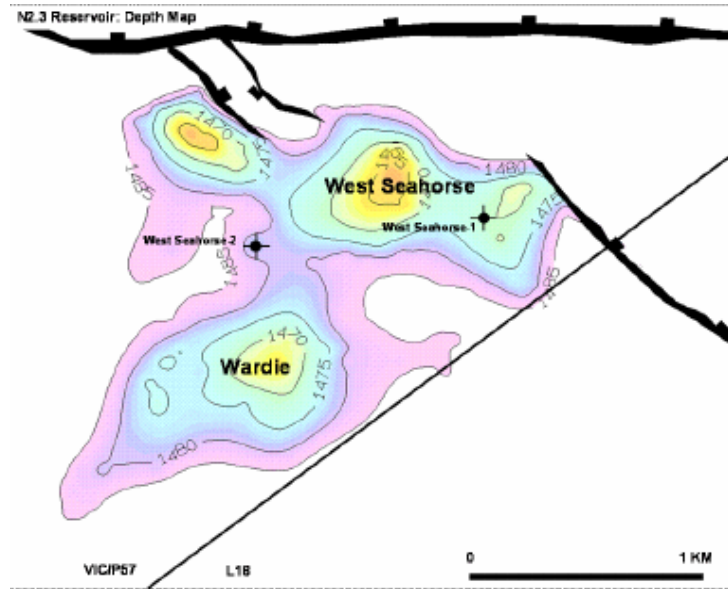
Figure 3: VIC/P57 location to fields and infrastructure



Source: 3D Oil Limited

Field and prospect locations: The depth contours illustrate how close West Seahorse and Wardie are to each other and well suited to a potential dual development.

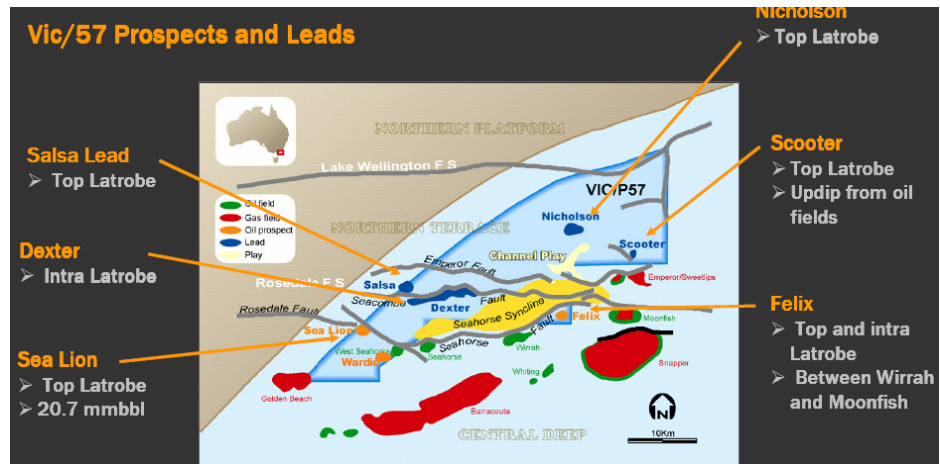
Figure 4: Depth contours and seismic section of West Seahorse and Wardie



Source: 3D Oil Limited

Prospects and Leads: Several Prospects and Leads are yet to be drill tested in VIC/P57 with many lying along prolific structural trends such as the Rosedale fault.

Figure 5: Exploration prospects and Leads



Source: 3D Oil Limited

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RATING

BUY – anticipated stock return is greater than 10%
 SELL – anticipated stock return is less than -10%
 HOLD – anticipated stock return is between -10% and +10%
 SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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