# OIL BASINS LIMITED

ABN 56 006 024 764

## QUARTERLY REPORT
## December 2012

Oil Basins Limited (ASX codes **OBL** & **OBLOB**) (**OBL** or **Company**) is pleased to present its December 2012 Quarterly Report.

## DECEMBER QUARTER OPERATIONS REPORT

### *Highlights During the December quarter:*

- ***The Company advanced a number of projects in its portfolio including:***
  - *Drilling East Blina-1, Backreef Area Canning Basin – securing its interest in L6.*
  - *Cyrano contingent resources upgrade R3/R1 offshore Carnarvon Basin.*
  - *Protecting its long-held rights and designated operator USG & CSG, Application 5/07-8EP ("**Derby Block**") Canning Basin.*
  - *Mounted litigation against Bass Strait Oil Company Ltd to protect OBL's position.*
  - *On 14 November 2012 the Company executed a non-binding non-exclusive Letter of Intent with Fortescue Metals Group Limited – subsequently terminated by FMG on 14 January 2013 and subsequently replaced with a different transaction with Octanex N.L. (announced to the ASX on 24 January 2013).*

### *OPERATED ASSETS:*

- ***East Blina-1 well in the Backreef Area (OBL 80% beneficial interest):***
  - *OBL successfully obtained all stakeholder approvals and the well was spudded on 15 October 2012*
  - *Reached 1195m total depth on 29 October 2012.*
  - *The well was plugged and abandoned on 31 October 2012 without encountering commercial hydrocarbons.*
  - *Dynamic Drilling Rig #17 was released on 1 November 2012.*
  - *The site was partly rehabilitated and made safe on 7 November 2012.*

- ***Cyrano Oil Field R3/R1 (OBL 100%):***
  - *New assessment resulted in a 105% increase of the Contingent (2C) P50 resource in the Cyrano and Nasutus oil fields within Barrow Group reservoirs to 1.09 MMbbls.*
  - *The Contingent plus Probable (2C plus 2P) P50 resource in the Barrow reservoir for Cyrano, Nasutus and new Elimia Oil Prospect is now assessed as 2.02 MMstb.*
  - *Additional significant contingent resources remain in the overlying Mardie Greensand reservoir (which was flow tested in nearby Nasutus-1, R5).*

- ***Derby Block (OBL 50%):***
  - *The Company advises that all submissions from stakeholders have now been received by the National Native Title Tribunal (**"NNTT"**) and the Company expects a formal determination by the NNTT allowing the award of the permit (**which is believed to be imminent**).*
  - *The Company also advises that on 21 December 2012 it formally advised its joint applicant Backreef Oil Pty Limited (**"Backreef"**) that in OBL's opinion Backreef was in breach of its commercial undertakings with OBL in its proposed sale of its 50% application interest and all other rights in the Derby Block to a third party, and consequently the Company intends to fully pursue its rights in this regard.*

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## *NON-OPERATED ASSETS:*

### *Gippsland*

- During the December quarter, no significant costs were incurred in either Vic/P41 (OBL 12.5%) or Vic/P66 (OBL 17%).

- The operator Bass Strait Oil Company Ltd (ASX code **BAS**) reports that early preliminary work is being prepared for the Stanton 3D seismic in Vic/P41.

### *Listed Company Investments*

- OBL acquired an initial 19.9% interest in Bass Strait Oil Company Ltd (ASX code BAS) in late July, which was subsequently diluted to circa 17.4% by two BAS capital raisings in August and September.

- During the quarter OBL challenged the efficacy and legality of the two BAS capital raisings in the Federal Court of Australia but although OBL won the contested points, the judgment used the Court's discretion and ruled to retain the BAS placement and BAS rights issue.

- OBL was awarded costs and has taken steps to recover these costs during the quarter.

## *CORPORATE:*

### *Fortescue Metals Group Limited Letter of Intent*

On 14 November 2012, Fortescue Metals Group Limited (ASX code **FMG**) offered and executed a non-binding Letter of Intent **("LOI")** which the Company advised to the ASX on 15 November 2015.

The FMG proposal called for FMG to subscribe for 120 million new OBL shares @ 3.5 cps (and attaching free 100 million unlisted OBL options exercisable at 9 cents each on or before 30 June 2016) raising $4.2m at which time FMG would have become a new substantial shareholder with circa 18.0% of OBL.

The terms of the FMG-OBL deal specifically used the 100 million expanded OBL share placement capacity, as previously approved at the OBL EGM dated 9 October 2012.

In addition, OBL under the terms of the LOI agreed that FMG would be offered a priority farmin, after Grant, of a 25% share of petroleum exploration permit 5/07-8 EP, otherwise known as the "**Derby Block**", where OBL has presently application rights to 50% and is also the designated USG and CSG operator, for a payment of $1.75 million (after Grant).

Subsequent to the expiry of the 100 million expanded share placement capacity on 9 January 2013, OBL advised that on 14 January 2013 discussions on the Letter of Intent were terminated by FMG, despite OBL having since early December 2012 signed-off on all documentation to effect such a deal.

While OBL was disappointed with FMG's decision not to proceed, the Company on 15 January 2013 advised the market of the following *(among other matters)*:

- The Company was fielding serious third-party interest from an oil & gas exploration company for a similar transaction which would include a participation in a proposed placement ***(see subsequent transaction executed below)****.*

- In addition, OBL had received renewed expressions of interest from oil & gas supermajors for a farm-in to the Derby Block should OBL subsequently increase its interest in the permit.

### *Strategic Share Placement & Divestment of 25% Interest in Derby Block*

Subsequent to quarter end, on 24 January 2013, OBL announced the following:

1. A modest capital-raising of $625,000 (mostly funded by OBL's existing shareholder Octanex N.L. ASX code **OXX**).

2. OBL has agreed conditionally to divest a 25% interest in the Derby Block to OXX for $1.75 million.

3. A Sale and Cooperation Agreement had been entered into between OBL and a wholly owned subsidiary of OXX.

The agreed transaction specifics are as follows:

- OBL has placed 17.85 million new fully paid OBL ordinary shares @ 3.5 cents per share raising circa $625,000 to sophisticated and corporate investors. In addition 17.85 million new free listed OBLOB options (exercisable on or before 30 June 2014 at 4 cents each) were granted on a 1 for 1 basis.

- As a result of the placement the Albers Group ASX-listed oil & gas exploration associate, Octanex N.L. (ASX code **OXX**) has increased its shareholding by 15.0 million fully paid OBL ordinary shares from circa 2.222 million to 17.222 million (3.05%) and now holds 15.0 million OBLOB options.

- Mr E G Albers and his Associates ("**Albers Group**") has increased its overall interest in OBL from 7.03% to 9.46% (53,505,266 fully paid OBL ordinary shares).

- There is no agreement or arrangements for OXX or the Albers Group to have any director or representative appointed to the board of OBL.

- The placement transaction was finalised on 25 January 2013.

In addition, OXX has contracted to acquire a 25% interest in the Derby Block from OBL for $1.75 million on the following terms:

- adoption of a Joint Venture Agreement (**JVA**) for the Derby Block, once the Derby Block is granted;

- provision for co-operation relating to the Derby Block, pending finalisation of a JVA; and

- provision for long-term co-operation between OBL and OXX subsequent to grant of the Derby Block to ensure that future CSG and USG/USO work programs can be readily administered and operated by OBL.

As announced by Octanex N.L. on 24 January 2013:

- OXX approves and supports the process undertaken for formal arbitration of the future act, namely the grant of petroleum exploration permit application 5/07-8 EP, under the *Native Title Act 1993*(Cth) for determination by the NNTT, as managed to date by OBL.

- Following a technical, legal and commercial due diligence review of the Derby Block, OXX is interested in exploring for both conventional and unconventional oil and gas but with primary focus being USG (with a particular and immediate focus being placed on exploration of the potentially liquids-rich Laurel shale formation basin-centred USG/USO play).

- OXX proposes the appointment of OBL as operator of the Derby Block.

- In addition, OXX supports OBL's plans to seek major interest from oil & gas supermajors for a farm-in to the Derby Block, to provide competition in the domestic gas market should exploration within the Derby Block be successful.

The Directors of OBL believe that, by contrast with the earlier transaction (terminated by FMG on 14 January 2013) the new OXX transaction announced on 24 January 2013 is more of benefit to OBL and its shareholders for the following reasons:

1. The present transaction offers the Company certainty.

2. There are no shareholder approval requirements and the terms of the transaction are certain.

3. The transaction does not merely create options to enter into a transaction or transactions.

4. Pricing of the strategic placement is essentially identical.

5. The shareholder dilution effect of the transactions is minimal with OXX only acquiring 15 million shares and a like number of June 2014 options, compared with the previous proposed issue of 120 million shares and attaching 100 million long (4 year) dated options exercisable at 9 cents each.

6. There are no OXX appointed directors or representatives to OBL's board.

7. Via the strategic placement, the Albers Group attains circa 9.5% (undiluted) of OBL.

8. Further, the transaction leaves OBL with a higher free-float at 90% compared with 75% (which is important should OBL ultimately be re-rated for any ASX Accumulation Index).

9. Importantly, the transaction leaves OBL as not controlled by any major shareholder and consequently maintains any future takeover premium which OBL may attract.

10. In addition, under the agreement with OXX, the Company has the ability to maintain overall operatorship of the Derby Block and is unlikely to be seriously challenged by un-budgeted cash calls.

11. The future funds to be provided to OBL by OXX for the 25% sale interest (after grant and upon transfer) are sufficient to fund OBL work commitment obligations for its remaining 25% of the Derby Block for all of Year 1 work program (a 500 km 2D seismic survey during 2013) and portion of its Year 2 work program obligations.

12. OXX supports OBL's intention to attract interest from supermajors in this prospective frontier permit having the following key attributes:

    - The Derby Block is an attractive and highly prospective Fitzroy Trough permit for the extension of the potentially liquids-rich Laurel shale formation basin-centred USG/USO play delineated nearby in the east.

    - The Derby Block is well-situated to nearby to established infrastructure and the proposed future route of the Great Northern Gas Pipeline linking to large established WA domestic gas markets to the south, which will likely travel along the Great Northern Highway, which crosses the southern portion of the permit.

## *CASH POSITION:*

Cash holdings at 31 December 2012 were circa $0.34 million, which increased to over $0.9 million with the placement banked on 25 January 2013. Receivables as at the date of this report amount to a further minimum assessed $460,000 receivable during February 2013.

In addition OBL owns circa 89.154 million shares in BAS worth presently circa $1.34 million.

## GLOSSARY & PETROLEUM UNITS

| | |
|---|---|
| M | Thousand |
| MM | Million |
| B | Billion |
| bbl | Barrel of crude oil (ie 159 litres) |
| PJ | Peta Joule (1,000 Tera Joules (TJ)) |
| Bcf | Billion cubic feet |
| Tcf | Trillion cubic feet (ie 1,000 Bcf) |
| BOE6 | Barrel of crude oil equivalent – commonly defined as 1 TJ equates to circa 158 BOE – approximately equivalent to 1 barrel of crude equating to 6,000 Bcf dry methane on an energy equivalent basis |
| PSTM | Pre-stack time migration – reprocessing method used with seismic. |
| PSDM | Pre-stack depth migration – reprocessing method used with seismic converting time into depth. |
| AVO | Amplitude versus Offset, enhancing statistical processing method used with 3D seismic. |
| TWT | Two-way time |
| FMT | Formation testing (pressure & sampling) tool, also known as a MDT |
| TD | Total depth |
| GIP | Gas in Place |
| CSG | Coal seam gas (CSG) or alternatively known as coal seam methane (CSM) is natural gas sourced from coal. Methane = $CH_4$ = H-H-C-H-H, which is the same as: conventional gas, landfill gas, peat gas. CSM is produced during the creation of coal from peat. The methane in CSM is adsorbed onto the surface of micropores in the coal. The amount of methane adsorbed increases with pressure. CSM is expelled from the seam over geologic time because coal has the capacity to hold only about a tenth of the methane it produces. Apart from power station applications, high quality methane can be used as a valuable feedstock for petrochemical plants such as urea, ammonia, ammonium nitrate, gas to liquids (diesel) and LNG production |
| USG | Unconventional shale gas |
| USO | Unconventional shale oil |
| STOIIP | Stock tank oil in place (stabilised crude at atmospheric conditions) – also commonly referred to as Oil in Place (OIP) |
| BCGA | Basin Centred Gas Asset |

## DISCLAIMER – GENERAL

Prospective Resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations. Investors should not infer that because "prospective resources" are referred to that oil and gas necessarily exist within the prospects. An equally valid outcome in relation to each of the Company's prospects is that no oil or gas will be discovered.

Technical Reserves in this preliminary assessment are considered similar to the definition of Contingent Resources (ie Low Estimate and High Estimate) with the following important caveat - it must be appreciated that the risked volumes as reported in terms of undeveloped Contingent Resources and Prospective Resources are risk assessed only in the context of applying 'Geological Chance of Success'. This degree of risk assessment does not incorporate the considerations of economic uncertainty and commerciality and consequently no future development as such can be assured.

The technical information quoted has been complied and/or assessed by Company Director Mr Neil Doyle (from a number of sources) who is a professional engineer (BEng, MEngSc - Geomechanics) with over 31 years standing and a continuous Member of the Society of Petroleum Engineers since 1981 (SPE 30 Year Club Member) and by Mr Geoff Geary who is a professional geologist (BSc – Geology) with over 28 years standing and who is also a Member of the Petroleum Exploration Society of Australia. Both Mr Doyle and Mr Geary have consented to the inclusion in this announcement of the matters based on the information in the form and context in which they appear.

Investors should review the ASX materials and independent expert reports previously quoted and the important definitions and disclaimers attached.