



# OIL BASINS LIMITED

ABN 56 006 024 764

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## QUARTERLY REPORT September 2012

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

### SEPTEMBER QUARTER OPERATIONS REPORT

#### *Highlights during the September quarter:*

- *The Company continued work on advancing a number of projects in its portfolio including a Cyrano contingent resources upgrade, preparations to drill East Blina-1 in the Canning Basin, and furtherance of native title arbitration concerning petroleum exploration permit application 5/07-8 EP in the Canning Basin.*
- *The Company announced in early September the awarding of a rig contract to Dynamic Drilling to use their Rig#17 based in Chinchilla South East Queensland for the East Blina-1 petroleum exploration well.*
- *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 a significant placement and a rights issue by BAS in August and September.*

#### *Subsequent to the quarter:*

- *OBL, effectively on behalf of all BAS minority shareholders, challenged the propriety and legality of the significant placement by BAS in the Federal Court of Australia and although OBL won the main contested point concerning breach by BAS of the 15% rule in ASX LR7.1, the Court using its discretion allowed the significant placement and rights issue to stand.*
- *OBL on behalf of the Backreef Area Joint Venture successfully obtained all stakeholder approvals and the East Blina-1 petroleum exploration well was spudded on 15 October 2012 and reached total depth on 29 October 2012. Although indicating oil shows during drilling in the Laurel Formation, after testing by Schlumberger the well was held as commercially unsuccessful though significant useful data was obtained. The well is presently being plugged and abandoned.*

## **Operated Assets Highlights**

### **Carnarvon**

#### **Cyrano Oil Project – OBL 100%**

- The geological and geophysical assessment of additional potential contingent reserves and resources within Retention Lease R3/R1 was greatly expanded in July after it was realised that the earlier geophysical study using Kingdom software limited the interpretation of the contingent 1C and 2C resources.
- The new study scope started from scratch and was greatly expanded to include a complete reworking of the geophysics by 3DGeo Pty Ltd under modern Petrel software, the engagement of an eminent expert sedimentologist and an eminent expert petrophysicist to rework the oil field geological interpretations and all the vintage logs petrophysics of all wells within the permit and nearby surrounds in modern CPX-Petrolog.
- These greatly expanded studies are expected to be completed in November 2012 and will finalise the Year 1 work program.

### **Canning**

#### **Backreef Area – OBL 80% net beneficial interest**

- As previously advised on 2 April 2012, OBL and Green Rock Energy Limited (ASX code **GRK**) successfully executed a Heads of Agreement (**HOA**) relating to the farmout of up to a 20% interest in the Backreef Area, Canning Basin, Western Australia with an up-front non-refundable Option Payment from GRK of \$1.1 million.
- This contributed to fund the Backreef-1 cased-hole production test and GRK was liable to contribute pro rata on all costs above \$900,000 for Backreef-1 costs.
- Early in May 2012, OBL announced that GRK had elected to take a 20% interest in the Backreef Area and had paid OBL a further non-refundable \$2.5 million payment for future operations such as an Extended Production Testing (**EPT**) of Backreef-1 and/or the drilling and completion of a second petroleum exploration well (i.e. East Blina-1 or Backreef-2 appraisal) by 31 October 2012.

#### **Backreef-1 Production Tests**

- As previously advised, the initial petrochemical analysis of the oil recovered from the Zone 1 production test was encouraging. Early assessment indicated that the 'live oil' fingerprint appeared to be a 'Laurel' type oil with similar characteristics to oil recovered from WAPET's Meda-1 discovered in 1958 (and located some 45km distant to the north east) and very different from the nearby down-dip Blina oil field discovered by Home Energy Company in 1981 (and located some 7km to the west) – additional work being required to fully interpret the data.
- In the opinion of the Company's Independent Test Engineer, Backreef-1 was "currently a non-commercial oil discovery" and the potential oil as a prospective resource would need either a successful up-dip sidetrack (or better sited appraisal well) or a successful EPT to establish it as a discovery under the PRMS SPE classification.
- An inaugural OCM/TCM meeting was held with GRK in Melbourne on 31 August 2012 to review Backreef-1 and plan for East Blina-1.

### **East Blina-1 Petroleum Exploration Well**

- The Company as operator continued to assess geophysical and geological interpretation of the Backreef Area post the Backreef-1 production test results and firmed-up the well locations for both East Blina-1 and an up-dip Backreef-2 appraisal well location (situated 190m due west of Backreef-1).
- The Company continued to advance the preparations to drill a follow-up East Blina-1 well in the Backreef Area and in early September announced the awarding of a rig contract to Dynamic Drilling to use their Rig#17 based in Chinchilla South East Queensland for this petroleum exploration well.
- Subsequent to the quarter OBL successfully obtained all stakeholder approvals and the well was spudded on 15 October 2012 and reached total depth on 29 October 2012 and which, after testing by Schlumberger, was held as commercially unsuccessful although significant useful data was obtained.
- The drilling of petroleum exploration well East Blina-1 by 31 October 2012 completes the farmin commitments under the Backreef Play Agreement with Buru Energy Limited.

### **Application for Petroleum Exploration Permit 5/07-8 EP – OBL 50%**

- Further to OBL's ASX announcement dated 30 May 2012, with the termination of mediation by the Kimberley Land Council (**KLC**) with respect to the Future Act procedure on behalf of the Nyikina and Mangala (**the native title party**), it necessitated that a party apply for a formal arbitration under the Future Act regime to allow the grant by the WA government of petroleum exploration permit application 5/07-8 EP (**the proposed permit**) to Backreef Oil Pty Ltd (**Backreef**) and the Company (**the grantee parties**). Such grants are made pursuant to the *Petroleum and Geothermal Energy Resources Act 1967* (WA).
- The Company is pleased to advise the market that the National Native Title Tribunal (**NNTT**) has on 6 September 2012 found that the grantee parties have negotiated in good faith with the native title party as required by s 31(1) of the *Native Title Act 1993* (Cth) and the NNTT has power to conduct an inquiry and make a determination.
- The Company advises that this decision represents a significant milestone in the progress to an award of title to the proposed permit.
- During the quarter Buru Energy Limited has announced that it will acquire such of Backreef's interest in the proposed permit.
- The Company in its capacity as designated operator for USG and CSG, and as the only of the grantee parties to do so, lodged the formal submissions and contentions required by the NNTT imposed deadline date of 29 October 2012 and the WA government duly lodged their supporting response the same day.
- The OBL formal submissions included detailed commissioned Landgate maps of all native title claims, all known traditional owner sites, the newly created Federal Government West Kimberley Regional Wildlife Reserve, outlines of all pastoral properties and other land users, and reworked maps by OBL's specialist consultant 3DGeo Pty Ltd of topographical maps, satellite imagery and a detailed proposal by OBL for 500km of a 2D seismic work program and exploration wells, specialist consulting support provided by engaged environmental, archaeological and seismic survey firms (covering the first two years of the work program for the proposed permit) as well as a proposal for CSG exploration. Detailed submissions and

proposals were also made as to how OBL as operator would engage and work with traditional owner groups and observe heritage conditions.

- The Company now believes that, by its sole initiative to engage the native title party, a number of important legal steps to be undertaken during the September and current quarter 4Q2012 have been achieved and the NNTT arbitration now waits on the KLC response to the submissions and contentions of the Company and the WA government. A formal NNTT hearing and determination is now expected sometime during December 2012.
- OBL as a qualified Canning Basin operator and as designated operator for USG and CSG in respect of the proposed permit, including sole rights to manage any USG and CSG farmout for 18 months after award, will continue to maintain and develop these rights and work with all stakeholders to achieve award of the proposed permit and implementation of the proposed work program.

## ***Non-Operated Assets Highlights***

### ***Gippsland***

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

### ***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 a significant placement and a rights issue by BAS in August and September.
- Subsequent to the quarter, OBL, effectively on behalf of all BAS minority shareholders, challenged the propriety and legality of the significant placement by BAS in the Federal Court of Australia and although OBL won the main contested point concerning breach by BAS of the 15% rule in ASX LR7.1, the Court using its discretion allowed the significant placement and rights issue to stand.
- Legal costs for this action have yet to be finalised, however the Federal Court has today, Wednesday 31 October 2012, directed that: **“In the circumstances of this case, BAS should be ordered to pay OBL’s costs of and incidental to the proceedings. OBL was successful in its primary claim.”** Further, the Federal Court stated that: **“The costs order that BAS should pay OBL’s costs of and incidental to the proceeding includes the costs of the interlocutory application heard on 16 August 2012.”**
- OBL has indicated its intention to nominate the appointment of four persons for election as directors to the BAS board at the forthcoming BAS AGM on 27 November 2012. These individuals include members of the OBL board and offer BAS certain additional skills and experience that OBL believes are conducive to appropriate good governance and business development and operational implementation relevant to BAS.

## ***Cash Position***

Cash holdings at 30 September 2012: \$3.067 million.

By the end of the quarter the Company had prepaid a number of planning and long-lead time items associated with the imminent drilling of the East Blina-1 petroleum exploration well.

In addition OBL owns circa 89.154 million shares in BAS worth presently over \$1.4 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 <sub>4</sub> = 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
STOIIP	Stock tank oil in place (stabilised crude at atmospheric conditions) – also commonly referred to as Oil in Place (OIP)

## 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 compiled 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 any ASX materials and independent expert reports previously quoted and the important definitions and disclaimers attached.