



OIL BASINS LIMITED

ABN 56 006 024 764

QUARTERLY REPORT DECEMBER 2006

Oil Basins Limited (ASX code **OBL** or **Company**) is pleased to present its December 2006 Quarterly Report.

HIGHLIGHTS

Oil Basins Limited has as at the date of this Quarterly Report, now satisfactorily secured the Company's formal rights to both its Gippsland Basin and Canning Basin exploration properties. **Both completed farmins illustrate the Company's stated business model of securing (at modest cost) leveraged strategic interests close to both known proven oil and existing infrastructure.**

- A total of 12.5% of offshore Vic/P41 – offshore Gippsland Basin, Bass Strait,
- Utilising its “**FIRST-MOVE ADVANTAGE**” Company has successfully strategically positioned itself and has been assigned 35% of the Canning Basin Blina Back Reef Play Joint Venture Area and now has formal rights to increase this stake to 50%.
- In an unrelated transaction, the onshore Canning Basin Blina Back Reef Play Joint Venture Area is presently part of a package of exploration and production properties presently being acquired by Arc Energy Limited (**ASX code ARQ**) and if successfully executed, ARQ will then hold between 20% to 30% Blina Back Reef Play Joint Venture Area via ARQ's acquisition of Terratek Drilling Tools Pty Ltd from vendor Canadian Golden Dynasty Resources Ltd.

COMPANY'S EXPLORATION INTERESTS

Oil Basins Limited is involved in exploration for oil and gas in the offshore Gippsland Basin waters of south-eastern Australia and the onshore Canning Basin of Western Australia (refer to Figure 1) and has entered into a number of formal Farmin Agreements so as to attain its initial joint venture project interests. Recognising the potential impact of the Option Agreement with Backreef Oil the Company therefore now has formal rights to earn:

- a total of 12.5% of offshore Vic/P41 – offshore Gippsland permit nearby to the Kipper gasfield, Sole gasfield and Basker / Manta oil and gas FPSO development.
- a total of 50% of Canning Basin Blina Back Reef Play Joint Venture.

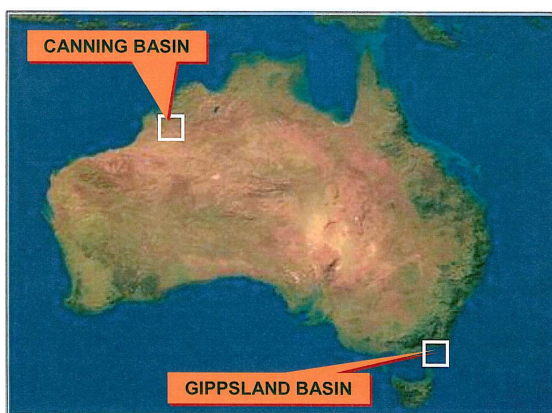


Figure 1
Oil Basins Exploration Interests

GIPPSLAND BASIN – VIC/P41

(a) Company's Interests and Summary of Farmin Terms

Pursuant to the farmin agreements executed prior to ASX listing on 23 August 2006, the Company has the Rights but not the obligation to earn-in upto 12.5% of this permit; summarised as follows:

- The potential impact of the two OBL conditional farmin agreements to joint venture participants in offshore Gippsland Permit Vic/P41 in Bass Strait are as follows:

Bass Strait Oil Company Ltd (ASX code BAS)	45% (Operator)
Moby Oil & Gas Limited (ASX code MOG)	30% reducing to 25%
Eagle Bay Resources NL (ASX code EBR)	25% reducing to 17.5%

Oil Basins Limited

Potential to **increase** from 0% to 12.5%

- So as to complete the earn-in of its interest, the Company will be required to pay EBR an amount of \$2,437,500 and/or MOG the amount of \$1,650,000 and has until the Commitment Well is actually drilled (ie presently by Permit Year ending 10 September 2010).
- Until such payment is made, both EBR and/or MOG hold the Vic/P41 JVOA voting rights and the Company merely has status as an observer at Vic/P41 Joint Venture meetings.
- During the quarter, both EBR and MOG formally registered with the Designated Authority, on behalf of the Company, the EBR's, MOG's and the Company's dealing in the Vic/P41 permit.

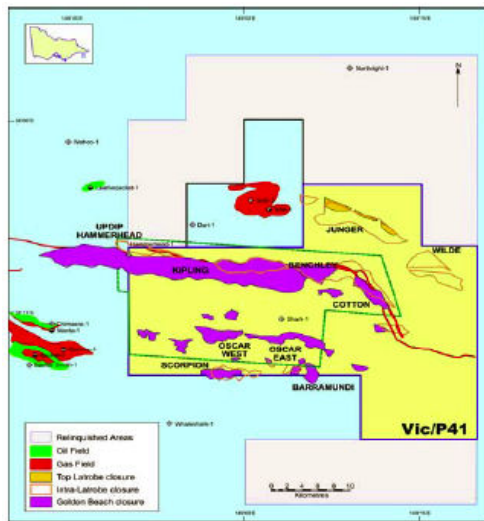


Figure 2

Location of Permit Vic/P41 Offshore Gippsland Basin
(source BAS ASX Announcement)

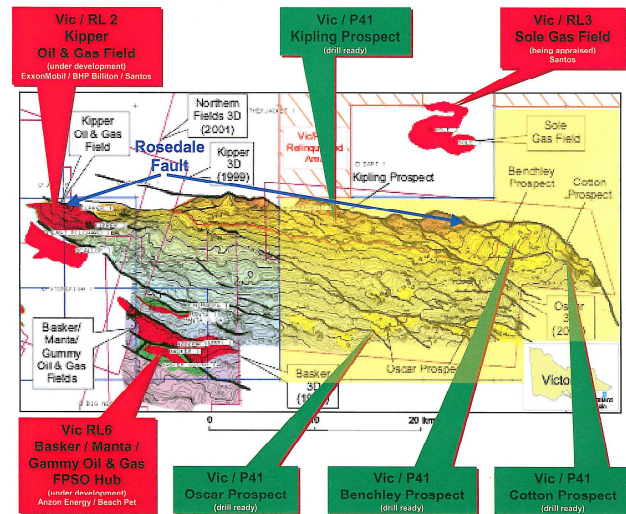


Figure 3

Close proximity to new Oil & Gas Fields under Development

(b) Renewal of Permit Vic/P41

- On 26 October, 2006 BAS announced that the Designated Authority has granted the Vic/P41 Joint Venture a new five year term. The renewed permit commenced 20 September, 2006 and, after relinquishment, is now comprised of 16 graticular blocks, including the 2005 Oscar 3D seismic survey area (refer to Figure 2).

- The work programme for the Vic/P41 second 5 year renewal are as follows:

Period Ending	Permit Year	Programme	Gross Cost (net Prorata Cost)
20 September 2007	1	3D seismic interpretation – quantitative geophysics, AVO etc	\$350,000 (net \$43,750)
20 September 2008	2	Geological & geophysical studies	\$350,000 (net \$43,750)
20 September 2009	3	250km 2D seismic and commercial studies	\$1,000,000 (net \$125,000)
20 September 2010	4	Drill one well (Commitment Well)	\$15,000,000 (net \$1,875,000)
20 September 2011	5	Interpretation and assessment of results	\$250,000 (net \$31,250)

Vic/P41 Work Program – 2nd 5 Year Period

- Work programme commitments are considered light by industry standards and by the close of the current quarter, present Year 1 expenditures attributable to OBL have, at the date of this report, now mostly been met (including all pro-rata back-cost payments to both EBR and MOG as part of the farmin agreements with EBR and MOG).
- The Operator BAS has previously announced that interpretation of the Oscar 3D data has detailed a number of high-potential prospects, including on-trend analogues of the Basker/Manta/Gammy (**BMG**) and Kipper oil and gas fields. Strategically both fields are under-development (**refer to Figure 3**) and any commercial discoveries within Vic/P41 may be tied into these nearby developments.
- Permit Vic/P41 is regarded as a highly prospective (medium risk) permit with three defined oil prospects (Kipling, Oscar West and Cotton assessed by the Operator BAS the 2005 Oscar 3D seismic survey of combined gross prospective resources potential in excess of 1,947 MMbbls (if wholly oil) or 5,208 bcf (if wholly gas) – refer to OBL prospectus for a comprehensive overview of these prospects and the assessed exploration risks.
- **Significantly no royalties are payable on commercial discoveries within this permit.**
- The Company understands that in light of the potential development of the Longtom gasfield, BAS is also re-appraising the permit for deeper Emperor sandstone style prospects and leads.
- BAS is actively now seeking expressions of interest from major exploration and production companies to farmin into the permit, but has indicated that the tight offshore market for suitable drilling rigs (a semi-submersible is likely required due to water depth constraints) may push any near-term Vic/P41 permit drilling activity well into late 2007, or later.
- Permit Vic/P41 is regarded as potentially a good address for discovering commercial hydrocarbons, with nearby discoveries (BMG, Kipper and Sole) nearby and ontrend to **Basker-Manta FPSO Oil & Gas Hub** presently under commissioning during January 2007 as it builds-up onstream oil production to circa 25,000 bopd (with potential for future nearby discovery tie-backs to this independent production facility).

CANNING BASIN - BLINA BACK REEF PLAY JOINT VENTURE AREA

(a) Formal Execution of Oil Basins Farmin Agreement

On 29 May 2006, the Company entered into a farmin agreement with unlisted Backreef Oil Ltd and Toronto listed Golden Dynasty Resources Ltd (Golden Dynasty) to farmin into the **Blina Back Reef Play Joint Venture Area (Figures 4 to 7)**, which covers some 354 square kilometres contained within contiguous segments of Production Licence L6 and Exploration Permits EP 129, Parts R2 & R3. This acreage is situated close to the existing Blina, Sundown and West Terrace oilfields.

(b) Company's Interests and Summary of Farmin Terms

Unlike many prospects previously drilled in the Canning Basin, the target of the Blina Back Reef Play Prospect is not a Devonian reef but a postulated and previously undrilled Devonian aged clastic turbidite (**refer to Figures 4 and 5**).

The Prospect is located within an unique area called the "**Kimberley Downs Embayment**" which is a half graben forming a restricted marine embayment. The embayment is bounded by the Harold and Blina carbonate platform and reefal systems to the southwest and northeast respectively, opening to the ancient Devonian sea to the southeast.

Key features of this Oil Basins Farmin Agreement (and subsequent associated agreements) which has been further ratified on 4 January 2007 are summarised as follows:

- Via the successful raising of a minimum of \$2.5 million and listing on the ASX on 23 August 2006, the Company attained an initial net 35% interest in the Backreef Play Prospect, at a modest net cost presently estimated at \$1.05 million (with \$1.015 million still owing).
- The Blina Back Reef Play Prospect (**refer to Figures 6 and 7**) as planned is wholly situated within a portion of existing Production Licence L6 – which was recently renewed by the Western Australian Department of Industry Resources on 19 May 2006 for 21 years.
- The Prospect is also located in close proximity to the under-utilised existing Blina Oil Hub comprising pumping and transport infrastructure and a crude oil pipeline. On 6 December 2006, Arc Energy Limited (**ASX code ARQ**) announced their intention to acquire Terratek, the Operator of the Blina Oilfield and the Blina production facilities from Golden Dynasty – refer to section (d).
- As the proposed Blina Backreef Play Prospect (**i.e. the Backreef-1 Prospect**) is intended to be drilled within existing **Production Licence 6 (now in-part assigned to OBL)**, any significant native title and environmental protection issues are likely to be quickly overcome in the event of drilling success. Consequently, an oil discovery is likely to be rapidly developed using the existing infrastructure located conveniently nearby.
- In addition to the assignment of 35% to OBL, Golden Dynasty / Terratek consented to a partial assignment of 15% from Backreef's remaining 35% participating interest in the Blina Back Reef Play Joint Venture Area to OBL.
- The Company is pleased to report that it has now successfully acquired a 35% net interest (with ability to attain 50%) in potentially a highly-prospective but modest-cost 270 MMbbl oil target defined by the Blina Backreef Play Prospect – a net upside assessed at 94 MMbbls (based upon 35% net share) to 135 MMbbls (based upon 50% net share) – refer to following sections (c) to (e) and to OBL prospectus for a comprehensive overview of the Blina Back Reef Play Prospect and the assessed exploration risks.

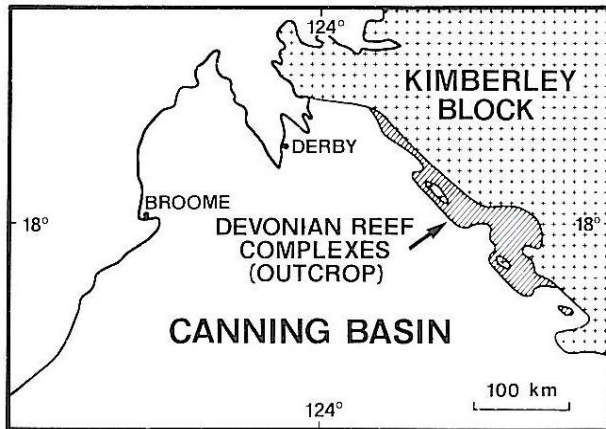


Figure 4
Geological Location Map

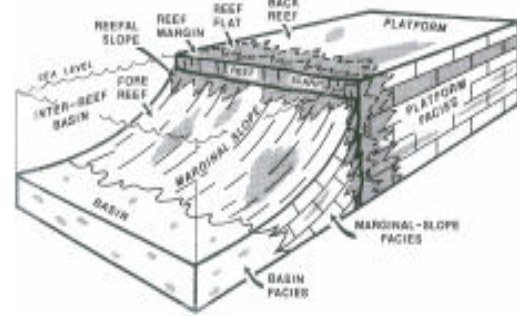


Figure 5
Schematic of Prognosed Stratigraphic Trap

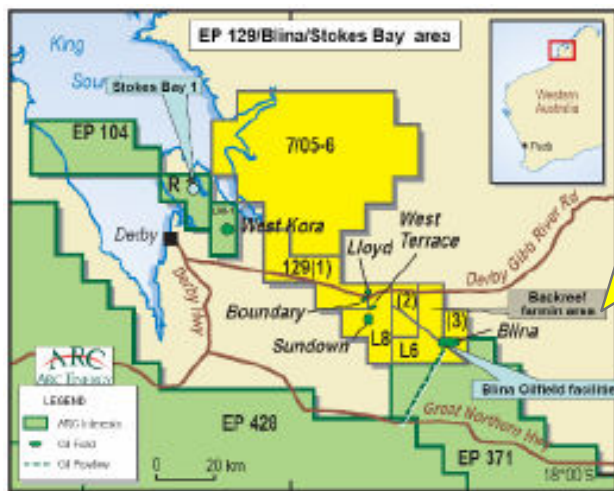


Figure 6
Location of Canning Basin Interests highlighting Arc Energy's Canning Interests & the Backreef Farmin Area
(source ARQ ASX Announcement)

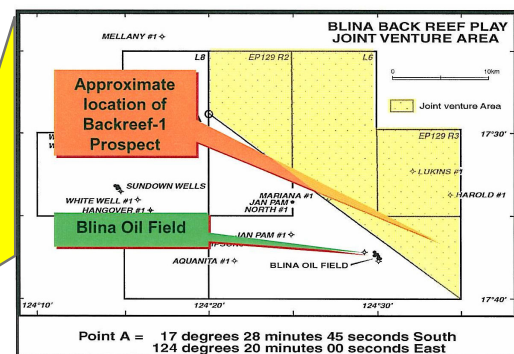


Figure 7
Blina Back Reef Play Joint Venture Area (Expanded View)

(c) Formal Execution of Backreef Oil Farmin Agreement

On 8 September 2006, Golden Dynasty Resources Ltd announced that they had acquired 100% of Terratek Oil Tools Pty Ltd (**Terratek**) from European Gas Limited (**ASX code EPG**) which removed the final precondition to finalising the the farmin agreement as contemplated on 29 May 2006.

On 29 September 2006 EPG transferred to Golden Dynasty 100% of the issued capital in Terratek. Upon Golden Dynasty becoming the majority shareholder in Terratek, Terratek approved the content and form of the Backreef Farm In and it was duly executed by Terratek and Backreef on 12 October, 2006. On 27 December 2006, Terratek provided Backreef and OBL with a ratification and clarification to the 12 October 2006 agreement and OBL holds this agreement as the new operative document for the Backreef Oil Farmin.

(d) Arc Energy Limited announces intention to acquire Terratek

On 6 December 2006, Arc Energy Limited (**ASX code ARQ**) advised the ASX of the following:

- It had entered into an agreement with Golden Dynasty Resources Ltd to acquire its wholly owned subsidiary Terratek for \$2.8 million and a 2% well-head royalty,
- Terratek is the owner of certain assets and interests, but not limited to Canning Basin Licences and Permits EP123, L6, L8, PL7 and the interests known as the Blina Back Reef Play Joint Venture contained within L6 and EP129 (**refer to Figure 6**).
- In addition ARQ will purchase a 10% participating interest in the 7/05-6 Application for Exploration Permit and has also granted Golden Dynasty Resources Ltd, options in relation to participation in specific wells in the area, including the Blina Back Reef Play Joint Venture Area (refer to Figure 7) for a 10% interest and in certain other wells which are currently under negotiation with prospective farminees, and
- The ARQ purchase is conditional on a number of matters including completion of technical, legal, tax and commercial due diligence by ARQ – the conclusion of which at the time of this report had not been announced to the ASX.

(e) Execution of Deed of Variation and Assignment Agreement with Golden Dynasty, Terratek and Backreef Oil.

The Company wishes to advise that on 4 January 2007 it formally executed a formal Deed of Variation and Assignment Agreement with Golden Dynasty, Terratek and Backreef whereby Oil Basins is (subject to regulatory approvals) immediately assigned 35% of the Blina Back Reef Play Joint Venture Area subject to the terms of the earlier Farmin Agreement executed on 29 May 2006.

Under the Variation Deed, Terratek consents to a partial assignment of 15% from Backreef's remaining 35% participating interest in the Blina Back Reef Play Joint Venture Area to OBL. The assignment is subject to OBL exercising an option to acquire the 15% by no later than 31 March 2007 (the "**Option**").

Provided OBL exercises the Option, OBL will be entitled to have the exclusive right but not the obligation to the 15% participating interest by contributing a further \$450,000.00 towards completion of the Drilling Program (as defined under the earlier Farmin Agreement executed on 29 May 2006).

Upon Backreef satisfying its obligations under the Backreef Farm In (completion of the Drilling Program or funding the Drilling Program to \$1.5 million) and provided OBL exercises the Option, the participating interests of the parties shall be:

Terratek	30%
Backreef	20%
Oil Basins Limited (or Nominee)	50%

Under the Variation Deed, Terratek also consents to the assignment by OBL of all or some of its participating interest to a wholly owned subsidiary without having to obtain Terratek's further consent.

These agreements have been formally lodged with the Western Australian regulatory authorities and also recognises royalties maybe payable to third parties European Gas Limited (**ASX code EPG**) and Budside Pty Ltd (the latter under certain conditions).

(f) Impact of Agreements

Should the Option be exercised, the Blina Back Reef Play Joint Venture Area participants will be as follows:

Terratek*	30%
Backreef	35% potentially <u>reducing to 20%</u>
Oil Basins Limited (or Nominee)	35% with potential to <u>increase to 50%</u>

** Terratek is presently 100% owned by Golden Dynasty Resources Ltd, but is in the process of being acquired by Arc Energy Limited (**ASX code ARQ**) – Golden Dynasty Resources Ltd has in additional an Option to retain 10% direct interest from ARQ; refer to ARQ's complete announcement to the ASX dated 6 December 2006 – the relevant commercial points of which are summarised in section (c).*

(g) Proposed Course of Action

In the immediate term, it's the Company's intention to “**sweat the assets**” by way of farmouts, asset swaps and simple straight forward cash trades so as to monetise the Company's significant leverage to “attractive assets”.

To this end, the Company is in discussions with a number of parties with respect to a potential farmin for part of Oil Basins interests in the Blina Back Reef Play Joint Venture Area.

Whilst, the Backreef-1 well drilling programme is required to be completed by 31 August 2008 both Backreef Oil and OBL are endeavouring to have this well drilled as soon as possible this year.

As previously stated to the ASX on 20 December 2006, OBL regards the proposed acquisition of Terratek by ARQ as a significant and positive development and, subject to the completion of the Sale and Purchase Agreement with Golden Dynasty, we now look forward to working closely with them as Operator of the Blina Back Reef Play Joint Venture Area and the possible use of their contracted rig in the drilling of the Backreef-1 Prospect.

CASH POSTION

Cash held at 31 December 2006 was \$1.254 million

CORPORATE

On 22 November 2006, the Company held its Annual General Meeting of Shareholders, at which all resolutions were successfully passed. On 20 December 2006, the Company announced its extension of the Backreef Oil Limited Option Agreement to acquire a further 15% interest in the Canning Basin Blina Back Reef Play Joint Venture Area for a cost of \$15,000.

The technical information quoted has been compiled and/or assessed by Mr Geoff Geary who is a professional geologist (Bachelor Science – Geology) with over 26 years standing and who is also a Member of Petroleum Exploration Society of Australia. Mr Geary has consented to the inclusion in this announcement of the matters based on the information in the form and context in which they appear.

This release will be available on the Company's website at:
www.oilbasins.com.au