



OIL BASINS LIMITED

ABN 56 006 024 764

QUARTERLY REPORT DECEMBER 2010

Oil Basins Limited (ASX codes **OBL**, **OBLOA** & **OBLOB** or **Company**) is pleased to present its December 2010 Quarterly Report.

DECEMBER QUARTER HIGHLIGHTS

Operations Highlights

- OBL operated and drilled its first exploration well Backreef-1 to a depth of 1800mTD for a cost of circa \$4.2m
- Backreef-1 delineated some 223m of continuous hydrocarbon fluorescence, some 49m of reservoir and some 39.8m of oil bearing dolomites with the lower circa 10% free moveable oil. The well has been cased and suspended at 1155m PBD thereby permitting future re-entry and production testing/ evaluation of this New Oil Play. It also secured OBL's beneficial interest in the Backreef Area (refer also to Acquisition Highlights below – where OBL has subsequently increased its interest from 90% to 100%).
- The well was drilled with only two drill bits and the operations and logistics were conducted in a safe manner with no loss time injuries or incidents to any of its staff, consultants or contractors. The majority of the disturbed rig site area and all the nearby camp site area was rehabilitated prior to the onset of the summer rainy season (leaving only the road access and immediate well surrounds ready for future field operations).
- The cost overrun of the initial budget by circa \$1.0m included 7 days extra to deepen the well a further 200m, wait on weather (after a serious rain event 2 days after spud) and additional time to recover a stuck FMT logging tool as well as additional charges needed to source replacement service contractors from Roma and Perth.

Non-Operated Assets Highlights

- Late in the quarter, Bass Strait Oil Company, the operator of Gippsland Permit Vic/P41 (OBL rights 12.5%), advised that the 2011 obligation well has been effectively dropped by the regulator from the current five year work program ending in September 2011.

Acquisition Highlights

- OBL acquired the remaining 75% interest and now holds 100% of Retention Lease R3 containing the Cyrano Oil Field for a total consideration comprising a cash payment of \$300,000 and 2.0 million OBL ordinary shares.
- Subsequent to the drilling of Backreef-1 in early November OBL acquired the remaining 10% beneficial interest in the Backreef Area from Backreef Oil Pty Limited for 2.0 million OBL ordinary shares. OBL now holds 100% beneficial interest to the Backreef Area.

Subsequent Recent Events

- Subsequent to the quarter-end, OBL recently conducted a Placement to raise \$840,000 before costs and OBL is pleased to note that its Strategic Alliance partner LNG Limited took sufficient stock to retain its 7.5% in OBL. Both companies are now working closely together to further mutual gas exploration opportunities across OBL's upstream portfolio.

A. EXPLORATION ACTIVITIES

GIPPSLANDBASIN

PERMIT VIC/P41

Ownership (OBL - Rights to 12.5%)

Vic/P41 contains a number of larger prospects defined by modern 3D seismic, notably Kipling, Benchley and Oscar, whereas Vic/P66, while containing part of the 2D-defined 'Lead A' feature, is still in an early stage of exploration with clear potential to further extend the Rosedale trend in to new areas. Both JVs have approved a combined Basin Modelling program.

To define further and 'de-risk' these opportunities two new technical studies have been undertaken. A seismic inversion project using both 2D and 3D seismic over the Rosedale trend prospects and leads in Vic/P41 is yielding encouraging results and is expected to lead to a re-assessment of the potential of these features.

The related basin modelling project (jointly funded by Vic/P41 and Vic/P66) has also been successful in defining the nature of hydrocarbon charge in the east Gippsland area. A variation to the permit commitments for Vic/P41 was granted during the quarter. The commitment for the current Year 5 of the permit has been reduced from the drilling of a well to the seismic inversion project and related studies.

This permit is presently in good standing and the Company's revised obligations for 2010/2011 are modest and have been mostly funded during 2010.

PERMIT VIC/P66

Ownership (OBL – 17%)

Company obligations for 2010/2011 are modest and have been mostly funded during 2010.

CANNINGBASIN

BACKREEF AREA

Ownership (OBL – 100% Rights & Operator)

During the December Quarter OBL successfully drilled Backreef-1 to 1800m TD at a net cost of circa \$4.2 million, with the earn-in 'drill or drop' objective of 1500m successfully attained prior to 31 October 2010 on 25 October 2010. This well was Operated by and was the first exploration well by the Company and appears to delineated a New Oil Play within the central shallow depth region (circa 900m to 960m) of the Kimberley Embayment feature (refer to **Figure 1**).

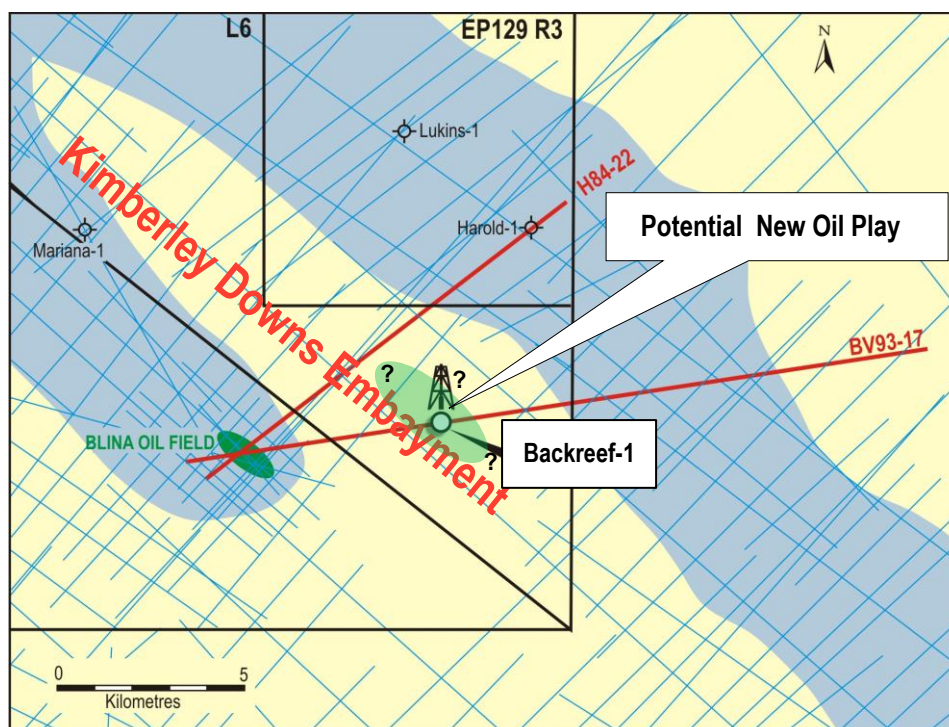


Figure 1 – Kimberley Downs Embayment feature within the Backreef Area
(Note - the shape and extent of 'New Oil Play' is depicted for illustration purposes only, and the extent and potential will be defined after the vintage 2D is reprocessed)

The well was not planned to be open hole production tested during drilling but was successfully wireline logged to TD. Due to stuck wireline tools OBL was unable to take a FMT sample within the prognosed oil zone. The well has been successfully cased with 178mm (7 inch) diameter steel casing and suspended with a DMP approved cement plug for possible future re-entry/well stimulation/production testing.

Subsequent to the drilling of Backreef-1 in early November 2010, OBL acquired the remaining 10% beneficial interest in the Backreef Area from Backreef Oil Pty Limited for 2.0 million OBL ordinary shares issued at 3.6 cents per share. This agreement was finalised on 23 November 2010. OBL now holds 100% beneficial rights to the Backreef Area with a second and final obligation well, to keep the interest, by 31 October 2012.

The Weatherford Petrophysical Report on Backreef-1 was received by the Company on 26 November 2010 and the final results were immediately presented to OBL Shareholders at the Annual General Meeting (**OBL 2010 AGM**) – refer to ASX Announcement – AGM Presentation 29 November 2010.

Using its proprietary Petrolog Advanced Log Analysis and CPX Software, Weatherford's Petrophysics Assessment has concluded the following:

- The Lower Laurel Formation 894 to 910mRT is predominantly a tight Limestone with no positive hydrocarbon shows. This is likely to be the effective seal for the hydrocarbon trap delineated by the Backreef-1 well and as such could be an important formation top to map for future exploration within the Kimberley Downs Embayment.
- The Yellow Drum Equivalent / Gumhole formation 910 to 1243mRT is similar to the adjacent Blina Oil Field with good porosity dolomites and tight Limestone intervals. An 'effective water saturation' SWirr of 20% with porosity as high as 22% has been calculated using a formation water salinity of 80,000 PPM in the Yellow Drum / Gumhole formation.

- Using these petrophysical assumptions, Weatherford estimates the following potential reservoir intervals in the upper zone of hydrocarbon interest situated between 915m to 965mRT within the Yellow Drum Equivalent / Gumhole formations:
- **a possible reservoir interval of around 48.9m,**
- **a possible net oil pay interval of around 39.2m, and**
- **a risked conservative (i.e. unstimulated) moveable oil interval within the lower dolomites of around 3.9m.**

Preliminary analysis of the Unconventional Shale Gas (**USG**) potential of the deeper sections observed in Backreef-1 are, according to Weatherford, presently inconclusive and highly qualitative at best primarily because no cores were cut in the stratigraphic deeper section of Backreef-1 between 1275 to 1800mRT. However, it is noted that wet gas readings (C1 to nC5) did increase in the last 100m section of the hole as Backreef-1 reached its total depth of 1800mRT.

The Company is very encouraged by these petrophysical results for the following reasons:

- The sheer size of the 'unexpected' oil column.
- That it is situated favourably at a comparatively shallow depth (for future low cost exploitation).
- This New Oil Play appears to be entirely situated within the predominantly dolomitic sections of the Yellow Drum Equivalent and Gumhole Formations and these hydrocarbon reservoirs correlate some 230m shallower (subsea depth) and updip of the similar and nearest offset oil producing zones situated in Blina Oil Field (circa 6.5 km due West of Backreef-1) - highly positive factors to the overall prospectivity of the New Oil Play.
- While contingent resources cannot be established until the reprocessing of the extensive vintage 2D seismic within the Kimberley Downs Embayment feature is complete (expected late 1Q2011), the evident seal and trap appears to be in the Lower Laurel Formation, location of the top of which the Company knows is relatively easy to predict given highly accurate correlations of both prediction to actual observed in the Backreef-1 well.
- Should oil production from these tight dolomitic reservoirs be established/stimulated at economic rates it could potentially be a future 'Company Maker' for OBL.
- While USG potential was a secondary objective of Backreef-1 the previously undrilled formation intervals have now been explored / defined which will assist in the future mapping of the deeper section within the Kimberley Downs Embayment feature prior to a focussed drilling and coring of the deeper shales (possibly by way of a future Farm-In on the deeper >1500m section by proven USG Operators).
- Finally, this exciting New Oil Play is 100% beneficially owned by OBL.

OBL believes that Canadian operating practice with similar Devonian aged low-energy drive tight dolomite reservoirs represents best practice and during the economic assessment of both production testing and possible stimulation will draw upon either experts or new Farm-In partners with proven expertise.

As previously advised to the ASX on 13 January 2011 – Canning Basin Operations Update:

- So as to better define these reservoir uncertainties and to also assist in defining a discretionary accelerated 2011 work program, current work is to re-engage OBL's seismic experts to reprocess all available surrounding vintage 2D seismic within the Kimberley Downs Embayment feature of the Backreef Area (applying their innovative 3D reprocessing techniques) and to map a potential 2C (ie probable contingent resource under SPE Guidelines) of this New Oil Play.

- This important new work is expected to be completed during the March Quarter 2011 and will be announced to the ASX and is viewed as necessary to assist in the farmout of the proposed Backreef Area.
- The Company has in the interim executed confidentiality agreements with a number of interested farmin partners on both the Backreef Area and Canning Basin permit 5/07-8 EP.

Further details will be released to the market once the assessment of Backreef-1 has been finalised.

PERMIT 5/07-8 EP

Ownership (OBL- 50%)

During the December Quarter, both the Operator Backreef Oil Pty Limited and the Company held Native Title discussions with most of the relevant stakeholders.

As previously advised, no significant expenditures are anticipated to occur until approval from all relevant stakeholders and authorities are attained.

CARNARVONBASIN

RETENTION LEASE R3

Ownership (OBL - 100% Operator)

The Company's 25% interest was formally assigned by Joint Venture partners in September 2009 and was formally registered by the WA Department of Mines and Petroleum (DMP) in late January 2010. During October 2010, the Company acquired the residual 75% interest in R3 from Tap Oil for \$300,000 and 2 million new OBL ordinary shares issued at 4.2 cents per share.

The present Year 5 work program obligations amount to a revised net circa \$20,000 of geological and geophysical studies per annum (Company obligations are therefore modest).

The Company will engage suitably qualified petroleum consulting experts to assist its application for the R3 renewal due in the June Quarter 2011.

B. CAPITAL STRUCTURE CHANGES

On 14 January 2011, the Company announced to the ASX the successful placement of 28 million new ordinary OBL shares with "sophisticated investors" and "professional investors" at 3.0 cents per share to raise \$840,000 before costs of issue. Each OBL share placed will entitle the holder to have a free one (1) for four (4) OBLOA listed option (exercisable at 1.5 cents on or before 30 June 2012).

The placement was undertaken at recent market prices, indicating support for the Company's current plans. Subscribers to the placement include participation from a number of very long-term supporting shareholders. Normal fees will be paid to holders of AFSLs who supported the issue.

The issue used the Company's expanded 35 million placement capacity, as approved by OBL Shareholders at the Annual General Meeting (**OBL 2010 AGM**) on 29 November 2010.

The Placement was completed on 27 January 2011 and will ensure OBL is adequately funded to meet our ongoing Backreef-1 technical assessment work program and working capital commitments and to pursue additional value creating projects.

C. CORPORATE

During December 2010, as forecast at the OBL 2010 AGM, Messrs Kim McGrath and Neil Doyle were appointed Executive Chairman and Director & Chief Executive Officer respectively.

D. CASH POSITION

During the quarter drilling was undertaken and costs incurred in relation to exploration and drilling.


Additionally, good and services tax (GST) and fuel tax credits have been claimed from the Australian Taxation Office (ATO) and are awaiting refund in respect of the September quarter. The net refunds for all amounts owed to the Company and claimed from the ATO for the September quarter are \$147,889. These are approved for refund by the ATO on 1 February 2011. There are also substantial further refunds expected in respect of the December quarter yet to be claimed and approved.

Below is a breakdown of the Company's cash balance as at 31 January 2011:

Cash at 31 December 2010	\$86,041
Placement funds received in January 2011 (net of costs)	<u>\$789,600</u>
Cash balance as at 31 January 2011	\$875,641

At the date of this report, OBL's cash and future yet claimed GST receivables are deemed by OBL directors to be adequate to meet both immediate discretionary and all non-discretionary 2011 expenses.

This Quarterly Report will be available on the Company's website www.oilbasins.com.au



Neil Doyle SPE
Director & CEO
31 January 2011

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 30 years standing and a continuous Member of the Society of Petroleum Engineers since 1981 (SPE 25 Year Club Member) and by Mr Geoff Geary who is a professional geologist (BSc – Geology) with over 27 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 note the ASX materials previously quoted and the important definitions and disclaimers attached.

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
TD	Total depth
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.

DISCLAIMER – CSG PROSPECTIVITY AND CSG RESOURCES POTENTIAL

There are numerous uncertainties inherent in estimating quantities of prospective and economic CSG resources, including many factors beyond OBL’s control. Estimates of economically recoverable CSG natural gas reserves are based upon a number of factors and assumptions, such as geological and engineering estimates and judgments (which have inherent uncertainties and risks), the assumed effects of governmental regulation and access to the Browse LNG Hub and estimates of future domestic gas and export-LNG commodity prices and operating costs, all of which may vary considerably from actual results and/or future negotiations.

Specifically no claims are made by BOL/OBL JVPs, Directors, and their Technical & Independent Consultants as to the CSG / CSM prospectivity of the Canning Basin Permit 5/07-8 EP at this early and preliminary stage.

Prospective CSG Resources are those quantities of CSG 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 CSG necessarily exist within the Permit. As this work is preliminary in nature, an equally valid outcome in relation to the CSG Study Area is that no CSG will be discovered, or be in fact commercial.