



13 January 2011

Company Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
Sydney NSW 2000

Dear Sirs

UPDATE ON CANNING BASIN OPERATIONS

Following the significant Canning Basin operations conducted during 2010 – covering drilling of the Backreef-1 oil exploration well within the Backreef Area and the assessment of prospectivity of coal seam gas (**CSG**) and unconventional shale gas (**USG**) within both the exploration Permit 5/07-8 EP and the Backreef Area, Oil Basins Limited (ASX codes **OBL**, **OBLOA**, **OBLOB** or the **Company**) wishes to make the following ASX Announcement, so as to keep the market fully informed about this transformational year for OBL.

1. Canning Basin Exploration Activities:

On the Canning exploration front OBL has over the past 4 years (since ASX listing in 2006):

- First application of modern 3D techniques PSTM, PSDM & inversion to vintage dynamite 2D lines – **refer to OBL ASX Release Investor Presentation December 2009.**
- First comprehensive coal measures assessment report in over 30 years within the region containing Canning Basin Permit 5/07-8 EP (OBL net 50%) and Backreef Area (OBL net 100% Beneficial Interest) – **refer to OBL ASX Release dated 1 June 2010.**
- First CSG, USG prospectivity assessment report in Canning Basin permit 5/07-8 EP and Backreef Area – delineated gross 10 Tcf risked contingent probable CSG resources potential and circa gross 253 Tcf unrisked USG gas in place (GIP) potential – **refer to OBL ASX Release dated 8 July 2010.**

2. Backreef-1 Operations – OBL Beneficial Interest 100%

- First oil exploration well drilled within Kimberley Downs Embayment - Backreef-1.
- Backreef-1 was OBL's first exploration well and first operated well – was drilled to a deepened 1800mTD for a cost of circa \$4.2m – including 7 days extra to deepen the well a further 200m, wait on weather (after a serious rain event 2 days after spud) and recover stuck FMT logging tool etc.
- 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 – well has been cased and suspended at 1155m PBD for future re-entry and production testing/evaluation in 2011 of this New Oil Play – **refer to OBL ASX & Media Release 29 November 2010.**

- Mapping and reprocessing of vintage 2D data has recently commenced to better define the potential new oil discovery.

3. Current Activities

- **OBL is Operator of Backreef Area and presently holds a 100% beneficial interest.**
- Backreef-1 was OBL's first exploration well (Figure 1) and after encountering a near 40m of net oil pay (within the shallow Devonian age carbonates); was recently cased and suspended for future re-entry, stimulation and production testing in 2011. This potential 'New Oil Play' is some 7 km due east and circa 230m up-dip (ie shallower) than the correlated formations occurring at the nearby Blina Oilfield.

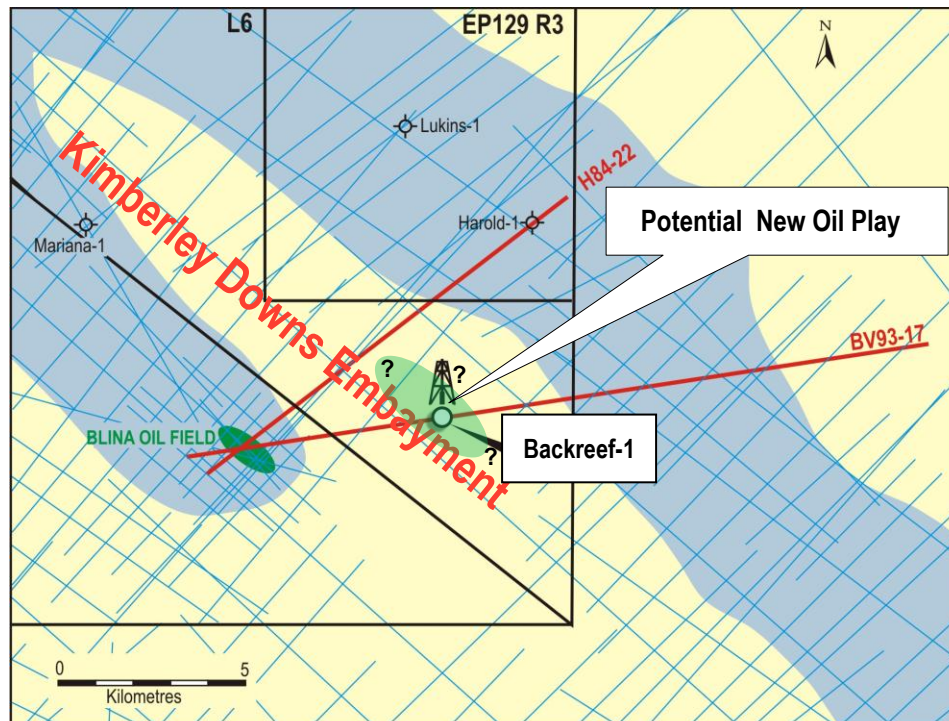


Figure 1 – Kimberley Downs Embayment feature within the Backreef Area
 (Note - the shape and extent of 'New Oil Play' is depicted for illustration purposes only, and the extent and potential will be defined after the vintage 2D is reprocessed)

- Prior to Christmas 2010, OBL presented to the Western Australian Department of Mines and Petroleum (WA DMP) the encouraging preliminary results of the Backreef-1 drilling operations (as previously summarised in the OBL ASX & Media Release 29 November 2010). The WA DMP have now formally requested OBL to prepare a standardised reserves and resources assessment report on the potential Backreef Oil Pool.
- Specifically, according to OBL's expert petrophysicist Weatherford based upon their experience with the nearby mature Blina Oilfield, "... it is too early to declare a commercial discovery since no production tests have been run and taking into consideration the known complexity of the Canning Basin Carbonate reservoirs. Nonetheless, prognosis remains good but not yet confirmed".
- So as to better define these reservoir uncertainties and to also assist in defining a 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.
- 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.

4. Recent Article in ResourceStocks

So as to keep the market fully informed, we have also placed onto the **OBL Website** www.oilbasins.com.au a published article on Oil Basins Limited and its Backreef-1 drilling operations which appeared in the recent January/February 2011 edition of the ResourceStocks publication.

Yours sincerely



Neil Doyle SPE
Director

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
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