



# OIL BASINS LIMITED

ABN 56 006 024 764

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## QUARTERLY ACTIVITIES REPORT MARCH 2014

Oil Basins Limited (ASX codes **OBL** & **OBLOB**) (**OBL** or **Company**) is pleased to present its March 2014 Quarterly Report.

### MARCH QUARTER OPERATIONS REPORT

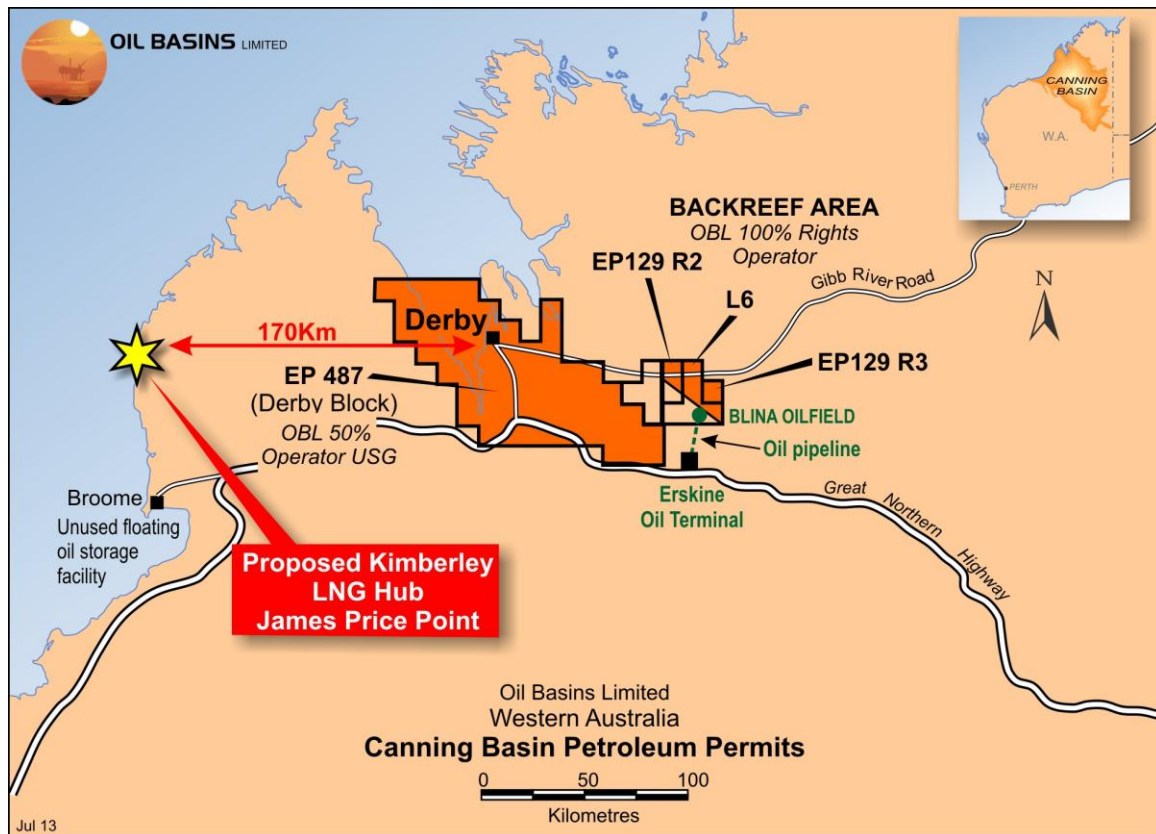
#### *Highlights During the March quarter:*

- *Derby Block (OBL 50% and Operator) granted as petroleum exploration permit EP 487 on 14 March 2014 and initial work has commenced and tenders have been called.*
- *Finalisation of all environmental submissions relating to the Backreef Area (OBL 100% and Operator).*
- *Backreef Area work program within production licence L6 is entirely discretionary but is now farmout ready.*
- *Restructuring of non-operated Gippsland assets continues and is near to complete.*
- *The Company entered into a funding agreement with The Australian Special Opportunity Fund LP, a New York-based institutional investor managed by The Lind Partners, LLC (collectively "Lind") for a total funding commitment of up to AU\$7.25 million.*
- *The Lind funds will be used primarily to support and assist the planned build-up on Canning operations in the next two years.*

## OPERATED ASSETS:

### CANNING BASIN

PERMIT EP 487 (DERBY BLOCK) (Refer to Figure 1)



**Figure 1**  
Company's Canning Basin Interests

### Grant of Permit EP 487 on 14 March 2014

- On 21 March 2014 the DMP formally advised OBL of the grant of the Derby Block (formerly 5/07-8 EP) as petroleum exploration permit EP 487, which has been made for a period of 6 years (commencing 14 March 2014 and finishing 13 March 2020).
- The grant was explicitly made containing the binding terms, extra conditions and annexures of the 1 February 2013 arbitration determination by the National Native Title Tribunal with respect to exploration and appraisal activities within the permit.
- OBL reminds investors that this unique arbitration determination includes an extensive Aboriginal Heritage Agreement within Annexure 1 which outlines the permitted conduct and timelines of exploration and appraisal activities within the permit, all of which was further ratified without amendment by the Federal Court appeal judgement on 23 December 2013, and there are no further rights of appeal.
- OBL has advised that it reserves its right to claim costs for the comprehensively failed appeal but has sought immediate consultation with all relevant stakeholders on this large exploration permit to effect mutual agreement and respectful protocols.

## **Work Program 2014**

As Operator, petroleum exploration permit EP 487, in accordance with the terms of the grant, the Company has immediately advanced the 2014 operations and has on 7 April 2014 consequently given formal notice to Backreef Oil Pty Ltd (**BOPL**) of OBL's intention of holding a formal initial EP 487 Joint Venture Meeting at our Melbourne Technical Offices during the week of 25 April 2014 in order to approve the immediate work program funding budget and to seek finalisation of the execution of the EP 487 Joint Operating Agreement (**JOA**). OBL has advised future 25% partner Octanex NL (ASX code **OXX**) of the proposed initial arrangements, who have confirmed that these are acceptable to OXX and has confirmed attendance at the meeting.

### **Initial Arrangements**

The EP 487 participants were advised, on the grant of the permit by the Designated Authority (**DA**), that OBL as Operator was given an express request to report back to the DMP within a month regarding steps being taken to commence exploration activities on EP 487 in accordance with the approved EP 487 Year #1 Work Program (**WP**).

Given the short time window to be able to undertake significant operations before the onset of the next 2015 wet season, OBL has taken steps to expedite the work program approvals, and organised tender meetings with all key consultants/advisers while attending the recent Perth APPEA conference.

The Company formally advised its preferred seismic contractor of OBL's intention to seek an updated quote and formal contract to conduct the 500 line km of 2D seismic during 2014. OBL has consulted with two highly experienced Perth based environment consultants (which OBL has used previously) and has called for tenders. OBL invited joint participant BOPL to attend these key WP operational briefings but neither BOPL nor its nominees attended.

OBL is preparing to commence landowner and traditional owner consultation to finalise land access agreements for the non-invasive flora and fauna environment assessment.

OBL is also in the process of securing access to a suitable Broome based office and yard on a shared basis and will be now looking to engage a local representative manager as soon as possible to assist on all its Canning Basin operations.

## **BACKREEF AREA** (Refer to Figure 1) OBL Group 100% beneficial rights

### **Environment**

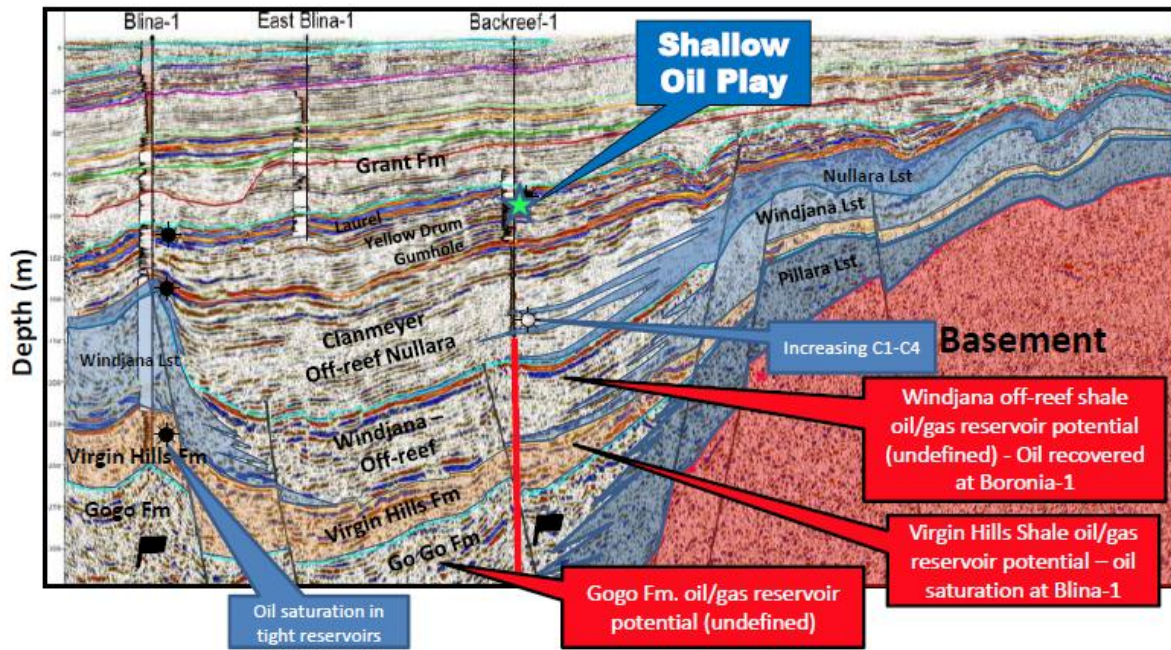
- The East Blina-1 close-out audit report and Site Rehabilitation Plan were finalised in late January 2014 with the assistance of 360 Environment and subsequently lodged with the WA Department of Mines and Petroleum (**DMP**) Environment Division. The Company was formally advised by DMP in February 2014 that it is fully compliant on environment assessment in accordance with the WA environmental legislation, subject to the DMP approved rehabilitation works being completed by 30 June 2014.
- A new generic Environment Plan (**EP**) (Drilling & Production Testing) was finalised after two further updates/revisions with the DMP Environment Division and the Company is now pleased to report that this, with the assistance of Ecologia, was lodged subsequent to quarter end on 4 April 2014.

### **Proposed Forward Program** (subject to farmout)

- The Company has recently applied for the WA DMP "Royalties for Regions" unconventional shale oil assistance for advancing this new USO Play for possible operations in 2014/2015.
- The Company is presently scoping and costing appropriate new evaluation procedures for testing this new play and remains in confidential consultation with interested parties on a structured earn-in with respect to advancing its discretionary Backreef Area Deep USO assessment situated initially wholly within the production licence L6 portion of Backreef Area.

- The New Deep Oil Case study has focused on the US Bakken analogue to the Virgin Hills sandstone and the prognosed deeper Gogo Shale formation.

### Regional Seismic Line BV93-17



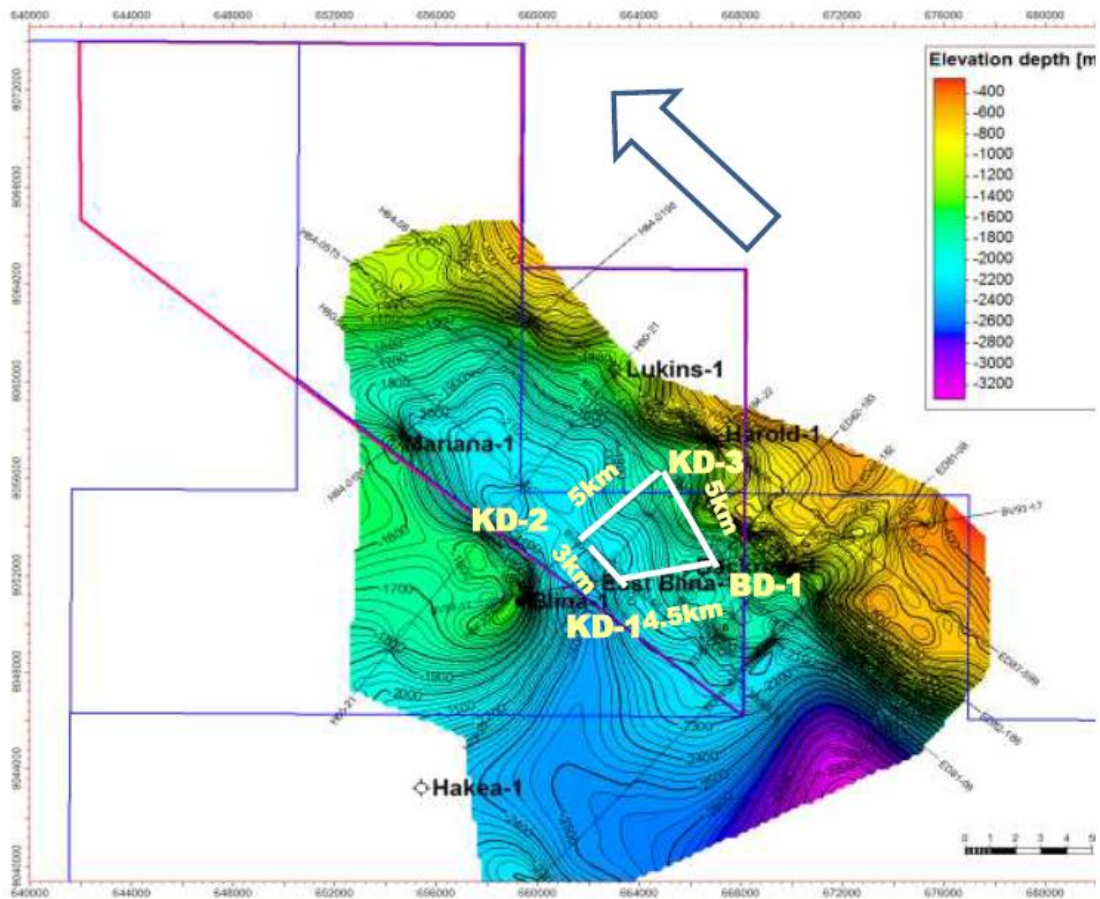
**Figure 2**

Deep Tight Oil / USO Play within Backreef Area – OBL Group 100% beneficial rights

- Independent Expert, 3D-Geo Pty Ltd assessed the deep tight oil potential of the Kimberley Downs Embayment within the Backreef Area (OBL Group 100% beneficial rights) in accordance with PRMS.

Backreef Area	PRMS Prospective Resources			
	P90	P50	P10	Mean
Oil-in-Place MM bbl	3,063	6,645	12,333	7,302
Recoverable Oil MM bbl	<b>139</b>	<b>391</b>	<b>1,008</b>	<b>510</b>
Recoverable Solution Gas Bcf	119	370	1,073	517

- The P90 / P50 estimates above only consider prospective Frasnian - Giventian Virgin Hills sequence at depths below 2,000m MD to 3,000m MD; the P10 estimate assumes additional prospective section with an extra 30% of total thickness below 3,000m MD.



**Figure 3**  
Proposed 4 x Deep USO well polygon within Backreef Area  
Backreef Deep-1 (BD-1) re-entry well may be replaced with a new Kimberley Downs (KD) deep well

### **Beneficial Ownership (OBL Group 100% beneficial rights)**

Under the terms of a settlement of a farmin dispute, the operations conducted by Backreef Area Operator OBL in the Backreef Area are governed by the Backreef Play Agreement (**BPA**) executed between OBL and titleholder Buru Energy Limited (**Buru**) on 31 October 2008.

Under the terms of the BPA, OBL was required to drill its first well Backreef-1 to a minimum of 1500m TD within the Backreef Area by no later than 31 October 2010. This requirement was met with Backreef-1 reaching 1800mTD on 28 October 2010.

During May 2012, the Company conducted two (2) Production Tests. While the first Backreef-1 Production Test conducted in May 2013 brought a sample of crude oil to the surface after test, it was not classified a discovery under PRMS.

Buru's back-in rights consequently expired, but as the first well was not deemed a discovery, OBL was required to drill a second well (with prior approval of the DMP) within the Backreef Area by 31 October 2012.

This was fulfilled with the drilling of East Blina-1 which reached the target reservoir on 29 October 2012 and was subsequently plugged and abandoned on 1 November 2012. (due for planned rehabilitation works in June 2014).

Further to the BPA, the beneficial ownership of the Backreef Area is (OBL Group 100% beneficial rights) presently held as follows:

Oil Basins Limited (OBL) Operator & wholly owned OBL Group subsidiaries	ABN 56 006 024 764	35%
Canning Basin Oil Limited (100% owned by OBL)	ABN 14 119 477 280	15%
OBL Backreef No.10 Pty Ltd (100% owned by OBL)	ABN 19 120 603 974	30%
Backreef Energy Pty Ltd (100% owned by OBL)	ABN 57 119 477 084	20%
Backreef Oil Pty Limited ('BOPL')		0%
Buru Energy Limited (ASX Code: 'BRU') (petroleum licence / permit titleholder)		0%

For clarification for future interested third party farminees, under the terms of the BPA OBL is specifically permitted (without pre-emption) to reassign interests within the above group entities and can divest entities to third parties so as to effect a structured farmout providing the third party undertakes performance guaranties under the BPA.

**Royalty Interests – Backreef Area (future discoveries)** OBL Group 100% beneficial rights

Earlier in the quarter Fitzroy River Corporation (formerly European Gas Limited (ASX code: FZR)), who owns a royalty on L6/EP129 (called the Lennard Shelf Royalty), sought clarification of the future royalties payable by the OBL Group. In accordance with the terms of the BPA, such would not be payable by OBL to FZR (although there could be an independent obligation by BRU and/or its subsidiaries) and any royalties were only to be paid under the BPA if the Backreef-1 well drilled to 1500m consisted a discovery under PRMS, which it did not, and so royalties are not payable by OBL on the Backreef Area generally.

**NON-OPERATED ASSETS:**

**GIPPSLAND BASIN**

- The Company continued finalising the restructuring of its non-operated Gippsland Basin interests.
- In the previous December 2013 quarter OBL secured a 35.435% interest in Vic/P41 – held 17.935% directly and 17.5% indirectly via its wholly owned subsidiary Shelf Oil Pty Ltd.
- The Company, after being advised that the Vic/P47 extension and variation had been approved by the regulator, elected to exercise its option to 25% of Vic/P47 (to be held 12.5% directly and 12.5% indirectly via its wholly owned subsidiary Shelf Oil Pty Ltd).
- Under the terms of the exclusive option with Strategic Energy Resources Limited (ASX code **SER**) for the 25% interest in Vic/P47, on registration of the transfer by the regulator OBL will issue SER a further 6.0 million new OBL ordinary shares at 2.0 cents per share.

## INTERESTS IN PETROLEUM TENEMENTS

Petroleum Tenement	Location	Beneficial Percentage held	Interest acquired/granted during the quarter	Interest disposed/farm-out during the quarter
Vic/P47	Victoria	25%*	-	-
Vic/P41	Victoria	35.435%	-	-
Cyrano R3/R1	Western Australia	100% +	-	-
Backreef Area	Western Australia	100% +	-	-
EP 487	Western Australia	50% +	50%	-

+ Operator

\* as previously noted, the Company has been granted an option over SER's 25% interest in the Vic/P47 permit

## CAPITAL RAISING

On 17 March 2014, the Company entered into a funding agreement with The Australian Special Opportunity Fund, LP a New York-based institutional investor managed by The Lind Partners Australia, LLC (collectively **Lind**) for a total funding commitment of up to AU\$7.25 million. Under the agreement with Lind, OBL has received AU\$350,000 upon execution from a AU\$275,000 convertible security and AU\$75,000 as a first equity tranche prepayment.

The agreement has a term of up to 2 years, and has as key points:

- a) a 6% coupon convertible security in the face amount of AU\$300,000, and
- b) monthly equity purchases in the amount of AU\$100,000 which can be increased up to AU\$300,000 per month by mutual consent (up to an aggregate of AU\$6.975 million).

Funds will provide working capital and will be primarily utilised for development of the Company's projects particularly the build-up of cyclical seasonal operations and manning in respect of EP 487 Canning Basin and exploration permits in both onshore and offshore Australia.

The Company will be required to satisfy each monthly equity purchase by issuing ordinary fully paid shares to Lind with the issue price to be determined by reference to the volume weighted average price of the Company's shares during a predetermined pricing period.

OBL has the option after six months to postpone the monthly equity purchases or terminate the agreement at no cost. Lind is restricted from converting the note security into shares in the first 120 days post-execution of the agreement and the Company can elect to fully buy-back the note within this period.

As part of the agreement, Lind has been granted 8,000,000 unlisted options (each exercisable at AU\$0.0232 by 14 September 2017). OBL has also paid Lind a commitment fee of AU\$150,000, satisfied through the issue of 8,053,691 OBL ordinary shares. These commitment shares were issued at an approximate 3.5% premium to the closing price of \$0.018 cents on 14 March 2014.

The structure allows OBL to issue shares at prices that are linked to prices prevailing at the time, minimising dilution for existing shareholders. The price at which shares will be issued under the share purchase facility is 91.5% of the average of the 3 daily ASX share price VWAPs chosen by Lind during a specified period prior to the issuance of shares. On one tranche only the purchase price may be 130% of the average daily VWAPs of the shares during the 20 trading day period prior to the execution of the Agreement.

OBL may elect to repay Lind cash in lieu of a share issue under the Agreement if the purchase price is less than a floor price of AU\$0.0125.

The conversion price under the two year convertible security is equal to 91.5% of the average of 3 daily ASX share price VWAPs, as selected by Lind, during a specified period prior to the issuance of

shares and can be converted either in whole or in amounts of not less than AU\$50,000 upon Lind giving notice to OBL anytime during its term.

OBL's obligations are secured through 8,500,000 shares which OBL has issued to Lind.

The Agreement contains provisions requiring approval of shareholders if required under ASX Listing Rule 7.1. Shareholder approval was not required for the initial funding to proceed.

Subsequent to the Lind transaction, the present capital structure is:

- 694,099,399 OBL listed ordinary shares.
- 109,139,753 OBLOB listed options exercisable at 4 cents on or before 30 June 2014.
- 48,000,000 unlisted options exercisable at 9 cents on or before 30 June 2016.
- 8,000,000 unlisted options exercisable at AU\$0.0232 on or before 14 September 2017.

The terms of the agreement expressly allow OBL to carry out additional private placements of equity, rights issues and shareholder purchase plans. In addition, the agreement does not restrict the Company from entering into strategic alliance partnerships including cornerstone placements or farmouts of its exploration portfolio or to divest subsidiaries and undertake any part of the Company's normal business activities. OBL has the right to terminate the agreement at any time during the term, with a minimal fee paid if less than 6 monthly tranches have been issued.

## **CORPORATE**

With the restructure of its Gippsland portfolio near complete, on 13 February 2014 OBL confirmed that it had divested its entire non-core shareholding (circa 89 million shares representing 17.2%) in Bass Strait Oil Company Ltd (ASX code **BAS**) realising circa \$370,000 before costs.

With the confirmation of Derby Block (formerly 5/07-8 EP) as petroleum exploration permit EP 487 by the DMP, the Company again notes that application partner BOPL has previously purported to sell its interest in the permit to Buru with both BOPL and Buru having prior knowledge at the time of the MOUs between OBL and BOPL. OBL has previously communicated with BOPL in relation to this matter. OBL's view on this matter remains as previously advised, i.e. the arrangements set out in the MOUs are personal as between OBL and BOPL and do not allow one party to assign its interest in the Permit without the agreement of the other party, except in the case of OBL finding a farminee to "divide/assign/farmout" rights to, which OBL has exclusively and for 18 months after the grant.

OBL considers, and formally advised BOPL on 21 December 2012 that, the purported assignment of BOPL's interests to Buru to be in breach of the MOUs and invalid. Once a new joint operating agreement has been entered into by the holders of EP 487, then further assignment issues will be governed by the terms of that joint operating agreement.

OBL advises the market that the following documents were served on BOPL on Monday 7 April 2014 for attention and/or immediate execution, to progress the farmout to Octanex Operations Pty Ltd:

- Deed of Sale and Co-operation
- Deed of Novation
- Transfer of Title

OBL has sought urgent confirmation from BOPL as to its position in relation to the above matters, failing which OBL reserves the right to take all necessary actions and proceedings to immediately protect its rights and to enable the timely fulfilment of obligations including cash calls with respect to EP 487.



## **CASH POSITION:**

Cash holdings at 31 March 2014 were circa \$410,000.

Work program commitments in the Derby Block during the present June 2014 quarter will increase to an estimated \$160,000 related to the proposed net share of the low impact flora and fauna clearance and environment impact assessments of the proposed 500 km 2D seismic survey. No significant exploration work commitments related to the seismic survey (estimated at a gross \$4.0 million) are expected in the Derby Block until the December 2014 quarter and are subject to equipment availability, weather window, DMP Environment approvals and all stakeholder consents (including joint venture finalisation arrangements) and, while every attempt will be made to conduct these operations during 2014, investors are reminded it may not be possible to conduct these operations in 2014 although every reasonable attempt will be made to do so.

Neil F Doyle, SPE  
Director & CEO

11 April 2014

## **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)
BOE <sub>6</sub>	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
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
L6	Production Licence 6

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