



16 December 2009

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

Dear Sirs

***COMMENCES PRELIMINARY ASSESSMENT OF THE COAL SEAM METHANE
POTENTIAL WITHIN ITS CANNING BASIN INTERESTS***

As previously advised, in late 2007, Oil Basins Limited (ASX code **OBL**) and its Joint Venture Partner (**JVP**) Backreef Oil Limited (**BOL**), were awarded 50/50 the Application Area L07-1, subsequently re-designated **Permit 5/07-8 EP** by the Western Australia (**WA**) Department of Mines and Petroleum (**DMP**), refer to Figure 1. The formal award of this large 5,062 square km block will be finalised once negotiations with the relevant Native Title traditional owners and Operator BOL have been successfully concluded and other relevant stakeholders approvals are complete.

As permitted under the **WA Petroleum and Geothermal Energy Resources Act (1967)**, upon this Permit being formally assigned to BOL / OBL, the JVPs in addition to holding the conventional petroleum exploration rights, BOL / OBL will also be deemed to hold 50/50 of the previously unconsidered and potentially now attractive, coal seam methane (**CSM**) rights and unconventional gas rights (potential may also exist for a shallow shale gas project) within this block.

Whilst no significant work will be undertaken or contemplated until all of these formal approvals are fully finalised, OBL on behalf of the JV, has today initiated an independent "desktop" geological assessment of the coal measures likely to be contained within the Permit 5/07-8 EP, as part of preliminary work to assess the CSM potential of the permit.

This CSM assessment is understood to be a first for this particular CSM Study Area within the Fitzroy Trough, Canning Basin, and represents a potential significant first move advantage.

Earlier exploration / development of Canning Basin focused specifically upon gas resources has been mitigated in the past by high risk exploration / appraisal and the lack of domestic infrastructure and pipelines to southern bulk user markets.

Since the provisional award of this Permit two years ago, a number of previously unconsidered highly significant events relating to CSM productivity and the recent announcement of a future LNG export infrastructure have subsequently occurred, which when considered together, may now strategically impact upon the attractiveness of investigating the merits of a future CSM development in the Canning.

- The considerable recent advances in CSM technologies and 'know-how' in Queensland, New South Wales and South Australia and in particular their application to a range of insitu previously un-mined abundant high ash content coal measures, is highly developed providing

an economically viable, low exploration-risk, low-cost mostly methane feedstock suitable for LNG processing especially in Central and Southern Queensland (where four JV consortia are presently separately planning significant LNG projects centred around the establishment of LNG manufacturing and export terminal facilities at Gladstone, Queensland – the world's first such CSM to LNG Projects); and

- The location of a new Kimberley LNG Hub Precinct nearby at James Price Point (Figure 2)

OBL's preliminary investigations has indicated that during the late 1960's a private mineral exploration company, Thiess Bros extensively delineated the coal measures of the Permian Laveringa Sub-group within the regional area bounded by the present day Permit. In addition, extensive conventional 2D seismic and a number of vintage deeper exploration wells were undertaken by petroleum exploration companies (primarily between circa 1954 to circa 1990).

The regional geology within this large Permit is particularly well understood and importantly compressional events are likely to have occurred during the geological record subsequent to the Permian age. Coal was intersected in all penetrations across the large 5,062 square km block, with potential for individual coal seams up to 2.5m thick in the Laveringa (potential for multiple thin seams exists of gross 15m thickness interbedded with clay and black shales were observed by Thiess).

The coals are at depths considered prospective for CSM and may become a focus of early exploration and appraisal (should the independent CSM studies commissioned by OBL so conclude) in addition to the assessment of the JVPs prognosed sandstone Fan Style Plays – ie conventional oil and gas prospects postulated to occur along the southern flank of the well known Devonian age reefal platform situated along the northern boundary of the Permit (refer to the OBL 2009 Annual Report).

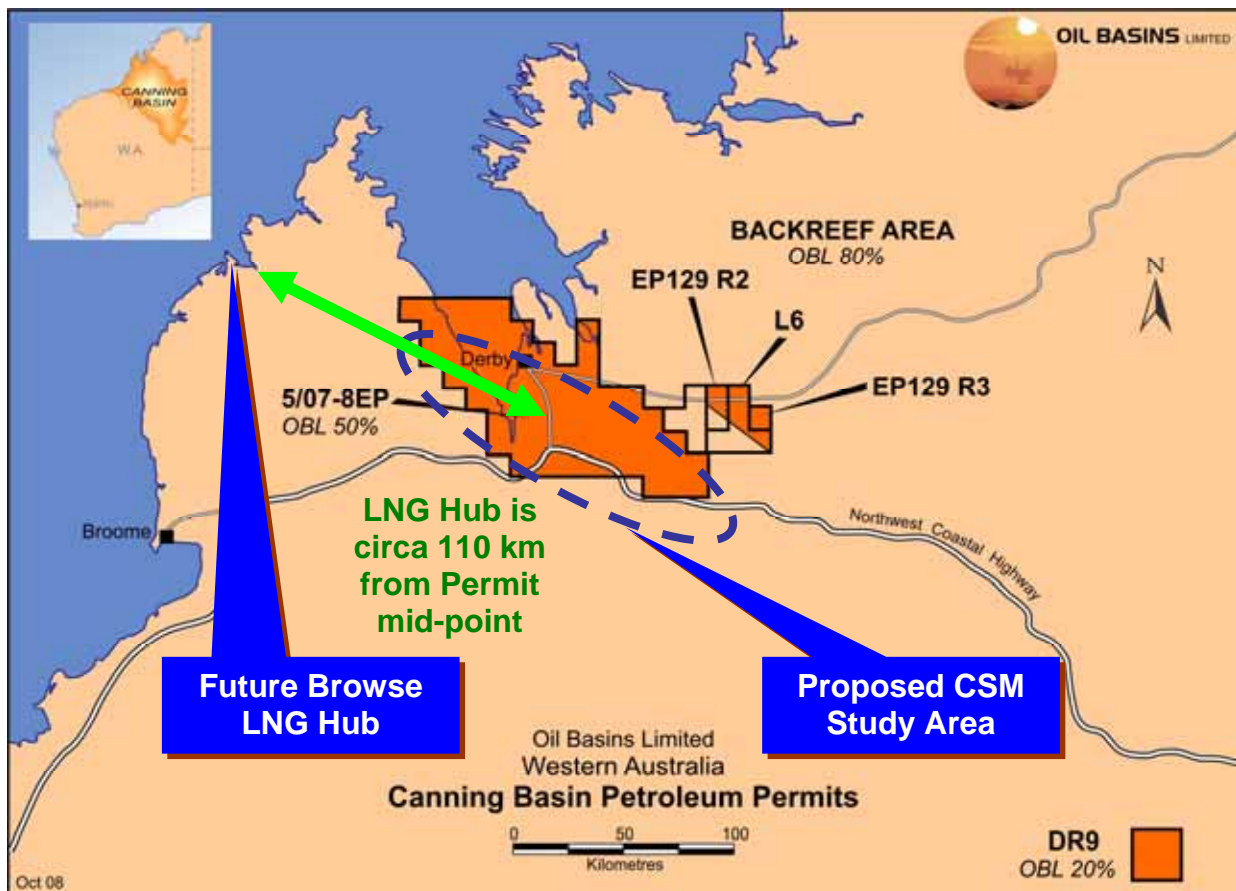


Figure 1
Oil Basins Limited's Canning Basin interests

Independent Expert Report

To assist this preliminary assessment, OBL has engaged Dierdre Westblade, Principal, Westby Consulting Pty Ltd, to conduct an Independent Expert Geologist Report to assess the delineated coal measures within Permit 5/07-8 EP, Canning Basin, Western Australia.

This assessment is expected to be complete during March 2010.

Westby Consulting Pty Ltd is a leading Perth based authority on coal mineral geology and regional coal exploration within Western Australia and has conducted a number of independent and geological assessments of the majority of WA's coal basins for coal exploration and development companies.

Whilst specific CSM productivity parameters such as gas absorption, permeability, coal rank and gas content are unlikely to have been measured / monitored in the vintage exploration work, it is anticipated that sufficient historical data will exist to enable the Independent Expert to delineate the overall extent of the in-ground coal measures resource situated within the permit as a preliminary and necessary assessment of the risk-reward of the overall new project. In addition it is noted that nearby mineral explorers including Rey Resources Ltd and Cullen Resources Ltd are successfully exploring for coal and any published coal quality data will be used in this CSM Study Area assessment.

Should either a CSM project and / or an unconventional shallow shale gas project appear both feasible and attractive, further work and a revised exploration work program will be considered in due course to the DMP and all relevant stakeholders (ahead of field work).

The CSM Study Area is particularly well situated in relatively flat terrain, close to the provincial WA township of Derby and well accessed by all weather highways.

Throughout and during this process, interested parties (upstream, midstream and downstream) with the necessary pre-requisite CSM to LNG credentials are invited to make formal approaches to the JVPs to assist in a rapid assessment of the CSM Study Area, once exploration rights have been ratified by the DMP and stakeholders.



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Artist impression – source Woodside Petroleum Limited (WPL), ASX Release dated 14 December 2009, slide 10.

Proposed Browse LNG Hub

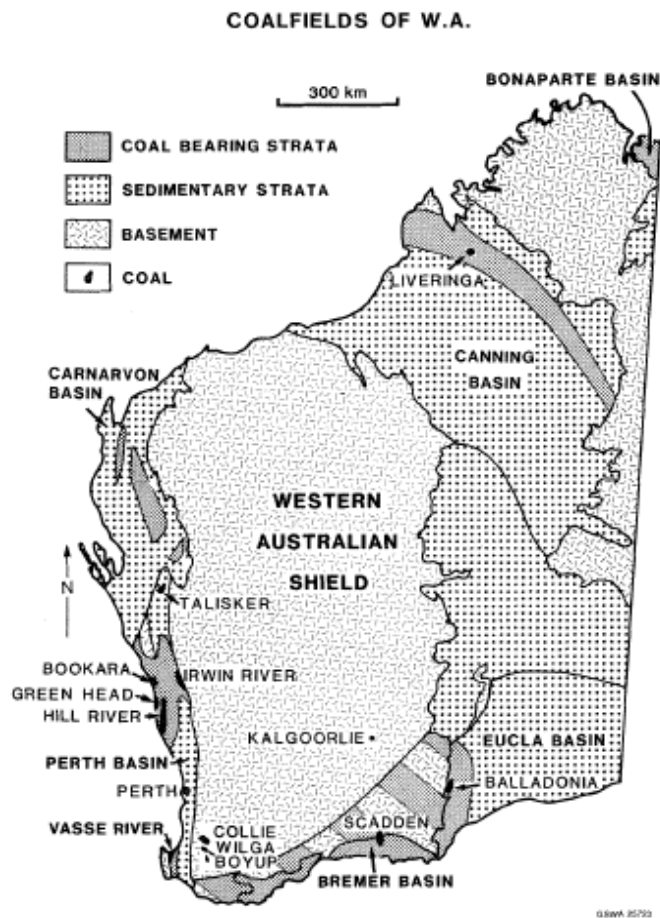
Recently, on 7 December, 2009 the Western Australian State Government announced that it had selected an area just south of James Price Point as the exact location for the proposed Browse Liquefied Natural Gas (LNG) Hub.

The site was chosen because of its deeper water, which would require less dredging and blasting; easier management of the effects on seagrass and other marine habitats; flatter land compared to the alternative site in the north, resulting in a lower visual impact; and the ability to manage the impact on registered indigenous heritage sites.

The proposed **Browse LNG Hub**, (Figure 2) covering a total area of up to 2,500 hectares, will include LNG storage tanks set back about 750m from the shoreline and LNG trains located a further kilometre inland from the tanks.

The fenced area of the hub will extend for up to 1.5km of coastline and public access would be maintained in the buffer zones around the area. This area will effectively quarantine and plan future development to protect the traditional owners heritage, culture and the environment. An indigenous Land Use Agreement is expected by early 2010 and for finalisation of the Strategic Assessment Report documentation for presentation to state and federal environmental regulatory authorities.

Figure 2
Kimberley LNG Hub Concept at James Price Point



Coal WA Report (1990)

“In the Canning Basin, coal of Permian age has been found in the Liveringa Group southwest of Derby (refer to Figure 3).

The coal is sub-bituminous and occurs in discontinuous seams of upto 2.5m thick. Although present at mineable depths no economically viable deposit has yet been delineated”.

Source: Department of Mines Geological Survey (1990), Coal Western Australia Report – page 10 extract

Figure 3
Coalfields of WA – Liveringa Coal Measures, Canning Basin

GLOSSARY & PETROLEUM UNITS

M	Thousand
MM	Million
B	Billion
Bbl or Bbls	Barrel of crude oil (ie 159 litres)
PJ	Peta Joule (1,000 Tera Joules (TJ))
Bcf or BCF	Billion cubic feet
BOE ₆	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).
2D	Two dimensional seismic survey
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
CSM	Coal seam methane is natural gas. Methane = CH ₄ = H-H-C-H-H, which is the same as: conventional gas, landfill gas, peat gas. Coal seam methane or 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 feedstock for petrochemical plants such as urea, ammonia, ammonium nitrate, gas to liquids (diesel) and LNG production.

DISCLAIMER – CSM PROSPECTIVITY AND CSM RESOURCES POTENTIAL

There are numerous uncertainties inherent in estimating quantities of prospective and economic CSM resources, including many factors beyond OBL's control. Estimates of economically recoverable CSM 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 Technical & Independent Consultants as to the CSM prospectivity of the Canning Basin Permit 5/07-8 EP at this early preliminary stage.

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

The technical information quoted has been compiled and / or assessed by Company Director, Mr Neil Doyle who is a professional engineer (BEng, MEngSc - Geomechanics) with over 26 years standing and has been a full and continuous member of the US Petroleum Engineers since 1981. In addition, the undersigned has specific experience in CSM, having acted as a Drilling Engineer for BHP's Hematite Petroleum (*antecedent of BHP Petroleum*) during 1979/1981 at both its successful Sydney Basin CSM - Appin Colliery / Bowen Basin CSM – Blackwater Colliery (remedial relief gas wells ahead of longwall) safety program and was subsequently a Project Manager in Elders Resources Oil & Gas Group's extensive Bowen Basin CSM Area – Dawson Creek (early 1990's). In addition, Mr Doyle is also a full and continuous member of the US Mining Engineers since 1992.