

31st January, 2012.

The Chief Executive Officer,
Bass Strait Oil Company Ltd,
Level 1, 99 William Street,
Melbourne, Vic., 3000.
Attention: Dr. Steve Mackie.

Dear Sir,

SUMMARY

PetroVal Australasia Pty Ltd, ('PetroVal'), was commissioned in late December, 2011 by Bass Strait Oil Company Ltd, ('BAS') to provide an independent valuation of the upstream assets of the company. The estimated range of Fair Market Value is \$14 to \$32 million (excluding cash and other net assets) and the details for each licence are tabulated below :

VALUATION SUMMARY : Upstream Petroleum Assets of Bass Strait Oil Company						
Basin <i>Exploration Licences</i>	Status	Equity %	Area [sq km]		Fair Market Value (M\$)	
			Gross	Net	Market Low	High
Gippsland Basin						
Vic/P41	Year 1 work	45.0%	540	243	3.0	6.0
Vic/P42	Year 3 work	100.0%	939	939	0.5	2.5
Vic/P47	Year 3 work	40.0%	203	81	7.5	15.0
Vic/P66	Year 4 work	60.0%	2,130	1,278	0.6	2.0
Bass Basin						
T/L-1	Royalty over-ride	0.065%			0.3	0.6
T/42-P)	Renewals in progress	100.0%	3,060	3,060	0.3	1.5
T/43-P)		100.0%	3,060	3,060		
Otway Basin						
PEP-167	Renewal due mid-year	50.0%	833	417	1.3	3.3
PEP-150	Offered subject to NTA	15.0%	3,253	488	0.4	1.5
Total:			14,018	9,566	13.7	32.4

METHODS

VALMIN Code

This technical assessment has been prepared in consideration of the VALMIN Code. Inspection of the subject areas was not considered necessary.

Petroleum Reserves and Resources

Reserves and Resources are defined by the Society of Petroleum Engineers, ('SPE'), World Petroleum Council and American Association of Petroleum Geologists.

Reserves are defined as those discovered quantities of petroleum which are estimated, on a given date, to be commercially recoverable from known accumulations. There are several categories of decreasing certainty: Proved, Probable and Possible.

Contingent Resources are those discovered quantities of petroleum which are estimated, on a given date, to be potentially recoverable from known accumulations, but which are not currently considered to be commercially recoverable. The categories of decreasing certainty are Low, Best and High Estimates.

Prospective Resources are those undiscovered quantities of petroleum which are estimated, on a given date, to be potentially recoverable from (*hypothetical*) accumulations. The categories of decreasing certainty are Low, Best and High Estimates.

There are various sub-classes dependent upon the maturity of the project status and these are shown in the adjacent figure.

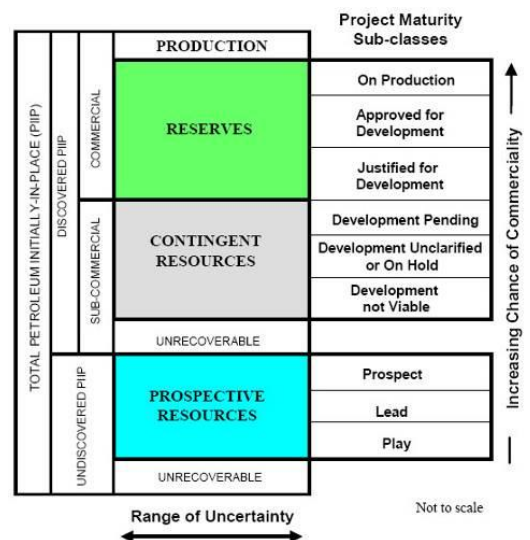
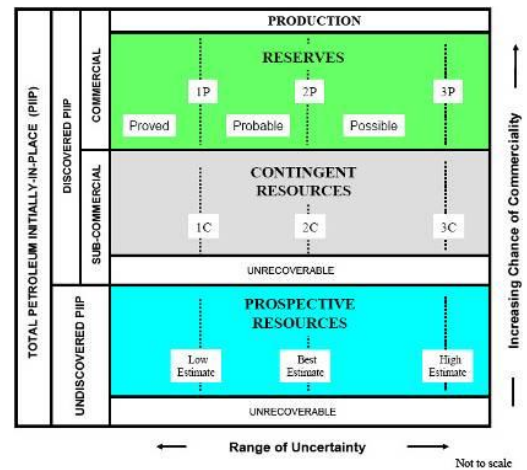
The detail of the Petroleum Resources Management System ('PRMS') is available as a download from the website of the Society of Petroleum Engineers (www.spe.org).

The PRMS applies to both Conventional and Unconventional Resources.

Conventional Resources exist in discrete petroleum accumulations related to a localised geological structural feature and/or stratigraphic condition, typically with each accumulation bounded by a down-dip contact with an aquifer, and which is significantly affected by hydrodynamic influences such as buoyancy of petroleum in water. The petroleum is recovered through wellbores and typically requires minimal processing prior to sale.

Unconventional Resources exist in petroleum accumulations that are pervasive throughout a large area and that are not significantly affected by hydrodynamic influences (also called "continuous-type deposits"). Examples include coal-bed methane, ('CBM'), basin-centred gas, shale gas, gas hydrates, natural bitumen, and oil-shale deposits. Typically, such accumulations require specialised extraction technology (*eg.* dewatering of CBM, massive fracking programs for shale gas, steam and/or solvents to mobilise bitumen for in-situ recovery, and, in some cases, mining activities). Moreover, the extracted petroleum may require significant processing prior to sale (*eg.* bitumen up-graders).

For these petroleum accumulations that are not significantly affected by hydrodynamic influences, reliance on continuous water contacts and pressure gradient analysis to interpret the extent of recoverable petroleum may not be possible. Thus, there typically is a need for increased sampling density to define uncertainty of in-place volumes, variations in quantity of reservoir and hydrocarbons, and their detailed spatial distribution to support detailed design of specialised mining or in-situ extraction programs.



Similar to successful recovery projects applied to conventional reservoirs, successful pilots or operating projects in the subject reservoir or successful projects in analogous reservoirs may be required to establish a distribution of recovery efficiencies for non-conventional accumulations. Such pilot projects may evaluate both extraction efficiency and the efficiency of unconventional processing facilities to derive sales products prior to custody transfer.

Fair Market Value

The asset valuation is based upon the concept of Fair Market Value, which is defined as the maximum cash price that could be realized for the asset in an open market over a reasonable period of time assuming potential buyers have full information. This is consistent with the definition of the Valmin Code adopted by the AusIMM, as the estimated amount of money for which, in the opinion of the expert, the asset should change hands on the valuation date between a willing buyer and a willing seller in an arm's length transaction wherein each party had acted knowledgeably, prudently and without compulsion. For this report a valuation range of Low, Most Likely and High is considered inappropriate since the Low may be more relevant as a benchmark of collateral value. Estimates of Low to High are provided which reflect the portion of the range more relevant for equity analysis of a publicly listed company.

The valuation of petroleum assets takes into account the following:

- Review of development plans, production history and operating costs for developed fields (or as may be proposed for undeveloped fields);
- Review of resource estimation methods and their application;
- Results of previous exploration;
- Permit work programmes and expenditure commitments;
- Joint venture budgets and forecast work programmes;
- Geology of the permit relative to the sedimentary basin or province;
- The geological and engineering merits of each prospect and lead;
- A professional judgement of the prospectivity for the future commercial recovery of petroleum;
- Transactions relevant to the assets in which equity is bought and sold;
- Proposed or notional farmins or farmouts; and,
- Prospect risking, notional revenue cash flows and expected monetary value ("EMV").

The valuation of discovered oil and/or gas fields is usually determined by cash flow analysis based on the preparation of forecasts of recoverable reserves / resources, production profiles, capital expenditures, operating costs and abandonment costs. For developed fields with production history the capital and operating costs, and production decline trends may be well known leading to a range of values (based on a forecast of economic parameters, *eg.* oil or gas price) which may be well constrained. For undeveloped discoveries, the method may still apply, although with a greater uncertainty and hence broader range of values, provided sufficient engineering and development scenarios have been prepared and collated. In the absence of such data and if report timeframes are restricted, reliance on approximations may be necessary (*eg.* \$s / barrel, which may be derived from more detailed studies of analogous fields and/or discoveries).

For exploration permits the first requirement is to assess the prospectivity for the discovery of petroleum by future drilling. Thereafter, the most reliable market value may be based on farmout or purchase transactions within the permit or in adjacent permits with comparable geological prospectivity and operating constraints. The farminee (purchaser) usually agrees to fund a significant exploration programme, either seismic and/or drilling, in return for the farmor (seller) transferring a significant equity in the permit to the farminee. Should there be no farmout or sale transactions for a permit, or for adjacent permits, the assessment of market value becomes more subjective. Usually, a judgement, based on the technical data, of a nominal farmout provides a reasonable value.

In the case of farmouts, the farmor does not receive a cash payment for equity; the farminee accepts the liability to fund, in part or in full, the cost of exploration (either seismic &/or drilling) within the permit. The farmor is relieved (in part or in full) of the expenditure liability and in return transfers a portion of equity to the farminee. The value of the transaction is dependent on the cash equivalent of the benefit to the farmor and the cost to the farminee. The parameters include the:

1. cost of the work program; and,
2. amount of equity which is transferred to the farminee pro rata to the original equity held by the farmor.

Provided data is available, consideration is also given to the risk analysis of prospects and leads. This involves extrapolation of the likely volumes of a prospective resource, preparation of a discount cashflow analysis, (net present value: 'NPV'), for a notional development scenario and application of a risk factor to reflect geological perceptions of the probability of success, ('POS'). An expected monetary value, ('EMV'), may be calculated as follows:

$$EMV = NPV \times POS - (1 - POS) \times Well\ Cost_{after\ tax}$$

Such calculations account for the probability of the two possible outcomes; firstly, the probability of a discovery and secondly, the more likely probability of failure. This method has become more widely utilised within the petroleum industry especially as a ranking tool which enables the relative merits of leads and prospects to be compared on a consistent basis. Leads should have a further risk reflecting the probability they will be matured (or not) to drillable prospects. For valuation purposes the EMV technique should only be used in basins with sufficient exploration and production history that exploration risks, reservoir performance and production and operating costs are well known. The method is inappropriate in areas where the risks are not well understood and/or where there is insufficient history of exploration for the statistical database to be indicative. Also for valuation purposes, the method is best relied upon when there is a large portfolio of drillable prospects and conversely, of less merit where there are only one or several drillable prospects identified (at the time) within a permit (*ie.* predictability versus portfolio size).

Therefore, to arrive at a Fair Market Value from the EMV of a prospect it is not unusual to apply a further significant discount. Bidding strategies for competitive tenders for vacant exploration areas, which truly indicate (most likely) market value, reflect a maximum of approximately 50% of the EMV, and a range of 30-35% of the EMV has been indicated in the literature. Further, for a farm-in which is common practice in the exploration sector, the farminee pays for the transfer of equity at a price less than the EMV. After re-calculation, the EMV to the farminee should remain positive to provide upside potential and reason to pursue such a transaction (*ie.* to avoid "gambler's ruin").

Finally, the assessment of Fair Market Value requires a judgement based upon consideration of all the available technical analyses, comparison between farm-out and EMV method, consideration of relevant transactions and an opinion of industry trends.

ASSETS OF BASS STRAIT OIL COMPANY LTD

Regional Petroleum Geology

It is beyond the scope of this report to present the petroleum geology of the relevant, sedimentary basins.

Otway Basin: Onshore Victoria PEP 150; BAS: 15%

The permit was awarded by the Department of Primary Industries to the applicants subject to the completion of a prerequisite Native Title agreement. It is understood that this has been agreed in principle but awaits formal execution. BAS farmed into this permit by completing the funding of work obligations in the adjacent PEP-151 in 2006 and the farmor was Essential Petroleum (*nee* Somerton). Beach is the designated operator. The work program is as follows:

PEP-150 : Otway Basin		
Tenure:	Offered by DPI subject to NTA	
Year	Work Program	Costs M\$
1	G & G studies	
	50km seismic	0.255
2	One well	0.700
3	G & G studies	0.050
4	50km seismic	0.255
5	One well	0.700
Guaranteed	Years 1 to 5	1.960

The permit overlies prospective Crayfish Subgroup in the Ardonachie Trough with the Eumeralla as the primary source rock. There is also potential within the Pebble Point Formation in the Early Tertiary Wangerrip Group from which minor oil was recovered from Lyndon-1 (located within the permit area) but migration from a deeper and mature source may be required. Work will be refocused on the deeper Casterton Formation from which Digby-1 recovered oil.

The judgement of the value is as follows:

Fair Market Value M\$: PEP-150		
BAS	15.0%	
Category	Value M\$	Comments
Low	\$ 0.375	Farmout: Fund M\$2
High	\$ 1.500	Farmout: shale gas well at 2:1

PEP-167; BAS: 50%

This permit was awarded in 2007 covering a small area of 833 km² along the coastline of western Victoria and abuts the eastern border of PEP-150. The first term expires in mid-2012 and the work program has been fulfilled. The PEP-167 Joint Venture has not yet decided whether to renew the permit but for the purposes of this valuation it is assumed a renewal will be submitted on the basis of a 50% relinquishment and a similar work program to that of the first term, shown below:

PEP-167 : Otway Basin		
Awarded:	02-July-2007	
Year	Work Program	Cost estimate M\$
1	G & G studies	0.250
2	G & G studies	0.250
3	35 km ² 3D seismic	1.900
4	G & G studies	0.250
5	Drill 1 well	2.600
Guaranteed	Years 1 to 5	5.250

Windamere-3 was drilled in 2011 and was an unsuccessful appraisal of the small oil discovery in the Heathfield (sandstone) Member of the Eumeralla Formation. The current focus is now towards the east. The Warre Formation hosts several gas accumulations within the Port Campbell Embayment and the older (late Jurassic) Casterton Formation is now considered a potential target for unconventional oil &/or gas-in-shale host strata. It is probable that a prospect location will not be matured for drilling for several years.

The judgement of the value is as follows:

Fair Market Value M\$: PEP-167		
BAS	50.0%	
Category	Value M\$	Comments
Low	\$ 1.250	Farmout: Years 1-4 at 2:1
High	\$ 3.250	Farmout: Potential shale target at 2:1

Bass Basin: Offshore Tasmania T/42-P and T/43-P; BAS: 100%

The two permits were awarded in February 2006, each with a well commitment in the secondary (discretionary) term. These were replaced by technical studies under the process of annual renewal following the primary term. Offers to farmout during the interim were unsuccessful. Both permits are expected to be renewed with work programs as follows:

T/42P : Bass Basin		
24/02/2012	Proposed renewal	
Year	Work Program	Cost estimate M\$
1	G & G studies	0.250
2	Acquire 100 km2 3D seismic	1.500
3	G & G studies	0.250
4	G & G studies	0.250
5	Drill 1 well	30.000
		32.250
Guaranteed	Years 1 to 3	2.000
T/43P : Bass Basin		
24/02/2012	Proposed renewal	
Year	Work Program	Cost estimate M\$
1	G & G studies	0.250
2	Acquire 300 km2 3D seismic	4.500
3	G & G studies	0.250
4	Drill 1 well	30.000
5	G & G studies	0.250
		35.250
Guaranteed	Years 1 to 3	5.000

The Durroon Sub-basin is a frontier province with a thick Cretaceous, syn-rift section which thins westwards into the Cape Wickham Sub-basin (Tertiary post-rift). The productive, Palaeocene to Eocene strata (Yolla, Pelican, White Ibis & Trefoil discoveries) are either thin and onlapping or eroded within the permits. Consequently, whilst there is sufficient evidence from the limited well data to indicate the prospectivity for petroleum accumulations it must be considered high risk. The estimates of prospective resources for the potential area of several leads range up to several hundred barrels of oil and several Tcf of gas.

The judgement is that, in time, a seismic farmout could be achieved and possibly with an option for a well farmout. However, the likely farmout terms are considered to be at a low premium to parity.

The judgement of the value is as follows:

Fair Market Value M\$: T/42-P & T/43-P			
BAS		100.0%	
Category	Value M\$	Comments	
Low	\$ 0.250	Farmout: Years 1-3 at 100:90 with well option	
High	\$ 1.500	Farmout: Well option 100:95	

T/L-1 Yolla (Ex T/14-P) Over-riding Royalty; BAS 0.0648%

BAS holds a small but material share of a 0.27% royalty over-ride on net wellhead revenue which was established in July, 1986 in regard to revenue from all future production from within the area defined (at the time) as T/14-P. The production licence T/L-1 (excised from T/14-P) was awarded for the development of and production from the Yolla gas field. Origin Energy Resources Limited is the operator, ('OERL'), and contends the deductible costs have exceeded revenue except for the 2007-08 financial year. Preliminary legal advice to BAS is that certain deductions are not warranted and therefore that significant royalty moneys are payable by the T/L-1 joint venture.

The judgement of the value is as follows:

Fair Market Value M\$: T/L-1 (T/14-P) Over-riding Royalty			
BAS		0.065%	
Category	Value M\$	Comments	
Low	\$ 0.250	Sell to litigator	
High	\$ 0.600	NPV to abandonment	

Gippsland Basin: Offshore Victoria

Vic/P-47: BAS 40%

Following a partial relinquishment the permit was renewed in November, 2009 with terms as follows:

Vic/P47 : Gippsland Basin			
Renewed:		16-November-2009	
Year	Work Program	Cost estimate M\$	
1	G & G studies	0.250	
2	159 km ² 3D seismic reprocessing	0.250	
3	Gas market & appraisal studies	1.000	
4	Well planning	1.000	
5	Drill 1 well	20.000	
		22.500	
Guaranteed	Years 1 to 3	▼	1.500

The seismic reprocessing was completed during 2011 and is currently undergoing geophysical interpretation with a focus on the Judith-1 gas discovery and surrounding prospects and leads.

Judith-1 was drilled in 1989 with good gas shows and although equivocal, interpretation of well logs implies around 135 metres of gas-bearing reservoir in the Emperor subgroup. No tests were conducted and the wireline pressure data is also ambiguous. Contingent resources were independently certified (GCA, 2008) as follows:

Judith-1 Gas Discovery [Bcf]			
Category	1C	2C	3C
OGIP	88	298	1,246
EUR	48	194	934

Several scoping studies (subsea and facilities) were commissioned and several development options (following appraisal) were quantified:

1. Judith (2C ~200 PJ; capital of M\$250 in 2007\$) tie-back to Longtom gas field (Vic/L-29) subsea manifold and subsea umbilical to Patricia-Baleen gas field, (Vic/L-21) and pipeline to onshore gas processing and gas sales ex-Orbost; and,
2. Greater Judith development (2C plus prospects ~450 PJ; capital of M\$586 in 2007\$) with subsea completion and pipeline to a stand-alone, processing plant onshore.

There are three other possibilities:

1. tie-back to the producing Kipper gas field or direct to the Tuna platform (Esso/BHPP); or,
2. aggregate development with Basker, Manta, Gummy (Vic/L-26); and,
3. tie-in with a future development of the Sole gas field (NE of Judith).

The Longtom and Kipper gas field developments provide relevant comparisons for both field engineering and risk profiles.

The preferred choice for development will depend upon the results of forthcoming exploration / appraisal and the commercial criteria for access to existing facilities (*ie.* tolling fees). Dependent upon the interpretation of the reprocessed seismic an appraisal well is planned for drilling (including core recovery, well testing and fluid sampling and estimated at M\$63 in 2008\$) with multiple objectives:

1. vertical well: to appraise Judith 3C (confirm lateral extent and increase 1C) and test gas deliverability;
2. side-track-1: explore prospect-1; and,
3. side-track-2: explore prospect-2.

Current estimates of prospective resources (adjacent to Judith-1) are as follows (but subject to re-interpretation):

Prospective Resources : Best Estimates [Bcf]				
Prospect	TDS-1	NWS-2	NWS-1	Judith South
OGIP	157	70	70	26
EUR	102	46	46	17

Scoping economics for the Judith discovery (2C ~200 PJ) have been calculated based upon the foregoing technical studies but with capital costs up-scaled to reflect industry cost inflation to the present day. There is also a general expectation of real increases in domestic gas prices for new supply contracts. The results imply “mid-case” NPV of M\$150 – M\$200 (gross) with IRR of ~15%.

The Joint Venture is seeking a farminee to fund the cost of the Judith appraisal well.

The judgement of the value is as follows:

Fair Market Value M\$: Vic/P47		
BAS	40.0%	
Category	Value M\$	Comments
Low	\$ 7.500	Farmout: Judith appraisal well at 40:30
High	\$ 15.000	Discounted EMV

Vic/P-41; BAS 45%

The permit was renewed in November, 2011 with the work program shown below:

Vic/P41 : Gippsland Basin		
Renewed:		29-November-2011
Year	Work Program	Cost estimate M\$
1	G & G studies	0.150
2	70 km ² 3D seismic	0.850
3	G & G studies	0.150
4	Drill 1 well	30.000
5	G & G studies	0.150
		31.300
Guaranteed	Years 1 to 3	✔ 1.150

The decision to progress with the drilling is not required until late 2014 which provides adequate time to seek a farminee to commit to the well cost. There is a seriatum of prospects and leads and several have resource estimates in excess of several hundred Bcf and up to ~30 mmbbls oil. It is probable that a robust prospect will be matured as an attractive prospect for a drilling farmout.

The judgement of the value is as follows:

Fair Market Value M\$: Vic/P41		
BAS	45.0%	
Category	Value M\$	Comments
Low	\$ 3.000	Farmout: well at 100:90; repay costs
High	\$ 6.000	Farmout: well at 100:67; less interim costs

Vic/P-66: BAS 60%

The permit was awarded in December, 2008 with the work program shown below:

Vic/P66 : Gippsland Basin		
Awarded:		02-December-2008
Year	Work Program	Cost estimate M\$
1	G & G studies	0.200
2	G & G studies	0.350
3	50 km ² 3D seismic	0.750
4	G & G studies	0.350
5	G & G studies	0.250
6	Drill 1 well	15.000
		16.900
Guaranteed	Years 1 to 3	✔ 1.300

There are several vintages of older 2D seismic data but this is sparse and of only poor to fair quality. It is probable that lead "A" which extends from Vic/P-41 will be the target of the 3D seismic acquisition program planned for 2012. The area is considered to be a distal location for prospectivity in the Gippsland Basin. At present the values are constrained by insufficient modern seismic.

The judgement of the value is as follows:

Fair Market Value M\$: Vic/P66		
BAS	60.0%	
Category	Value M\$	Comments
Low	\$ 0.600	Farmout: Years 1-5 at 2:1
High	\$ 2.000	Farmout: well at 100:90

Vic/P-42; BAS 100%

The permit was renewed in September, 2009 for a period of five years with the work program as follows:

Vic/P42 : Gippsland Basin		
Renewed:	18-September-2009	
Year	Work Program	Cost estimateM\$
1	G & G studies	0.100
2	G & G studies	0.100
3	750 km ² 3D seismic reprocessing	0.500
4	G & G studies	0.100
5	Drill 1 well	12.000
		12.800
Guaranteed	Years 1 to 3	0.700

The primary term expires in late 2012. A decision to accept the well commitment is not required until prior to the commencement of Year-5.

The area is located straddling the Southern Terrace which separates the prolific oil and gas fields discovered within the Central Deep of the basin from the Southern (non-prospective) Platform. 3D seismic surveys extend throughout the permit and are of good quality. A total of 13 wells have been drilled since 1969 with several non-commercial, small discoveries. A number of prospects have been identified which target the LaTrobe Group reservoirs. The estimates of prospective resources for individual reservoir targets are small and appear to be marginal especially from the perspective of offshore drilling costs.

The judgement of the value is as follows:

Fair Market Value M\$: Vic/P42		
BAS	100.0%	
Category	Value M\$	Comments
Low	\$ 0.500	Farmout: seismic at 2:1
High	\$ 2.500	Farmout: well at 100:95; repay costs

STATEMENTS

Reliance on Information

This assignment is based on information provided by BAS and such available information was evaluated through analysis, inquiry and review and it is believed on reasonable grounds that it is reliable. PetroVal has no reason to believe that material facts have been withheld but does not warrant that inquiries have revealed all of the matters which may be identified by an extensive examination with complete access to confidential data. The opinions and statements determined for this assignment, based on the above information, are made in good faith and in the belief that such opinions and statements are not misleading. The authors have not searched titles nor conducted due diligence on any contracts or joint venture agreements or any other legal or accounting matters and are not qualified to provide an opinion thereof.

It should be clearly understood that any development plans and work programmes may be subject to significant amendment as a consequence of ongoing feasibility studies, engineering design, technological advances, production performance, appraisal and/or development drilling and seismic interpretation in developed fields, undeveloped fields and exploration permits. Petroleum exploration and development is a risky and speculative venture and the actual outcome of future capital and operating expenditure cannot be predicted with certainty or reliability.

Disclosure and Declaration

A fee will be received by PetroVal for this assignment but this is not dependent upon the outcome of any commercial proposal by BAS and no other benefit will be received.

BAS has agreed that, to the maximum extent permitted by law, it will indemnify PetroVal and its directors and associates in respect of any liability suffered or incurred as a result of or attributable to this assignment except for proven wilful misconduct or negligence or breach of contract or statute. Advanced drafts were provided to BAS and there have been no material revisions.

Qualifications

PetroVal was incorporated in 1997 to provide technical advisory services to the upstream oil and gas industry and specifically reserves certification, expert's reports in accordance with certain provisions of the Corporations Law, valuations, technical and commercial assessment of trade sales, expert testimony and general geoscientific and engineering consulting. The Directors have prepared numerous reports for shareholders of public listed companies.

This assignment was undertaken for PetroVal by Stephen Ingham, M.A.(Hons), Chartered Professional Engineer, Registered Professional Engineer, Tx, U.S.A., Member IEAust. and SPE with 50 years' experience; and, Ian Northcott, B.Sc.(Hons), Grad.Dip.App.Fin. & Inv., Fellow AusIMM, Member SPE, SPWLA, AAPG with 35 years' experience. The authors provide expertise in petroleum exploration, development geology, petrophysics, reserves' assessment, reservoir engineering and economic valuations.

Competent Person's Statement

The authors are qualified as defined under the ASX Listing Rule 5.11 to act as Competent Persons.

Consent

PetroVal consents to the public issue of this letter in the foregoing form, entirety and context in which it has been prepared.

Yours faithfully,



Ian Northcott,
Director,
PetroVal Australasia Pty Ltd.