

THIS DOCUMENT IS IMPORTANT. IT IS NOT A DISCLOSURE DOCUMENT UNDER THE CORPORATIONS ACT 2001. IT IS AN OFFER DOCUMENT ISSUED IN CONJUNCTION WITH A NOTICE UNDER SECTION 708AA OF THE CORPORATIONS ACT 2001.

BASS STRAIT OIL COMPANY LIMITED

ABN 13 008 694 817

RIGHTS ISSUE

**NON-RENOUNCEABLE PRO RATA OFFER OF NEW SHARES AT AN
ISSUE PRICE OF \$0.025 (2.5 CENTS) PER SHARE ON THE BASIS OF
ONE NEW SHARE FOR EVERY THREE SHARES HELD ON THE RECORD
DATE TO RAISE UP TO \$2,425,724**

THE RIGHTS ISSUE CLOSSES AT 5.00PM AEDT ON 7 OCTOBER 2011

**THE ISSUE IS FULLY UNDERWRITTEN
BY
GMP SECURITIES AUSTRALIA PTY LIMITED
(ABN 46 149 263 543) (AFSL 40362)**

Any investment in the Company's shares should be considered speculative.

**INVESTORS SHOULD OBTAIN PROFESSIONAL INVESTMENT ADVICE BEFORE ACCEPTING
ANY OFFER OR INVITATION TO SUBSCRIBE FOR SHARES CONTAINED HEREIN.**

DIRECTORS

John L C McInnes (Chairman)
Henry J Askin
John G Tuohy
Andrew P Whittle

COMPANY SECRETARY

Robyn M Hamilton

REGISTERED OFFICE

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E-mail: admin@bassoil.com.au
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SHARE REGISTRY

Link Market Service Limited
Level 1,
333 Collins Street,
Melbourne, Victoria 3000
Telephone:
1300 665 3854 (within Australia)
+ 61 2 82807607 (outside Australia)
Facsimile: +61 (03) 9615 9744
Website: www.linkmarketservices.com.au

AUDITORS

Ernst & Young
8 Exhibition Street,
Melbourne, Victoria 3000

STOCK EXCHANGE LISTING

ASX Limited
Level 45, South Tower, Rialto
525 Collins Street
Melbourne, Victoria 3000 Australia

ASX Code: BAS

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THE STATEMENTS BELOW ARE IMPORTANT STATEMENTS THAT APPLICANTS SHOULD READ CAREFULLY BEFORE CONTINUING FURTHER

FORWARD LOOKING STATEMENTS

Various statements in this Rights Issue document constitute statements relating to intentions, future acts and events. Such statements are generally classified as forward looking statements and involve known and unknown risks, uncertainties and other important factors that could cause those future acts, events and circumstances to differ from the way or manner in which they are expressly or implicitly portrayed in this Rights Issue document.

APPLICATION FOR LISTING ON ASX

Application will be made for Official Quotation of the Shares offered under this Rights Issue document on ASX Limited ("ASX"). The fact that ASX may list the Shares is not to be taken in any way as an indication of the merits of the Company or the Shares. ASX takes no responsibility for the contents of this Rights Issue document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon any part of the content of this Rights Issue document.

SUITABILITY OF INVESTMENT AND RISK FACTORS

Before deciding to invest in the Company, Applicants should read the entire Rights Issue document, in particular, the risk factors in Section 3. They should carefully consider these factors in the light of their personal circumstances (including financial and taxation issues) and seek professional advice from their accountant, stockbroker, lawyer, licensed financial adviser or other professional adviser before deciding to invest in any Shares that are the subject of this Rights Issue document.

CHAIRMAN'S INVITATION

Dear Fellow Shareholder

On behalf of the Board of Bass Strait Oil Company Limited ("BAS" or the "Company"), it is my pleasure to invite you to participate in the Company's non-renounceable pro rata rights issue of one (1) new Share for every three (3) Shares held and registered at 7.00pm (AEST) on Friday, 16 September 2011 ("Record Date") at an issue price of \$0.025 (2.5 cents) per new Share ("Rights Issue").

This fully underwritten Rights Issue of approximately 97 million new Shares will raise approximately \$2.4 million (before accounting for the costs of the Rights Issue) and be applied to the Company's Windermere-3 well and other exploration programmes. The issue price of 2.5 cents per new Share ("Issue Price") reflects a 20% discount to the general trading prices at the time of the announcement of the Rights Issue and represents an opportunity to consolidate your investment in the Company.

BAS remains a sound and focused petroleum exploration company with a clear strategy and attractive prospects based around:

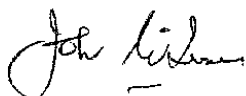
- Exploration in prospective onshore and offshore permits in south eastern Australia comprises a two pronged strategy of tight to unconventional opportunities onshore and conventional to tight opportunities offshore
- The Windermere-3 well results are expected in November 2011:
 - the Windermere oil project is in the onshore Otway Basin (PEP 167) where the Windermere-1 well recovered 33 barrels of oil on test;
 - formal acceptance has been received for the Windermere-3 Operation Plan targeting a P50 prospective resource of 3.36 million barrels of oil-in-place (~1 million barrels of oil recoverable).
- A Joint Study Agreement has been signed with China National Offshore Oil Corporation, one of China's three National Oil Companies.
- Farmout discussions that are on-going in the offshore Gippsland and Bass Basin permits.
- A strengthened Board and management:
 - Dr Steven Mackie appointed as CEO (formerly with Sinopec, Santos and Magellan as Exploration Manager)
 - Mr Andrew Whittle appointed a Non-Executive Director (formerly Esso Australia Geological Manager)

An update of BAS's activities has been placed on the Company's website (and lodged with ASX) for your review (www.bassoil.com.au) and go to the Announcements page).

I encourage you to read this Rights Issue document in full, in particular the Risk Factors set out in Section 3, before deciding whether to take up your Rights. Should you have any doubts about what action to take you should consult your stockbroker, accountant or other professional advisor.

On behalf of the Board, I invite you to consider this investment opportunity and look forward to your continuing support of the Company.

For and on behalf of the Board



John L C McInnes OAM
Chairman
8 September 2011

SECTION 1: DETAILS OF THE OFFER

THE OFFER

This Rights Issue document invites Shareholders to participate in a pro-rata non-renounceable Rights Issue of approximately 97,010,083 new Shares under section 708AA of the Corporations Act on the basis of one (1) new fully paid ordinary share in the Company for every three (3) Shares held on the Record Date, at the Issue Price of \$0.025 (2.5 cents) per Share, for the purpose of raising \$2,435,724.

The funds raised under the Rights Issue, together with BAS's existing funds will be sufficient to meet the costs of BAS's commitments over the next 12 months, including drilling the Windermere-3 well.

The Issue Price represents discount of approximately 20% to the closing price of Shares on the ASX on 5 September 2011 which was \$0.031 (3.1 cents) cents. The following graph shows the Issue Price contrasted with the market price for BAS Shares over recent months, reflecting a market price consistently above this Issue Price, reflecting this opportunity to consolidate your investment in BAS at a significant discount to the current market price.



Before making a decision to invest in or subscribe for Shares, Shareholders should read this Rights Issue document in full, with particular regard to the risk factors and their own investment parameters and, as necessary, should seek independent professional advice from appropriate advisers. An investment in the Company should be considered as a speculative investment.

This Rights Issue document will be sent to all Shareholders as at the Record Date. This Rights Issue Document will also be available from the Company's website www.bassoil.com.au.

Shares to be issued under this Rights Issue are ordinary shares and will rank equally with all other Shares on issue from the date of issue and allotment. Details of the rights and liabilities attaching to the Shares are set out in Section 4 below.

A personalised Entitlement and Acceptance Form, which sets out each Shareholder's entitlement to Shares and the right to apply for Additional Shares, accompanies this Rights Issue document.

ENTITLEMENT AND ACCEPTANCE

Accompanying this Rights Issue document is a personalised Entitlement and Acceptance Form that sets out your Rights entitlement. The Entitlement and Acceptance Form makes provision for you to apply for Additional Shares.

There is no minimum subscription and you may take up your Rights in whole or in part.

If your Entitlement and Acceptance Form is not completed properly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The decision of the Directors as to whether to treat any application for Shares as valid and how to construe, amend or complete it will be final. The Directors may complete any blanks or spaces left in any Entitlement and Acceptance Form and you, by lodging that form, appoint the Directors, and each of them, as your joint and several attorneys for such purpose and authorise all such amendments, insertions and alterations.

Notwithstanding the above, you will not be treated as having applied for more Shares than can be subscribed for by the amount of the Application Moneys paid.

A completed and lodged Entitlement and Acceptance Form, together with a cheque, bank draft or money order for the Application Money, or the payment of your Application Money by BPAY, constitutes a binding and irrevocable Application for the number of Shares specified in the Entitlement and Acceptance Form or which could be subscribed for by the Application Money paid by you.

RIGHT TO APPLY FOR ADDITIONAL SHARES IN EXCESS OF YOUR ENTITLEMENT

Shareholders who take up their entitlement to subscribe for Shares under the Rights Issue (their "Rights") in full also have an opportunity to apply for additional Shares ("Additional Shares") at the Issue Price of \$0.025 (2.5 cents) per Share. Additional Shares may, at the sole discretion of the Directors, be made available from any unsubscribed Rights Issue Shares.

Without prejudice to the absolute and unfettered right of the Directors to reject any application for Additional Shares, it is the intention of the Directors that applications for Additional Shares from Shareholders who wish to increase their shareholding to a marketable parcel (being 20,000 shares at the Issue Price) will be given priority.

PAYMENT FOR SHARES

The Application Money for the Shares the subject of the Rights Issue are payable in full on application.

Payments will only be accepted in Australian currency and may be made by one of the following methods:

- BPAY ®. Those who elect pay via BPAY ® must follow the instructions for BPAY ® set out in the Entitlement and Acceptance Form. If you choose to pay by BPAY ®, you do not need to return the Entitlement and Acceptance Form;
- bank cheque or money order in Australian dollars drawn on and redeemable at any Australian bank; or
- personal cheque in Australian dollars drawn on and redeemable at any Australian bank.

There are notes on the reverse of that form to assist you with each method of payment. See the "How to apply for Shares" section of the Entitlement and Acceptance Form.

If you wish to subscribe for some or all of your Rights and if you wish to apply for Additional Shares and you are paying for your Shares by cheque, bank draft or money order, you will need to complete the personalised Entitlement and Acceptance Form that accompanies this Rights Issue document in accordance with the instructions set out on that form and return the form with the appropriate Application Money, to the Company's share registry before 5:00pm AEDT on or before the Closing Date of Wednesday, 5 October 2011.

If you are paying by cheque, bank draft or money order, these must all be in Australian currency, payable to " **Bass Strait Oil Company Limited Share Subscription Account**" and be crossed "**Not Negotiable**". Receipts for payments will not be issued.

Cash payments will not be accepted but returned and the application deemed invalid.

In paying by BPAY ®, it is a term of this offer that you will be deemed to have given the representations warranties and authorities set out on the Entitlement and Acceptance Form. By applying for Shares all Applicants shall be deemed to have agreed to be bound by the Company's Constitution in all respects. Your BPAY ® payment must be received by 5.00pm AEDT on the Closing Date. You should be aware that your financial institution may implement earlier cut-off times in regard to electronic payment and you should take this into account when making payment.

If you choose to take no action with respect to your Rights you will continue to hold the same number of Shares you held on the Record Date; however your interest in the Company will be diluted.

If your Entitlement and Acceptance Form is not completed properly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The decision of the Directors as to whether to treat any application for Shares as valid and how to construe, amend or complete it will be final. The Directors may complete any blanks or spaces left in any Entitlement and Acceptance Form and you, by lodging that form, appoint the Directors, and each of them, as your joint and several attorneys for such purpose and authorise all such amendments, insertions and alterations.

Notwithstanding the above, you will not be treated as having applied for more Shares than can be subscribed for by the amount of the Application Moneys paid.

A completed and lodged Entitlement and Acceptance Form, together with a cheque, bank draft or money order for the Application Money, or the payment of your Application Moneys by BPAY ®, constitutes a binding and irrevocable Application for the number of Shares specified in the Entitlement and Acceptance Form or which could be subscribed for by the Application Moneys paid by you.

OPENING AND CLOSING OF THE OFFER

Offers under the Rights Issue will open at 9:00am (AEST) on Thursday, 22 September 2011 and will close at 5:00pm (AEDT) on Friday, 7 October 2011 ("Closing Date"). Subject to the requirements of the Act, the Directors reserve the right to extend the Closing Date without prior warning.

SPECULATIVE NATURE OF OFFER AND PROJECTS AND RELEVANT RISK FACTORS

You should:

- have regard to the high risk, speculative nature of the Company's projects and exploration activities and to the risks discussed in Section 3.
- understand that exploration for oil and gas is both speculative and subject to a high level of risk and that adverse exploration results, including in relation to drilling the Windermere-3 well could result in diminution of the value of your investment.
- read this Rights Issue document carefully and in its entirety, with emphasis on the risk factors detailed in Section 3, before deciding to invest in the Company.

FRACTIONAL ENTITLEMENTS

In determining entitlement to participate under the Rights Issue, fractional entitlements have been rounded down and disregarded. The Company has lodged an Appendix 3B New Issue Announcement with ASX containing further details of the Rights Issue.

MINIMUM SUBSCRIPTION

There is no minimum subscription level or amount.

EXCLUDED OVERSEAS SHAREHOLDERS

This Rights Issue document does not constitute an offer in any jurisdiction outside of Australia and New Zealand or to any person to whom it would not be lawful to issue this Rights Issue document

The Company is of the view that it is unreasonable to make an offer under this Rights Issue to shareholders outside of Australia and New Zealand having regard to:

- (a) the number of shareholders outside of Australia and New Zealand as a proportion of total shareholders in the Company;
- (b) the number and value of the securities to be offered to shareholders outside of Australia and New Zealand; and
- (c) the cost of complying with the legal requirements and requirements of regulatory authorities in the overseas jurisdictions.

Accordingly, the Company is not required to make offers under this Rights Issue to shareholders outside of Australia and New Zealand. In accordance with Listing Rule 7.7.1(b) the Company will send each holder to whom it will not offer the Shares, details of the Rights Issue and an advice that the Company will not offer Shares to those holders.

ALLOTMENT

The Directors will proceed to allotment of the Shares which are the subject of this Rights Issue document as soon as possible after the Closing Date.

Applicants should note that, subject to the Directors allotting Shareholders their entitlements to Shares pursuant to the Rights Issue, the Directors reserve the right to reject any Application and/or to allot a lesser number of Shares than are applied for. If the number of Shares allotted is less than the number applied for, the surplus Application Money will be refunded to the Applicant within 14 days of the Allotment Date.

All Application Money shall, pending allotment and issue of Shares, be held by the Company in trust in a bank account established solely for the purpose of depositing Application Money received. Any interest earned on those moneys shall be to the account of the Company.

It is the responsibility of Applicants to determine their allocation of Shares prior to dealing in those securities. Any Applicants who sell or otherwise deal in any Shares before they receive their Transaction Confirmation Statements will do so at their own risk.

The Entitlement and Acceptance Form which accompanies this Rights Issue Document contains a warranty that the Applicant has personally received the complete and unaltered Rights Issue Document prior to completing the Entitlement and Acceptance Form, or where the Applicant pays the Application Moneys by BPAY®, prior to making such payment.

The Company reserves the right to not accept an application from a person if it has reason to believe that, when that person was given access to the Entitlement and Acceptance Form, they were not provided with the Rights Issue Document or any relevant supplementary Rights Issue document or any of these documents were incomplete or altered. In any such case, the Application Money received will be dealt with in the manner provided for in section 722 of the Corporations Act.

UNDERWRITING

The Rights Issue is fully underwritten by GMP Securities Australia Pty Limited. Further details of the Underwriting Agreement are set out in Section 4.

IMPORTANT DATES

This Rights Issue is being conducted according to the following indicative timetable:

Event	Date
Notice of Rights Issue to ASX and Lodge Appendix 3B, 708AA Notice and copy Rights Issue document with ASX	Pre-market Thursday, 8 September 2011
Notice sent to Shareholders informing them of Entitlement Offer	Friday, 9 September 2011
Shares are quoted on an "ex" basis	Monday, 12 September 2011
Rights Issue Record Date	Friday, 16 September 2011
Despatch Rights Issue document and Entitlement and Acceptance Form: Rights Issue opens	Thursday, 22 September 2011
Acceptances Close ("Closing Date")*	Friday, 7 October 2011
Notify ASX of undersubscriptions	Wednesday, 12 October 2011
Allotment of Rights Issue Shares and despatch of Transaction Confirmation Statements	Monday, 17 October 2011
Rights Issue Shares commence trading on ASX on deferred delivery basis	Tuesday, 18 October 2011

* These dates are indicative only. The Company reserves the right to extend the Closing Date, in which case the Allotment Date will change accordingly.

SOURCE AND APPLICATION OF FUNDS

The primary use of the funds to be raised is to meet the Company's work programme commitments in the drilling the Windermere-3 well as previously outlined to the market and as referred to herein. The Source and Application of Funds Statement assumes that the Windermere-3 well will be drilled at the currently estimated costs of that well as set out in the agreed Authority For Expenditure signed by the co-joint venturers in PEP167.

Other than funding drilling Windermere-3, the proceeds from the Rights Issue are planned to be applied to the continued development of the Company's petroleum exploration portfolio and for general working capital purposes. The proposed application of funds raised is shown in the table below which assumes that, being fully underwritten, the Rights Issue is fully subscribed:

	\$
Current Funds Available (end August 2011)	2,108,677
This Capital Raising	<u>2,425,252</u>
Total Funds	<u>4,533,929</u>
<i>Expenditure</i>	
Drilling Windermere-3 Well	1,560,000
Seismic Acquisition and Reprocessing	490,000
2012 and forward exploration costs	1,600,000
Working capital and costs of this issue	<u>883,929</u>
	<u>4,533,929</u>

Actual use of funds may differ from that shown depending on a variety of factors including exploration outcomes and factors beyond the control or reasonable control of the Company.

APPLICATION FOR QUOTATION OF SECURITIES OFFERED BY THIS RIGHTS ISSUE DOCUMENT

Application will be made for Official Quotation of the Shares offered under this Rights Issue document on ASX. The fact that ASX may list the Shares is not to be taken in any way as an indication of the merits of BAS or the Shares. ASX takes no responsibility for the contents of this Rights Issue document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss arising from or in reliance upon any part of the content of this Rights Issue document.

CHESS

The Company participates in the Clearing House Electronic Sub-register System ("CHESS"), in accordance with ASX Listing Rules and operates an electronic issuer-sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together make up the Company's principal register. Consequently, the Company will not issue certificates to securityholders but they will be provided with a Transaction Confirmation Statement, similar to a holding statement, which will set out the number of Shares allotted to them under this Rights Issue document. At the end of the month of allotment, CHESS (acting on behalf of the Company) will provide securityholders with a holding statement that confirms the number of securities held. A holding statement or transaction confirmation statement, whether issued by

CHESS or the Company, will also provide details of a securityholder's Holder Identification Number (in the case of a holding on the CHESS sub-register) or Securityholder Reference Number (in the case of a holding on the issuer-sponsored sub-register). Following distribution of these initial statements to all securityholders, a holding statement will be provided to each securityholder at the end of any subsequent month during which the balance of that securityholder's holding of securities changes.

TAXATION AND STAMP DUTY IMPLICATIONS

Applicants should seek their own independent advice in relation to matters relating to the operation of taxation and stamp duty laws. The Company is unable to give advice on taxation matters generally, as each Applicant's position will relate to their own specific circumstances. Applicants should satisfy themselves of possible taxation consequences of purchases and sales of securities by consulting their own professional tax advisers.

SUITABILITY OF INVESTMENT

Before deciding to invest in the Company, you are strongly recommended to read this Rights Issue document carefully and in its entirety, with particular emphasis on the risk factors described in Section 3. You should understand that exploration for oil and gas is both speculative, high risk and subject to a wide range of risks.

You should consider the above matters in light of your personal circumstances (including financial and taxation affairs), your own risk profiles and your investment parameters and, as necessary, seek professional advice from your accountant, stockbroker, lawyer, licensed financial adviser or other professional adviser before deciding whether to apply for Shares.

ENQUIRIES GENERALLY

For all enquiries in relation to the Rights Issue and how to take up your Rights or apply for Additional Shares please contact the Share Registry (Tel:1300 665 3854 (from within Australia) and + 61 2 82807607 (from outside Australia). You may also contact the Share Registry at the address set out in the corporate directory that can be found on the inside of the front cover of this Rights Issue document.

For all other enquiries please contact the Company's Chief Executive Officer, Dr Steven Mackie, on 03 9927 300 (from within Australia) and + 61 3 9927 300 (from outside Australia).

SECTION 2: CAPITAL STRUCTURE AND FINANCIAL INFORMATION

PRESENT CAPITAL STRUCTURE

The capital structure of the Company presently comprises 291,030,250 fully paid ordinary shares at the date of this Rights Issue document.

CAPITAL STRUCTURE ON COMPLETION OF THE ISSUE AND PROPOSED TRANSACTIONS

On completion of the Rights Issue the capital structure of the Company will be as set out in the table below.

CAPITAL STRUCTURE ON COMPLETION OF THE RIGHTS ISSUE

	Assuming Full subscription
Number of existing Shares (immediately prior to the allotment of Shares under the Rights Issue)	291,030,250
Number of Shares being offered under this Rights Issue document	97,010,083
Total number of Shares immediately after allotment of Shares under the Rights Issue (assuming full subscription)	388,040,333
Number of Options being granted to Underwriter as part of Underwriting Commission on terms set out in Section 4.	10,000,000
Total Number of Options on issue after completion of Rights Issue and underwriting	<u>10,000,000</u>

RIGHTS AND LIABILITIES ATTACHING TO SHARES AND OPTIONS

The rights and liabilities attaching to the Shares are detailed Section 4.

The Shares allotted under the Rights Issue will be fully paid ordinary shares which will rank equally with all other shares on issue from the date of their allotment.

FINANCIAL AND OTHER INFORMATION

The Company's 2010 Annual Financial Report was lodged with the ASX on 4 October 2010. The audit-reviewed Half-Yearly Report was lodged with ASX on 7 March 2011 and the latest financial report, the June 2011 Quarterly Report, was lodged with the ASX on 22 July 2011. Each of these reports are available on www.bassoil.com.au and www.asx.com.au (ASX code: BAS) and contain details of the Company's position, as well as a review of operations. You may also access copies of all of the Company's other ASX Releases at the same websites. You are encouraged to read these documents in full. These documents contain extensive information on the Company and its projects. You should read these documents in conjunction with this Rights Issue document to more fully inform yourself as to the assets and liabilities, financial position and performance, profits and losses and prospects of the Company.

PROFITABILITY OF BAS

BAS is not currently profitable. BAS is likely to remain unprofitable in the foreseeable future, even if the Windermere-3 well is a discovery well. Whether BAS becomes profitable in the short to near term will partly depend on the outcome of the Windermere-3 well. If the Windermere-3 well is a discovery well it is intended to complete the well as a producing well while the drilling rig is onsite. The rig will then be released and well production tests performed to establish flow rates to assist in the design and drilling of a further well or wells as necessary and to create immediate cash flow to the joint venture. That the well may flow and be a producing well does not however mean that BAS itself will necessarily become profitable.

No forecast can be made as to any possible cash flow which may result from a discovery well even if the well is completed as a producer.

However, a successful outcome for the Windermere-3 well could reasonably be expected to have an immediate and positive impact on the financial prospects of the Company and on the BAS Share price. Conversely, if the well is plugged and abandoned as an unsuccessful well, this may result in the Company's Share price falling.

One of the primary effects on BAS of a discovery well in the Windermere Prospect is that it could enable BAS to raise additional capital to participate in the further exploration and any subsequent development of any discovery of a hydrocarbon accumulation. Such a discovery is also likely to significantly increase the perceived value of the Windermere Prospect.

However, none of the above is assured or represented. You are cautioned not to assume that any discovery will be made and, even if made, would therefore immediately affect the profitability of the Company.

Finally, if the Windermere-3 well were to be unsuccessful then the Company will have incurred additional losses from the drilling operations undertaken and from the resultant asset impairment, resulting in a consequent reduction in value of the assets concerned.

DIVIDEND HISTORY

BAS has not paid any dividends and does not expect to pay dividends in the foreseeable future: regardless of the outcome of the Windermere-3 well. It is intended that BAS' cash resources will be retained to meet exploration and operating costs.

SECTION 3: RISKS INVOLVED IN INVESTING IN BAS

The risks described in this Section and elsewhere in this Rights Issue document are not necessarily exhaustive. Applicants should realise that any company with resource-based operations is subject to a wide range of risks, many of which may not be foreseeable.

Before deciding to invest in the Company, Applicants should read this document carefully, in its entirety and with particular emphasis on the risk factors detailed in this Rights Issue document. There are risks associated with holding BAS Shares and some of those risks are described in this Section.

Applicants should be aware that an investment in the Company involves many risks which may be far higher than the risks associated with an investment in other companies. Applicants should refer to announcements made by the Company to ASX. This information is available from the ASX website (www.asx.com.au) where the Company's ASX code is BAS and the Company's website. www.bassoil.com.au

Applicants should review announcements made by the Company in order to fully appreciate such matters, and the manner in which the Company operates, before making a decision regarding the Rights Issue.

Applicants should note that no guarantee or representation is, or can be, made with respect to the payment of dividends, returns of capital or the market value of the Shares offered for subscription.

The business operations of BAS will be subject to risks which may impact adversely and severely on its future performance. These risks may adversely affect the value of any shares in BAS. The value of Shares in BAS and of its underlying assets will depend on factors beyond the immediate control of the Board. Shareholders and proposing investors face the risk that, while the Board will seek to achieve its stated aims, it may not be able to do so.

In common with most resource-based companies, risks associated with investment in BAS's Shares include:

Share price risks. Applicants should recognise that the prices of shares fall as well as rise. Many factors affect the price of shares including local and international stock markets, movements in interest rates, economic and political conditions and investor and consumer sentiment. Applicants will be aware that in the last 18 month period in particular, there has been an unprecedented level of volatility on world stock markets and that no predictions can be made as to whether that period of volatility has now ended.

Investment risks generally. Holding BAS shares will be subject to risks of a general nature relating to investment in shares and securities and especially where the company in which the investment is made has a comparatively small market capitalisation.

Risks related to investment in resources. Exploration and/or development of resources, particularly oil and gas, the area of BAS's activities, are subject to high levels of risk.

Fiscal risks. These risks involve the imposition of additional taxes, imposts and other charges by government from time to time relating to revenue or cash flow. Industry profitability can be affected by changes in tax policies and the interpretation and application thereof.

Macro economic and political factors. Apart from exchange risks, there are a wide range of other macro economic and political factors beyond the control of BAS which will affect BAS's operations. These include the consequences of terrorist and other activities, which themselves impact adversely on the global economy, demand for commodities, particularly oil and gas, and share market conditions and share prices generally.

Risks relating to commodity prices. Commodities, particularly oil and to a lesser extent gas, are subject to high levels of volatility in price and demand. While current oil prices are comparatively strong, this may not always be so. Applicants should understand that those prices can also decline with equal or even greater rapidity, and have done so, demonstrating high volatility. Given that BAS does not have production, this risk is not directly applicable, although, as commodity prices will affect the willingness of third parties to invest or enter into joint ventures with BAS (or any other explorer), this volatility could have adverse results on BAS and its operations. The risk of fluctuation will however have direct application if Windermere-3 is competed as a producing well.

Political and other factors. These risks include those such as changes in levels of consumer confidence, which affect consumption patterns and consequently demand for a wide range of products, including

commodities such as oil and gas. In the event of a major worldwide recession, demand for oil and gas would be negatively affected, with consequent effects on prices which could impact on the viability of BAS's operations: even assuming that commercially exploitable reserves were established.

Sufficiency of funding. BAS's primary near term expenditure obligations will arise in funding the forthcoming Windermere-3 well. If that well is a commercial producer any net funds produced will offset the operating and production costs of the well and may, if adequate, contribute to funding BAS' continuing operations.

If the Underwriting Agreement is completed or if the Rights Issue is otherwise fully subscribed then BAS will have sufficient funds to meet all of its current committed work programs over the next 12 months as a minimum. If the Rights Issue is not fully subscribed and the Underwriting Agreement is not completed BAS will still have sufficient funds to meet its proportionate share of the costs of drilling and completing the Windermere-3 well but the extent to which it might be able to meet other current work commitments will depend on the actual level of subscription for the Rights Issue and, subsequent thereto, the results of Windermere-3 and its effect on the ongoing ability of BAS to raise additional capital for those purposes. These are matters about which it is impossible to make any forecast or assessment save to say that adequacy and availability of funding will, for the immediate future remain a substantial issue for BAS and its Shareholders.

In considering the costs of drilling the Windermere-3 well, BAS' 50% share of which is set out in the Application of Funds statement in Section 2, it should be borne in mind that those well costs are based on an Authority for Expenditure agreed by the joint venture which a total contingency amount of approximately \$225,000 which, related to BAS' share of those costs, is approximately \$112,500.

Apart from the above, BAS will, from time to time, likely need to raise additional capital to implement and complete its business plans and meet all work and planned and unexpected expenditure commitments on its permits. Any requirement to raise additional capital has two consequences for Applicants. First, it will result in their shareholding in BAS being diluted if they do not also take up any future entitlements they may have (assuming future share issues are pro rata). Secondly, if additional capital is not raised then various of the Company's operations may not be able to be funded, with the result that their securities may decrease in value in the absence of drilling success or other corporate actions which have positive cash flow consequences or generally enhance the value of their securities by increasing the attractiveness of an investment in BAS. In this context significant farm outs, partial sales of interests or corporate acquisitions may all have an effect on Share price and the value of the underlying assets of BAS. The total amount of any capital that may be required to be raised in the future is not presently able to be ascertained.

Expenditure on permit operations will be dependent in part on the results of exploration activities from time to time, approval of work programmes and budgets (by the Board and/or the relevant Joint Ventures) and available working capital. When required, further funds may be sought from a combination of sources which may include remaining working capital, farmouts, partial sale of BAS's interests and the proceeds of further share issues. If BAS fails to meet its expenditure obligations it would be in breach of the terms of the relevant joint venture. In the case of future field development capital expenditure, funding may need to be obtained via project loan finance. The Directors consider it reasonable to anticipate that, if BAS achieves any significant level of success in its operations, BAS would be able to raise any funds necessary to fund its presently known and guaranteed work commitments.

Contract risks. BAS will operate through a series of contractual relationships with operators, technical experts, project managers and contractors generally. All contracts carry risks associated with the performance by the parties of their obligations as to time and quality of work performed. Given that BAS is in joint venture with various other parties and has, or may, enter into farm out agreements where its obligations are assumed by others, the incapacity of those joint venturers or farminees to meet contracted obligations would adversely affect BAS's capacity to carry out its own activities.

The above risks are particularly relevant to BAS in relation to the drilling of the Windermere-3 well. Of particular importance in that respect will be the technical competence of the drilling contractor and BAS' consultants engaged in designing, drilling and completing that well.

Regulatory risks. Operations by BAS may require approvals from regulatory authorities which may not be forthcoming, either at all or in a timely manner, or which may not be able to be obtained on terms acceptable to BAS. While BAS can reasonably believe that all requisite approvals will be forthcoming, and whilst BAS's obligations for expenditure will be predicated on any requisite approvals being obtained, Applicants should be aware that BAS cannot guarantee that any or all requisite approvals will be obtained. A failure to obtain any approval would mean that the ability of BAS to participate in or develop any project, or possibly acquire any

project, may be limited or restricted either in part or absolutely. Applicants should note that BAS has all requisite permits and approvals requisite to drill the Windermere-3 well.

Litigation. BAS is presently not involved in litigation and the Directors are not aware of any basis on which any litigation against BAS may arise. However, there is always the risk that litigation may occur as a result of differing interpretations of obligations or outcomes.

Exploration and drilling risks. Petroleum exploration involves significant inherent risks in predicting the location and nature of potential petroleum accumulations in the sub-surface. BAS cannot give any assurance that its exploration programme will result in the discovery of any accumulation of oil or gas, nor that any discovery will be commercially viable or recoverable. Risks in relation to drilling operations include break-downs, delays due to weather or sea conditions and shortages of critical equipment or materials. There are also the financial and environmental risks of drilling incidents such as blow-outs, fires and oil spills. BAS mitigates these risks via its safety and environmental policies, plans and procedures and will arrange appropriate insurances for particular risks. All of these risks may materially affect the cost of drilling or other operations and adversely impact on any outcome from those operations.

In the event that exploration programmes prove to be unsuccessful, this will likely lead to: a diminution in the value of any of BAS's permits subject to such unsuccessful exploration activities; a reduction in the cash reserves of BAS by virtue of the costs of such activities; possible increased difficulty in raising additional funds following any such unsuccessful activity (particularly drilling); and possible relinquishment of permits.

Discovery risks. Any discovery may not be commercially viable or recoverable. For a wide variety of reasons, not all discoveries are commercially producible.

Production risks. BAS currently has no producing petroleum interests. It must also be understood that, while there may be indications of the potential for hydrocarbons to be present within BAS's permits, no formal reserves have been defined or measured within any of the permits in which the Group has an interest. Therefore, there can be no assurance given that BAS will achieve production from any of the permits it has an interest in.

Even if a discovery well is drilled on any of the permits, the capacity of BAS to achieve production will depend on a wide range of factors in addition to a successful exploration outcome. These factors include (but are not limited to) development decisions, capital costs and operating costs that may be applicable to the individual projects and the capacity of BAS to fund those costs. If production is achieved then unanticipated problems may increase extraction costs and reduce anticipated recovery rates. In some cases, increases in costs, whether in conjunction with falling oil and gas prices or otherwise, may result in the discovery of a hydrocarbon accumulation not being commercial or ceasing to be commercial.

Reserves calculation risks. The Group has no reserves at present. It does hold contingent resources in the Judith Field in Vic/P47. It should be recognised that there are numerous difficulties inherent in estimating reserves or resources. Any future statements by BAS as to reserves or resources which might follow on any future discovery when and if made by BAS, should at best be regarded as preliminary indications or possibilities and not be relied on. The variables on which estimates of reserves are made include a number of factors and assumptions such as historical production, comparisons with production from other producing areas, assumed effects of regulation by government agencies, assumptions regarding future oil and gas prices and future operating costs, all of which may vary considerably from actual results. Assumptions that affect either the cost of recovery or the viability of recovery of any resource will affect any calculation of reserves.

Environmental compliance and risks. In carrying out operations, BAS and its relevant Joint Venture participants are required to comply with the *Environment Protection and Biodiversity Conservation Act 1999 (Cwth)* ("EPBC Act") which specifies and regulates the environmental protections needed to be put in place by operators to avoid and minimise adverse environmental impact from those operations. The EPBC Act sets out stringent conditions which must be complied with by operators and imposes rigid conditions that must be met before operations can commence. In the event of breaching any such conditions, BAS may be liable to prosecution and the imposition of penalties.

As a result of the recent oil and gas leak, and subsequent fire, on the Montara well in the Timor Sea and the general unease over coal seam gas exploration and development (particularly in Queensland and New South Wales), there is generally a heightened awareness of environmental risks and this may lead to an increased level of compliance requirements and due diligence being required to be applied by Operators in carrying out drilling and other operations. This may increase costs and time frames for obtaining all relevant approvals for such operations.

Further, following cessation of any production from future operations, BAS will be required to participate in abandonment programmes resulting from operations in which it participates, removal of disused plant and equipment and where necessary, restoration of the environment that has been disturbed in the course of operations. The cost of that participation may be considerable if operations result in significant environmental liabilities being incurred. In such a case, any allowance made for rehabilitation could possibly be inadequate.

Operational risks. These include the possibility of environmental accidents, the risk of unexpected mechanical failure or equipment breakdown resulting in loss of production and additional expense generally, unexpected interruption to or imposition of onerous conditions on access, industrial disputes and resultant increases in costs of operation.

Climatic and geographic risks. A number of the permits held by BAS are situated in offshore areas of Australia. Operations in these areas are generally more prone to being affected by adverse climatic conditions, including cyclonic conditions. In all such locations, local weather conditions can have adverse effects on the ability to operate.

Insurance. BAS's operations will expose it to risks and hazards typically associated with exploration for, and development and production of, hydrocarbons. In accordance with customary industry practices, BAS intends to insure against the risks associated with drilling that are normally insured against. In drilling Windermere-3 BAS has organized such insurances in accordance with good oil industry practice but it should be recognized that not all risks can be insured against. As part of the process of contracting drilling contractors and other suppliers and operatives relating to drilling Windermere-3 well, BAS will require all such persons to have in place adequate insurance against risks normally insured against. However, and in general terms in relation to future projects, the availability of insurance and the rates at which it may be available will determine which losses are insured against and in what amount. The occurrence of any significant event which is not insured against could seriously harm BAS and its operations and adversely impact on its financial condition.

Title and tenement risks. A risk exists that some or all of the tenements (i.e. permits) that BAS holds or has interests in may, when required to be renewed, not be renewed by the regulatory authorities for various reasons. Each lease or licence is issued by the Commonwealth of Australia or the State of Victoria for a specific term and carries with it work commitments and reporting obligations, as well as other conditions requiring compliance. Consequently, BAS could lose title to, or its interests in, one or more tenements if permit conditions are not met or if sufficient funds are not available to meet work commitments. Any failure to comply with the work commitments or other conditions on which a permit are held exposes the permit to forfeiture. If sufficient work is not carried out as is required, then those permits could be cancelled, without compensation.

In the event of a commercial discovery, the permit holders will have the right to apply for a retention lease or production licence over that discovery. The grant of such a lease or licence will only be granted on the terms and conditions that the Designated Authority or local equivalent considers appropriate. Once granted, such retention leases or production licences are liable to forfeiture on breach of any of its conditions.

Finally, even though the terms of any Joint Venture Operating Agreement ("JOA") to which BAS is a party may impose obligations on the other joint venturers to meet cash calls and pay their share of expenditure, they may fail to do so. BAS may not have the available funds to fund any defaulting co-venturer's interest.

Native Title. A risk exists that some of the tenements (i.e. permits) that BAS holds or which it may in future acquire will be subject to Native Title claims. However it should be noted that the grant of a mining or petroleum tenement in an offshore area does not require the consent or agreement of any native title claimants for the relevant area. The obligation to negotiate with registered native title claimants for the grant in respect of offshore areas does not apply. Further, notice of activities proposed to be undertaken on the tenements may have to be given to registered native title claimants but their prior consent or approval to the activities is not required. While compensation may be payable to native title rights holders under the Native Title Act for any effect on established native title rights by the grant of the tenements, the amount of the compensation will be dependent upon the nature of native title right claimed and the degree to which it has been affected and any compensation would be payable by the party carrying out the act; which in this case would be the Commonwealth Government as grantor of the tenements. BAS' onshore permits are subject to negotiation as to native title as disclosed.

SECTION 4: GENERAL MATTERS

This Section sets out information relating to a variety of matters which are relevant to your decision to take up your Rights. They include detailed information relating to the Underwriting Agreement, the rights attaching Shares in the Company and the full terms and conditions of the Options to be granted to the Underwriter

1. RIGHTS AND LIABILITIES ATTACHING TO SHARES IN THE COMPANY

The BAS Shares to be issued and allotted under this Rights Issue or on exercise of the options to be granted to the Underwriter will be ordinary shares each of which will be fully paid-up. All ordinary shares on issue rank equally with all other ordinary shares on issue from time to time. A summary of the more significant rights attaching to ordinary shares is set out below. This summary is not exhaustive, nor does it constitute a definite statement of the rights and liabilities of the Shareholders. To obtain such a statement, Applicants should seek independent legal advice.

Ranking: All shares in the capital of the company are ordinary shares and each ordinary share ranks equally in all respects with all other existing ordinary shares in the Company.

Reports and Notices: Shareholders are entitled to receive all notices, reports, accounts and other documents required to be furnished to Shareholders under the constitution of the Company ("the Constitution") and the Act.

General Meetings: Shareholders are entitled to be present in person or by proxy, attorney or representative to speak and to vote at general meetings of the Company. Shareholders may requisition general meetings in accordance with the Act and the Constitution.

Voting: At a general meeting of the Company, every Shareholder present in person or by proxy, attorney or representative shall on a show of hands have one vote and upon a poll every Shareholder present in person or by proxy, attorney or representative has one vote for every share held. A qualification to the above is that where a person is present at a meeting as proxy or representative for more than one Shareholder then on a show of hands that person shall have only one vote and not one vote for each person represented by him.

A Shareholder who holds a share that is not fully paid shall be entitled to a fraction of a vote equal to the proportion that the amount paid-up bears to the total issue price of the share. The Company does not have any partly paid shares on issue.

Where the Shareholder is a company, the Constitution requires that directors of companies that have a sole director and a sole company secretary must state this when completing documents such as a proxy, appointment of corporate representative or power of attorney.

Dividends: The Directors may declare and authorise the distribution, from the profits of the Company, of dividends to be distributed to Shareholders according to their rights and interests.

Reduction of Capital: The Company may only reduce its capital in such manner as may be permitted by the provisions of the Act from time to time.

Borrowing and Lending Powers: The Company may borrow and lend in such manner as may be permitted by the provisions of the Act from time to time.

Winding Up: Shareholders will be entitled in a winding up to share in any surplus assets of the Company in proportion to the shares held by them respectively, less any amount which remains unpaid on their shares at the time of distribution.

Transfer of Shares: Subject to the Constitution, the Listing Rules and the Act, the shares will be freely transferable.

Future Increases in Capital: The allotment and issue of shares is under the control of the Directors. Subject to restrictions on the allotment of shares to Directors or their Associates contained in the Constitution and the Act, and subject to the provisions of the Underwriting Agreement in relation to issues of securities in the six month period from the completion of this Rights Issue, the Directors may allot or otherwise dispose of shares on such terms and conditions as they see fit.

Variation of Rights: The rights, privileges and restrictions attaching to ordinary shares can be altered with the approval of a resolution passed at a separate general meeting of the holders of ordinary shares by a three-quarters majority of those holders who, being entitled to do so, vote at that meeting or with the written consent of the holders of at least three-quarters of the ordinary shares on issue, within two months of that general meeting.

Directors: The Constitution contains provisions relating to the rotation of Directors (other than managing directors and alternate directors).

2. TERMS AND CONDITIONS OF THE OPTIONS TO BE GRANTED TO THE UNDERWRITER

The terms and conditions of the Options to be granted to the Underwriter as part of the underwriting fee are as follows.

The Optionholder will be entitled to subscribe for and be allotted an ordinary share on the following terms:

- (i) The option shall expire at 5.00pm AEST on 30 September 2014 ("Expiry Date").
- (ii) Each option shall entitle the Optionholder to subscribe for one (1) ordinary share in the capital of the Company. A share issued on the exercise of the option will be a fully paid ordinary share and will rank equally in all respects with the then existing issued ordinary fully paid shares in the capital of the Company from the date of issue and will be subject to the provisions of the Constitution.
- (iii) The option may be transferred at any time in accordance with the Act, the Company's constitution, the Security Clearing House Business Rules and the ASX Listing Rules.
- (iv) The option shall be exercisable at \$0.04 (4 cents) ("Exercise Price").
- (v) The option may be exercisable at any time prior to the Expiry Date by notice of exercise in or to the effect of the form provided to the Optionholder by the Company at the time of grant of the option or otherwise accompanied by payment of the Exercise Price.
- (vi) An Optionholder has no right to a change in the Exercise Price or to any change to the number of underlying securities over which the option can be exercised.
- (vii) The option shall not entitle the holder to participate in new issues of ordinary shares offered to Shareholders during the currency of the option.
- (viii) In the event of any reorganisation of the capital of the Company, the options shall be treated in the manner required by the ASX Listing Rules in force as at the date of any such reorganisation, and as appropriate to the type of reorganisation proposed.

3. UNDERWRITING AGREEMENT

By an agreement made 7th September 2011 between the Company and GMP Securities Australia Pty Limited (ABN 46 149 263 543) (AFSL 40362) as Underwriter ("Underwriter"), the Underwriter underwrote the issue and allotment of the full 97,010,083 Shares being offered under the Rights Issue to raise an amount of \$2,425,724 ("the Underwritten Shares").

The Rights Issue is fully underwritten by GMP Securities Australia Pty Limited for a fee comprising:

- A Management Fee of 1.0% of the total amount raised under the Rights Issue.
- An Underwriting Fee of 5.0% of the total amount underwritten under the Rights Issue.
- the grant of 10,000,000 unlisted options to acquire Shares on the terms set out in clause 2 above.

Under the Underwriting Agreement the Underwriter, following reasonable consultation with the Board, will nominate and determine who is to receive the Shortfall Shares for which Valid Applications have not been received, provided that Shortfall Shares may only be offered to investors who are sophisticated or professional investors within the meaning of sections 708(8) and 708(11) of the Corporations Act, or otherwise do not require a disclosure document under Chapter 6D of the Corporations Act to participate.

Under clause 3.5 the Company must ensure that until the date being six months after the Closing Date BAS will not propose or activates any share buy-back scheme or arrangement or issues or agrees to issue, or indicates in any way that it will or might issue, or grants an option to subscribe for any shares or other securities or securities convertible into shares or other securities except:

- (a) on conversion of any Options;
- (b) as referred to in this Agreement or the Offer Document; or

without the prior written consent of the Underwriter, such consent not to be unreasonably withheld.

In this context the Directors and Underwriter are each aware that the Directors cannot fetter their obligation to act in the best interests of the Company. Accordingly this restriction should be read subject to that overriding position so that if the Windermere-3 well was a discovery, for example, and the Directors wished to raise additional capital, to develop that discovery, they would generally be able to do so free of the restriction.

Under clause 4 of the Underwriting Agreement the Company gives the Underwriter extensive representations and warranties as to its assets, liabilities, financial position, and generally. These warranties are in a form comparatively standard in Underwriting Agreements.

Under clause 6 of the Underwriting Agreement, if:

- (a) the Company has complied with its obligations under this Agreement and has not breached any of the representations, warranties and undertakings made by it in this Agreement (other than a breach which is capable of remedy and which is remedied by the Company promptly following request by the Underwriter);
- (b) this Agreement has not been terminated under clause 10;
- (c) the Company has not received Valid Applications for all of the Underwritten Shares on or before the Closing Date;
- (d) the Company has, after the Closing Date but before 5.00pm on the Shortfall Notice Deadline Date, given to the Underwriter notice in writing stating the number of Shortfall Shares, and that notice is accompanied by a Certificate made up to the date of that notice; and
- (e) provided that it has not, before that time, been shown that the Certificate is incorrect,

the Underwriter must subscribe (or cause its nominee(s) to subscribe) for the Shortfall Shares on or before 5.00pm (Perth time) on the day which is 2 Business Days after the Shortfall Notice Deadline Date accompanied by a cheque or cheques in payment of the Price for those Shortfall Shares (**Shortfall Applications**).

Pursuant to the Underwriting Agreement, the Company will pay the Underwriter a management fee of 1% of the aggregate amount raised under the Rights Issue and an underwriting fee of 5% of the aggregate amount raised under the Rights Issue. In addition the Company must pay the Underwriter for all reasonable costs incurred by the Underwriter in connection with the Rights Issue, including legal costs and disbursements and reasonable travel and out-of-pocket expenses.

The Company has given warranties and covenants to the Underwriter which are usual in an agreement of this nature.

Under clause 10.2 of the Underwriting Agreement the Underwriter may terminate the Underwriting Agreement and its obligation thereunder at any time by notice in writing to the Company given on or at any time before the issue of all the Shortfall Shares, without cost or liability to itself if any of the following terminating events occur;

- (a) (**Indices fall**): the S&P ASX 200 Index is at any time after the date of this Agreement 90% or more below its respective level as at the close of business on the Business Day prior to the date of this Agreement;
- (b) (**Offer Document**): the Company does not dispatch the Offer Document to Shareholders on the Dispatch Date or the Offer Document or the Offer is withdrawn by the Company;
- (c) (**Offer Materials**) a statement contained in the Offer Materials is or becomes misleading or deceptive or likely to mislead or deceive, or the Offer Materials omit any information they are required to contain (having regard to the provisions of section 708AA of the Corporations Act and any other applicable requirements);
- (d) (**Lodgement of Cleansing Notice**) the Company fails to lodge with the ASX the Cleansing Notice before 8.00 am (Perth time) on the Announcement Date;
- (e) (**Cleansing Notice**) the Cleansing Notice is defective, or a supplementary statement is issued or is required to be issued under the Corporations Act (as modified by ASIC Class Order 08/35);
- (f) (**new circumstance**) an obligation arises on the Company to give ASX a notice in accordance with subsection 708AA(12) of the Corporations Act (as inserted by ASIC Class Order 08/35), in relation to a matter that the Underwriter reasonably considers to be adverse, or a new circumstance that the Underwriter reasonably considers to be adverse, arises or becomes known which, if known at the time of issue of the Investor Presentation Materials, the Offer Materials and the Cleansing Notice would have been included in the Investor Presentation Materials, the Offer Materials or the Cleansing Notice;

- (g) **(Investigations or Proceedings)** ASIC or any other person proposes to conduct any enquiry, investigation or proceedings, or to take any regulatory action or to seek any remedy, in connection with any Relevant Company;
- (h) **(Unable to issue Shares)** the Company is prevented from allotting and issuing the Underwritten Shares within the time required by the Timetable, Listing Rules, applicable laws, an order of a court of competent jurisdiction or a Government Agency;
- (i) **(future matters)** Any statement or estimate in the Offer Materials which relates to a future matter is or becomes incapable of being met or, in the reasonable opinion of the Underwriter, unlikely to be met in the projected timeframe;
- (j) **(No Quotation Approval):** ASX (for whatever reason) does not give approval for the Underwritten Shares to be listed for official quotation, or if approval is granted, the approval is subsequently withdrawn, qualified or withheld;
- (k) **(ASIC application):** an order is made under section 1324B or any other provision of the Corporations Act in relation to the Offer Document;
- (l) **(Takeovers Panel):** the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, which in the Underwriter's reasonable opinion has a Material Adverse Effect;
- (m) **(Authorisation):** any authorisation which is material to anything referred to in the Offer Document is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter acting reasonably;
- (n) **(Indictable offence):** a director of the Company is charged with an indictable offence;
- (o) **(Cleansing Statement):** the Company ceases to be capable of issuing, at the date of issue of any Shortfall Shares, a notice under section 708A(5)(e) of the Corporations Act to allow secondary trading of any Shortfall Shares; or
- (p) **(Termination Events):** subject always to clause 10.3, any of the following events occurs:
 - (i) **(Hostilities):** there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of this Agreement involving one or more of Australia, Philippines, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, India, Pakistan, or the Peoples Republic of China or any member of the European Union (Specified Countries) other than hostilities involving Libya, Afghanistan, Iraq, Iran, Syria, Lebanon or Israel and the Underwriter believes (on reasonable grounds) that the outbreak or escalation is likely to result in the S&P ASX 200 Index falling by the percentage contemplated by clause 10.2(a) of this Agreement;
 - (ii) **(Default):** default or breach by the Company under this Agreement of any terms, condition, covenant or undertaking;
 - (iii) **(Incorrect or untrue representation):** any representation, warranty or undertaking given by the Company in this Agreement is or becomes untrue or incorrect in a material respect;
 - (iv) **(Contravention of constitution or Act):** a contravention by a Relevant Company of any provision of its constitution, the Corporations Act, the Listing Rules, any other applicable legislation or any policy or requirement of ASIC or ASX, or any material agreement entered into by it;
 - (v) **(Adverse change):** an event occurs which gives rise to a Material Adverse Effect or any adverse change or any development including a prospective adverse change after the date of this Agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of any Relevant Company (including, but not limited to, an administrator, receiver, receiver and manager, trustee or similar official being appointed over an of the assets or undertaking of any Relevant Company);
 - (vi) **(Error in Due Diligence Questionnaire):** it transpires that the Due Diligence Questionnaire or any part of the Verification Material was materially false, misleading or deceptive or that there was a material omission from them;
 - (vii) **(Public statements):** without the prior approval of the Underwriter a public statement is made by the Company in relation to the Offer or the Offer Document, other than a statement the Company is required to make in order to ensure its disclosure obligations under the Listing Rules and the Corporations Act;
 - (viii) **(Misleading information):** any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the affairs of any Relevant Company is or becomes misleading or deceptive or likely to mislead or deceive;
 - (ix) **(Official Quotation qualified):** the official quotation is qualified or conditional other than as set out in clause 1.3;

- (x) **(Change in Act or policy)**: there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;
- (xi) **(Prescribed Occurrence)**: a Prescribed Occurrence occurs;
- (xii) **(Suspension of debt payments)**: the Company suspends payment of its debts generally;
- (xiii) **(Event of Insolvency)**: an Event of Insolvency occurs in respect of a Relevant Company;
- (xiv) **(Judgment against a Relevant Company)**: a judgment in an amount exceeding \$100,000.00 is obtained against a Relevant Company and is not set aside or satisfied within 7 days;
- (xv) **(Litigation)**: litigation, arbitration, administrative or industrial proceedings are after the date of this Agreement commenced against any Relevant Company;
- (xvi) **(Board and senior management composition)**: there is a change in the composition of the Board or a change in the senior management of the Company before the date of issue of the Underwritten Shares without the prior written consent of the Underwriter (such consent not to be unreasonably withheld);
- (xvii) **(Change in shareholdings)**: there is a material change in the major or controlling shareholdings of a Relevant Company (other than as a result of the Offer, a matter disclosed in the Offer Document) or a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to a Relevant Company;
- (xviii) **(Timetable)**: there is a delay in any specified date in the Timetable which is greater than 2 Business Days;
- (xix) **(Force Majeure)**: a Force Majeure affecting the Company's business or any obligation under the Agreement lasting in excess of 14 days occurs;
- (xx) **(Certain resolutions passed)**: a Relevant Company passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;
- (xxi) **(Capital Structure)**: any Relevant Company alters its capital structure in any manner not contemplated by the Offer Document and without the prior written consent of the Underwriter;
- (xxii) **(Breach of Material Contracts)**: any of the Contracts are terminated or substantially modified;
- (xxiii) **(Banking Facilities)**: the Company's bankers terminate or issue any demand or penalty notice or amending the terms of any existing facility or claiming repayment or accelerated repayment of any facility or requiring additional security for any existing facility;
- (xxiv) **(General Meeting Required)**: ASX or the ASIC or any other governmental agency requires the Company to, or stipulates that the Company should, contravene a general meeting to consider any aspect of the issue of the Underwritten Shares, including, without limitation, the participation of the Underwriter or any sub-Underwriter;
- (xxv) **(Sub-Underwriters)**: any of the sub-under-writers to the Offer directed to the Underwriter by the Company do not comply with their respective obligations under the sub-Underwriting Agreements or threaten to not comply with their respective obligations under the sub-Underwriting Agreements; or
- (xxvi) **(Market Conditions)**: a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets.

The occurrence of any events listed in clause 10.2(p) do not entitle the Underwriter to exercise its rights under clause 10.2 unless, in the reasonable opinion of the Underwriter reached in good faith, it has or is likely to have, or those events together have, or could reasonably be expected to have, a Material Adverse Effect or could give rise to a liability of the Underwriter under the Corporations Act.

The exercise by the Underwriter of any of its rights under clause 10 does not prejudice any right the Underwriter may have under clause 7 or any rights the Underwriter may have to seek damages for loss caused to the Underwriter as a result of a breach of this Agreement by the Company.

Clause 7 provides for the payment of the underwriting commission and other costs and expenses and provides that if the Company does not proceed with the Offer or terminates the Underwriting Agreement

without cause or in bad faith, or the Underwriter terminates this Agreement under clause 10.2 but, in any case, excluding where the Underwriter fails to perform its obligations under this Agreement, the Company undertakes to pay the Underwriter the management fee that would otherwise have been payable in accordance with clause 7.1(a)(ii), on demand. That fee is 1% of the proposed proceeds of the Issue.

Under the Underwriting Agreement the Company provides the Underwriter and various "indemnified parties" with extensive indemnities from and against liability arising thereunder.

4. PETROLEUM RESOURCE CLASSIFICATIONS

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects.

Petroleum is defined as a naturally occurring mixture consisting of hydrocarbons in the gaseous, liquid, or solid phase. Petroleum may also contain non-hydrocarbons, common examples of which are carbon dioxide, nitrogen, hydrogen sulphide and sulphur. In rare cases, non-hydrocarbon content could be greater than 50%.

International efforts to standardize the definitions of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), the Society of Petroleum Engineers (SPE) published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide.

Since that time those organisations, working together, have upgraded and developed their methodologies for calculation and assessment of petroleum reserves and resources and that work is encompassed in the "*SPE Petroleum Resources Classification System and Definitions*" as defined in this document.

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation.

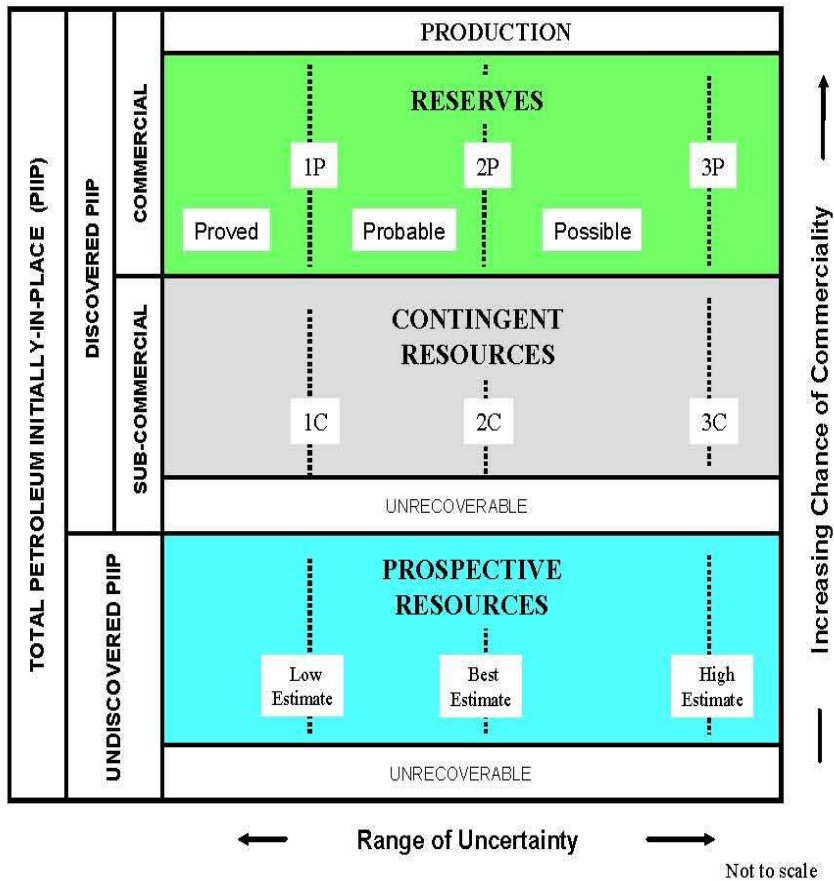
The definitions and guidelines in the "*SPE Petroleum Resources Classification System and Definitions*" are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. SPE states, in that publication:

"Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows."

The term "*resources*" as used in the SPE Petroleum Resources Classification System and Definitions is stated therein by SPE to encompass all quantities of petroleum naturally occurring on or within the Earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. Further, it includes all types of petroleum whether currently considered "*conventional*" or "*unconventional*."

Set out below is a graphical representation of the SPE resources classification system. The system defines the major recoverable resources classes: Production, Reserves, Contingent Resources, and Prospective Resources, as well as Unrecoverable petroleum.



The “**Range of Uncertainty**” reflects a range of estimated quantities potentially recoverable from an accumulation by a project, while the vertical axis represents the “Chance of Commerciality, that is, the chance that the project that will be developed and reach commercial producing status.

NATURE OF RESOURCES

Contingent Resources

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies. A known accumulation is a known individual body of moveable Petroleum. The key requirement to consider an accumulation as known, and hence contain reserves or contingent resources, is that each accumulation/reservoir must have been penetrated by a well. In general, the well must have clearly demonstrated the existence of moveable petroleum in that reservoir by flow to surface or at least some recovery of a sample of petroleum from the well. However, where log and/or core data exist, this may suffice, provided there is a good analogy to a nearby and geologically comparable known accumulation.

Prospective Resources

“Prospective Resources” are “those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.”

Members must realise that estimates of resources or reserves of any category rely on the integrity, skill, and judgement of the evaluator and are affected by the geological complexity, stage of exploration or development and amount of available data from which they are derived.

Any estimate of a resource is ultimately a matter of opinion and is subject to an inherent level of uncertainty and in the case of Prospective Resources, it should be recognised that, whilst Petroleum Resources Classification System and Definitions provide for assessment on the basis of “*Low Estimate*”, “*Best Estimate*”, “*High Estimate*” and “*Mean Estimate*” there must always be the prospect that, as the

definition refers to “*undiscovered accumulations*”, the “*accumulation*” might not exist, with the result that no actual resources are discovered.

Prospective Resources represent a higher risk than Contingent Resources since the risk of discovery is also added. For Prospective Resources to become classified as contingent resources, hydrocarbons must be discovered, the accumulations must be further evaluated and an estimate of quantities that would be recoverable under appropriate development projects prepared.

The Petroleum Resources Classification System and Definitions state that the term “*Best Estimate*” is a generic expression for the estimate considered to be the closest to the quantity that will actually be recovered from the accumulation between the date of the estimate and the time of abandonment. If probabilistic methods are used, this term would generally be a measure of central tendency of the uncertainty distribution (most likely, median, P50 or mean). They further state that the terms “*Low Estimate*” and “*High Estimate*” should provide a reasonable assessment of the range of uncertainty in the estimate.

P90, P50, P10

P10, P50 and P90 are probabilistic assessments. Where a reference to reserves is referred to as P90 there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate. Likewise a reference to P50 reflects an assessment that there is at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate. Finally a reference to P10 reflects an assessment that there is at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

For example, if a geologist estimates that there is a 90% chance that a particular field contains 100 million barrels but only a 10% chance that it will yield 500 million barrels, then the lower figure should be cited as the P90 estimate and the higher as the P10. The “best” choice of estimate to use is P50 as a 50% estimate is just as likely to be higher than lower than the estimate. In assessing Windermere-3 as targeting a P50 prospective resource of 3.36 million barrels of oil-in-place, BAS has used this probabilistic assessment.

SECTION 5: DEFINITIONS AND GLOSSARY

DEFINITIONS

Unless otherwise stated or unless inconsistent or repugnant with the context in which the term or expression is used, each of the following terms and expressions used in this Rights Issue document has the meaning set out below:

\$ or A\$:	means references to dollar amounts in Australian currency.
US\$:	means references to dollar amounts in United States of America currency.
Act or Corporations Act:	each means the <i>Corporations Act 2001</i> .
AEDT	Australian Eastern Daylight Time
AEST	Australian Eastern Standard Time
Allotment Date:	means the date on which Shares are allotted under this Rights Issue document.
Annual Report:	means the Annual Report of BAS for the financial period ended 30 June 2010.
Applicants:	means those Shareholders as at the Record Date applying for Shares under this Rights Issue.
Application:	means a completed Entitlement and Acceptance Form.
Application Money:	means the amount payable for Shares applied for under an Entitlement and Acceptance Form.
ASIC:	means the Australian Securities and Investments Commission.
Associates:	has the meaning given to that term in the Act.
ASX:	means ASX Limited.
Board or Directors:	means the board of directors of BAS acting in that capacity.
Business Day:	means those days which are Business Days under the Listing Rules.
Closing Date:	means 5:00pm AEDT on 7 October 2011 subject to the Directors absolute right to extend that date.
Company or BAS:	means BASS Strait Oil Company Limited (ABN 013 008 694 817).
Designated Authority:	means the body appointed pursuant to the Petroleum Act responsible for the physical area that each respective Permit lies within.
Director:	means a director of the Company acting in that capacity.
Entitlement and Acceptance Form	means the form accompanying this Rights Issue document setting out Shareholders setting out Shareholders entitlements to apply for Shares under this Rights Issue.
Group:	when referring to any corporate entity means that entity and its controlled or subsidiary entities.
Issue Price:	means \$0.025 (2.5 cents) per Share.
Listing Rules:	means the Listing Rules of any prescribed exchange and as applicable means the Listing Rules of ASX as referred to in each context.
Native Title:	means the operation of the <i>Native Title Act 1993 (Cwlth)</i> under the auspices of the National Native Title Tribunal.
Offer:	means the offer for subscription of approximately 97,010,083 Shares pursuant to this Rights Issue document on the terms set out in this Rights Issue document.
Official Quotation:	means quotation by ASX on the Official List of Companies maintained by ASX.
Opening Date:	means 9:00am AEST on 22 September 2011.
Petroleum Act:	means the <i>Offshore Petroleum and Greenhouse Gas Storage Act 2006</i> (formerly the <i>Petroleum (Submerged Lands) Act</i>) and all subordinate legislation made thereunder.
Rights Issue	means the non-renounceable pro rata offer of new Shares being made to Shareholders under this Rights Issue document.
Rights Issue document:	means this Rights Issue document.
Shareholders:	means persons registered as the holders of Shares on the Record Date.
Shares:	means the ordinary shares in the capital of the Company and, where applicable the ordinary shares being offered for subscription pursuant to this Rights Issue
Shortfall Shares:	means those Shares not subscribed for by Shareholders under the Rights Issue. Shares applied for under the Rights Issue include those Shares applied for by Shareholders exercising their right to apply for Additional Shares as set out in the Entitlement and Acceptance Form and provided for in this Rights Issue document.
Stock Exchange:	means any stock exchange on which the securities of the Company may be quoted from time to time.

GLOSSARY OF TECHNICAL & INDUSTRY TERMS AND ABBREVIATIONS

2D seismic	seismic data collected on a two-dimensional basis.
3D seismic	seismic data collected on a three-dimensional basis.
basin:	a depression of large size in which sediments have accumulated.
exploration well:	a well drilled to determine if hydrocarbons are present in a particular structure.
hydrocarbons:	naturally occurring organic compounds containing only the elements hydrogen and carbon existing as solids, liquids or gases.
JOA or Joint Operating Agreement	means a formal agreement which governs the activities of the holders of a permit acting in Joint Venture in relation to that permit
km	kilometre(s).

km²	square kilometre.
lead:	inferred geologic feature or structural pattern requiring further investigation.
m	metre.
M	million.
Operator:	the party in the Joint Venture changed with carrying out the exploration activities within that permit
petroleum:	a generic name for hydrocarbons, including crude oil, condensate, natural gas and their products.
prospect:	a feature thought to be sufficiently defined to warrant the drilling of a well without the necessity of further investigation.
pa	per annum.
permit:	is a permit issued by a Designated Authority in which the Company has an interest and within which either the Company solely or the relevant Joint Venture carries out exploration activity.
reservoir:	pervious and porous rocks (usually sandstone, limestone or dolomite) capable of containing significant quantities of hydrocarbons.
sediment:	solid material, whether mineral or organic, that has been moved from its position of origin and redeposited.
seal:	an impermeable rock (usually claystone or shale) that prevents the passage or further migration of hydrocarbons.
seismic survey:	a technique for determining the detailed structure of the rocks underlying a particular area by passing acoustic shock waves into the strata and detecting and measuring the reflected signals.
source rocks:	rocks (usually shales, claystone or coal) that have generated or are in the process of generating significant quantities of hydrocarbons.
spudding:	commencing the drilling of a well.
structure:	deformed sedimentary rocks where the configuration is such as to form a trap for migrating hydrocarbons.