

## The Small Company With Big Acreage

It's Bass Strait Oil Company's tenacity, together with continuing investment in 3D seismic, which has enabled the company to assemble some big assets in their 10 year history, with an extensive database, including over 7,000 km<sup>2</sup> of 3D seismic data in the offshore Gippsland Basin and almost 14,000 km<sup>2</sup> of acreage.

Bass Strait Oil Company picked up its first Gippsland permit in 1998 lead by Geoffery Albers, a long-time oil and gas industry participant with an extensive legal background. Current Managing Director, Andrew Adams, said that while Albers is no longer a part of the day to day work at Bass Strait Oil Company, he remains a non-executive director and his breadth of knowledge and experience is unique.

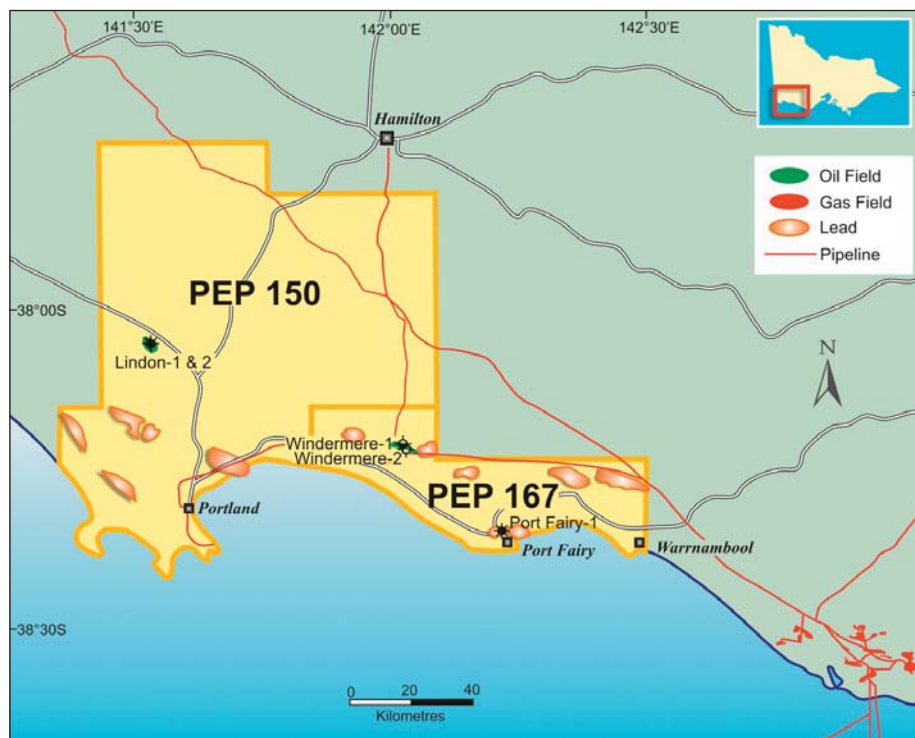
Bernard Wheelahan is the Chairman. Henry Askin and Bob Flew are the other board members and together with experienced executives Keith Jackson and Ian Reid they form the senior management at Bass Strait Oil Company. Between them, the company has over 180 years of oil and gas industry knowledge, including roles with companies such as Rio Tinto, Santos, Shell, The Gribbles Group Ltd and Pacific Hydro. Adams is a geophysicist with an MBA, Canadian born and educated, who joined the oil industry as a graduate in Calgary before coming to Australia in the 1980s.

Investment in oil and gas exploration has never been for the faint hearted, but even this wealth of knowledge and experience is subject to market perception.

"Despite our stong potential and ongoing exploration program, we haven't generated much traction in the market recently. Probably every CEO will tell you their company is under valued, and every broker is going to tell you the market is always right, but we have felt both edges of the listed company sword. We were strong on our initial listing; we raised money and we invested it heavily in drilling and 3D seismic. Of the three offshore wells we drilled in 2004/05, two were discoveries but not commercial, and the market has given us some grief over that", Adams said.

Bass Strait Oil Company has approximately 129 million shares on issue, and maintaining a tight capital structure is a key aspect of their strategy to maximise shareholder value. Presently numbering 2800 shareholders, the company has a fairly large register for its size, but the stock remains closely held by directors, management and original investors. Bass Strait Oil Company's market cap is approximately A\$17 million.

The company holds petroleum exploration interests in the Gippsland, Otway and Bass basins of southeastern Australia. The permit



Bass Strait Oil's recent addition to its Otway Basin acreage.



Bass Strait Oil Company's permit interests in the Bass, Gippsland and Otway basins.

portfolio of Bass Strait Oil Company comprises of five offshore and two onshore permits, together with a royalty interest in the BassGas project.

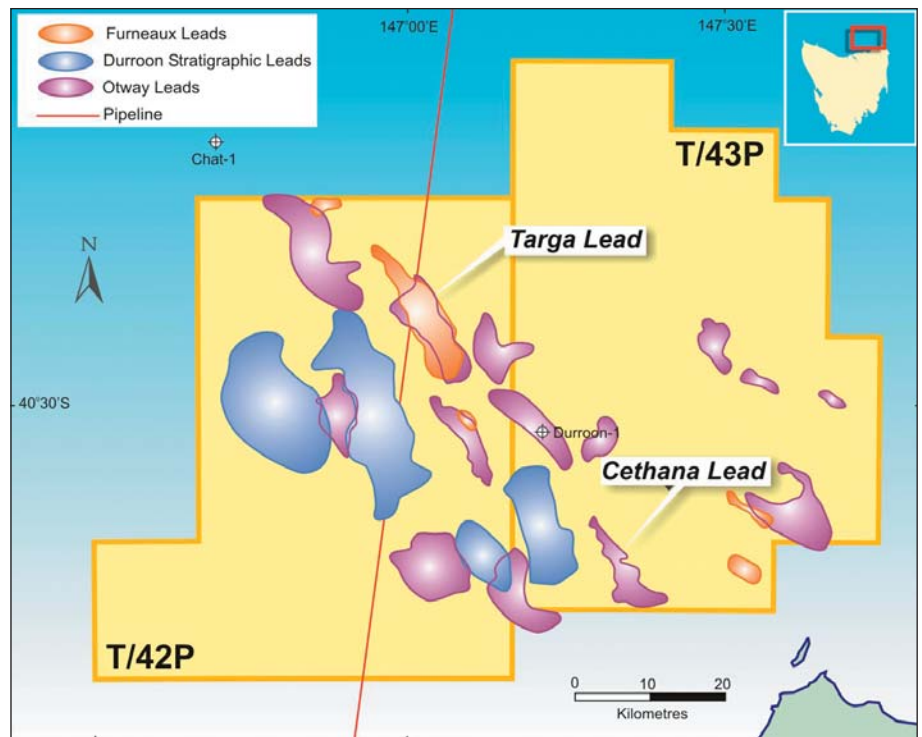
In recent years, limited rig availability has been an issue in the Gippsland and Bass basins and this has contributed to something of a gap in drilling activity. But Bass Strait Oil Company and others in these basins are now planning a new round of drilling, with estimates of up to 20 offshore wells to be drilled, commencing in early 2008. While Bass Strait Oil Company currently has a interest in only one of these planned wells, Adams said, "this increased level of drilling activity should see renewed interest in the potential of the Bass Strait. "We already have one fully funded exploration well scheduled as part of this new round and we are seeking farmin funding for additional drilling in the Gippsland Basin, which would target significant prospects, defined on modern 3D seismic data."

Recent advancements in technology and infrastructure make Bass Strait Oil Company hopeful of reversing their market performance of the recent past. Adams explained, "advancements in 3D mapping, have given companies like us the opportunity to have a whole new look at the Bass Basin area. Plus, there is much more infrastructure now, including pipelines such as the Eastern Gas pipeline, the SEAGas pipeline and the connection from Otway to Melbourne. None of these existed 10 or so years ago."

Bass Strait Oil Company is looking at the Tasmanian region of the Bass Basin, an area the company believes exploration is underdone. Adams said, "this is our backyard, and we have the necessary experience to take a new look at these areas. We feel this area has been under recognised and there will be a resurgence back there." In fact, the Bass Basin is now fully permitted for the first time in many years and recent farmin deals in neighbouring permits that indicate renewed industry interest.

Following rigorous geological and geophysical studies, database acquisition and seismic reprocessing, Bass Strait Oil Company has recently completed a seismic interpretation project incorporating all existing data in these areas. The results of this project are now being assessed and will form the basis for the planning of future seismic acquisitions. The company views these under-explored areas as a 'green field' exploration opportunity, and their front end geological and geophysical work has the potential to add significant value to the permit. Adams said of the exploration, "We have a number of large leads in the Duroon Sub-basin, where we believe no valid traps have been tested and only the relatively shallow updip area has been drilled. We can see big tilted horst blocks and very large and deep half grabens with a great thickness of sediment that has never been penetrated", Adams said.

Adams' philosophy for growing the company is to invest in data with potentially drillable prospects and use successes to benchmark new strategies for further exploration. "I am always



Leads within the Duroon Sub-basin in the Bass Basin.

very keen to maintain a balanced portfolio. You must have opportunities that are ready to go and you need to be ready for the next exploration cycle, and I see the Bass Basin as being our acreage in the next cycle. We are doing early phase work to ready ourselves for drillable targets", he said.

There now three rigs scheduled for drilling in the Gippsland Basin and adjacent areas in 2008, the *West Triton* jack up rig and the *Kan Tan IV* and *Ocean Patriot* semi submersible rigs. The company predicts an unprecedented amount of growth in the Gippsland Basin, but they are hesitant to raise money at current share market levels. Adams commented, "I am not adverse to funding our own drilling programs, as we have done in the past, but I would want to see more share price recognition. That can happen with direct success, like with our VIC/P42 permit, or with indirect success through other companies' success in the Gippsland Basin. There are going to be so many wells being drilled in this area that will drive the perception of the area up: and we have a big chunk of it."

According to Bass Strait Oil, the VIC/P42 permit contains a number of prospects and leads, as well as the established Zane Grey and Omeo gas and condensate discoveries. The VIC/P42 permit lies adjacent to producing fields at Kingfish, which is Australia's largest oil field.

The Marie survey and existing seismic data will be interpreted to high-grade a prospect which, subject to successful prospect mapping, Apache is planning to drill as part of its Gippsland Basin program starting early 2008.

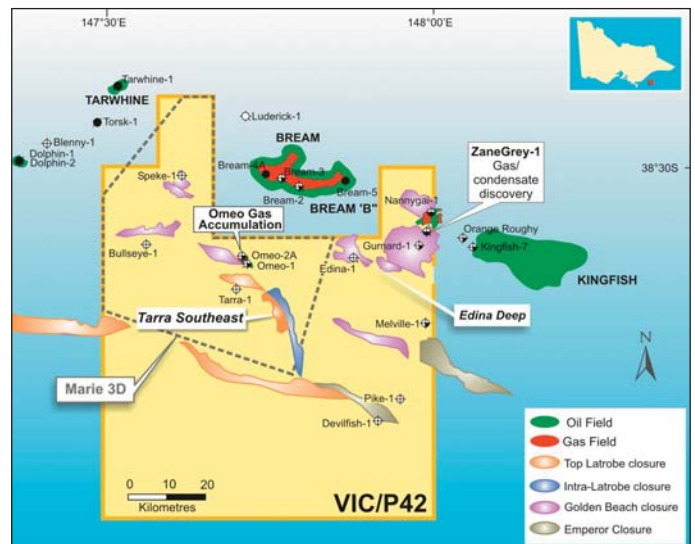
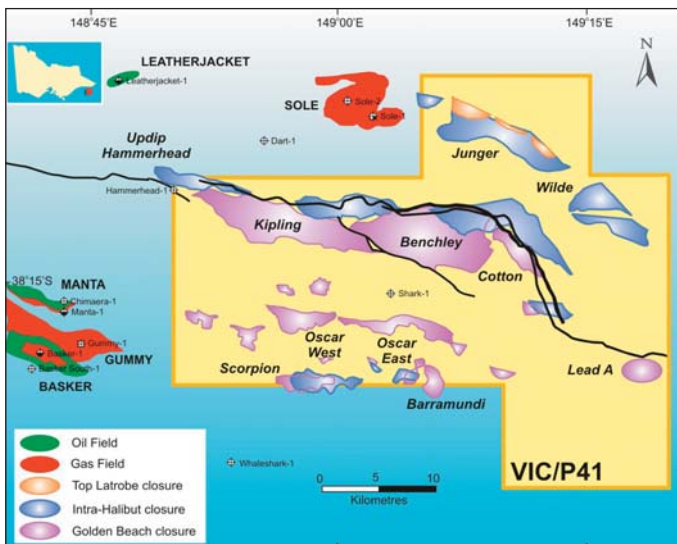
The 500 km<sup>2</sup> Marie survey is now being processed to Pre-Stack Depth Migration, with a scheduled completion for the end of 2007. The

survey is being fully funded by Apache and is the first phase of its VIC/P42 farmin. The second phase of the farmin requires Apache to fully fund the drilling and testing of an exploration well. On completion of the 3D and the well, Apache will earn a 60% interest, while Bass Strait Oil Company will retain 20%.

Seeking additional funding for Gippsland drilling, Bass Strait Oil Company has promoted VIC/P41 as a farmin opportunity. Prospect assessment based on the 2005 3D survey has now been finalised and according to the company several prospects of significant size have been mapped, and work is also continuing on the potential of a new play type in the older Emperor Sub-group. According to Adams, "some interest for a farmin arrangement in VIC/P41 was shown at the APPEA conference and we hope to fund a drilling program."

The hydrocarbon charge in the VIC/P41 area is expected to comprise significant amounts of oil together with gas, and Bass Strait Oil Company's exploration focus is on the oil potential. Adams said, "Because we expect oil and gas to co-exist in the same traps, a higher probability of gas also increases the probability of an oil discovery."

Amplitude vs Offset seismic analysis, or AVO, can be used in some settings to highlight the presence of gas. Where an AVO response is concordant with structure it is calibrated to well data and has analogues on nearby fields, it represents a significant de-risking of that prospect. Bass Strait Oil Company has identified several AVO anomalies associated with large prospects in VIC/P41 and, significantly, similar AVO anomalies have been identified over the Kipper oil and gas field to the west. Adams said, "while the VIC/P41 AVO responses are generally moderate and display



Above, right and below: Bass Strait Oil Company's Gippsland Basin acreage.

only moderate concordance with structure, this is also characteristic of the Kipper field anomaly. Therefore Bass Strait Oil believes that this result substantially increases the probability of finding gas, and consequently oil, in Vic/P41 prospects."

Bass Strait Oil Company has also identified the Oscar prospects, which lie south within Vic/P41, as containing a series of tilted fault closures, along trend from Anzon's Basker/Manta/Gummy, or BMG, oil and gas fields. Adams explained, "fault throws and bright seismic events at the interpreted reservoir level are similar to BMG and, although smaller than the features to the north, the Oscar prospects are considered relatively low risk by analogy with the BMG accumulations."

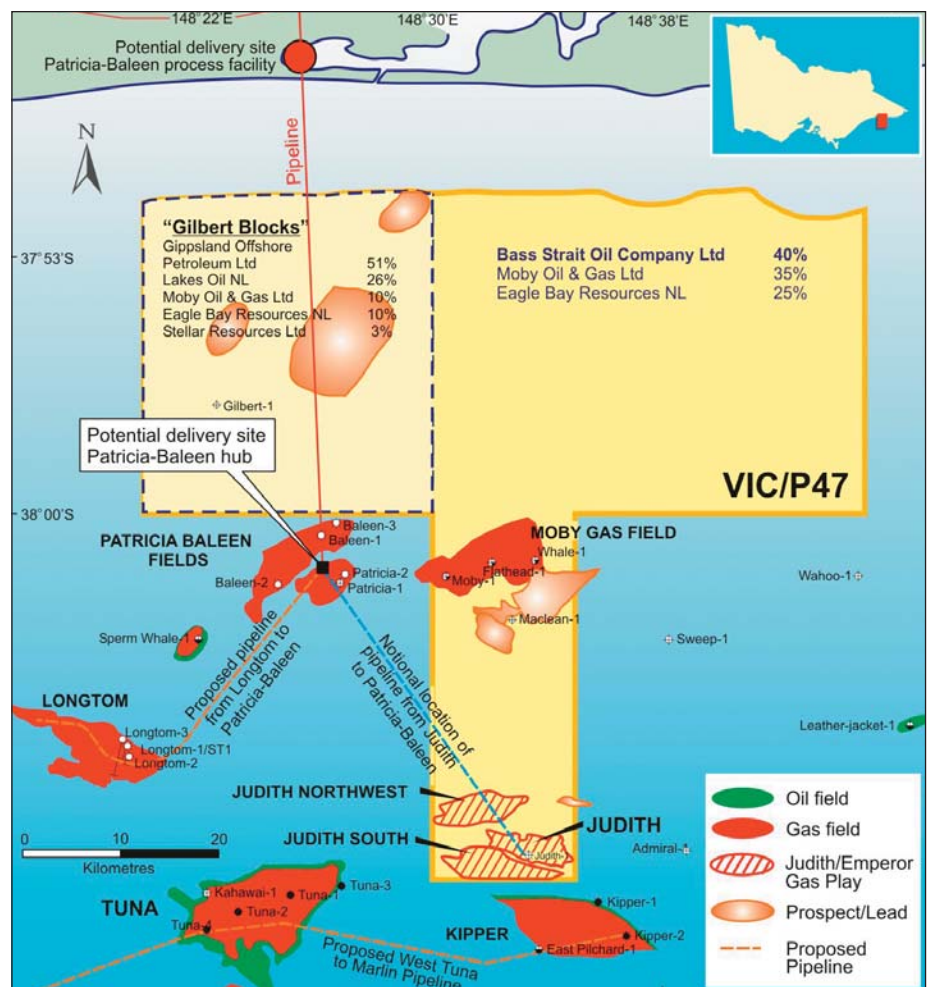
Oscar West has a P50 estimate of 19 MMbbl of oil and 12 Bcf of gas. Oscar East is similar in size and nature, and both are 3D-defined and ready to drill. Minor closures are also mapped at Oscar North and Oscar Northwest", Adams said.

The Kipling prospect is a down thrown fault closure along the Rosedale Fault trend, analogous to the Kipper Field to the west. "It has a P50, that's the 'most likely' case, prospective recoverable resource estimate of 124 MMbbl of oil and 620 Bcf of gas. This is a large, high-impact prospect. It has AVO support for closure, it is 3D-defined and ready to drill", Adams said.

According to Bass Strait Oil Company, the Benchley prospect is similar to Kipling, but with mapped closure at two reservoir levels. Adams stated, "Its P50 estimate is 184 MMbbl of oil and over 1.4 Tcf of gas. It also has AVO support for closure, is 3D defined and is ready to drill."

The company also has a number of interesting deep water leads in Vic/P41, some of which are located in the sparsely explored eastern area of the permit, providing excellent scope for further exploration.

Bass Strait Oil Company holds a 40% interest in a joint venture in the Vic/P47 permit. Bass



Strait Oil's partners include Moby Oil and Gas Ltd with 35%, and Eagle Bay Resources Ltd with 25%.

The Vic/P47 permit includes a 3D defined gas appraisal opportunity at the Judith-1 well and according to Bass Strait Oil, based on logs and shows, is interpreted as a gas discovery in the Emperor Sub-group. Adams stated, "Judith is analogous to the Nexus Energy operated Longtom gas field, located 22 km west. The success of the Longtom-3 well, which flowed at up to 77 MMcf per day from the Emperor Sub-group, as well

as recent our studies, indicate scope for similar appraisal and development at Judith."

The Vic/P47 joint venture is seeking to farmout part of the permit, to cover the costs of a Judith appraisal drilling program. Adams said, "a complete review of the Judith accumulation has been completed, including: 3D mapping, petrophysics, palynology, incorporation of public-domain, as well as Longtom well data, prospective resource estimates, a field deliverability study and notional development scenarios."

The Judith-1 well was drilled by Shell in 1989 and Adams explained, "it encountered a tilted fault block in the Emperor Sub-group, where bright seismic events correspond to gas shows in the well. There is also potential for younger and older gas-bearing horizons, which are suggested by high seismic amplitudes not penetrated by the Judith-1 well. Prospective resource estimates range up to approximately 1 Tcf of gas in place."

Adams explained that Bass Strait Oil Company's new mapping of the Judith prospect exhibits multiple horizons, often with structurally concordant amplitude anomalies, and three main appraisal areas: the Judith-1 Area, Judith Northwest and Judith South. Closure for all of the Judith features is largely fault dependent. Adams said, "reservoir quality in the Emperor Sub-group sequence can be excellent, but is more typically marginal. At Judith, similar to Longtom, reservoir quality, distribution and extent remain key uncertainties. Therefore, in order to achieve commercial flow rates at Judith, it is expected that long lateral completions similar to those undertaken in Longtom-3 will be required. For the company's study, the notional Judith well performance was benchmarked against Longtom well tests, and recovery per well was benchmarked against other offshore developments for low permeability gas fields."

Bass Strait Oil Company has contemplated the two notional development scenarios based on studies of 185 PJ and 413 PJ of recoverable gas respectively. Adams said, "the first scenario assumes potential delivery of gas to the Patricia-Baleen sub sea installation approximately 20 km offshore, and the second, a standalone development with a pipeline to shore and a new onshore plant. Both notional scenarios anticipate that all wells are extended-reach sub sea wells. Further development planning will require additional certainty from a possible Judith appraisal drilling program, which we are seeking to firm up for 2008."

The onshore Otway Basin is another piece of acreage that Bass Strait Oil Company feels has future potential. Adams commented "low cost and quick production is what attracts us to the Otway basin."

Bass Strait Oil Company's interests lie within the old oil discoveries in the Otway. The company has a 15% farmin entitlement on the PEP150 permit with the operator, Beach Petroleum, planning to begin exploration upon resolution of native title claims. The company also successfully bid on more Otway Basin acreage earlier this year, resulting in being awarded 100% interest in the PEP167 permit.

Adams said of their Otway acreage, "PEP150 contains the Lindon oil discovery, which have been sitting there a long time. They were drilled in the late 80s and again in the early 90s. It's the same with the nearby Windermere-1 well in the PEP167 permit, which produced oil on test back in 1987."


"We are yet to complete our initial technical work in PEP 167, but at this stage we are planning to acquire seismic next year and drill a well in the third year. The onshore areas that have produced oil in the past but have had little attention in recent times, are worth looking at now with the increased price of oil", Adams said.

"I have noticed with some interest that Adelaide Energy has recently gone back to Jacaranda Ridge, also in the Otway Basin. They recently announced a flow test of 250 bopd with 2.5 Mcf of gas and condensate. It is not directly relatable geologically, but conceptually in terms of onshore liquids recovery in the Otway, is in line with our thinking", Adams said.

Without reserves or production metrics, it can be difficult to quantify the potential value of a


pure exploration portfolio such as Bass Strait Oil Company's. However, Adams believes it has a strong suite of large, 3D seismic-defined prospects a focused acreage position and permits that are located in high-quality, productive basins. They are also situated in a low-cost, low-risk jurisdiction, with developed infrastructure and growing markets.

Bass Strait Oil Company has deliberately positioned itself with Australian acreage to try and build its knowledge and create a foundation to grow from. Adams explained, "we are low risk and low cost, compared with some small companies who diversify with global portfolios. The costs of international operations can easily burn through a small company budget and there are also risk exposures which we do not face operating here in our well-understood home region." ■



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