



Exploration Permit

VIC/P42

Quarterly Report

14 August 2001 – 13 November 2001

Bass Strait Oil Company Ltd

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VIC/P42

QUARTERLY REPORT FOR THE PERIOD

14 AUGUST 2001 to 13 NOVEMBER 2001

1. PARTICIPATING INTERESTS

Bass Strait Oil Company Ltd	50% (Operator, Joint Venture Partner)
Inpex Alpha Ltd	50% (Joint Venture Partner)

2. GOVERNMENT RELATED MATTERS

An update of permit activities was sent to the DNRE on 14th September, including details of the INPEX arrangements relating to the year 2 commitment well, Melville-1.

On 16th October, Dr Kourosh Mehin of the DNRE approved the format of the Melville-1 daily reports, and requested that total cost estimation and daily expenditure of the well also be included in the reports.

On 18th October, a letter was sent to Robert King at the DNRE, requesting that the Designated Authority consider an amendment to the Year 2 work programme commitments as outlined below;

1. That the obligation to acquire 750km of 2D seismic data be amended to acquire an additional 30km² of 3D data (ie 230km² in total) and 500km of reprocessed existing 2D seismic.
2. That the requirement to complete the acquisition of the Year 2 seismic data by 13 January 2002 be amended to completion by 13 May 2002, with the proviso that Bass Strait Oil Company Ltd demonstrate that it has reached an agreement with a seismic contractor to acquire these data by 13 January 2002.
3. That the seismic reprocessing of 500km of 2D data be completed by 13 May 2002, with the proviso that Bass Strait Oil Company Ltd demonstrates that it has reached an agreement with a seismic contractor to reprocess these data by 13 January 2002.

A further letter amending the proposal of the above letter was sent to the DNRE on 23rd October, whereby Bass Strait Oil Company Ltd, on behalf of the Vic/P42 Joint Venture requested that the Designated Authority consider an amendment to the Year 2 work programme commitments as outlined below;

1. That the obligation to acquire 750km of 2D seismic data be amended to acquire an additional 50km² of 3D data (i.e. 250km² in total).
2. That the requirement to complete the acquisition of the Year 2 seismic data by 13 January 2002 be amended to completion by 13 May 2002, with the proviso that Bass Strait Oil Company Ltd demonstrate that it has reached an agreement with a seismic contractor to acquire these data by 13 January 2002.

3. EXPLORATION ACTIVITIES

3.1 TCM#1

Technical Committee Meeting No 1 was held in the offices of Bass Strait Oil Company Ltd, in Melbourne on 20th September 2001. In attendance were;

Full time

Ian Reid	Chief Operations geologist BSOC
Andrew Adams	Commercial Manager BSOC
Brian Searles	RBT and Associates
Masaki Ogihara	Inpex Corporation
Motoyoshi Yamanake	Inpex Alpha
Yoshiro Konda	Inpex Alpha

Part-time

Geoffrey Albers	BSOC (Introduction only)
John Atkinson	Diamond Offshore
Tom O'Neill	Diamond Offshore

Agenda

The agenda of the meeting was as follows;

1. Introduction
2. Drilling programme – geology and well engineering
3. AFE and costs
4. Seismic
5. Any other business

Minutes

Introduction	Mr Albers welcomed Inpex to the meeting and encouraged frank and open discussion in order to achieve a maximum benefit from the meeting.
AFE Matters	Inpex began by presenting its requirements for AFE's and cash calls to conform to the JVOA. This was an urgent action item and it was agreed to revise the outstanding cash calls accordingly.
Drilling programme	<p>The meeting continued with a presentation by Ian Reid of the drilling location and the geological reasoning associated with it – a draft well proposal was issued to participants. No concerns with the location were raised and there was a technical agreement on the well proposal.</p> <ul style="list-style-type: none"> • Inpex requested BSOC to get AGSO/DNRE sampling requirements - these were provided. • Inpex requested that the geological reports from the rig during drilling be copied to them, which was agreed. Mr Ogihara also asked to attend morning meetings during drilling. • It was agreed that a "First pass" attempt to define criteria for contingent logs, samples etc would be produced by BSOC and circulated to JV partners. <p>Brian Searles of RBT in Perth presented the draft drilling programme. There was technical agreement on the drilling programme presented with the following action items;</p> <ul style="list-style-type: none"> • Examine option of setting 13 3/8" casing shallower eg at 1000m and any cost saving benefits • Mud and cementing contractors still to be finalised

AFE status	Andrew Adams presented the status of the AFE on Melville-1. A number of issues were raised by Inpex e.g. AFE to be broken down into drilling (Melville) and non-drilling (admin etc), and Inpex and BSOC costs. This was agreed by all parties.
Testing	A discussion ensued on whether the well should be tested or completed as a producer, if successful in encountering hydrocarbons. Both Inpex and BSOC presented opinions on their positions, although no conclusions were reached by either party. It was agreed that criteria on whether to test and complete need to be agreed at a later date.
Diamond Offshore	John Atkinson and Tom O'Neill from DOGC were invited into the meeting and presented their research on drilling activity in the Australasian region. DOGC best estimate was that the Ocean Bounty would be available approximately 21 October. DOGC also stressed that most rig based contractors need "mutual hold harmless" agreements.
3D seismic	The acquisition of the 3D seismic was discussed. Inpex have already had discussions on vessel availability with SANTOS and BHP (in Vic/P45) and will keep BSOC informed.

3.2 Vic/P42 Evaluation

A pre-trade of well data was proposed, BHPBilliton proposing a trade of our Melville-1 well with the first well they drill in Vic/P45. If they are in agreement, then we would wish to approach Esso Australia Ltd to trade their East Pilchard-1 well with Melville-1. We believe this approach is more likely to secure we can trade both wells with Melville-1. No response was received from either BHPBilliton or Esso.

3.3 Exploration Well Melville-1

3.3.1 Melville Preparation

In Early August, discussions with the DNRE led to a concept of using a cost effective casing design to drill Melville-1. Esso, in their East Pilchard well, made significant cost savings by using a cost effective casing design and using a modern PHPA mud system. It is understood that they ran casing to 850m and then drilled to a TD of 3200m, thereby removing a complete casing scheme. However, after lengthy discussions with contractors RBT advised having reviewed the offset well data again and having spoken to several of the service companies that support Esso with their drilling in the region, BSOC have concluded there is some merit in considering a higher 13 3/8" casing setting depth. The principal factors influencing this view are;

1. Use of an aggressive lower cost 17 1/2" drill bit.
2. Avoidance of running a second 17 1/2" bit if initial bit does not drill the whole section.
3. Less hi vis mud sweeps.
4. Earlier commencement of 12 1/4" aggressive PDC bit.
5. Earlier commencement of cuttings / mud returns.
6. Less 13 3/8" casing run.

On 16th August it was learnt that BHP and their proposed well in the Bass Strait was in a shipping lane and that they were required to give extensive notice (several months) of putting a rig on location in this shipping lane. As a result BHP were very happy for the BSOC well to proceed before their own.

BSOC's permit is adjacent to Vic/P45 and we confirmed with the DNRE that there are no shipping lane issues for our block.

Alan Breadmore of RBT Petroleum Associates was appointed role as the HSE Project Manager, to look after all the Application to Drill required HSE Documentation and to ensure the commitments made to the NRE with respect to HSE are honoured.

Discussions on the critical issues of biostratigraphy were held with Dr Alan Partridge of Biostrata Pty Ltd. He recommended a sampling strategy for Melville-1 shown below:

Concerning the issue of sampling in the fully logged hole below the 9-5/8" casing it was recommended an absolute minimum of one 30 shot SWC gun which would give a average sample spacing of approx 20 metres. Preferably and hopefully the most-likely-case would be a 60 shot piggyback gun giving an average sample spacing of approx 10 metres. The highside discovery case should be at least two guns with 120 shots giving an average spacing of better than 5 metres. The minimum case should only be advocated if your prime objective with the SWCs is only biostratigraphy, and you shoot all the bullets in the finer lithologies. If you intend to extend the technical analysis into geochemistry and sedimentary petrology I would strongly recommend that you aim for the 60 or 120 shot programme. On the issue of biostratigraphy while drilling I believe only palynology would be necessary. I would recommend a set of four samples spaced through the upper Latrobe at the time of setting the 9-5/8" casing to fix where you are in the sequence. In addition another batch of 4 samples may be desirable while you are drilling the basal ~600 metres depending on what results you are getting. If drilling or evaluation is slow perhaps two batches would be necessary.

Once the well has been completed more detailed palynology can be run on a mixture of SWCs below casing and additional cuttings above the casing. In my opinion micropalaeontology or foraminiferal analysis is a waste of time and money in the Latrobe Group and is of only limited value in the Seaspray Group if solely based only on cuttings. You need to have a clear idea of what you are trying to do if you want to do foraminiferal analysis. I have some new ideas and these can be discussed when we meet.

Coring will be taken in reservoir quality sandstones. However, coring will not be considered until a significant interval of hydrocarbon shows has been encountered.

Anadrill were contracted for the provision of MWD and FEWD services for Melville-1, in addition to using conventional wireline logging in the TD objective section. This was designed to be:

17-1/2" section

2 x 962 mud motors and Electronic Survey Multishot at the end of this section - both OK, on the rig already.

12-1/4" section

2 x 8-1/4" MWD8 tools for directional measurements with MVC- 4 axes vibration monitoring. Please advise when you get a chance if you would be requiring this MVC service, along with 962 motors for this section

LWD (Logging While Drilling or Formation Evaluation While Drilling tools) - we will provide 2 x CDR (compensated dual resistivity) tools, one 8-1/4" and one 9" tool size. These tools are our older generation resistivity / gamma ray tools which provide induction type measurements of one Phase Shift-shallow and one attenuation-deep resistivity measurement along with Plateau type Gamma Ray. We will also provide ILS (In-Line Stabilizer) which goes in between our tools (MWD and CDR) and is a preferable in a BHA for vertical wells. It acts like any ordinary stabilizer but it has an electrical connection wired through to enable real time communication between tools.

8-1/2" section

2 x 6-3/4" MWD6 tools

In-Line Stabilizer

2 x 6-3/4" ARC6 (Array Resistivity Compensated) tools. These tools are our latest generation induction type resistivity / gamma ray tools which provide 5 phase shift-shallow and 3 attenuation-deep resistivity measurements at 2MHz and 5 Phase Shift at 400 kHz measurements, all with different depths of investigation.

Schlumberger were contracted for the petrophysical evaluation of Melville-1.

1. IWW (Interact Web Witness) for efficient data delivery to multiple clients (Realtime or non real time):
2. Quick and Detailed Petrophysical analysis.
3. Second opinion on qualitative basis on LWD logs and cutting logs.
4. Data Splicing of Intermediate and Final suites (LWD with Wireline), Correct the data for borehole environment (LWD, Wireline) and give final EDITED, SPLICED logs for the complete well (Digital Data).
5. Complete Petrophysical evaluation + Report (for complete well evaluation).

RBT Petroleum Associates were contracted for the provision of wellsite geological services:

REPORTING - IDS

The IDS system was determined to be used for daily drilling and geological reporting and database management.

On 11th October, a pre-spud meeting was held for the drilling of Melville-1, by RBT on behalf of BSOC.

Items on the agenda for the meeting included:

- Pre Spud – geological, operational and HSE overviews;
- HAZID: Aviation operations (at least one representative of all attending parties) - including major storm, medivac and emergency evacuation;
- Marine Operations - towing, positioning, anchoring, supply, standby, vessel collision.
- Drilling hazards & well control.

On 24th October, Cameron Manifold, on behalf of RBT, reported that the HAZOP/HAZID meeting held immediately after the pre-spud meeting, went very well. A lot of issues were covered, and there were a few key recommendations to be dealt with.

3.3.2 Melville Operation

Melville-1 was situated in the central portion of the Victorian permit VIC/P42 which is situated in the Gippsland Basin of Bass Strait, approximately 80 kilometres south of Lakes Entrance. The well was drilled to a total depth of 3345m BRT with the semi-submersible Mobile Offshore Drilling Module (MODU), the *Ocean Bounty*. The rig was contracted directly from the previous operator and commenced tow to the Melville-1 location at 06:30 hours, 14th October 2001. The rig was anchored in position and the Melville-1 well spudded at 06:15 hours, 17th October 2001. Major problems occurred while drilling the 12.1/4" and 8.1/2" hole sections where 5 days and 1.4 days were lost respectively. These problems were mainly due to a failed 9.5/8" casing cement job that was attributed to a possible mechanical block that may have occurred at the bottom plug, the float collar or the float shoe. Minor lost time was incurred while drilling the 17.1/2" hole section where 7.5 hours were lost due to various causes and 5 hours were lost while rigging down and backloading, due to inclement weather.

The primary objective of the well was to identify potential hydrocarbon volumes within the Golden Beach Sub-group. This involved assessing the validity of the mapped structural closure, assessing reservoir quality, and investigating potential compartmentalisation, aquifer support and oil quality variations.

The secondary objective of the well was to evaluate the hydrocarbon potential and obtain geological information from the Latrobe Siliciclastics. No definitive closures had been mapped

at the well location, but subtle drape and downthrown fault closures were defined along strike and to the southwest over the Melville South area. Geological information on the distribution of reservoirs and seals assisted in delineation of downthrown fault closure through cross-fault sealing.

Only CDR-GR LWD logs were acquired in the 12 ¼" interval (1438-2706m), while both ARC-GR LWD logs and PEX-HALS-DSI wireline logs were acquired in the 8 ½" interval (2706-3445m).

Quick-look evaluations of the 12 ¼" and 8 ½" logs, as well as a more detailed evaluation of the 8 ½" wireline logs, were done to identify any potential hydrocarbon bearing intervals. Significant porosity reduction was identified in the Emperor Sub-group, however no significant hydrocarbon bearing intervals were identified in any of the formations or sub-groups evaluated.

At the end of the quarter, drilling was on-going. The well was subsequently plugged and abandoned on 18th November 2001.

3.4 Seismic Reprocessing

Australian Seismic Brokers in Perth were awarded a contract on 15th October to reprocess over 500km of Vic/P42 2D seismic. The prime objective of this reprocessing is to improve on the seismic coverage over the western end of our permit and improve on the original 1980's processing. Whilst the key constraint, as discussed, will be time, we would like to have a close input to the processing parameters for this work.

Vic/P42 reprocessing requirements:

- Objective: To reprocess to final migrated stack all uniquely located lines over the Omeo leads, Melville North and South and Hemingway, predating the 1992 survey. The key vintages are 1981, 1982, 1984 and 1988. Part lines are selected, except where entire line is marginally longer. The objective is to improve definition of interpreted Latrobe Siliciclastics and Golden Beach Sub-Group reservoirs.
- Provide data in SEG-Y format on Exabyte, with digital navigation and associated SP/trace data.
- Data will be loaded onto a pre-existing IESX (Geoframe 3.7) project.
- Discuss all processing steps with Ian Reid of BSOC.
- Data to support velocity picking may be provided by BSOC.

Lines to be reprocessed:

Survey prefix	Line number	Reprocess length (km)
GA81	23	9
GA81	29	14
GA81	37	11
GA81	37A	
GA81	39	12.5
GA81	41	10.5
GA81	43	9.5
GA81	16	7
GA81	20	23.5
GA81	22	27
GA81	24	28.5
GA81	26	28.5
GA81	28	32.5
GA81	32	31.5
GA81	34	30
GA81	36	15

GA81	38	12.5
GA81	40	9.5
GA82B	207	8.5
GA82B	208	8.5
GA82B	204	19
GA83A	310	16
GA84	1	8
GA84	2	9.5
GA84	3	7
GA84	4	12.5
GA84	6	8.5
GA84	8	10
GA84	9	7
GA84	10	11.5
GA84	12	20.5
GA84	13	7.5
GA84	14	13
GA84	15	10.5
GA84	16	25
	Total (km)	514.5

3.5 Seismic Acquisition & Processing

Year 2 seismic acquisition commitment – either Melville 3D Survey or Omeo 3D Survey:

(a) Provided that the cost of the Year 2 well (Melville-A) does not exceed USD 9.4 million, then INPEX shall pay 75% and BSOC shall pay 25% of the costs relating to the acquisition and processing of the Year 2 seismic survey commitment (notionally 200 km² 3D plus 750 km 2D) up to a maximum cost of USD 2.48 million (“the provisional seismic cost allocation”).

(b) In the event that the Year 2 well (Melville-A) cost exceeds USD 9.4 million, then the provisional seismic cost allocation of USD 2.48 million referred to in clause 4.5.2(a) above shall be reduced by an amount corresponding to this well cost excess up to a maximum excess of USD 2.48 million. For the avoidance of doubt, this means that if the Year 2 well (Melville-A) cost is USD 9.4 million or less, then the provisional seismic cost allocation is USD 2.48 million; if the Year 2 well (Melville-A) cost is USD 11.88 million or more, then the provisional seismic cost allocation is nil.

(c) Costs related to the acquisition and processing of the Year 2 seismic survey commitment in excess of the provisional seismic cost allocation shall be shared on an equal 50% basis by BSOC and INPEX. The amount of the provisional seismic cost allocation will be in the range from nil to USD 2.48 million depending on the actual cost of the Year 2 well.

3.5.1 3D Seismic Survey

During the quarter, BSOC and INPEX actively discussed with Santos/Strike arrangements for the use of the Geco Resolution 3D seismic vessel. Discussions were also held previously with Esso in regard to the use of the same 3D vessel being used by them in their extensive 3D program over the northern margin.

On 15th Oct it was learnt that the Geco Resolution was leaving for the North West Shelf. The Geco Resolution is most likely to transfer to Woodside in the North West Shelf, upon completion of the survey for Strike in the Otway Basin.

On 2 November an invitation to tender was sent to seismic contractors for 3D acquisition in Vic/P42. Tenders are due by 26th November.

4. REPORTS SUBMITTED

Other than the previous Quarterly Report, no reports were submitted during this report period.

5. HEALTH, SAFETY AND ENVIRONMENT**5.1 Incidents**

There were no health, safety or environmental incidents recorded during the report period.

5.2 Environmental Approvals

There were no environmental issues submitted for approval during the report period.

6. ESTIMATED EXPENDITURE FOR THE QUARTER

Estimated expenditure for the reporting period is detailed below:

Activity	Estimated Expenditure (\$000's)
Drilling (Melville-1)	8
Permit Administration	0.33
Seismic (Reprocessing)	NIL
Geological & Geophysical	NIL
Seismic (Acquisition)	NIL
Total	8.33