

14th April 2008

Timor Sea Designated Authority
No.5, Avenida de Portugal, Farol
PO Box 113
Dili
Timor-Leste

**Attn: Mr. Steve Thompson, Chartered
Geologist Exploration and Development
Manager**

Dear Mr. Thompson,

Proposal to Award a Contract to Transocean for Drilling Services in JPDA (06-103)

As you are aware from correspondence that was forwarded to you last week the JPDA (06-103) Joint Venture has been offered an opportunity by Transocean Inc. to contract the Transocean Legend drilling rig to help execute the JPDA (06-103) commitment drilling program.

Oilex, Operator of JPDA (06-103) believes this is an excellent opportunity and since our earlier advice we have been actively working to secure Joint Venture support to contract the Transocean Legend for drilling activities in our block. I am pleased to report that we now have Joint Venture support to proceed with this opportunity.

As you know in signing the JPDA 06-103 PSC the Joint Venture made a commitment to drill two wells by 15 January 2009 and two more by 15 January 2010. The approved 2008 Work Programme and Budget contains Firm funds of \$67,800,000 and To Mature funds of \$17,000,000 to drill and test two wells in 2008 and an indicative amount of \$55,200,000 to drill two more wells in 2009. Operator has been engaged in the search for a suitable drilling rig for this project scope of work since the start of the current year. We have also been in discussions and negotiations with AGR for the provision of drilling project management services for this scope of work. AGR have been engaged to commence the conceptual well design and prepare tenders for procurement of long lead items including tubulars, wellheads and conductors. AGR have also been engaged in discussions with various drilling contractors to determine the availability of a rig that can meet our requirements. As a result of the Operator's and AGR's efforts to identify a suitable drilling rig for our project, a proposal was received from Transocean Inc. which the JPDA (06-103) Joint Venture have now approved. This offer from Transocean is currently valid until 15 April 2008 and we are presently seeking an extension to this deadline to allow all approvals to be secured.

1. Proposal from Rig Contractor (Transocean Legend):

On 28th March, Operator received a proposal from Transocean Inc., a global offshore drilling contractor, for the drilling rig "Ocean Legend". The rig is currently on contract to BP for operations offshore Sakhalin and is assigned to a project in China. It is about to move to the Philippines to drill for Tap Oil followed by a move to Myanmar to drill for Daewoo.

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Key details on the rig proposal from Transocean are as follows:

- Availability Mid February 2009
- Minimum term 120 days (inclusive of mob/demob)
- Water Depth Capability Up to 1,000m
- Mob/Demob point Singapore
- Day-rate US\$480,000 for 120 day term

2. Proposal Validity Period:

The current validity period for the rates expires on April 15th.

3. Proposal Subject to Continued Availability:

The proposal quotes a rate which will be applicable during the validity period. The proposal does not represent a commitment from Transocean to reserve the rig for the JPDA 06-103 Joint Venture. The rig is being marketed actively in Australia and South East Asia and could be secured by another operator at any time. Hence the time available to make a decision on this commitment is limited.

4. Globally Established Rig Contractor:

Transocean is a well-established global drilling contractor with a reputation for strong maintenance systems and good performance focus in their rig fleet.

5. Reasonable Rate for Deepwater Rig:

This rig has the water depth capability required for the JPDA 06-103 locations (up to 1000m). The deep-water market is predominantly focused on rigs with high specification which command rates of US\$600,000/day or higher. The number of deeper water rigs which command rates in the US\$400,000/day to US\$500,000/day range is very limited. We believe that the Joint Venture is fortunate to have received this proposal.

6. Rig Operational Reputation - Good:

This rig is currently on contract to BP in Sakhalin. Reports indicate the rig has been performing well. Any commitment by the Operator would be conditional on an inspection and a review of recent operator audits. The rig will not be accepted onto the Joint Venture pay-roll without having satisfied a pre start-up audit.

7. Possibility of Other AGR Clients in Australia:

AGR is in discussions with other operators in the region to construct a multi-operator sequence for the rig. The other operators are unlikely to be secured in the immediate future but the likelihood of a longer term well sequence for the rig is high. Transocean have quoted a reduced rate of US\$450,000/day for a 540 day contract period and they have stated they would reduce the rate from the US\$480,000/day to US\$450,000/day if the JPDA 06-103 JV 120 day program becomes part of a multi-operator program contracting the rig for a 540 day period or longer. The cost, to the Joint Venture, of mobilization and demobilization may also be reduced as part of a multi-operator program.

8. Alternative Suitable Rigs:

There are a few rigs in the region that have similar capability to the Transocean Legend. The most recent contract rate for a rig with similar capability is US\$475,000/day (contract signed early 2007). There are also a number of newer, higher-specification deep-water rigs which would command rates of US\$600,000/day or higher.

The rigs of similar capability (Transocean Jack Bates, Atwood Eagle, Atwood Falcon) are all contracted long term. Access to these rigs would either be at the end of the currently-contracted periods or would be for slots in the existing operators' programs which would be dependent on the operators' programs changing and, if they became available at all, would probably not become public until quite late notice. The JPDA 06-103 Joint Venture has no certainty of securing any of these alternative rigs.

9. Mob/Demob Costs:

The time and cost to mob and demob the rig from Singapore and back is estimated at US\$21,324,000 based on 16 days each way. A distance of 1900NM and an average speed of 4.5 knots are assumed in these estimates. The cost estimate includes two towing vessels, communications on the rig and fuel for the rig and tow vessels.

10. Minimum Rig Only Cost Commitment:

The minimum cost commitment the Joint Venture would take on with this contract would be US\$57,600,000 based on the 120 minimum term.

11. Budget Impact:

Based on the rates quoted by Transocean and our preliminary estimates of the long lead tubulars, wellheads and conductors costs as well as the other intangible drilling spread costs, Operator is of the belief that the total cost of the drilling program would be within the approved 2008 Work Programme and Budget and the indicative 2009 Work Programme and Budget. Once the rig is secured, Operator and AGR will make every effort to progress the formation of a multi-operator rig and services sharing group so that the lower day rates offered by Transocean for a program in excess of 540 days may be achieved. Efforts will also be focused on well design and engineering to reduce drilling times and overall program costs.

12. Forward Plan, Request & Recommendation:

The proposed forward plan is to send an Initial Letter of Intent to Transocean to commit to the rig, conditional on:

- a. Validity of current proposal extended through to 16 May 2008,
- b. Approvals from Joint Venture Participants,
- c. Approvals from the regulator (Timor Sea Development Authority),
- d. Satisfaction of initial Operator visit and review of operational history,
- e. Mutually agreed terms and conditions of contract, and
- f. Satisfaction of regulatory and pre-start-up audit requirement.

Once the above conditions have been met, whilst the final contract is being drafted and signed, a Letter of Award may be sent to Transocean which would commit the Joint Venture to the value of the 120 day contract.

13. Summary:

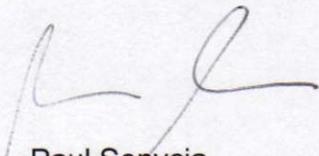
Operator recommended to the Joint Venture that they commit to the Transocean Legend as a technically suitable drilling rig offered at a competitive rate. The request was for Operating Committee approval to award a sole source negotiated contract to Transocean Inc. for a minimum term of 120 days commencing in February 2009 subject to the conditions described above.

The Joint Venture has now signed an Operating Committee Resolution committing the Joint Venture to a contract with Transocean for a minimum term of 120 days at a contract value estimated at US\$57,600,000.

We now seek TSDA approval for this proposed award of a sole sourced negotiated contract to Transocean Inc. for a minimum term of 120 day commencing in February 2009 at a contract value estimated at US\$57,600,000. We request that by approving this proposed award that TSDA waiver some of the requirements under Article 10 of the JPDA(06-103) PSC in relation to tendering, specifically those items under 10.1(a), 10.3(a),(b).

Please contact Paul Senycia, Oilex's Exploration Manager at +61 424 100030, should you have any questions about this recommendation. We look forward to your early response.

Kind regards



Paul Senycia
Exploration Manager