ASX RELEASE

Release Date:	1 November 2007	
To:	Australian Stock Exchange Ltd	No of Pages: 4
From:	Eric Streitberg	
Re:	**Stokes Bay-1 Update**	

Please find attached an update on the Stokes Bay-1 well.

The attached release will also be available on the Company's website at; www.arcenergy.com.au.

For inquiries please contact:

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About ARC Energy Limited
ARC Energy is one of Australia's pre-eminent energy companies, owning and operating oil and gas interests in the Perth, Canning and Bass basins, and internationally. Listed on the Australian Stock Exchange with a market capitalisation of approximately A$500 million, ARC has an aggressive onshore and offshore exploration and development drilling program. It continues to drive increased shareholder value by the early adoption of innovative technical and commercial practices.

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STOKES BAY-1 DRILLING REPORT
CANNING BASIN, WESTERN AUSTRALIA

Date:	1st November 2007
Permit:	R1
Well Location:	Lat : 17° 08' 23.46"S Long : 123° 42' 32.40"E
Directional offset to target:	1024 metres
Elevation:	Ground Level is 12.4mAMSL Rotary Table is 18.1mAMSL
Proposed Total Depth (measured KB):	2800 metres
Prognosed drilling time:	15 days
Spud Date:	0930 hrs, WST 3rd October 2007
Present Depth at 0600 hrs:	2777m MD
Time of Reporting:	0600 hrs, WST 1st November 2007
Operations Since Last Report:	Since last report on Thursday, October 25th, 178 mm (7 inch) casing has been run to a depth of 2585m measured depth (MD), and the well deepened a further 22 m from the previous 2755 m to 2777 m MD. In drilling the additional 22 m, further losses of mud at a rate of approximately 250 bbl/hr were experienced. This resulted in no fluid or cuttings returns to surface. In drilling the 22 m of additional hole, several metre-scale intervals of very high penetration rates were encountered, these being interpreted to be due to additional large scale vuggy porosity. Since reaching a total depth of 2777 m MD, efforts have focussed on curing the ongoing fluid losses in the Nullara Fm. This has resulted in intermittent establishment of circulation, and returns to surface with associated intermittent mud gas peaks of up to 10%. In view of the persistent ongoing losses that are now under control, and the accumulating evidence of gas presence in the Nullara, the Operator has recommended to the JV to complete the well (rather than the previously proposed open hole DST) in order to test this interval. The current plan is to complete the well during the next two days, and commence testing operations.

	As previously reported, all JV partners are participating in the shallow part of Stokes Bay-1 (above 2589 m MD). However, less than all parties have participated in the well below 2589 m MD such that equity levels in this part of the Stokes Bay-1 well (below 2589m MD) are: • ARC Energy Limited 69.25% (Operator) • Emerald Oil & Gas NL 12.75% • Pancontinental Oil & Gas NL 10.00% • First Australian Resources Limited 8.00% Under the Joint Venture Operating Agreement, the non-participating parties in the deeper part of the well (Empire, Phoenix and Indigo) retain a future right to earn back into their respective participating interests by the payment of penalties out of future production.
Current Operations:	POOH to run Completion
Hydrocarbon indications:	Mud gas readings of up to 10% have been recorded at surface from intermittent circulation during attempts to cure lost circulation
Comment:	The loss of mud to the Nullara Fm has continued to create operational difficulties that have delayed testing the interval. However, we remain very encouraged by the presence of both porosity and significant permeability in the Nullara limestone section, and the more recent intermittent gas shows when mud circulation is established are also viewed positively. The planned test of the Nullara Fm will determine fluid content and potential flow characteristics of the reservoir. The Stokes Bay-1 intersection of the Nullara Fm is 80m up dip of the Pt Torment-1 intersection which did not have the vugular porosity developed, but nevertheless tested gas at low rates.
Participants in the Permit **(post earning):**	ARC Energy Limited 38.95% (Operator) Empire Oil and Gas NL 14.80% Emerald Oil & Gas NL 12.75% Pancontinental Oil & Gas NL 10.00% Phoenix Resources PLC 10.00% First Australian Resources Limited 8.00% Indigo Oil Pty Ltd 5.50%

Canning Basin Stokes Bay - 1

General Well Data

Spud Date: 09:30hrs 3rd October 2007
KO from 975mMD

DATE: 01 Nov 2007

Planned TD: 2500mMD / 2130m TVDSS

Drill Floor Elevation: 18.1m amsl

Actual TD : 2777mMD / 2323m TVDSS