ARC ENERGY

ASX RELEASE

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From: Eric Streitberg

Re: Kunzia 1 BC1 oil exploration well update

ARC Energy Limited advises that as at 0600 hours the operation at the exploration well Kunzia 1 BC1, operated by ARC and located in the onshore Perth Basin Production Licence L2, was laying down the drill string and bottom hole assembly prior to running abandonment plugs. Since the last report the well has been drilled ahead to a total measured depth of 2,995 metres with a horizontal step out of approximately 1,450 metres from the surface location.

No significant hydrocarbon shows were noted whilst drilling through the target Dongara Sandstone reservoir section and measuring while drilling log data has confirmed the absence of hydrocarbons. The reservoir section appears similar to that encountered in the Eremia and Jingemia Fields

Managing Director's comments:

"The Kunzia prospect was a relatively high risk "buttress" closure similar to the recent Senecio discovery and relied on the cross fault juxtaposition of the right formations or a fault plane seal to form a trap. The well data suggests that the failure of the structure to contain hydrocarbons was caused by the juxtaposition of the Dongara Sandstone reservoir section against non-sealing rocks of the Irwin River and High Cliff formations. The ability to cost effectively test this prospect and the resultant stratigraphic and structural information that was obtained, was due to the sophisticated drilling techniques employed including the ability to drill highly deviated wells to long offset distances. Kunzia 1 BC1 achieved a hole angle of some 53 degrees and a horizontal offset from the surface location of some 1,450 metres, both of which set new records for onshore Western Australia. These drilling techniques have been continually refined over the course of the drilling program and now provide the means to test prospects and plays which were unable to be considered even six months ago.

The rig will now be moved back to the Senecio 1 location to drill a sidetrack which is planned to provide a test of the reservoir with as little drilling induced formation damage as possible."

Participants in L1 and L2 (excluding the Dongara, Mondarra and Yardarino fields) and the Kunzia well are:

- ARC Energy Limited - 50% (Operator)
- Origin Energy Developments Pty Ltd - 50% (a wholly owned subsidiary of Origin Energy Limited)

Yours faithfully
ARC Energy Limited

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Managing Director

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