

10 December 2012

Company Announcements Office
ASX Limited
4th Floor
20 Bridge Street
Sydney NSW 2000

Dear Sirs,

SHAREHOLDER LETTER

The Company advises that the attached letter has been dispatched to shareholders today from Ron Miller, acting Managing Director, providing an update on the Company's Cambay Project.

For further information, please contact:

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10 December 2012

Dear Shareholder,

UPDATE – CAMBAY PROJECT IN INDIA

I am writing to provide you with an update on your Company, Oilex Limited. As you may know, Dr. Bruce McCarthy has stepped down as Managing Director of the Company due to medical reasons and it is proposed that Dr. McCarthy continue as a Non-Executive Director in the New Year, ensuring that his significant skills and experience remain available to the Company.

While the Company searches for a replacement I have been appointed as acting Managing Director from my previous role as a Non-Executive Director for Oilex since July 2009. As a chartered engineer and E & P manager, I have extensive experience in commercialising and developing oil and gas discoveries, and have previously worked with Oilex's Chief Operating Officer Mike Maloney. Furthermore, the management and technical teams of Oilex have been strengthened and streamlined, ensuring that the progress of our transformational strategic direction in India continues moving forward.

The opportunity targeted in India is very attractive and, your Board believes, it is likely to be the shortest path to creating sustained shareholder value. I also believe the Company is well positioned to successfully execute our strategy and achieve a significant commercial result.

Strategic Focus: Near-term production and cash flow from unconventional opportunities in India

Our vision at Oilex is clear: to move from a conventional oil and gas explorer to a significant unconventional energy producer in India. The Indian energy market has untapped world-class resource opportunities and enormous domestic demand, all of which underpins the opportunity and our associated strategy.

We aim to capitalise on our 'early mover advantage' and utilise modern drilling and stimulation technology to pursue unconventional resources within our extensive Indian oil and gas acreage. Horizontal drilling and multi-stage hydraulic fracture stimulation are commonly used with a high degree of success in North American shale gas and oil fields. However, these techniques are not yet widely applied in India.

The presence of oil and gas has already been demonstrated in our Cambay Tight Oil and Gas Project, located in a producing basin onshore Gujarat in northwest India. As such, real potential exists for near-term cash flow from the Cambay Project as Oilex aims for first production in late 2013. This would represent a landmark change in the financial dynamics of the Company, reduce reliance on future capital injections for daily activities and significantly increase Oilex's investment appeal.

Sound Financial Position

Oilex has significantly strengthened its balance sheet with the completion of a \$7.1 million (gross) capital raising which settled in September. As at the end of the September 2012 Quarter the company had \$9.5 million in available funds which ensures it is funded to complete the drilling of the Cambay offset well and provide for ongoing working capital. Whilst Oilex has strengthened its financial position it has also taken initiatives to reduce overheads and has implemented a cost reduction program that has already significantly lowered executive personnel and running costs.

Significant Commercialisation Potential – a large resource adjacent to significant gas demand

Our confidence in producing oil and gas from a number of reservoir zones within the Cambay Contract Area remains very high. Modern vertical wells, including Cambay 73, approximately 1000m from Cambay-76H at reservoir depth have flowed liquids-rich gas to surface, provided encouraging results and modest condensate sales. It is also worth noting that during Cambay-76H operations, prior to its suspension, liquids-rich hydrocarbons flowed to surface under high pressure from the horizontal well, confirming a productive reservoir at the well location.

The independent verification of the hydrocarbon potential by Netherland Sewell and Associates, Inc. (NSAI) within the Cambay Contract Area was completed and reported in October 2011. Their work confirmed the significant opportunity size as shown in the following tables which summarise the Contingent Resources for two shallower zones as well as the Prospective Resources for four deeper zones.

Unrisked Contingent Resource Estimates

	Low		Best		High	
	Oil MMstb	Gas BCF	Oil MMstb	Gas BCF	Oil MMstb	Gas BCF
Gross in place	831	672	1,633	1,314	2,888	2,297
Gross recoverable	31	180	83	495	179	1,073
Net OEX rec (45%)	14	81	37	222	81	483

Unrisked Prospective Resource Estimates

	Low		Best		High	
	Oil MMstb	Gas BCF	Oil MMstb	Gas BCF	Oil MMstb	Gas BCF
Gross in place	4,679	4,962	11,592	12,645	21,912	23,178
Gross recoverable	36	258	140	935	553	3,632
Net OEX rec (45%)	16	116	63	421	249	1,634

India remains one of the world's fastest-growing energy markets. The International Energy Agency forecasts India's gas demand to continue to outpace annual supply. These market fundamentals underpin robust future gas prices and highly attractive project economics for the Cambay Project.

Importantly, the Cambay Project is ideally located just 10 kilometres from one of India's largest gas distribution networks. It is therefore well-positioned to commercialise production in the fast-growing, demand-driven domestic energy market with minimum investment in transmission infrastructure. The

strong gas demand has created an early cash flow opportunity. Oilex is currently in advanced negotiations for a gas sales contract to sell any gas production from well testing operations during which gas treatment is minimal.

Having a liquid rich gas stream means that any condensate or oil produced from the Cambay Project can be immediately sold under an existing crude oil sales agreement. Joint Venture owned storage and truck loading facilities from earlier operations are already in place with capacity available.

Positioned for increased confidence in successful execution

Oilex has significantly strengthened its organisation with project management capabilities and expert advice that will enable the Company to deliver on our strategy and minimise future operational risk. The India organisation was bolstered by the addition of Mike Maloney, Chief Operating Officer and Andrew Pfaff, General Manager – Operations, India. Both individuals are highly experienced and Oilex is confident that the right people for the job of targeting and successfully exploiting unconventional oil and gas production are in place and making a difference.

In addition to our in-house North American expertise, our small and highly capable technical team continues to maintain a strong relationship with leading US shale and tight reservoir consultants. This will ensure the potential of our Indian unconventional assets is maximised by applying the latest proven technical innovations from the North American shale oil and gas fields as that industry matures.

Oilex is the Operator of the Cambay Project, where modern North American technologies were used to drill the Cambay-76H well to a total depth of 2,740 meters and stimulate eight stages along its 600 metre lateral section with encouraging results. The mill-out operations were problematic and precluded the critical production test. Subsequently the Company organised a comprehensive independent review of operations at Cambay-76H and we have taken on board the recommendations to minimise future risks.

A high-impact work programme to determine the commercial potential of zones within the Cambay reservoir has been proposed to our joint venture partner, the Gujarat State Petroleum Company (GSPC). A key element of that programme is to drill and flow test an offset well near to Cambay-76H to demonstrate flow rates that can be delivered from a North American style well. Following this, Oilex has proposed three vertical and two horizontal wells over the next 18–24 months, with the aim of first production by the end of 2013.

The Company is now finalising well design, assessing rig availability and long lead time equipment for the offset well. The timing of approvals and the above issues will ultimately determine the commencement of field work and we are working diligently with all the relevant authorities to expedite the approval process.

A successful production test from the offset well would provide the catalyst for a potential pilot project which would increase production and cash flow in addition to providing crucial data necessary to book material reserves

Thank you for your continued support

Oilex is a company with unique investment potential based on the Cambay Project opportunity. The Board and I believe this is significantly underappreciated by the market and are confident that we can realise this potential and benefit from our position in a growing domestic market. This can be achieved by continuing to use proven technologies to exploit our early-mover advantage.

Thank you for your ongoing support of the Company as we work towards realising our vision of becoming the leading unconventional energy producer in India.

Yours sincerely,

Ron Miller

Acting Managing Director

Note about Resource Estimates: *The resource volume estimates prepared by NSAI, extracts of which are stated in the tables above, have been prepared in accordance with the definitions and guidelines set forth in Petroleum Resources Management System, 2007 approved by the Society of Petroleum Engineers. Net resources are attributable to Oilex Net Working Interest (45%) and include Government share of production applicable under the PSC. The contingent and prospective resources shown in the tables above have been estimated using probabilistic methods. For further notes see AIM / ASX releases by Oilex dated 11 October 2011.*