



INNAMINCKA
PETROLEUM

ANNUAL REPORT

PERMIT YEAR 3

29 October 2005 - 22 January 2007

PEL 101

COOPER BASIN SOUTH AUSTRALIA

INNAMINCKA PETROLEUM LIMITED

PERMIT YEAR 3

PEL 101 ANNUAL REPORT

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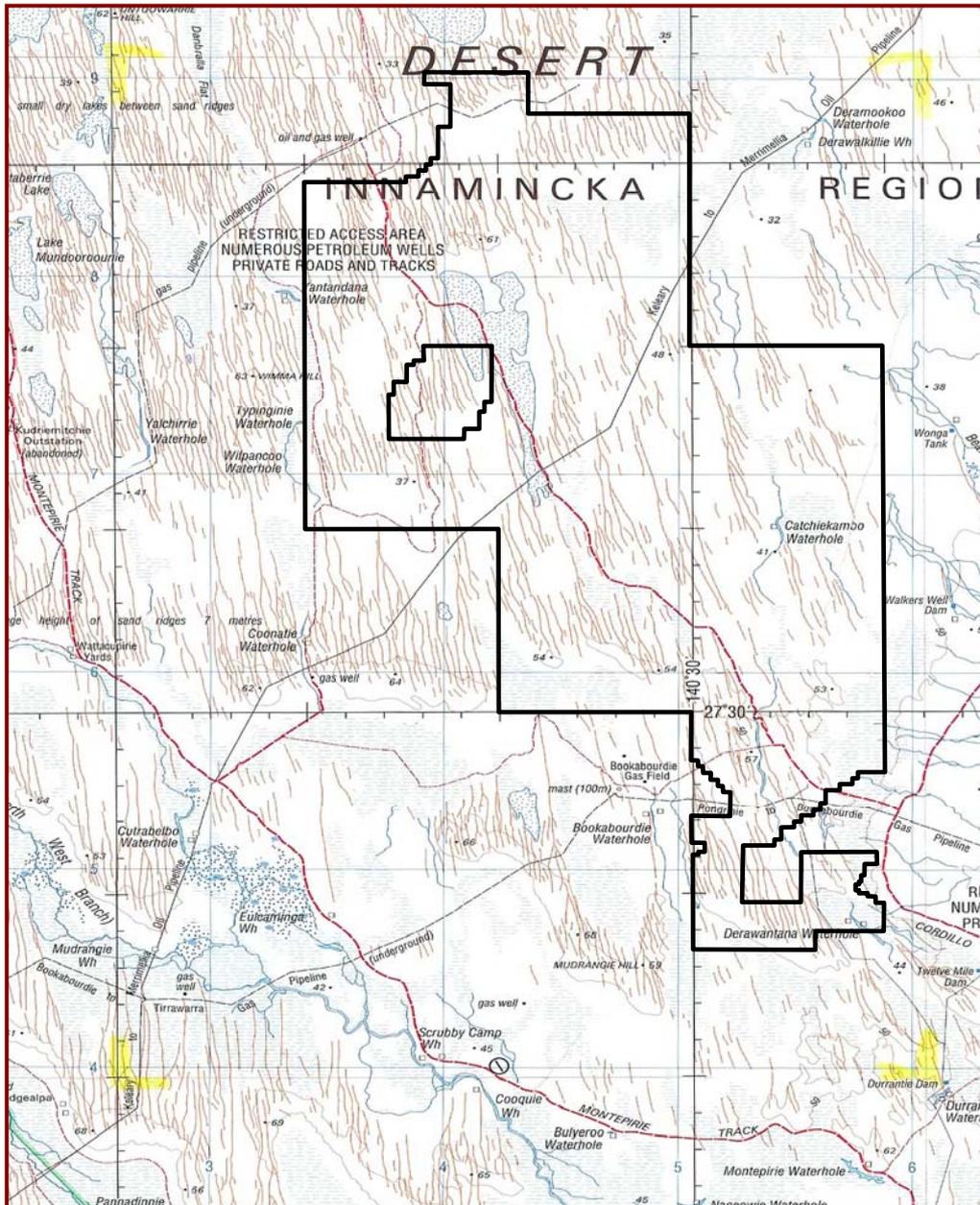
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1	INP Compliance Record with activity SEO(s) Statement of Environmental Objectives for Drilling and Well Operations in the Cooper / Eromanga Basin – South Australia (August 2000)
2	Summary Expenditure Report (to 22 January 2007 – Permit Year 3) (Note: This Report is to be removed for the website posted copy)

1 Introduction

Petroleum Exploration Licence (PEL) 101 was granted on 30 January 2003. The permit is situated in the central Cooper Basin, near the SA / Queensland border.

This report details the work conducted during **Permit Year 3** of the licence, in accordance with the requirements of Section 33 of the Petroleum Regulations 2000.



Permit Location – 1:250,000 Topographic Sheet (SG54-15)

2 Permit Summary

2.1 *Pre-Permit Year 3 History*

At the time of award of the permit (January 2003), the sole working interest was held by:

Vernon E Faulconer Australia Inc. ("VFI"): 100%

The permit was awarded with the following work commitments:

PERMIT YEAR	WORK PROGRAMME
Year 1	2 wells, reprocessing, geochemical survey
Year 2	2 wells, 50 km 2D seismic acquisition
Year 3	2 wells
Year 4	2 wells, 40 km seismic
Year 5	1 wells

Innamincka Petroleum Limited ("INP") entered into a Farmin Agreement ("Agreement") with the Licensee, VFI, dated 17 September 2004. This agreement provided for INP earning 50% interest in PEL 101 (and 35% interest in PEL 103) and being the Operator for the farmin and all subsequent joint venture work programs.

Due to delays in finalizing the Farmin Agreement, INP approached PIRSA in November 2003 seeking a variation to the work programme (as listed above) for PEL 101. Formal application was sought in correspondence sent to PIRSA on 7 January for a 6 month suspension of the Permit. On 15 January 2004, PIRSA approved a 6 month suspension to PEL 101 with a revised permit anniversary date of 29 July 2004 with the 5 year term expiring on 29 July 2008.

It became apparent in April 2004 that due to fulfillment of the commitments in PEL 103 and rig availability issues, that the work programme (to drill 2 wells by the new permit anniversary date of 29 July 2004) would not be completed in time. Consequently a further variation was sought to effectively combine the work programme for Years 1 & 2. This variation was reviewed and accepted by PIRSA on 22 April 2004 with the new work programme as follows:

PERMIT YEAR	WORK PROGRAMME
Year 1 & 2	2 wells , 100 km 2D seismic acquisition
Year 3	2 wells
Year 4	2 wells
Year 5	3 wells

Due to fulfillment of the commitments in PEL 103 plus rig and the seismic crew availability issues, the drilling of the remaining work commitment well for PEL 101, Ginko 1, and the acquisition of the Kapok 2D Seismic Program could not be completed by the new anniversary date of 29 July, 2005. Consequently a further variation was sought to put the permit back into suspension. Formal application was sought in correspondence sent to PIRSA on 22 June 2005 for a 3 month suspension of the Permit. This variation was reviewed and accepted by PIRSA on 22 June 2005 and the permit was put in suspension with effect from 1 June until 31 August 2005. Under the Petroleum Act 2000, no regulated activities are permitted in respect of the licence during the suspension period. As a result, year 2 of the licence term was now designated to end on 29 October, 2005.

The suspension was temporarily lifted on 14 July 2005 to allow for site preparations for the drilling of the Ginko 1 well and access for the Kapok 2D Seismic Survey. The suspension was resumed on 5 September, 2005 and ended on 23 October 2005.

Due to the uneconomic nature of gas sales contracts currently offered in the Cooper Basin, a request was made to vary the work program in Permit Year 3 to require the drilling of only one exploration well. This variation was reviewed and accepted by PIRSA on 31 October, 2005 with the new work program as follows:

PERMIT YEAR	WORK PROGRAMME
Year 1 & 2	2 wells , 100 km 2D seismic acquisition (completed)
Year 3	1 wells
Year 4	3 wells
Year 5	3 wells

As at 29 October 2005 (end of Permit Year 2), PEL 101 remained in good standing with the requirement to undertake the drilling of 1 exploration well by 29 October 2006.

On 5 July 2005, PIRSA approved the farmout of 25% equity in PEL 101 to MidContinent Equipment (Australia) Pty Ltd. At the end of Permit Year 2 the working interests in PEL 101 were as follows:

COMPANY	% W.I.
Vernon E Faulconer Australia Inc.	37.5
Innamincka Petroleum Limited	37.5
Mid Continent Equipment (Australia) Pty Ltd	25.0

2.2 Permit Year 3 History

Permit Year 3 commenced on 30 October 2005 (end Permit Year 2 on 29 October 2005) with the commitment to drill one exploration well for the year. It was at this time also, that VFI (37.5% JV Partner) advised they wished to sell their 37.5% interest in PEL 101. The process of attracting a new partner was protracted and by mid 2006 it became obvious that there would be insufficient time remaining in the permit year to complete the drilling of the Permit Year 3 commitment well.

On 13 September 2006, INP submitted a request to PIRSA to place PEL 101 into a 6 month suspension, with the application being approved by PIRSA in correspondence received on 21 September 2006. The period of suspension was effective from and including 22 September 2006 to 21 March 2007, with the permit expiry date being determined to be 28 April 2009. As before, no regulated activities were permitted to be carried out during the period of the suspension.

Based upon comments made by companies reviewing the PEL 101 farmin opportunity in regard to the uneconomic nature of gas sales contracts currently offered in the Cooper Basin, a request was made by INP to vary the work program for the remaining Permit Years (4 & 5). Application was made to reduce the commitment programme. This variation was reviewed and accepted by PIRSA on 18 December 2006 with the new work program as follows:

PERMIT YEAR	WORK PROGRAMME
Year 1 & 2	2 wells , 100 km 2D seismic acquisition (completed)
Year 3	Geological & Geophysical Studies
Year 4	Drill 1 well
Year 5	Drill 1 well

As part of the variation, the permit was removed from suspension effective from and including 18 December 2006. The permit expiry date was amended and determined to be 22 January 2009.

As at 22 January 2007 (end of Permit Year 3), PEL 101 remains in good standing with the requirement to undertake the drilling of 1 exploration well by 22 January 2008 (Permit Year 4).

3 Exploration Activity

3.1 Drilling (and related activities)

No wells were drilled during Permit Year 3.

3.2 Seismic Data Acquisition

No seismic was acquired during Permit Year 3.

3.3 Seismic Data Processing and Reprocessing

No seismic data was reprocessed during Permit Year 3.

4 Compliance Issues

4.1 *License and Regulatory Compliance*

As required, INP maintains a register of non-compliance issues and the following table summarises those issues of non-compliance for **Permit Year 3**.

License Non-Compliance				
No.	Stated Commitment	Reason for Non-Compliance	Rectification of Non-Compliance	
1	<ul style="list-style-type: none"> No Licence compliance issues to report 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> NA 	
Regulatory Non-Compliance (& Formal Warnings):				
<ul style="list-style-type: none"> 2000 SA Petroleum Regulations/Act Approved SEOs under the Act/Regulations Approved activity EIRs/EARs/ERCs 				
No.	Date	Activity	Non-Compliance Description	Rectification of Non-Compliance
1	Mar 06	Kapok Seismic Survey	<ul style="list-style-type: none"> Kapok Seismic Survey Operations Report was due 6 months from completing acquisition (due 3rd September 2006). Extension sought and granted. Report submitted 11th December 2006 	<ul style="list-style-type: none"> Failure of INP to track Exploration Document compliance following staff departures. Reviewed responsibilities with existing staff to assign person responsible for each report type.

4.2 *Management Systems Audits*

4.2.1 *Drilling Activities*

No Management System Audits were carried out during the year.

Given no activity was undertaken during the year, no Environmental Audits were carried out.

Both the Ginko 1 and Crocus 1 locations will be kept pending future well activity.

As stipulated in the initial 2004 Drilling Programme submission, audits against the compliance register (2000 Petroleum Regulations and Act and SEO/EIR) were undertaken prior to the commencement of drilling each well. No major issues were identified as part of these audit and routine regulatory compliance checks.

4.2.2 Seismic Activities

Given no activity was undertaken during the year, no Environmental Audits were carried out. It is planned to review the EMPs (3 x EMPs established) for the Kapok Survey once field activities commence for INP in 2007.

4.3 Data Submissions

The following data was submitted to PIRSA during the permit year:

No.	Document / Report Description	Date Submitted
Notice of Entry Documents:		
1	PEL 101 – 2006 Notice of Entry & Activity Advice	01/04/06
Well Proposal Documents:		
1	No drilling activities undertaken	
Drilling Reports:		
1	No drilling activities undertaken	
Wireline Logs:		
1	No drilling activities undertaken	
Well Completion Reports:		
1	Ginko 1 - Well Completion Report	23/02/06
Engineering Reports:		
1	No Reports Submitted	
Seismic Reports:		
1	Kapok 2D Seismic Survey Data <ul style="list-style-type: none"> • 12 x 3490E Tapes – SEG Y Data • 2 X CDs (DSS Survey Data & Observer Logs) 	23/03/06
2	Kapok 2D Seismic Survey Operations Report	11/12/06
Other Reports/Documents:		
1	PEL 101 Annual Report – Permit Year 2	08/12/05

4.4 Safety

During the permit year no safety incidents were recorded:

No.	Date	Activity	Type*	Incident Description
1				•

* LTI-Lost Time Incident MTI-Medical Treatment Incident ADI-Alternative Duties Incident

4.5 Threat Prevention

No threats were identified or reported on during the year.

4.6 Future Work Program

Proposed activities for Permit Year 4 of the licence include:

- Drill one (1) exploration well (nominally Kapok 1).

5 Expenditure Statement

A Summary of Expenditure to **22 January 2007** has been included in Appendix 2.

This financial statement is “Commercial in Confidence” and to be removed from the website copy of this report.

APPENDIX 1

INP COMPLIANCE RECORD WITH ACTIVITY SEO(s)

For

PERMIT YEAR 3

TABLE 1

INP COMPLIANCE AGAINST SEO(S) OBJECTIVES

Note: All Activities undertaken during the permit year (Permit Year 3) and reported on in this Annual Report, relate to activity specific and approved SEOs (generically the same in regards to the Environmental Objectives as listed below).

APPENDIX 1: INP COMPLIANCE AGAINST SEO(S) OBJECTIVES			
Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
1. Avoid disturbance to sites of Aboriginal and non-indigenous heritage significance	Intrusion or physical site damage to areas of Aboriginal and non-indigenous heritage significance	Access and pad construction, vehicle and people movement	Heritage survey (indigenous and non indigenous) to be conducted to clear proposed campsite, wellsite and access areas. Control of vehicle and personnel movement off pad.
			<p>Compliance Statement: During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, believes it has complied with all obligations required under this SEO objective and in accordance with the Native Title Agreement provisions.</i></p>
2. Avoid impacts on high biological value or wilderness value areas	Development impacting high biological or wilderness value areas	Access and pad construction	Conduct a field EIR/EAR/ERC survey to identify areas/zones of high biological value near wellsites, access track and seismic line areas. Review proposed locations and access areas against the Ramsar "triangle".. Review surface drainage issues with respect to catchment area contamination.
			<p>Compliance Statement: During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>
3. Minimise disturbance to vegetation and habitat	Physical damage to soils, vegetation and habitat	Access and pad construction; natural limits on rehabilitation	Use of existing access; rolled access and pad development on gibber surfaces wherever possible; steep gibber slopes avoided.
			<p>Compliance Statement: During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR/EAR/ERC requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
4. Avoid disturbance to rare, endangered, vulnerable species	Disturbance to rare, endangered, vulnerable species	Access and pad construction	Review as part of the EIR whether such species are present on proposed access and at wellsite and if so, manage location siting as appropriate.
			<p><u>Compliance Statement:</u> During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>
5. Prevent introduction of pest plants	Establishment of further alien species in the locality	Importation on vehicles	Requirement for contractor/other vehicles to be clean prior to entering district. A very low incremental risk, given other vehicular use, uncleaned, on the Innamincka-Nappamerri road and the station road ("Poddy Track").
			<p><u>Compliance Statement:</u> During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>
6. Minimise soil impacts 7. Minimise disturbance to gibber surfaces 8. Minimise disruption of watercourse flows	Accelerated soil erosion. Potential start-up of long term irreversible erosion on gibber slopes >2% Alteration in stream flow patterns	Access and pad construction	As part of the EIR, review the geo-morphology of the proposed pad area, and recommend as appropriate on the construction technique and pad location to reduce the need for extensive construction. Site where possible on gently sloping (1-2%) ground. Rolling of most of pad area rather than scraping or cut and fill. No cutting for levelling if possible, fill used where needed for level high use pad areas; fill sourced from sump. Gibber and surface loam held for later re-spreading where scraped surfaces are created (eg for drill sump).
			<p><u>Compliance Statement:</u> During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>
9. Prevent cross-connection between aquifers, and between aquifers and reservoirs	Contamination of higher quality groundwater with lower quality waters (salinity, trace elements). Contamination of groundwater with hydrocarbons.	Inadequate casing or plugging post-drilling.	Casing design and cementing engineered to prevent blowout and for aquifer protection. Surface casing used to isolate shallow aquifers in surficial formations. Production casing run for successful well; hole concrete-plugged and abandoned for failed well. Both surface casing, and production casing if run, externally protected from

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
			<p>corrosion by cement. Internal corrosion protection provided by treated drilling mud (surface casing) or other corrosion inhibitor (production casing). Drilling contractor required to test casing integrity and blowout prevention equipment regularly. Procedures and requirements given in INP's Drilling Program.</p> <p>Compliance Statement: During the reporting period, no field activity was undertaken.</p> <p>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</p>
10. Minimise visual impacts	Visual impacts through obtrusive access and pad development and/or visible long-term persistence of pad and access.	Access and pad construction	<p>As part of the EIR for the location, consider the visual impacts that the drilling operation will have. Where possible ensure the pad is flush with land surface, and the cleared/rolled areas have an irregular outline. Rolled surfaces on new access promoting reasonable rehabilitation.</p> <p>Compliance Statement: During the reporting period, no field activity was undertaken.</p> <p>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</p>
11. Minimise public and third party risks	Creation of new public risks: public using rig road; well blowouts; post-drilling.	Access risks, wellsite risks	<p>Use of signage to prevent access to drilling areas and prepared access tracks by general public</p> <p>Compliance Statement: During the reporting period, no field activity was undertaken. All signage remains in place from past activity to ensure compliance with this objective.</p> <p>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</p>
12. Minimise waste handling and disposal impact	Creation of wastes: sewerage, litter, overflow and spillage	Disposal of wastes while drilling	<p>Sewage disposed locally via short-term septic pits. Wastes on site confined by bins/skips. Disposal eventually to EPA-licensed waste disposal facility at Moomba: minor non-toxic wastes, muds disposed in drill sump. Litter cleanup during and post-drilling.</p>

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
			<p><u>Compliance Statement:</u> During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>
13. Minimise adverse impact on livestock	Interference with stock	Disturbance to stock on temporary waters Disturbance to stock on key pastoral dams	Drill site is temporary: activity will be sufficient to deter stock from pad and camp area but unlikely to otherwise affect stock.
			<p><u>Compliance Statement:</u> During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>
14. Avoid spills; rapid cleanup and impact minimisation following spills	Pollution through local oil spills, sump overflows	Vehicle and plant refuelling, drilling operations	Refuel areas HDPE/clay floored and locally bunded (flooring and bunding clay sourced from sump and laid on uncut gibber surface). Sump(s) bunded. Almost level site limits extent to which spills may escape. Extreme flood events unlikely during drilling. In the event of spills on gibber surfaces, spill can be left to self-clean rather than risk disturbance of gibbers. Refuel areas' contaminated soil to be disposed in sump, with drilling muds, at end of drilling.
			<p><u>Compliance Statement:</u> During the reporting period, no field activity was undertaken.</p> <p><i>INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.</i></p>

APPENDIX 2

Expenditure Report to 29 October 2005

PERMIT YEAR 2

The Expenditure Statement has been removed and is presented as a separate document and remains **Commercial in Confidence**.