

Adelaide Energy Limited

Annual Report

Licence Year 1

01 March 2007 – 29 February 2008

PEL 255

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1 Introduction

Petroleum Exploration Licence (PEL) 255 was granted on 01 March 2007. The licence is located in the onshore Otway Basin, South Australia. This report details the work conducted during Licence Year 1 of the licence period 01 March 2007 – 29 February 2012 (inclusive) in accordance with Regulation 33 of the Petroleum Act 2000.

Ten Associated Facilities Licences (AFLs 101 to 110) were granted in December 2007 to enable Adelaide Energy to extend the Jacaranda Ridge 3D Seismic Survey from PEL 255 into adjoining licence areas under Geothermal Exploration Licences GELs 214 and 223. A location map showing these AFLs is included as Figure 1 below. The seismic survey was recorded between 24 January and 2 February 2008. De-permitting of some landowners was in progress at the end of the reporting period. Two of the 14 new upholes were drilled within AFLs in early February.

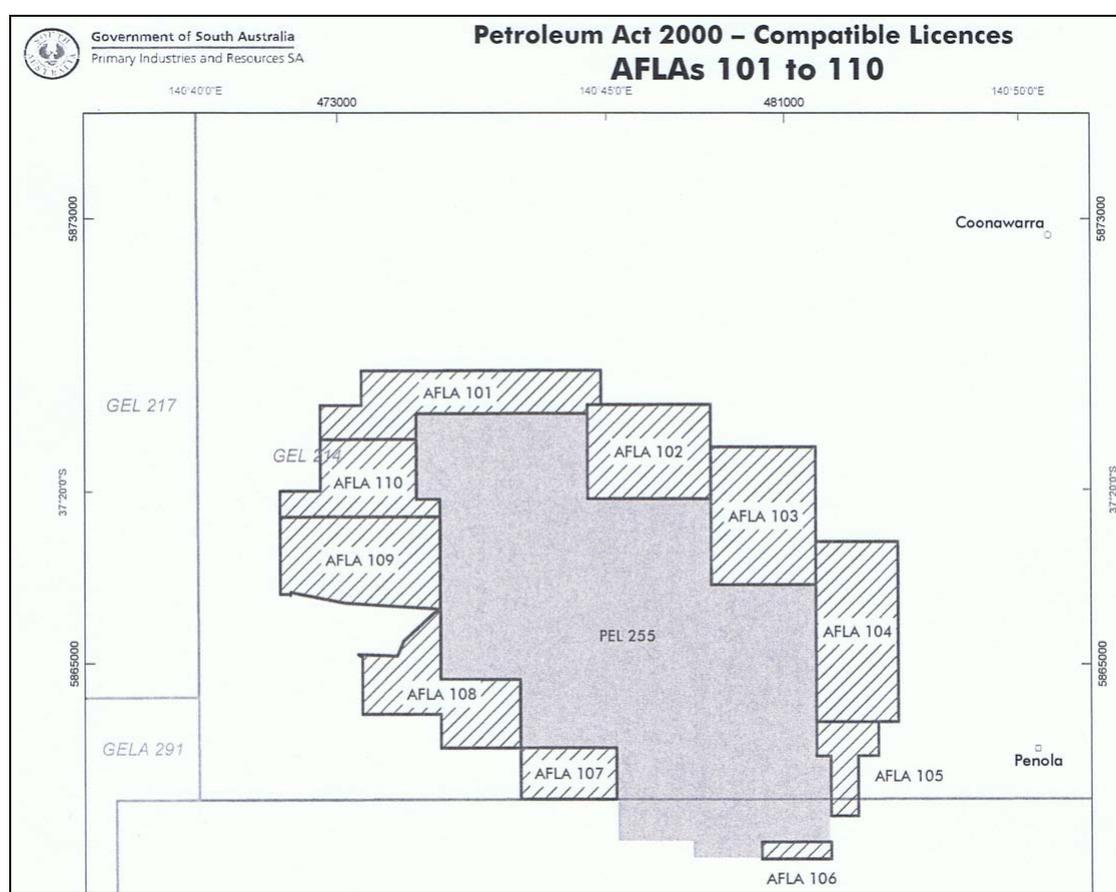


Figure 1: AFL location map

2 Permit Summary

For the duration of the licence year, licensees for Petroleum Exploration/Production Licence PEL 255 were:

- Adelaide Energy Limited 100%

The current work commitments (including all variations) associated with PEL 255 can be seen in Table 1.

Table 1 Current work commitments by licence year

Licence Year	Licence dates	Minimum Work Program
Year 1	<i>01 March 2007 – 29 February 2008</i>	<i>1 Well 30 km² 3-D seismic Aeromagnetic survey Geological and Geophysical studies</i>
Year 2	<i>01 March 2008 – 28 February 2009</i>	<i>1 Well Geological and Geophysical studies</i>
Year 3	<i>01 March 2009 – 28 February 2010</i>	<i>1 Well Geological and Geophysical studies</i>
Year 4	<i>01 March 2010 – 28 February 2011</i>	<i>1 Well</i>
Year 5	<i>01 March 2011 – 29 February 2012</i>	<i>Geological and Geophysical studies</i>

Licence Year 1 concluded on 29 February 2008. The following table displays the minimum work program (after all variations) and the actual work completed up until the end of the current licence period.

Table 2 Final work program and work completed (as of end of current reporting period) by licence year

Licence Year	Minimum Work Program	Actual Work
Year 1	<i>1 Well 30 sq km 3-D seismic Aeromagnetic survey Geological and Geophysical studies</i>	<i>Jacaranda Ridge-2 well drilled and completed as a producer. 48.6 sq km of 3D seismic were recorded and are currently being processed. The survey size exceeded the work commitment. No aeromagnetic survey was recorded Geological and Geophysical studies.</i>

3 Regulated Activities

Pursuant to Regulation 33(2)(a) under the Act, the following regulated activities were conducted by Adelaide Energy Limited in PEL 255.

Drilling and Related Activities

Jacaranda Ridge-2 appraisal well spudded on 14 July 2007 and drilled to 178mm casing point at 2607 metres. The well reached TD at 2765 metres (Driller) on 08 August 2007. One core was cut in the Sawpit Sandstone. A packer was set at 2570 metres and the well was completed as a barefoot completion over the Sawpit Sandstone primary objective. The rig was released on 11 August 2008.

The Jacaranda Ridge-2 well site was approximately 90 metres from Jacaranda Ridge-1. Site preparation was conducted in accordance with the Adelaide Energy Limited SEO, PEL 255, Otway Basin May 2007.

Seismic Data Acquisition

The Jacaranda Ridge 3D seismic survey was recorded by Terrex Seismic between 24 January and 2 February 2008. Prior to the recording phase, line clearing commenced on 29 December 2007 and was completed on 27 January 2008, and surveying by Dynamic Satellite Surveys commenced on 8 January and was completed on 2 February 2008. The Jacaranda Ridge 3D survey covers an area of 48.6 sq km and 153.44 source line km were acquired. This was the only seismic survey recorded during the reporting period. A final operations report will be prepared after the seismic processing is completed.

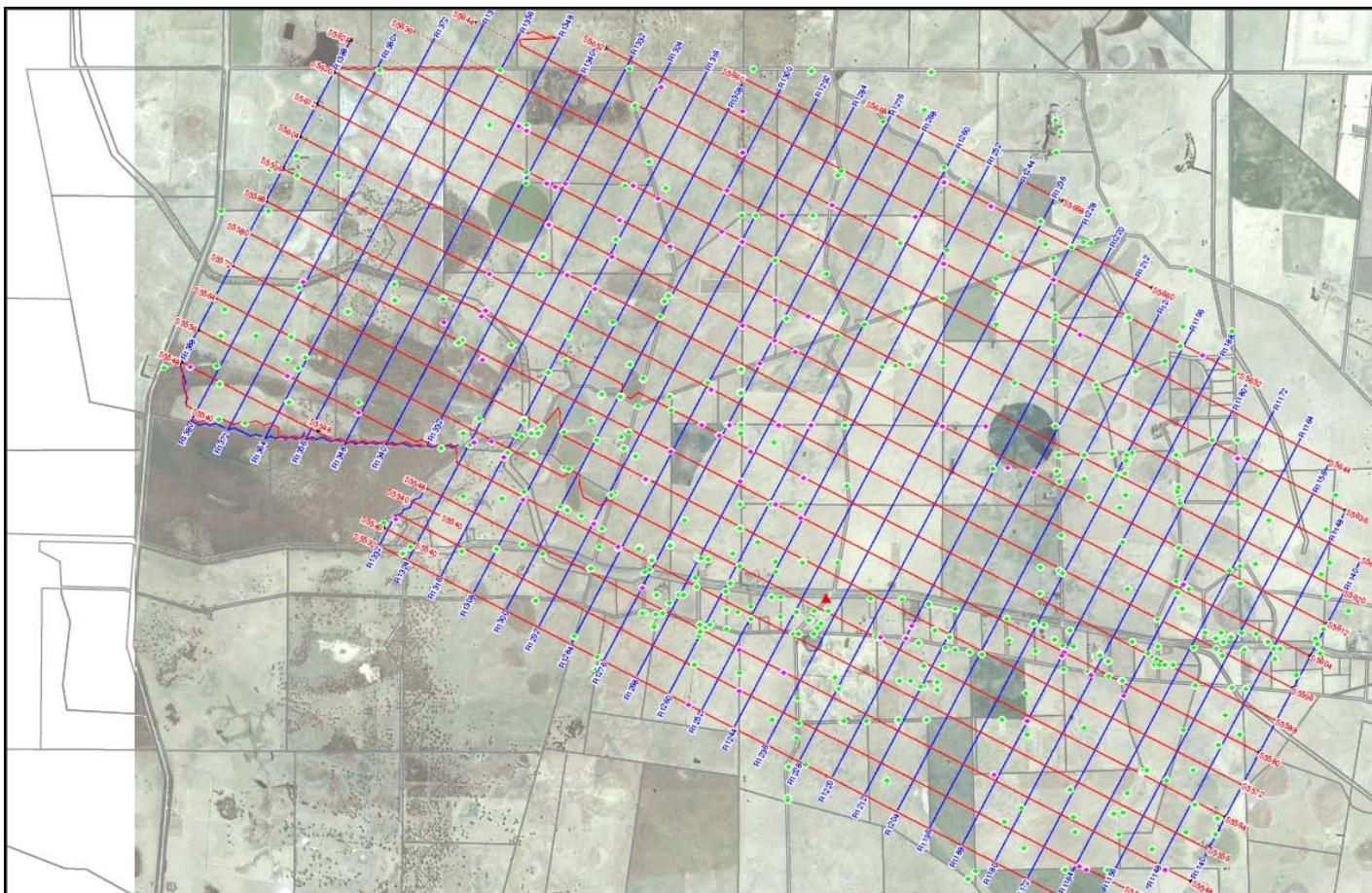


Figure 2: Aerial photo with Jacaranda Ridge final line location overlay (red = source lines, blue = receiver lines)

Seismic Data Processing and Reprocessing

The Jacaranda Ridge 3D seismic data (48.6 sq km) are currently being processed in Adelaide by WesternGeco. It is not being integrated with any other surveys.

No seismic reprocessing was conducted during the reporting period.

Geochemical, Gravity, Magnetic and other surveys

No aeromagnetic survey was recorded due to the larger than originally planned 3D seismic survey. The 3D survey covers most of PEL 255 and will more accurately define the Jacaranda Ridge structure.

Fourteen new upholes were drilled within the 3D survey to better define variations in the depth and velocity of the near surface weathered layer to assist the computation of seismic static corrections. The holes were drilled to a depth of 30 metres and logged between 4 and 7 February 2008. No aquifers were breached during uphole drilling.

Production and Processing

A production test was conducted in Jacaranda Ridge-2 over the period 17 September to 26 September, 2007. The test recovered GTS at rates up to 2.46 MMCFd and 184 BCPD over the total open-hole section.

Pipeline Construction and Operation

No construction of pipelines or related facilities was conducted during the permit year

Preliminary Survey Activities

Apart from drilling Jacaranda Ridge 2 and recording the Jacaranda Ridge 3D seismic survey, no additional preliminary survey activities were conducted during the reporting period.

4 Compliance Issues

Licence and Regulatory Compliance

Adelaide Energy Limited complied with Regulations 33(2) (b) & (c) in relation to its licence and Statement of Environmental Objectives for activities in Jacaranda Ridge-2. As a condition of the above Regulations the following incidents are noted.

The Year 1 work commitment included an aero-magnetic survey. Trial evaluation of data indicated that background interference from infrastructure in such a developed and populated area was likely to degrade data quality and additional 3-D seismic was acquired. PIRSA was advised of the increased scope of the Jacaranda Ridge seismic survey but substitution of the aeromagnetic survey by additional 3-D seismic was not recorded as a variation of the terms of Year 1 work commitment.

The need to conduct a wireline survey at short notice prevented the requisite 30 days notification period to PIRSA. The Company acknowledged the need to inform the Regulator of all regulated activities within the pre-requisite time periods and the Regulator was fully informed of, and approved, the planned production test prior to commencement. The risk of similar occurrences may be minimised by broader consultation with other operators to monitor service company schedules and locations for integration into a planning schedule. Log data and a down hole diagram relating to testing Jacaranda Ridge-2 were not submitted within the mandatory period.

Core-1, Jacaranda Ridge-2, was stored in Perth for a period exceeding 6 months pending decisions regarding further analysis. The core has been transferred to the Conyngham Street core storage facility in compliance with the Regulations and results of analyses forwarded to PIRSA.

Licence Non-Compliance

Table 2 List of licence non-compliances for current reporting year

No.	Stated Commitment	Reason for Non-Compliance	Rectification of Non-Compliance
	Adelaide Energy Limited complied with all conditions of licence.	ADE complied with the terms of the licence but substituted additional 3-D seismic for an aeromagnetic survey.	Substitution of aeromagnetic data by an additional 18.6 km 3-D was approved by the regulator.

Regulatory Non-Compliance

Table 3 List of regulatory non-compliances for current reporting year

No.	Date	Activity	Details of Non-Compliance	Rectification of Non-Compliance
1	02/02/08	Production test	ADE informed the Regulator of the intention to run a wireline survey without the 30 day advance notice for regulated activities. Testing crew was in the immediate vicinity of PEL255 and considerable saving on mob-demob costs was possible.	More precise monitoring of service company activities within the petroleum industry to optimise mobilisation/ demobilisation and to ensure adequate lead time prior to commencement of activities. The regulator was informed about the test and gave approval. ADE has acknowledged the short notification period in this report.

2	23/12/07	Static Gradient Survey	Log data and down-hole diagram not transmitted within requisite 1 and 2 month period after acquisition.	Data submitted after non-compliance noted in PIRSA email 21 April 2008.
3	12/02/08	Storage of core	Core-1, Jacaranda Ridge-2 stored in Perth pending further analysis.	Core relocated to Adelaide from analyst's laboratory, Perth. Results of analyses submitted.

Compliance with Statement of Environmental Objectives

Table 4 Adelaide Energy SEO PEL 255 – Integrated SEO for drilling and seismic operations

The SEOs for Drilling and Seismic operations have similar goals and the respective objectives have been comingled in the table below. The source of each objective is referenced by the relevant Objective number and source (**D**rilling or **S**eismic). Adelaide Energy Limited complied with the terms and intent of the SEOs for Drilling, Completion and Initial Well Testing, and Geophysical Operations in the Otway Basin, South Australia.

Objective	Assessment Criteria	Compliant/Non-Compliant (inc. Compliance statement)	Comments
<p>1D) Avoid disturbance to sites of Aboriginal and non-indigenous heritage significance.</p> <p>9S) Avoid areas with cultural significance or heritage value.</p>	<ul style="list-style-type: none"> No sites of Aboriginal and European heritage significance are identified for protection in the areas affected by ADE's operations. No requirement to interfere with recognised areas of significance – well location and lines planned to avoid sensitive areas 	Compliant	<ul style="list-style-type: none"> No disturbance to Aboriginal and non-indigenous heritage sites. JR-2 close to JR-1. All seismic lines inspected prior to commencement of survey.
<p>2D) Avoid disturbance to rare, vulnerable and endangered flora and fauna species.</p> <p>2S) Avoid long-term damage or irreparable impacts to areas of high biodiversity or conservation value, including areas with rare, endangered or vulnerable species.</p> <p>1S) Minimise the clearing and/or other impacts on native vegetation and associated wildlife habitats.</p> <p>7S) Minimise the risk of introduction and/or spread of introduced species and biosecurity threats.</p>	<ul style="list-style-type: none"> This area has been cleared of any native vegetation, and is continually exposed to cropping, burning, fertilizing, spraying and grazing. Well site and seismic lines rehabilitated in accordance with land owner's requirements All activities planned in order to avoid sensitive areas 	Compliant	<p><u>Wellsite and Access Track Construction</u></p> <ul style="list-style-type: none"> Area already cleared. <p><u>Drilling and Production Testing Activities</u></p> <ul style="list-style-type: none"> No fires during drilling and production testing activities. <p><u>Seismic Activities</u></p> <ul style="list-style-type: none"> All seismic lines inspected prior to commencement of survey. Line layout planned with avoidance of sensitive areas

<p>3D) Prevent the introduction and establishment of exotic weed species. 7S) Minimise the risk of introduction and/or spread of introduced species and biosecurity threats.</p>	<ul style="list-style-type: none"> • The major potential source of weed introduction is from vehicles and equipment brought in from other regions of the state or interstate for the various well activities. • Vehicles cleaned or mobilised from safe regions 	Compliant	<ul style="list-style-type: none"> • No introduced exotic weed species as a consequence of activities.
<p>4D) Minimise impacts to soil. 4S) Minimise the disturbance to surface drainage patterns</p>	<ul style="list-style-type: none"> • The main impact to soil is caused by the stripping off of topsoil, the importation of foreign material for the construction of the site, and the compaction of this material and the remaining soil below this fill. • Seismic line preparation avoids dozing and soil disruption 	Compliant	<ul style="list-style-type: none"> • No disturbance to soil profiles as a result of construction activities. • No significant increase of surface limestone on surface following restoration. • Lines rolled and slashed, not cleared by skimming upper layers of soil • Low regional relief avoids risk of erosion
<p>5D) Minimise loss of reservoir and aquifer pressures and avoid aquifer contamination. 5S) Avoid the contamination of surface and ground waters.</p>	<ul style="list-style-type: none"> • This objective seeks to protect the water quality and pressure of any aquifers and to maintain pressure in potential petroleum aquifers. • Casing strings and drilling fluid programmes planned in accordance with best industry practice • Shallow water bores for seismic up-hole drilling 	Compliant	<ul style="list-style-type: none"> • No aquifer contamination as a result of drilling, completion or production testing activities. • Dilwyn is not penetrated in any water bore. • No cross-flow behind casing between aquifers, and between aquifers and hydrocarbon reservoirs.
<p>6D) Minimise disturbance to drainage patterns and avoid contamination of surface waters and shallow groundwater resources. 3S) Minimise disturbance to soil.</p>	<ul style="list-style-type: none"> • Well drilled with casing and drilling fluid programme designed to minimise possible damage to the environment • No cut/ fill over shallow water sources or to permanently expose limestone substrate • Rig and seismic operations conducted to ensure no spills of toxic chemicals and/ or fuel, storage areas bunded as required • Seismic line clearing conducted to avoid removal of top soil, rehabilitation in accordance with the land owners' wishes and approval. 	Compliant	<ul style="list-style-type: none"> • No disruption to drainage patterns as a result of construction activities. • No contamination of surface waters and shallow groundwater resources. • Near-well bore invasion by mud filtrate is an accepted process during drilling. • Fresh water mud is used in the top hole and has no impact. • Saline mud is used in the mid to bottom

			<p>hole section but its impact is minimised because of the following factors:-</p> <ul style="list-style-type: none"> (a) deeper aquifers are saline and are not used for agriculture; (b) shallow aquifers are behind cemented casing; (c) the volume of filtrate is insignificant relative to the volume of the aquifer.
<p>7D) Minimise risks to the safety of the public, employees and other third parties. 12S) Minimise the risk of initiation and/or propagation of wildfire.</p>	<ul style="list-style-type: none"> • Rig practices monitored and training / induction programs maintained and upgraded as necessary. • The wellsite was under the control of the Drilling Supervisor. • All reasonable steps were taken to prevent unauthorised access to the site and warning signs appropriately located. • Dust resulting from drilling activities and supply truck movements minimised 	Compliant	<ul style="list-style-type: none"> • No injuries to the public or third parties. • No fires were initiated by seismic or drilling activities
<p>8) Minimise disturbance to the local community and other land users. 8S) Minimise the visual impacts of geophysical operations and any future third party use. 10S) Minimise the disturbance to other land users.</p>	<ul style="list-style-type: none"> • Slow heavy vehicles associated with operations • The cleared open nature of the region minimized natural attenuation and made noise moderation difficult. • Risk to livestock injury from vehicle movements and open sumps and cellars minimised. • Spills controlled/ minimised by rapid response by drilling personnel to minimise impact on the environment and any stock. • No wildfires caused by construction/drilling/rehabilitation activities 	Compliant	<ul style="list-style-type: none"> • No adverse impact on livestock, cropping and pasture as a result of activities. • No complaints from the local community or other land users. • No fires initiated during construction, drilling or rehabilitation. • No spills.
<p>9D) Minimise visual impact. 8S) Minimise the visual impacts of geophysical operations and any future third party use.</p>	<ul style="list-style-type: none"> • Visual impact of wellsite and access track construction minimised. Assessment criteria used to determine rehabilitation of abandoned and restored wellsites and access tracks (PIRSA Field Guide 2002). • GAS scoring $2 < x < 0$ 	Compliant	<p>Lines were weaved to break the line of sight;</p> <ul style="list-style-type: none"> • There was no bladework on the survey except for a minor amount at Drain B crossings; • Water courses were not obstructed to prevent flow; • No litter was in evidence; • No trees in native vegetation were removed; • Some branches were trimmed to allow safe vehicle passage; • Close consultation was maintained

			<p>between the permit man and landowners to minimise the impact on their activities.</p> <ul style="list-style-type: none"> • Vibrator points (VPs) were set at 3 times the recommended distance (100m rather than 30m) from houses to make absolutely sure that no vibration damage occurred. • The vibrators were set at "Low Force" for the VPs at 100m to add extra insurance. • Slashing rather than dozing was used in native forests to ensure that rapid regeneration would occur and there would be minimal impact on animal habitat; • Each vehicle carried fire extinguishers, shovels and rakes to guard against fire outbreaks; • Upholes were shallow and did not breach the aquifer; • The Penola Conservation Park was not encroached upon.
<p>10) Minimise impact of domestic and industrial waste. 11S) Minimise the loss of resources and optimise waste recovery</p>	<ul style="list-style-type: none"> • Waste refers to all wastes with the exception of the Listed Wastes in Schedule 1 Part B of the Environment Protection Act 1993. • Liquid and solid waste was treated as discussed in the Environmental Impact Report. • All waste removal contractors were licensed and operated within EPA guidelines. 	Compliant	<ul style="list-style-type: none"> • No soil or groundwater contamination as a result of waste storage and disposal. • No impact on landowner as a result of waste storage and disposal. • No uncontained domestic waste on site.

Management System Audits

Adelaide Energy Limited complied with Regulation 33(2) (d) under the Act by conducting internal reviews of all operations and procedures. No significant issues were raised.

Report and Data Submissions

Pursuant to Regulation 33(2) (e) under the Act, Adelaide Energy submitted the following reports

Table 5 List of report and data submissions during current licence reporting year

Description of Report/Data	Date Due	Date Submitted	Compliant / Non-Compliant
Jacaranda Ridge-2 Well Completion Report	11/02/2008	08/02/2008	Compliant
Jacaranda Ridge 2D Seismic Interpretation Report	n/a	April 2007	n/a
Proposed Jacaranda Ridge 3D Seismic Survey – Application for an Associated Facilities Licence	n/a	30/10/08	compliant
Jacaranda Ridge 3D Seismic Survey Application (Part 1)	n/a	6/11/2007	compliant
Jacaranda Ridge 3D Seismic Survey Application (Part 2)	n/a	4/12/2007	compliant
Jacaranda Ridge 3D Seismic Survey – Weekly Operations Reports	n/a	11/1/08 to 22/2/08	compliant
Jacaranda Ridge 3D seismic field data plus uphole data	02/08/2008	21/2/2008	compliant
Cased hole Quarterly Report 3 rd Quarter, Permit Year 1	31/12/2007	30/1/2008	Non-compliant. ADE will revert to a calendar year for Quarterly reports.

Incidents

Two Lost Time Injuries unfortunately occurred during the recording of the Jacaranda Ridge 3D seismic survey (see Table 7). Both injuries were to line crew employed by Terrex Seismic. In both cases the injured parties received prompt medical treatment in the nearby town of Penola and returned to work within 2 or 3 days. These are Adelaide Energy's only reportable incidents since listing on the ASX so any trends cannot yet be established.

There were no reportable environmental incidents during the 3D seismic survey.

Pursuant to Regulation 33(2) (f) Adelaide Energy Limited includes the following data.

Table 6 List of incidents during current licence reporting year

Date of Incident	Activity	Incident Description	Type of Loss	Action to Rectify & Effectiveness of Action	Date Reported / Reported to Whom
25/1/08	Jacaranda Ridge 3D recording	Juggy slipped into drain & dislocated kneecap	LTI (3 days off work)	Discussed at next toolbox & crew safety meetings. Proposed highlighting ground hazards with warning tape on pegs.	29 January 2008/ Dave Cockshell
30/1/08	Jacaranda Ridge 3D recording	Juggy hit by low branch while on truck – small wood chip removed from eye	LTI (2 days off work)	Line crew to be issued with clear safety glasses. Discussed at next toolbox meeting and safety meeting.	3 February 2008/ Dave Cockshell

Threat Prevention

Pursuant to Regulation 33(2) (g) under the Act, Adelaide Energy Limited reports that no reasonably foreseeable threats or hazards are recognised.

Future Work Program

Pursuant to Regulation 33(2) (h) under the Act, Adelaide Energy Limited plans the following activities in permit year 2 (01 March 2008 – 28 February 2009).

- Perforate the Sawpit Sandstone and production test the reservoir. The work will commence in April, 2008 and last for approximately 2-4 days.
- Proposed tie in of Jacaranda Ridge-1 and 2 following analysis of the results of testing.
- Following the completion of the processing of the Jacaranda Ridge 3D seismic data, these data will be interpreted with the aim of identifying one or more drillable prospects or appraisal drilling locations.
- Drill an exploration or appraisal well based on the 3D seismic interpretation.

5 Expenditure Statement

Pursuant to Regulation 33(3) under the Act, Adelaide Energy Limited has submitted to PIRSA a list of expenditure in Permit Year 1 as Appendix I.

6 Additional Information for Production Licence Reports

Adelaide Energy Limited does not operate any production facilities.

7 Additional Information for Pipeline Licence Reports

Adelaide Energy Limited does not operate any pipelines.

APPENDIX 1 Expenditure Statement Permit Year 1

Commercial in Confidence