



PEL 117, 118, 119, 121, 122, 123 & 124

Arckaringa Basin

South Australia

Year 1

Combined Annual Report

For the Period

3rd October 2006 to 2nd October 2007

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1. Introduction

Petroleum Exploration Licences (PEL's) 117, 118, 119, 121, 122, 123 & 124 were all issued on the 3rd October 2006 for a term of five years. The Licences are located in the Arkaringa Basin, South Australia. This report details the work conducted during Licence Year 1 (3rd October 2006 – 2nd October 2007 inclusive), in accordance with Regulation 33 of the Petroleum Act 2000.

2. Permit Summaries

PEL's 117, 118, 119, 121, 122, 123 & 124 were awarded to SAPEX which currently maintains a 100% interest in all Licences.

The original work commitments associated with the awarding of PEL's 117, 118, 119, 121, 122, 123 & 124 are indicated in Table 1.

Table 1: PEL Original Work Commitments by Licence year

PEL 117 original work commitments

Year of Term of Licence	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 118 original work commitments

Year of Term of Licence	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Geological and Geophysical Studies
Three	Drill one well
Four	Geological and Geophysical Studies
Five	Geological and Geophysical Studies

PEL 119 original work commitments

Year of Term of Licence	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Geological and Geophysical Studies
Three	Drill one well
Four	Geological and Geophysical Studies
Five	Geological and Geophysical Studies

PEL 121 original work commitments

Year of Term of Licence	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 122 original work commitments

Year of Term of Licence	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 123 original work commitments

Year of Term of Licence	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 124 original work commitments

Year of Term of Licence	Minimum Work Requirements
One	Geological and Geophysical Studies
Two	Drill one well
Three	Drill one well
Four	Geological and Geophysical Studies
Five	Geological and Geophysical Studies

3. Regulated Activities

Regulation 33 (2) (a):

Regulated activities conducted

- Commencement of a data review to assess the potential for coal seam gas (CSG) and underground coal gasification (UCG) for known coal deposits with a focus on coal occurrence in the Boorthanna Trough. Internal Report completed which focused on EL 3325 & 3326 data which lie within PEL's 117, 121 & 122 and is relevant to PEL work.
- Seismic interpretation and assessment of geological data for petroleum.
- Historic seismic data reprocessing.

- Completion of Environmental Impact Reports (EIR) and Statement of Environmental Objectives (SEO) for Geophysical Operations and Exploration Drilling Activities.
(Note: SEO's officially gazetted on the 8th November 2007)
- SAPEX commissioned Coal Resource JORC assessment for the East Wintinna and Weedina coal deposits by Geos Mining Mineral Consultants [see Reg. 33 (2) (e)].
- Planning for seismic survey now intended for 1st Quarter 2008.
- Work area clearances with Native Title claimant team and anthropologist for proposed seismic operations in Boorthanna Trough undertaken by W.F. Hedditch Nominees Pty Ltd.

4. Compliance Issues

Regulation 33 (2) (b):

Compliance with the Act, Regulations, Licence conditions and relevant statement of environmental objectives

Due to an administrative oversight, the Year 1 Annual Report was submitted late.

With exception of late lodgment of this Year 1 Annual Report, SAPEX has complied with all the provisions of the Petroleum Act.

Regulation 33 (2) (c):

Actions to rectify non-compliances

An administrative system is now in place to prevent future late lodgments of Annual Reports.

Regulation 33 (2) (d):

Management System Audits

No Management System Audits were conducted.

Regulation 33 (2) (e):

Reports generated during the Licence year

- SAPEX commissioned Coal Resource JORC Assessments generated by Geos Mining Mineral Consultants for the:
 - Weedina Coal Deposit
 - East Wintinna Coal Deposit.

Whilst reported for EL 3325 & EL 3326, this has a direct impact on CSG and UCG evaluations in PEL's.

- Environmental Impact Reports by RPS Ecos:
 - Arckaringa Basin Geophysical Operations EIR
 - Arckaringa Basin Exploration Drilling Activities EIR.
- Statement of Environmental Objectives by RPS Ecos:
 - Arckaringa Basin Geophysical Operations SEO
 - Arckaringa Basin Exploration Drilling Activities SEO.
- Arckaringa Basin Coal Study (October 2007) by SAPEX – Internal Report.

Regulation 33 (2) (f):

Incidents reported to the Minister under the Act

No incidents were reported to the Minister during the period.

Regulation 33 (2) (g):

Foreseeable threats that present a hazard to facilities or activities

- No facilities in licence areas.
- No threats to activities which are not already covered in the relevant EIRs for exploration drilling.

Regulation 33 (2) (h):

Operations proposed for Year 2

Oil and Gas Activity

- Complete seismic survey (PEL 117, 121, 122, 123)
- Initiate drilling operations
- Continue Hydrogeological/groundwater study, conducted by Coffey Environments
- Native Title/Aboriginal site clearances.

Coal Seam Gas Activity

- Drilling of the East Wintinna Coal Deposit (PEL 117) and the Weedina Coal Deposit (PEL 121 & 122), with 2 drillholes proposed in each deposit (PACE Proposal submitted)
- Native Title/Aboriginal site clearances.

Underground Coal Gasification Activity

- Selection of trial areas and drilling of test holes to assess the potential for underground coal gasification (UCG).

4. Expenditure Statement

Regulation 33 (3):

An annual report must be accompanied by a statement of expenditure on regulated activities conducted under the Licence for the relevant licence year, showing expenditure under each of the following headings:

- (a) drilling activities;*
- (b) seismic activities;*
- (c) technical evaluation and analysis;*
- (d) other surveys;*
- (e) facility construction and modification;*
- (f) operating and administration expenses.*

Please refer to Appendix 1 for the Expenditure Statement for the current reporting period.

Appendix 1: Combined Expenditure Statement

Drilling Activities

Seismic Activities

Technical Evaluation and Analysis

Commercial in Confidence

Other Surveys

Facility construction or modification

Operation and administration expenses

Total