



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

Arckaringa Basin

South Australia

Year 3

Combined Annual Report

For the Period

3 October 2008 to 2 October 2009

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1. Introduction

Petroleum Exploration Licences (PEL's) 117, 118, 119, 121, 122 & 123 'Arckaringa Basin', cover an area of 54,578km² and lie within the Arckaringa Basin, surrounding Coober Pedy, South Australia. This report describes activities conducted during Licence Year 3 (3 October 2008 – 2 October 2009 inclusive), in accordance with Regulation 33 of the Petroleum and Geothermal Act 2000.

2. Licence Summary

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

In late October 2008 SAPEX Limited merged with Linc Energy Ltd. Following the merger and changes to company structure, ongoing review of target areas in the Arckaringa Basin continues to be a priority.

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

Table 1: Original Work Commitments by Licence year

PEL 117 Original work commitments

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

PEL 118 Original work commitments

Year 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 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 Licence	Minimum Work Requirements
One	Geological and Geophysical Studies

Two	Drill one well and Seismic Acquisition
Three	Drill one well
Four	Geological and Geophysical Studies and Seismic Acquisition
Five	Geological and Geophysical Studies

PEL 122 Original work commitments

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

PEL 123 Original work commitments

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

- On 12 June 2008 SAPEX signed a merger agreement with Linc Energy under which Linc Energy proposed to acquire all of SAPEX's shares, effected by schemes of arrangement which were implemented on 15 October 2008.
- As a result of the merger some of the work commitments for Year 2 were deferred to Year 3. An application for a variation to the work programs dated 19 December 2008 was submitted to PIRSA and approved.
- Activity approval for a drilling program within the Arckaringa Basin was given on 28 August 2009.
- During the notification and approval process of on ground preparations for the nine (9) hole drilling program in the Arckaringa Basin, factors arose causing schedule and planning delays and attributed to the work program extending beyond the commitment of Year 3, these included:
 - The merger of SAPEX and Linc Energy at the start of the Year 3 program and subsequent change in resource appraisal process (from conventional petroleum to underground coal gasification) resulting in new prospect generation.
 - Unexpected delays in communications with the Department of Defence in terms of entry into PEL's 119, 123 and 124. Delays associated with these communications are estimated at four (4) to six (6) weeks.

- Notice of Entry negotiations with overlapping Exploration Licence holders during activity approvals process delayed scheduling of program details and proposed well locations.
- In August 2009, Linc commenced a 14 well exploration program, covering all PEL's 117, 118, 119, 120, 121, 122 & 123 within both the Walloway Basin and Arckaringa Basin.
 - The program in the Arckaringa Basin followed on from a five (5) well drilling program within PEL 120, Walloway Basin.
 - Due to the delays in the notification and approval process as outlined earlier and general drilling delays of the Walloway program, it was determined that the Arckaringa Basin drilling program would not be completed before 2 October 2009, therefore resulting in the program encroaching into the first quarter of Year 4. Linc Energy made application to PIRSA for Year 3 commitments to be rolled into the first quarter of Year 4.
 - PIRSA approved a suspension of the Year 3 work commitments for PEL 117, 118, 119, 121, 122 & 123 for a period of 12 months and requisite that both Year 3 and Year 4 commitments of each licence be undertaken by 2 October 2010, with the expiry of all the licences unchanged at 2 October 2011.

The following table displays the minimum work program following the Variation to Work program for Year 3, approved December 2008 and the actual work completed up and to the end of licence Year 3.

Table 2: Minimum work program and actual work completed - Year 3.

PEL	Minimum Work Program - Year 3	Actual Work Carried Out
PEL 117	Drill Two(2) Wells	Notification and Approvals for on ground Drilling Activity. Site Clearance and Preparation
PEL 118	Drill One Well	Notification and Approvals for on ground Drilling Activity. Site Clearance and Preparation
PEL 119	Drill One Well	Notification and Approvals for on ground Drilling Activity. Site Clearance and Preparation
PEL 121	Drill Two(2)Wells	Notification and Approvals for on ground Drilling Activity. Site Clearance and Preparation
PEL 122	Drill One Well	Notification and Approvals for on ground Drilling Activity. Site Clearance and Preparation
PEL 123	Drill One Well	Notification and Approvals for on ground Drilling Activity. Site Clearance and Preparation

3. Regulated Activities

Regulation 33 (2) (a):

Regulated activities conducted

- Environmental Impact Reports (EIR) and Statement of Environmental Objectives (SEO) for Exploration Drilling Activities were officially gazetted on the 8th November 2007 and remain current documents for future on ground activities
- Notice of Entry' letters were sent to landholders for on ground exploration and drilling activities. Linc Energy utilised "consultation manger" a secure database designed to record all correspondence and contact with landowners post and during ground activities.
- Activity notification and approvals for high level official supervision for proposed commencement of on ground exploration activities and drilling of nine (9) wells in the Arckaringa Basin.

4. Compliance Issues

Regulation 33 (2) (b) (c):

Compliance with the Act, Regulations, Licence conditions and relevant statement of environmental objectives, Actions to rectify non compliance

Licence Non-Compliance

Table 3: List of non-compliance for the current reporting year

Stated Commitment		Reason for Non-Compliance	Rectification of Non-Compliance
PEL 117	Drill Two Wells	<ul style="list-style-type: none"> • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • Suspension of Work Commitments for Year 3 as per Licence Condition 1. • The work commitments of Year 3 and 4 to be undertaken by 2 October 2010 (end of Year 4). • This will result in a work program of two(2) wells and Geological and Geophysical Studies/Seismic
PEL 118	Drill One Well	<ul style="list-style-type: none"> • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • Suspension of Work Commitments for Year 3 as per Licence Condition 1. • The work commitments of Year 3 and 4 to be undertaken by 2 October 2010 (end of Year 4). • This will result in a work program of one(1) well in Year 4 along with Geological and Geophysical Studies

PEL 119	Drill One Well	<ul style="list-style-type: none"> • Unexpected delays with Department of Defence in terms of entry in to PEL 119, 123 and 124 • Notice of Entry negotiations with overlapping Exploration Licence Holders • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • Suspension of Work Commitments for Year 3 as per Licence Condition 1. • The work commitments of Year 3 and 4 to be undertaken by 2 October 2010 (end of Year 4). • This will result in a work program of one(1) well in Year 4 along with Geological and Geophysical Studies
PEL 121	Drill Two Wells	<ul style="list-style-type: none"> • Notice of Entry negotiations with overlapping Exploration Licence Holders • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • Suspension of Work Commitments for Year 3 as per Licence Condition 1. • The work commitments of Year 3 and 4 to be undertaken by 2 October 2010 (end of Year 4). • This will result in a work program of two(2) wells in Year 4 along with Geological and Geophysical Studies/Seismic
PEL 122	Drill One Well	<ul style="list-style-type: none"> • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • Suspension of Work Commitments for Year 3 as per Licence Condition 1. • The work commitments of Year 3 and 4 to be undertaken by 2 October 2010 (end of Year 4). • This will result in a work program of two(2) wells in Year 4 along with Geological and Geophysical Studies/Seismic
PEL 123	Drill One Well	<ul style="list-style-type: none"> • Unexpected delays with Department of Defence in terms of entry in to PEL 119, 123 and 124 • Notice of Entry negotiations with overlapping Exploration Licence Holders • The merger of SAPEX with Linc Energy resulted in deferment of drilling projects 	<ul style="list-style-type: none"> • Suspension of Work Commitments for Year 3 as per Licence Condition 1. • The work commitments of Year 3 and 4 to be undertaken by 2 October 2010 (end of Year 4). • This will result in a work program of two(2) wells in Year 4 along with Geological and Geophysical Studies/Seismic

Compliance with Statement of Environmental Objectives

There were no drilling activities undertaken during this reporting period; however field assessments to compile Work Area Clearance and Environmental Assessment Reports were carried out on the PEL's and adhered to the objectives of the Statement of Environmental Objectives (SEO) for Exploration Drilling Activities (Gazette 8.11.07) .

As part of Linc Energy's environmental management system, site procedures were established in order to achieve the requirements of the SEO. These procedures were followed throughout the field programs as supervised by the project geologist. No issues of non-compliance were identified.

Regulation 33 (2) (d):

Management System Audits

A management systems audit was undertaken in July by a third party specialist contractor to identify areas of improvement within the business management with specific relevance to the Health and Safety Management Plan. The outcome of this audit provided several corrective action responses along with an action plan derived to ensure measures are in place to adequately address the deficiencies.

Regulation 33 (2) (e):

Reports generated during the Licence year

Archimedes Consulting Pty Ltd (October 2008). <i>Interpretation of Magnetic and Gravity Data</i> , Arckaringa Basin, South Australia.					
Due Date	N/A	Date Submitted	N/A	Compliant	To be determined by PIRSA to submit under Regulation 47
Linc Energy Limited (June 2009). 2009 Drilling Activity Notification Part 1 Application to Conduct Operations – PEL's 117-119, 121-123, Arckaringa Basin, South Australia.					
Due Date	N/A	Date Submitted	26 June 2009	Compliant	Yes,
				35 days prior to beginning on - ground activities	
Reports generated for drilling activity notification;					
<ul style="list-style-type: none">Boart Longyear Pty Ltd (June 2009) Boart Longyear Arckaringa Basin Drilling Services Environment Health & Safety Management Plan.Boart Longyear Pty Ltd (June 2009) Boart Longyear CSG Division Arckaringa and Walloway Basins exploration Drilling Emergency Response Plan.					

<ul style="list-style-type: none"> Linc Energy Limited (June 2009). 2009 Drilling Program Bridging Document PEL 117, 118, 119, 121, 122 & 123 Arckaringa Basin South Australia. 					
Linc Energy Limited (July 2009). 2009 Drilling Activity Notification Part 2 Application to Conduct Operations – PEL’s 117-119, 121-123, Arckaringa Basin, South Australia.					
Due Date	N/A	Date Submitted	22 July 2009	Compliant	Yes
<p>Reports generated for drilling activity notification;</p> <ul style="list-style-type: none"> Freeman, S. (May 2009). Work Area Clearance survey with the Arabunna People’s Native Title Claimant Group PEL 122-123 Arckaringa Basin, South Australia. Haines, Dr T. (May 2009). Work Area Clearance survey with the Antakarinja Land Management Council Native Title Claimants PEL 117-119 and PEL 121, Arckaringa Basin, South Australia. Linc Energy Limited (May 2009). Description of Environmental Management System. RPS Environment & Planning (June 2009). Environmental Assessment Report for drilling Arckaringa Basin, PEL’s 117-119, 121-123, South Australia. 					
SAPEX Ltd (2008). Boorthanna 2008 Seismic Survey Final Operations Report PELs 117, 121, 122 and 123 Arckaringa Basin, South Australia.					
Due Date	26 July 2009	Date Submitted	26 May 2009	Compliant	Yes
SAPEX Ltd / Linc Energy Ltd, (2008). Combined Annual Report PEL 117, 118, 119, 121, 122, 123 & 124 Arckaringa Basin South Australia for the Period 3 October 2007 to 2 October 2008.					
Due Date	1 December 2008	Date Submitted	1 December 2008	Compliant	Yes

Regulation 33 (2) (f):

Incidents reported to the Minister under the Act

- No reportable incidents occurred during this reporting 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 EIR’s for exploration drilling.

Regulation 33 (2) (h):

Operations proposed for Year 4

Table 4: Petroleum Exploration Licence planned work program – Licence Year 3 and 4

Licence	Planned Work Program (Year 4)
PEL 117	Drill two(2) wells and conduct Geological and Geophysical Studies/Seismic Acquisition (400km new regional seismic covering western portion)
PEL 118	Drill one(1) well and conduct Geological and Geophysical Studies
PEL 119	Drill one (1) well and conduct Geological and Geophysical Studies
PEL 121	Drill two(2) wells and conduct Geological and Geophysical Studies reprocess 250km of old data)
PEL 122	Drill Two(2) well and conduct Geological and Geophysical Studies (reprocess 250km of old data)
PEL 123	Drill Two(2) well and conduct Geological and Geophysical Studies/Seismic Acquisition (140km new regional seismic covering northern portion)

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.