

AUSTRALIAN-CANADIAN OIL ROYALTIES LTD.

and

ELY SAKHAI

**PETROLEUM EXPLORATION LICENCE
(PEL) 109**

COOPER/EROMANGA BASINS,
SOUTH AUSTRALIA

ANNUAL REPORT
Permit Year Three (3)

April 17, 2005 – April 16, 2006

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I. Introduction

Australian-Canadian Oil Royalties Ltd. and Ely Sakhai (hereinafter referred to as the “Group”, or the “Licencee”) were issued PEL 109 on April 17, 2003, for a tenure period of five (5) years. PEL 109 (or “the Permit”) is in the Cooper/Eromanga Basins region of the State, located in the northwest corner of South Australia. The tenure period for Year Three (3) of the Licence is April 17, 2005 to April 16, 2006.

II. Permit Summary

Interests held in PEL 109 at the time of this report are as follows:

Australian-Canadian Oil Royalties Ltd. (Operator)	50%
Ely Sakhai	50%

A Variation granted on 17th March 2005 combines the work programs of PEL 108, PEL 109 and PEL 112 and provides the flexibility to carry out the work program in any of the three licences. Work obligations for the Permit as per the Variation of PEL 108, PEL 109 and PEL 112 are as follows:

Year	Work Program
First Year	Seismic reprocessing; Geological and geophysical studies
Second Year	Geological and geophysical review
Third Year	Geological and geophysical studies; Seismic reprocessing; 190 km 2D seismic acquisition (Year Three (3) program to be conducted anywhere within the combined area covered by PELs 108, 109 and 112.)
Fourth Year	2 wells; Geological and geophysical studies
Fifth Year	3 wells (1 guaranteed); Geological and geophysical studies

III. Exploration Activity

1. DRILLING. There were no drilling activities on the Permit area during the third year.
2. SEISMIC DATA ACQUISITION. No seismic data was acquired on the Permit area during the third year.

3. SEISMIC DATA PROCESSING/REPROCESSING. Seismic was processed or reprocessed during the third year of the Permit.
4. GEOLOGICAL AND GEOPHYSICAL STUDIES. All seismic lines on the area were acquired and examined to determine optimal location for seismic data acquisition. Further, selected off-area well completion reports were examined to develop additional geological information over the Permit area.

IV. Compliance Reporting

1. Regulatory Compliance Report

The Group did not engage in “on area” activities during this reporting period. Therefore, a Regulatory Compliance Report will be summarized in this section. No drilling, seismic acquisition, testing, sampling or other “on area” activities were performed.

The Licencee complied with all obligations imposed by the Act, the regulations, and the licence, with the following exceptions:

The Licencee did not submit an acceptable Annual Report, as required by Regulation 33, prior to the end of 2 months from the end of the licence Year Two (2). The Licencee did submit an Annual Report prior to the end of 2 months; however, it did not satisfy the requirements of Regulation 33.

Upon request, the Licencee was granted a 14-day extension to satisfy the above-mentioned requirement, and submitted said report within this timeframe.

The Licencee did not conduct any regulated activities during Year Three (3) of the tenure that would require a Statement of Environmental Objectives (SEO). The Licencee will provide an SEO, along with all other required reports and information, within appropriate timeframes, before acquisition of seismic data or any other exploratory activities that will occur on the surface or within a height of less than 500 meters above the ground of the Permit area.

2. Statement to rectify non-compliance

The Licencee has reviewed the Petroleum Act and Regulations and in future will furnish the Annual Report in the prescribed time period and will include the required information as specified in Regulation 33.

3. Summary of Management System Audits

No Management System Audits were undertaken during the third year of the licence.

4. List of Reports and Data relevant to operation of the Act

The Licencee completed a review of geologic and seismic data during the Permit year, but did not prepare formal reports for filing with the Petroleum Group.

5. Information regarding any incidents reported to the Minister

There were no reportable incidents during the Permit year.

6. Any reasonably foreseeable threats to future facilities or activities

There are no reasonably foreseeable threats that reasonably present, or may present, a hazard to facilities or activities under the Permit.

7. Statement outlining operations proposed for ensuing year

The Licencee will review seismic data over the structure in the west-southwest portion of the Permit area. The primary goal of this seismic review will be to better establish and define closure over this area.

V. Other Reports and Information

No other reports or licences (transportation of regulated substances, pipeline, production, etc.) were filed with the Petroleum Group during the third year of the Permit.

VI. Expenditures – PEL 109

Expenditures on activities conducted under the Permit for Year Three (3) of the Permit, being April 17, 2005 to April 16, 2006, were as follows:

Commercial in Confidence

VII. Report Summary

The Licencee had no “on-area” activities during the third year of the Permit. Due to this, minimal reporting was necessary, and the Licencee submitted only the Annual Report for Year Three (3), as per the Regulations.

The Licencee examined existing seismic, well completion reports and other data over the Permit in order to determine optimal locations for Year Four (4) of the Permit’s exploration program. A number of technical professionals, from International Oil Lease Service Corp., Australian-Canadian Oil Royalties, Holloman Corporation and Andy McGee & Associates, assisted in the examination of the data, and are confident seismic reviewed during Year Four (4) has opened new avenues for PEL 109’s potential.

It is important to the Group to utilize all data and information available in order to properly select well locations for the Year Four (4) drilling program. Year Four (4) promises to be an exciting year for the Group, as the new prospect(s) are revealed.

We trust this information is satisfactory. If you have any further questions or comments, please do not hesitate to contact our office at the details above. Thank you.