



PEL 127

ANNUAL REPORT

YEAR 4

15 June 2008 to 14 June 2009

**Hybrid Energy Australia Pty Ltd
Adelaide, South Australia
August, 2009**

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1. INTRODUCTION

Petroleum Exploration Licence PEL 127 is located in the onshore portion of the Otway Basin and covers an area of approximately 2098 km².

The Licence was awarded in conjunction with a Mineral Licence over the Kingston lignite deposits. Combined, these licences provide the exploration rights to the coal, coal seam gas and gasification of the lignite deposit.

The holding of the two permits simultaneously allows the Operator to assess all the possible methods of exploiting the resource without conflicting interests.

This report covers the work performed by Hybrid Energy Australia Pty Ltd (and former entities) as Operator *in accordance with requirements of section 33 of the Petroleum Regulations 2000*, for the period 15 June 2008 to 14 June 2009.

2. ADMINISTRATION

Exploration Permit PEL 127 was granted to Strike Oil Ltd. on 15 June 2005 for an initial term of 5 years. The title was transferred to Kingston Energy Limited, a wholly owned subsidiary of Strike Oil Limited, on 5 December 2005. In August 2007, the Operator notified PIRSA that Kingston Energy Limited had been renamed as Hybrid Energy SA Pty Ltd. This change was registered by PIRSA on 22 August 2007.

Subsequently on 25th March 2008, the Operator notified PIRSA that Hybrid Energy SA Pty Ltd had been renamed as Hybrid Energy Australia Pty Ltd.

The working interests in the permit are as follows:

Hybrid Energy Australia Pty Ltd	100%
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3. WORK REQUIREMENTS

At a meeting with PIRSA on 8 August 2006, Kingston Energy requested a variation to the work requirements for Years 2 and 3 of the current term. Due to the large amount of data and the difficult task of capturing this data in a useful digital form Kingston Energy requested that the work commitments be varied to allow more time for ongoing data evaluation and studies and that the drilling in Years 2 and 3 be deferred. This request was approved on 24 November 2006.

On the 15th June 2009 a request was made to the Director Petroleum and Geothermal requesting a 12 month suspension to the year 5 work program. Commencement of pre-feasibility studies on the project had been delayed due to the global financial crisis impacting on attraction of financial investors. The pre-feasibility study included the collection of bulk coal samples for ongoing gasification trials. The pilot holes to be drilled for locating the bulk samples were to be used and evaluated as the boreholes to fulfil the Year 5 Work Requirement. Drilling of these holes has now been delayed. The request for suspension was approved on the 16th June 2009.

The work requirements are now agreed to be:

Year	Work Requirement
One (end 14/6/06)	Conduct evaluation of existing coal geology and hydrogeological data
Two (end 14/6/07)	Conduct geotechnical studies
Three (end 14/6/08)	Conduct geotechnical studies
Four (end 14/6/09)	Conduct review of technical data, economics and markets, and development options
Suspension (end 14/6/10)	No Activity
Five (end 14/6/11)	Drill two (60 metre depth) evaluation holes to determine coal gas concentrations and permeability. Conduct pilot project if warranted.

4. REGULATED ACTIVITIES

Section 33(2) (a) a summary of the regulated activities conducted under the licence during the year.

4.1. Drilling Operations

No drilling operations were conducted during the fourth year of the licence term.

4.2. Geophysical Operations

No geophysical operations were conducted during the fourth year of the licence term.

4.3. Geotechnical and Other Studies

Over the last year further studies and reports have been commissioned to assist in the development of the FuturGas Project including:

Report Title / Purpose	Author	Date
<p>Kingston Lignite Deposit – Preliminary Mine Design for Groundwater Modelling Assessment. Open cut mine design studies were completed to complement the groundwater modelling studies and to provide realistic production scheduling information for project financial modelling.</p>	MAPTEK	August 2008
<p>CO₂ Storage Potential Otway Basin South Australia. A comprehensive geological review of potential onshore and offshore geosequestration sites was carried out in this study. Also covered were issue relating to evaluation, transport, injection, monitoring and economics.</p>	Greenhouse Gas Storage Solutions – MBA Petroleum Consultant	August 2008
<p>Final Report: Numerical Groundwater Flow Model for the FuturGas Project, Kingston SE.. Study describing the construction of a 5,830km² numerical groundwater flow model of the area around the Kingston lignite deposit, plus four predictive simulations to model the impacts on local aquifers due to dewatering associated with open cut mining.</p>	URS Australia Pty Ltd	October 2008
<p>Kingston MINEX Geological Model. Version: King_0908. A 3D geological model was constructed of the Kingston lignite deposit including all overburden and sub-lignite stratigraphy using MINEX software. Data used for this model was supplied by Hybrid Energy which was transcribed from data used by Golders Associates during WMC's ownership in the 1980's. The updated model will be used in future feasibility studies.</p>	McElroy Bryan Geological Services	November 2008
<p>Gasification Process Analysis.. The purpose of this report was to review the available gasification techniques and, on the basis of the information available, choose the most appropriate technique, and if possible, a suitable commercial gasifier for Kingston coal with another commercial gasifier as a fall back choice.</p>	Hybrid Energy Australia	March 2009
<p>FuturGas Project: Additional Groundwater Model Simulations. Study describing an additional 3 predictive simulations to model the impacts on local aquifers due to dewatering associated with open cut mining, the original groundwater flow model set up in 2008 was used. These 3 simulations are part of an ongoing optimisation study to minimise impacts on local aquifers.</p>	URS Australia Pty Ltd	May 2009

Steady progress continued to be made during the first half of the reporting year with evaluations and reviews of technical data, economics, markets and development options for the FuturGas Project.

Groundwater studies have been encouraging and suggest that technical and financially viable options exist for minimising the impact on the local aquifers resulting from mine dewatering.

Combustion and current gasification trials on the Kingston coal confirm the suitability of the lignite for gasification. Initial gas compositions show a high hydrogen content suited to liquid fuels production.

A Prefeasibility tender was awarded to take the project to the next stage, unfortunately the commencement date has now been deferred till the economic climate for coal to liquids projects improves.

The first steps in engaging the local community commenced with the formation of a Community Consultation Group (CCG) and holding of a FuturGas Community Information Day at Kingston on November 27th. The CCG has met on two occasions, 26/11/08 and 18/3/09.

5. COMPLIANCE ISSUES

5.1. Regulatory Compliance

Section 33(2) (b) a report for the year on compliance with the Act, these regulations, the licence and any relevant statements of environmental objectives.

No environmental incidents were reported for the permit year.

5.2. Rectification of Non-Compliance

Section 33(2) (c) a statement concerning any action to rectify non-compliance with obligations imposed by the Act, these regulations or the licence, and to minimize the likelihood of the recurrence of any such non-compliance.

Hybrid Energy Australia is not aware of any instances of non-compliance during the permit year.

5.3. Management System Audits

Section 33(2) (d) a summary of any management system audits undertaken during the relevant licence year, including information on any failure or deficiency identified by the audit and any corrective action that has, or will be, taken.

No management system audits were undertaken during the current permit year.

5.4. Data Submissions

Section 33(2) (e) a list of reports and data relevant to the operation of the Act generated by the licensee during the relevant licence year.

Annual Report for PEL-127 Permit Year 3 submitted in August 2008.

5.5. Safety

Section 33(2) (f) in relation to any incidents reported to the Minister under the Act and these regulations during the relevant licensing year-

Section 33(2) (f) (i) an overall assessment and analysis of the incidents, including the identification and analysis of trends that have emerged.

Section 33(2) (f) (ii) an overall assessment of the effectiveness of any action taken to rectify non-compliance with obligations imposed by the Act, these regulations or the licence, or to minimize the risk of recurrence of any such non-compliance.

No reportable incidents occurred during the reporting period.

5.6. Threat Prevention

Section 33(2) (g) a report on any reasonably foreseeable threats (other than threats previously reported on) that reasonably present, or may present, a hazard to facilities or activities under the licence, and a report on any corrective action that has, or will be taken.

There were no perceived threats, and no action taken.

5.7. Licence Conditions and Future Work Program

Section 33(2) (h) unless the relevant licence year is the last year in which the licence is to remain in force a statement outlining operations proposed for the ensuing year.

The planned program, post the 12 month suspension, for Year 5 is undertaken in conjunction with the technical and commercial work on the coincident Mineral Licence.

This work will comprise:

1) A Pre-Feasibility Study that will encompass:

- Selection of the optimum mining method;
- Development of an effective groundwater management plan
- Indicative plant economics for the coal-to-liquids plant;
- Coal-to-liquids downstream product study to identify the expected commercial advantages and disadvantages of each of the various potential products; and
- The confirmation of geosequestration technologies and sites.

The current proposal for the FuturGas Project is to apply clean coal and low-emissions technology to construct a gasification facility with integrated electricity generation, incorporating infrastructure for carbon dioxide capture and storage.

Completion of the Pre-Feasibility Study is now expected in late 2010.

- 2) Large diameter core drilling to supply 50 – 80t of Kingston lignite for the ongoing combustion / gasification trials. This program is expected to commence toward the start of the 5th year term.

6. EXPENDITURE STATEMENT

Section 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.

Commercial in Confidence.