PETROLEUM EXPLORATION LICENCE
PEL 112 & 444

Onshore Cooper / Eromanga Basins
South Australia

Permit Year 5 (Term 1) Combined Annual Report

For the Period

11 June 2007 to 10 June 2008

HOLLOMAN OIL & GAS PTY LTD

(OPERATOR)

TABLE OF CONTENTS

Introduction

Petroleum Exploration Licence No. 108 and 109 and 112 are situated on the northern and western margin of the Cooper/Eromanga Basin, South Australia. The fifth and final year of the first licence term covers the period June 11, 2007 to June 10, 2008. This report details the work performed by the Joint Venture during this fifth year of the licence, in accordance with the requirements of Section 33 of the Petroleum Regulations 2002.

Permit Summary

Interests held in PEL 108, PEL 109 and PEL 112 at the time of this report are as follows:

Holloman Oil & Gas Ltd. (Operator)	66.6670%
Australian-Canadian Oil Royalties Ltd.	13.8332%
Ely Sakhai	16.6665%
Robert Kamon	1.4999%
Jan Soleimani	0.6667%
George Naim	0.6667%

A Variation granted on 18th April 2008 for PEL 108, PEL 109, and PEL 112 approves the removal of drilling 2 guaranteed wells in year 5.

This work programs has the flexibility to carry out the work program in any of the three licenses. Work obligations for the Permit as per the Variation of PEL 108, PEL 109, and PEL 112 are as follows:

Licence Year	Minimum Work Program
One	Seismic reprocessing; Geological and geophysical studies
Two	Geological and geophysical review
Three	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.)
Four	Geological and geophysical studies
Five	1 well

Actual work over the year five of the permit terms complies with the minimum work program. There was 1 well drilled on PEL 112 during Licence year five.

Exploration Activity

DRILLING The Pecos-1 was drilled in the north east corner of PEL 112 the Reo Grande well site was prepared but not drilled. The Pecos-1 encountered no hydrocarbon shows and was subsequently P&A.

SEISMIC DATA ACQUISITION. No seismic acquisition activities were undertaken during permit year 5.

SEISMIC DATA PROCESSING/REPROCESSING. No seismic data processing activities were undertaken during permit year 5

GEOLOGICAL AND GEOPHYSICAL STUDIES. All seismic lines on the area were acquired and examined to determine optimal drilling location prior to Year Five (5) and submitted to PIRSA.

Summary of Regulated Activities

The regulated Activities conducted by joint venture while exploring for petroleum with in PEL-112 were;

- Access road / track construction to two well locations
- Well lease and campsite construction for 1 well
- Borrow pit construction

The Group did not engage in “on area” activities during this reporting period on PEL-108 and PEL-109

Compliance Reporting

Regulatory Compliance Report

Pursuant to Regulations 33(2) (b) & (c), an annual report must include:
“a report for the year on compliance with the Act, these regulations,the licenceand any relevant statement of environmental objectives;” and

“a statement concerning any action to rectify non compliance with obligations imposed by the Act, these regulations or the licence, and to minimise the likelihood of recurrence of any such non-compliances.”

PEL-112

The activities covered by this report are administered under the Petroleum Act (2000) and the Petroleum Regulations (2000) and (Cooper Basin SEO for geophysical operations which was gazetted in 2006), a range of generic SEOs for the Cooper Basin are available and are used to administer petroleum exploration activities as appropriate.

There were no instances during Year 5 of Term 1 of the PEL 112 Licence in which Holloman Oil & Gas failed to comply with the requirements of the licence, the regulations of the 2000 Petroleum Act, or the objectives of the SEOs under which it conducted its field operations.

Licence Non-Compliance

There were no instances during Year 5 of Term 1 of the PEL 112 Licence in which Holloman Oil & Gas failed to comply with the 2000 Petroleum Act or the Conditions of the Licence.

Regulatory Non-Compliance

There were no instances during Year 5 of Term 1 of the PEL 112 Licence in which Holloman Oil & Gas failed to comply with the Regulations of the 2000 Petroleum Act.

SEO Non-Compliance

Drilling

Government approval for Holloman Oil & Gas to drill the **Pecos-1** well was conditional on Holloman Oil & Gas committing to achieving the objectives defined in the "Statement of Environmental Objectives for Drilling and Well Operations in the Cooper / Eromanga Basins - South Australia (SEO)".
The assessment of Holloman Oil & Gas performance in achieving the SEO objectives was met as well as all the other objectives required by the SEO for the drilling operations on this well, and the spreadsheet below in **Table 1** summarises the strategies that were employed to achieve this compliance.

Compliance with Statements of Environmental Objectives

Table 1 Compliance with SEO for Cooper Basin Drilling Operations

Objective	Assessment Criteria	Compliant / Non-Compliant	Comments
Objective 1: ***Minimise the risk to public and other third parties.***	③ Reasonable measures implemented to ensure no injuries to the public or third parties.	Compliant	The design and operation of the wells was undertaken in accordance with Holloman's safety policies, standards and guidelines. All employees undertook a safety induction prior to commencing work in the field and will undertake a refresher course if/when required. The access track for this well commenced from from Moomba, specifically the Santos operated 'Sturt' oil field road Tourists are not authorised to travel along this company road. Signage was erected along the haul road to advise that only authorised personnel are permitted on to the well site. Holloman's Permit to Work system was in operation during the drilling operations to control potentially dangerous situations.
			Accident / incident reporting systems were in place as defined in the Holloman's Operation Manual. Records are reviewed regularly to assess trends. Holloman's safety management plans are updated and reviewed on a regular basis. Appropriate PPE was issued to all personnel involved in the drilling operations.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant (inc. Compliance statement)**	**Comments**
Objective 1: ***(Continued)***			An Emergency Response Plan (ERP) Bridging document was prepared for the Pecos drilling operations and all personnel involved in the operations were aware of the Emergency Response Plan. However, no situation arose that required the implementation of the Plan. Holloman undertakes regular ERP exercises at selected drilling operations. Holloman maintained regular contact with landholders and associated stakeholders during the drilling operations at each site.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 2 : ***Minimise disturbance and avoid contamination to soil.***	Well Site and Access Track Construction ③ 0, +1 or +2 GAS criteria are attained for "Minimise visual impacts of abandoned well sites and access tracks" objective as listed in Appendix 4 for well lease and access track construction. ③ No unauthorised off-road driving or creation of shortcuts. ③ No construction activities are carried out on salt lakes, steep tableland land systems or wetlands land systems (as defined in EIR). Borrow pit construction and restoration ③ 0, +1 or +2 GAS criteria are attained for "Minimise Visual Impacts for constructing borrow pits" objective as listed in Appendix 3, and "Minimise visual impacts" and "Minimise impact on soil" objectives as listed in Appendix 5.	Compliant	□ The Pecos-1 well site was constructed in accordance with the guidelines outlined in Guidelines for Lease Construction and Restoration. □ Topsoil was stockpiled for subsequent respreading when restoration activities are conducted. □ Vehicle movements were strictly limited to the defined access track and well pad area - areas which had been given cultural heritage clearance for the drilling operations. □ The Pecos-1 wellsite was rehabilitated and restored in accordance with the guidelines set down in PIRSA's Field Guide for the Environmental Assessment of Abandoned Petroleum Wellsites in the Cooper Basin, South Australia to attain the highest feasible GAS rating. □ Borrow pits were rehabilitated and restored in accordance with the guidelines set down in PIRSA's Field Guide for the Environmental Assessment of Abandoned Petroleum Wellsites in the Cooper Basin, South Australia, to attain the highest feasible GAS rating. □ All fuel, oil and chemicals were stored in accordance with relevant standards. □ Refuelling was undertaken as per Drilling Contractors' procedures. □ There were no spills during the drilling operations that required reporting or corrective action to be taken in accordance with the Holloman's Incident Reporting system.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 2: ***(Continued)*** ***(Minimise disturbance and avoid contamination to soil.)***	Production Testing / Well Blowdowns ③ No soil contamination as a result of production testing or well blowdown operations.		
	Fuel and Chemical Storage and Handling ③ No spills/leaks outside of areas designed to contain them. ③ Level of hydrocarbon continually decreasing for in situ remediation of spills. ③ Soils remediated to a level as determined by the SHI process.		There were no spills during the drilling operations outside of areas that were designed to contain them. Holloman's Oil Spill Contingency Plan is included in the Emergency Response Plan.
	③ All domestic wastes are disposed of in accordance with EPA licensing requirements. ③ 0, +1 or +2 GAS criteria for 'Waste material' objective is attained. ③ No spills or leaks from sewage treatment process and sludge pits.		Wastes were managed as described in the Cooper Basin Drilling & Well Operations EIR. Wastes were collected, stored and transported in covered bins / containers. All rubbish was disposed of at a licensed waste facility.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 3 : ***Avoid** the **introduction or spread of pest plants and animals and implement control measures as necessary.***	③ No weeds or feral animals are introduced to operational areas.	*Compliant*	□ Drilling rig and associated equipment and vehicles had already been working in the Cooper Basin prior to commencing these drilling operations .
Objective 4 : ***Minimise disturbance to drainage patterns and avoid contamination of surface waters and shallow ground water resources.***	Well Lease and Access Track Construction ③ Well leases and access tracks are located and constructed to maintain pre-existing water flows (i.e. channel contours are maintained on floodplains and at creek crossings). Drilling Mud Sumps and Flare Pits ③ No overflow of drill cuttings, muds and other drilling fluids from mud sumps. ③ No waste material disposal to sumps and flare pits.	*Compliant*	□ The well site was not located in an area where flooding from local watercourses was likely to occur. □ The drill pad and access tracks was constructed and located to avoid diversion of flood waters from their natural direction of drainage in the event of local inundation. □ All drill cuttings, muds, and non toxic drill fluids were contained within designated mud sumps with adequate freeboard at the completion of operations to allow for a 1m cover of clean fill at remediation.
	Well Heads (Oil and Gas Systems) ③ No leaks/spills outside of areas designed to contain them.	□	

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 4 : (Continued) *(Minimise disturbance to drainage patterns and avoid contamination of surface waters and shallow ground water resources.)*	Well Blowdown/Production Testing ③ No water (surface or groundwater) contamination as a result of production testing or well blowdown operations.		
	Fuel/Chemical Storage and Handling ③ No leaks/spills outside of areas designed to contain them.		□ Specific oil spill containment / cleanup materials were on site at all times. □ All fuel, oil and chemicals were in accordance with relevant standards ③ Refuelling was undertaken as per Drilling Contractors' procedures. ③ There were no spills during the drilling operations outside of areas designed to contain them.
			□ Holloman's Oil Spill Contingency Plan is included in the Emergency Response Plan.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 5 : ***Avoid disturbance to sites of cultural and heritage significance***.	③ Proposed well sites and access tracks have been surveyed and any sites of Aboriginal and non-Aboriginal heritage identified. ③ Any identified cultural and heritage sites have been avoided. *Note:* Where a negotiated agreement or determination for heritage clearance is in place, compliance with the negotiated agreement or determination takes precedence over the above criteria.	*Compliant*	Holloman Oil & Gas have an agreement with the Dieri Aboriginal Corporation Native Title Claimant group which specifies the requirements for scouting proposed wells and access tracks to identify and avoid areas of heritage value and archaeological significance. A Joint site visit was carried out with the Native Title Claimant group. Proposed drilling locations and access routes were agreed and given heritage clearance. Areas of significance were recorded and marked as exclusion zones.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 6 : ***Minimise loss of aquifer pressures and avoid aquifer contamination***.	Drilling & Completion Activities ③ There is no uncontrolled flow to surface (Blow out). ③ Sufficient barriers exist in casing annulus to prevent crossflow between separate aquifers or hydrocarbon reservoirs. ③ Relevant government approval obtained for abandonment of any radioactive tool left downhole. Producing, Injection, Inactive and Abandoned Wells ③ No cross-flow behind casing between aquifers, and between aquifers and hydrocarbon reservoirs unless approved by DWLBC.	*Compliant*	The Drilling Program for Pecos-1 was designed to ensure minimal loss of reservoir and aquifer pressures and minimal contamination of freshwater aquifers. During abandonment operations, cement plugs were installed to isolate any aquifers penetrated below surface casing (as per the outline under "Comments" in the SEO) and any zones of pressure differential to ensure no likelihood of cross-flow

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 7: ***Minimise disturbance to native vegetation and native fauna***. ***Objective 7:*** *(Continued)* *(Minimise disturbance to native vegetation and native fauna)*	Well Lease and Access Track Construction and Restoration ③ Any sites with rare, vulnerable and endangered flora and fauna have been identified and avoided. ③ 0, +1 or +2 GAS criteria are attained for "Minimise impacts on vegetation" objective as listed in Appendix 2, during well lease and access track site selection and construction and for "Re-establish natural vegetation on abandoned well sites and access track" objective in Appendix 4. Borrow Pits Construction and Restoration ③ 0, +1 or +2 GAS criteria are attained for "Minimise impacts on vegetation" objective as listed in Appendix 4 during borrow pit site selection and construction, and "Minimise Impact on Vegetation" objective in Appendix 5 for borrow pit restoration. Waste Management ③ Refer to assessment criteria for Objective 11. Fuel and Chemical Storage and Management ③ Refer to assessment criteria for Objectives 2 and 4.	*Compliant*	The Pecos-1 well was not located in or near areas of high biological or wilderness values and hence the drilling operations presented no long term impacts to any such areas. National Parks and Wildlife flora/fauna databases contain no records of vulnerable or endangered species within several kilometres of any of these well sites. Construction of the access track required minimal clearance of vegetation and the route was aligned to avoid clearing trees. The well site contained only sparse vegetation, and clearance was minimised. Trees that were present on the site and adjacent to the site were not cleared. Facilities were designed and constructed to minimise fauna entrapment. Borrow pits established for building the road and drill pad will be rehabilitated and restored in accordance with the guidelines set down in PIRSA's Field Guide for the Environmental Assessment of Abandoned Petroleum Wellsites in the Cooper Basin, South Australia, to attain the highest feasible GAS rating. Holloman's Drilling Operations Manual sets out the company's policy in relation to storage, use and disposal of hazardous material. At all well site, wastes were managed as described in the Drilling & Well Operations EIR. Wastes were collected, stored and transported in covered bins / containers. All rubbish was disposed of at a licensed waste facility.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 8 : ***Minimise air pollution and greenhouse gas emissions.***	③ Compliance with EPA requirements.	*Compliant*	No well tests or well blow -downs were undertaken during drilling operations at the Pecos-1 well.
Objective 9: ***(Maintain and enhance partnerships with the Cooper Basin community.)***	③ No unresolved reasonable complaints from the community.	*Compliant*	③ Holloman maintained regular contact with landholders and associated stakeholders prior to and while undertaking drilling operations at Pecos-1.
Objective 10 : ***Avoid or minimise disturbance to stakeholders and/or associated infrastructure***	③ No reasonable stakeholder complaints left unresolved.	*Compliant*	③ Holloman maintained regular contact with landholders and associated stakeholders prior to and while undertaking drilling operations at each of the well sites. ③ The access tracks and well sites were located away from tourist routes. ③ The landowner has requested that no rehabilitation work be undertaken on any access tracks. ③ The Pecos-1 well site was not located near cattle watering points and cattle were not present in significant numbers due to prevailing drought conditions. ③ At the completion of the drilling operations, a temporary cattle proof fencing was erected to isolate any pits or plant remaining on site. The fencing was kept in place until the pits were dry and machinery was available to fully rehabilitate the site

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 11 : ***Optimise waste reduction and recovery.***	③ With the exception of drilling fluids, drill cuttings and other fluids disposed during well clean-up, and sewage wastes, all wastes to be disposed of at an EPA licensed facility in accordance with EPA Licence conditions. ③ Attainment of GAS criteria for "Site left in clean, tidy and safe condition after final clean-up" objective during well site restoration (refer Appendix 4). ③ Attainment of GAS criteria for "Site left in clean, tidy and safe condition" objective during borrow pit restoration (refer Appendix 5). ③	*Compliant*	③ Waste was removed from the well site in accordance with Holloman's policy set out in the company's Drilling Operations Manual. Non-putrescible waste material (including hazardous material) was stored safely on site for later removal to an EPA approved disposal facility.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 12 : ***Remediate and rehabilitate operational areas to agreed standards.***	③ No unresolved reasonable stakeholder complaints. Contaminated Site Remediation ③ Contaminated sites are remediated in accordance with criteria developed with the principles of the National Environment Protection Measure for Contaminated sites and in consultation with the EPA. Well Site and Access Track Restoration ③ The attainment of 0, +1 or +2 GAS criteria for (refer Appendix 4): - "minimise visual impact of abandoned well sites" - "minimise visual impact of abandoned access tracks" - "re-establish natural vegetation on abandoned well sites and access tracks"	*Compliant*	The Pecos-1 well site w restored in accordance with the standards and procedures detailed in the Cooper Basin SEO for Drilling and Well Operations (2003) and internal guidelines. Restoration will proceed when the sump pit has dried out and earthmoving machinery is available in the vicinity. Any contaminated sites are remediated in accordance with Holloman Guidelines and Industry Standards. Restoration of the well site will also be in accordance with the guidelines set down in PIRSA's Field Guide for the Environmental Assessment of Abandoned Petroleum Wellsites in the Cooper Basin, South Australia, to attain the highest feasible GAS rating. The *access track* to the well will not be rehabilitated, as requested by the landowner.

TABLE 1 : DRILLING SEO (Continued)			
Objective	**Assessment Criteria**	**Compliant / Non-Compliant**	**Comments**
Objective 12 (Contd.) ***Remediate and rehabilitate operational areas to agreed standards.***	Borrow Pit Restoration ③ The attainment of 0, +1 or +2 GAS criteria (refer Appendix 5) for : "minimise impact on vegetation", "minimise impact on soil", "Minimise visual impacts" *Note:* Well abandonment issues addressed under Objective 6.	Compliant	

Management System Audits

Pursuant to Regulation 33(2) (d) under the Act, an annual report must include:
"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 actions that has, or will be taken".

No management system audits were undertaken during the licence year in relation to exploration activities on PEL 112.

Report and Data Submissions

Pursuant to Regulation 33(2) (e) under the Act, an annual report must include:
"a list of all reports and data relevant to the operation of the Act generated by the licensee during the licence year".

The reports generated during the licence year in relation to exploration activities on PEL 112 are listed in Table 6.

Incidents

Pursuant to Regulation 33(2) (f), an annual report must include:
"in relation to any incidents reported to the Minister under the Act and these Regulations during the relevant licence year -

(i) an overall assessment and analysis of the incidents, including the identification and analysis of any trends that have emerged; and

(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 minimise the risk of recurrence of any such non-compliance".

There were no reportable incidents arising from the operations undertaken on PEL 112 during the current licence reporting year.

Threat Prevention

Pursuant to Regulation 33(2) (g) under the Act, an annual report must include: "a report on any reasonably foreseeable threats (other than threats previously reported on) that reasonably presents, 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 are no threats foreseeable to the proposed exploration activities for PEL 112, other than the disruptive influence of occasional flooding of the Cooper Creek.

The progress of any flooding events in the headwaters of the Cooper Creek are closely monitored by satellite surveillance to predict the time of their arrival in the PEL 112
area several weeks later. Drilling and seismic schedules are amended accordingly.

Future Work Program

Pursuant to Regulation 33(2) (h) under the Act, an annual report must include: "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".

Drilling Program :

The work program for PEL 112 has no requirements for any wells to be drilled in the first three years of term 2 of PEL 112.

Seismic Surveys :

The work program for PEL 112 has a requirement for 100 square kilometres of 3D seismic survey to be recorded in the second year of Term 2 of PEL 112.

PEL-108 and PEL-109

The Group did not engage in “on area” activities during this reporting period. Therefore, a Regulatory Compliance Report will be summarized in this section.

Other

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

The Licensee 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 five (5).

Statement to rectify non-compliance

The Licensee 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.

Summary of Management System Audits

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

List of Reports and Data relevant to operation of the Act

- Holloman Bridging Document
- Holloman ERP Document
- Holloman HSEMS Document
- Holloman Induction Document
- Compliance Register Pecos-1
- Holloman EMP
- Pecos-1 Well Proposal Report
- Pecos-1 Geological Well Report
- Pecos-1 and Reo Grande-1 ENV Assessment
- Drilling NOIE Post WAC Lake Hope Lease
- Drilling NOIE Post WAC Ngayana Dier Karna Lease

All reports were submitted to PIRSA on time during March 2008

Information regarding any incidents reported to the Minister

There were no reportable incidents during the Permit year.

Any reasonably foreseeable threats to future facilities or activities

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

Statement outlining operations proposed for ensuing year

The Licensee has agreed upon a renewal term 2 of Five (5) years with the minimal work program listed below.

PEL-112

Licence Year	Minimum Work Program
One	Geological and Geophysical studies
Two	Seismic reprocessing of 2D data
Three	110 km 2D seismic acquisition
Four	Geological and geophysical studies
Five	1 well

PEL-444

Licence Year	Minimum Work Program
One	Geological and Geophysical studies
Two	Seismic reprocessing of 2D data
Three	200 km 2D seismic acquisition
Four	Geological and geophysical studies
Five	1 well

PELs 108 and 109 were consolidated on 13 May 2008 and are now designated as PEL-444

The new areas of permit renewal are show in Figure 1 and 2

Other Reports and Information

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

Expenditures – PEL 108, 109 and 112

A licence expenditure summary for the period June 11, 2007 to June 10, 2008 is presented as Table 2.

Table 2 **PEL 108, 109, and 112**
Annual Report Licence Year 5
June 11, 2007 to June 10, 2008

Commercial and Confidence