



A wholly owned subsidiary of Drillsearch Energy Limited

PEL 106

COOPER/EROMANGA BASIN

SOUTH AUSTRALIA

ANNUAL REPORT

PERMIT YEAR 3

9TH OCTOBER 2010 TO 8TH OCTOBER 2011

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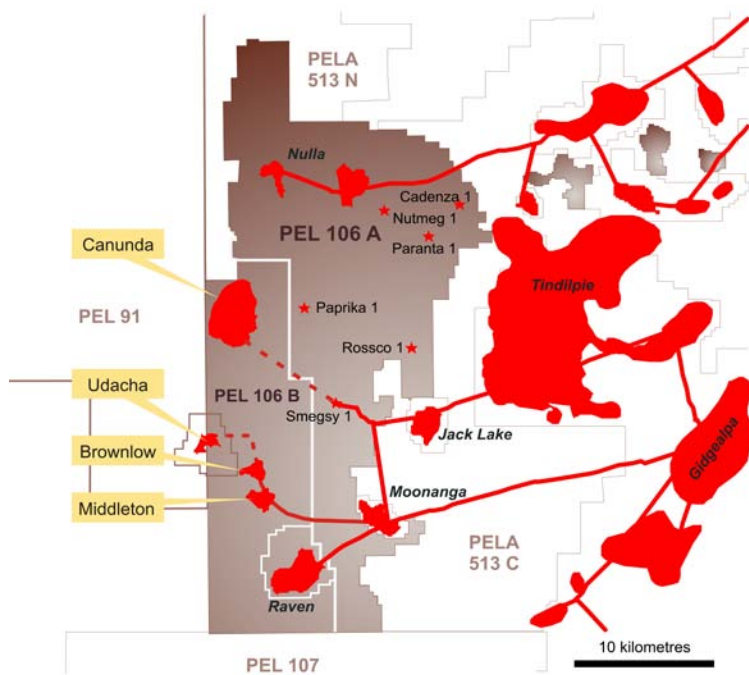
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1 INTRODUCTION

Petroleum Exploration Licence 106 (“PEL106” or “the Licence”) was granted to the Great Artesian Oil and Gas Limited (“GAOG”) on 9th April 2003. The Licence was renewed on 8 October 2008 for a further five years

The Licence area is located in the Cooper Basin, South Australia and is situated on the south-western margin of the Patchawarra Trough, one of the major depocentres in the South Australian portion of the Cooper Basin.

PEL 106 covers an area of approximately 483 square kilometres.



This report details the work conducted in the Licence during the Licence Year Three (9th October 2010 to 8th October 2011 inclusive – (“the Reporting Period”), in accordance with Regulation 33 (Petroleum and Geothermal Energy Regulations 2000 - “the Regulations”) under the Petroleum and Geothermal Energy Act 2000 (“the Act”).

2 PERMIT SUMMARY

Petroleum Exploration Licence PEL 106 was renewed on 8 October 2008. The third Licence Year of the second term, the first and final renewal period, commenced on 9 October 2010.

The original work commitments set out in Condition 1 associated with the renewal of PEL 106 are set out in Table 1.

Table 1: Original Work Commitments for Renewal Period (Term 2) by Licence Year

Licence Year	Licence dates	Minimum Work Program
Year 1	09/10/2008 – 08/10/2009	Geological and Geophysical Studies
Year 2	09/10/2009 – 08/10/2010	Geological and Geophysical Studies
Year 3	09/10/2010 – 08/10/2011	Geological and Geophysical Studies
Year 4	09/10/2011 – 08/10/2012	Geological and Geophysical Studies
Year 5	09/10/2012 – 08/10/2013	Drill one well and Geological and Geophysical Studies

Licence Year 3 has been extended through three suspensions of the Licence granted by PIRSA for an aggregate of twelve months as follows:

- In June 2010 PIRSA granted a suspension of licence condition 1 for the period from and including 9 October 2010 to 8 March 2011, suspending Licence Year Three for a period of six months. The term of the license was also extended by six months.
- In January 2011 PIRSA granted a suspension of licence condition 1 for the period from and including 9 March 2011 to 8 September 2011, suspending Licence Year Three for a further period of five months. The term of the license was also extended by a further five months.
- In June 2010 PIRSA granted a suspension of licence condition 1 for the period from and including 9 September 2011 to 8 October 2011, suspending Licence Year Three for a further period of one month. The term of the license was also extended by a further one month.

Licence year 3 runs for the period 9 October 2010 – 8 October 2011. However, the year 3 work program covers the period 9 October 2010 – 8 October 2012.

PEL106 is now due to expire on 8 October 2014.

The new Licence dates and associated minimum work program are now set out in Table 2 below

Table 2: Revised Work Commitments for Renewal Period (Term 2) by Licence Year

Licence Year	Licence dates	Minimum Work Program
Year 1	09/10/2008 – 08/10/2009	Geological and Geophysical Studies
Year 2	09/10/2009 – 08/10/2010	Geological and Geophysical Studies
Year 3	09/10/2010 – 08/10/2012	Geological and Geophysical Studies
Year 4	09/10/2011 – 08/10/2013	Geological and Geophysical Studies
Year 5	09/10/2012 – 08/10/2014	Drill one well and Geological and Geophysical Studies

3 PERMIT INTERESTS

The Permit Interests during the Reporting Period were GAOG 100% except for the following equitable interests:

Table 3. Equitable interests blocks in PEL106

Holder	Nature of Equitable Interest Held
Beach Farmin Block (PEL106B)	<p>Subsequent to the terms of a Letter Agreement dated 18 October 2004, Beach Energy Limited (“Beach Energy”) has successfully farmed into the Brownlow Block (PEL106B).</p> <p>On 24 November 2010, a Memorandum entering notation of the Joint Operating and Production Agreement – Brownlow Joint Venture dated 4 November 2010 between Beach Energy and GAOG was entered on the public register.</p> <p>Subsequently on 12 January 2011 a Memorandum entering notation of the Deed of Assignment– Brownlow Joint Venture dated 4 November 2010 between Beach Energy and GAOG was entered on the public register.</p> <p>These documents evidenced the finalisation of the farmin arrangements.</p>
Udacha Block	<p>In accordance with the Unitisation and Operating agreement dated 20 January 2006 the following companies have interests in the Udacha Block:</p> <p>GAOG- 35%, Drillsearch Gas Pty Limited (fellow subsidiary of GAOG, 100% owned by Drillsearch Energy Limited)- 40%, Beach Energy - 15%, Rawson Resources - 10%.</p>

PPL 239 was granted on 17 August 2011, as the Petroleum Production Licence covering the Middleton-1 and Brownlow-1 wells previously within PRL25 and PEL106 (PEL106B) respectively. The total area of PEL106 was reduced from 499 km² to 483 km² approximately.

4 REGULATED ACTIVITIES

Pursuant to Regulation 33(2)(a) under the Act .

4.1 DRILLING AND RELATED ACTIVITIES

No actual drilling took place in PEL106 during the reporting period. However, quite a bit of preliminary work was conducted in preparation for drilling.

Beach Petroleum Limited, as Operator of the Brownlow Block farmin area, PEL106B, carried out preparatory work in advance of drilling the Baird-1 and Admella-1 wells that were spudded after the current Reporting Period.

4.2 SEISMIC DATA ACQUISITION

No regulated activities undertaken in the Reporting Period..

4.3 SEISMIC DATA PROCESSING AND REPROCESSING

Substantial time was spent over the whole Reporting Period by both GAOG and Beach Energy assessing whether further reprocessing of the Spinel 3D would provide additional data integrity and information. A trial reprocessing was commenced in November 2011 after the end of the current Reporting Period.

No regulated activities were undertaken in the Reporting Period.

4.4 GEOCHEMICAL, GRAVITY, MAGNETIC AND OTHER SURVEYS

No regulated activities undertaken in the Reporting Period..

4.5 PRODUCTION AND PROCESSING

Production testing of Canunda 1 following a workover was recommenced in the Reporting Period. A workover and retrieval of downhole pressure gauges was completed in March 2011 followed by an EPT during April 2011. Significant volumes of condensate were produced and transported or sale, whilst produced gas was flared. The testing was inconclusive as a result of the high level of liquids produced which constrained the well testing.

Production from Brownlow-1 and Middleton-1 within PPL 239 commenced in January 2012.

4.6 PIPELINE CONSTRUCTION AND OPERATION

During the Reporting Period, on 17 August 2011, Associated Activities Licence ("AAL") 162 was granted as an adjunct to PPL 239 to GAOG (50%) and Beach Energy Limited (50%). This AAL was granted for the construction of pipeline facilities from Brownlow-1 and Middleton-1 to connect into the gathering network of the South Australian Cooper Basin Producers at Moonanga.

These pipeline construction and operation activities are to be reported with PPL239.

4.7 PRELIMINARY SURVEY ACTIVITIES

During the Reporting Period, there were two Preliminary Survey Licences (PSL) granted within the Licence Area to GAOG (50%) and Beach Energy Limited (50%) as follows:

1. On 7 February 2011, PSL21 was granted for a term of 1 year. The PSL authorised Land, Geo-technical, Ecological and Heritage Surveys as identified in the Statement of Environment Objectives.
2. On 17 August 2011, PSL22 was granted for a term of 1 year. The PSL authorised Land, Geo-technical, Ecological and Heritage Surveys as identified in the Statement of Environment Objectives.

PSL21 – Middleton/ Brownlow to Moonanga

The activities under PSL21 were completed by Beach Energy as Operator of the PEL106B joint venture and the PSL. The desk and field studies were completed to confirm the proposed location of facilities and pipelines from Brownlow-1 and Middleton-1 to connect into the gathering network of the South Australian Cooper Basin Producers at Moonanga. Annual Report for the PSL is due to be lodged by 6 April 2012.

Following successful surveying of the area, AAL162 was granted to GAOG (50%) and Beach Energy Limited (50%) with effect from 17 August 2011. Under this AAL the facilities at Middleton-1 and the pipelines from Brownlow-1 and Middleton-1 to Moonanga have been constructed. Construction was completed in early January 2012 and gas has been flowing from Middleton-1 and Brownlow-1 into the SACB gathering system since that date.

PSL22 – Canunda to Smegsy

The activities under PSL22 are on-going. Desk and field studies have been initiated by Beach Energy as Operator of the PEL106B joint venture and the PSL. These activities are directed towards confirming the proposed location of a pipeline from Canunda -1 in PEL106B to connect into the gathering network of the South Australian Cooper Basin Producers via the Smegsy to Jack Lake pipeline.

Further information on the detail of the activities undertaken by Beach Energy on behalf of the PEL106B will be reported to DMITRE as part of the Annual Reports for these PSLs.

5 COMPLIANCE ISSUES

Licence and Regulatory Compliance

Pursuant to Regulations 33(2) (b) & (c)

Detailed information on the individual instances of non-compliance is provided below in designated sections.

5.1 LICENCE NON-COMPLIANCE

There were no instances of licence non-compliance arising from operations in PEL106 during the Reporting Period.

5.2 REGULATORY NON-COMPLIANCE

No.	Date	Activity	Details of Non-Compliance	Rectification of Non-Compliance
Ex. 1	8/12/2011	Submission annual report	Annual report was not submitted by the due date.	Additional resources applied to meeting reporting deadlines.

5.3 COMPLIANCE WITH STATEMENT OF ENVIRONMENTAL OBJECTIVES

Drilling

No actual drilling took place in PEL106 during the Reporting Year.

Seismic

No seismic surveys were conducted in PEL106 during the Reporting Year.

Production Testing

Extended production testing of Canunda-1 was conducted in April 2011. This was the second EPT and took place following a workover to replace production tubing to accommodate the high level of liquids observed in the previous production testing in mid 2010. Beach Energy, as Operator of PEL106B and these testing activities, did not advise any reportable incidents during the workover and testing operations.

5.4 MANAGEMENT SYSTEM AUDITS

Pursuant to Regulation 33(2) (d)

No management system audits were undertaken during the licence year in relation to exploration activities on PEL 106.

5.5 REPORT AND DATA SUBMISSIONS

Pursuant to Regulation 33(2) (e)

Table 3. List of report and data submissions during current licence reporting year

Description of Report/Data	Date Due	Date Submitted	Compliant / Non-Compliant
PEL 106 Annual Report - Permit Year 2	8 OCT 2010	DEC 2010	COMPLIANT
PEL106 Quarterly Compliance Report Q3 2010	31 OCT 2010	31 OCT 2010	COMPLIANT
PEL106 Quarterly Compliance Report Q4 2010	31 JAN 2011	31 JAN 2011	COMPLIANT
PEL106 Quarterly Compliance Report Q1 2011	30 APR 2011	30 APR 2011	COMPLIANT
PEL106 Quarterly Compliance Report Q2 2011	30 JUL 2011	30 JUL 2011	COMPLIANT
PEL106 Quarterly Compliance Report Q3 2011	31 OCT 2011	31 OCT 2011	COMPLIANT
PEL106 Cased Hole Well Activity Report Q3 2010	31 OCT 2010	31 OCT 2010	COMPLIANT
PEL106 Cased Hole Well Activity Report Q4 2010	31 JAN 2011	31 JAN 2011	COMPLIANT
PEL106 Cased Hole Well Activity Report Q1 2011	30 APR 2011	30 APR 2011	COMPLIANT
PEL106 Cased Hole Well Activity Report Q2 2011	30 JUL 2011	30 JUL 2011	COMPLIANT
PEL106 Cased Hole Well Activity Report Q3 2011	31 OCT 2011	31 OCT 2011	COMPLIANT
Activity Notification – Exploration Wells		13 SEPT 2011	

5.6 INCIDENTS

Pursuant to Regulation 33(2) (f)

No incidents have been reported during the Reporting Year.

5.7 THREAT PREVENTION

Pursuant to Regulation 33(2) (g)

No threats have been identified to the proposed exploration activities for PEL 106 for the Reporting Year.

6 FUTURE WORK PROGRAM

Pursuant to Regulation 33(2) (h) under the Act

Operations Proposed for the 12 months after the Reporting Year

The PEL106B joint venture have proposed the drilling of four exploration wells, namely Baird-1, Admella-1, Coolawang 1 and Haslam-1.

The PPL239 Joint Venture has commenced production of raw gas from Middleton-1 and Brownlow-1 in January 2012 which will continue as required during the next 9 months.

The PEL106A Operator (Drillsearch) is proposing to conduct well integrity testing in the following wells:

- Completed – Smegsy -1, Rossco-1
- Cased and Suspended – Paprika-1, Cadenxa-1, Nutmeg-1 and Paranta-1.

Currently there is a trial reprocessing of the Spinel 3D survey being conducted over a test area of 100 m2. Should the reprocessing be determined as successful, then the entire survey will be reprocessed.