



Australian-Canadian Oil Royalties Ltd.
Ely Sakhai

PEL 108
Cooper/Eromanga Basin
South Australia

Annual Report
Permit Year 1

17 April 2003 to 16 April 2004

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I. Introduction

Australian-Canadian Oil Royalties and Ely Sakhai (hereinafter referred to as the "Group", or the "Licensee") were issued PEL 108 (or "the Permit") on April 17, 2003, for a tenure period of five (5) years. PEL 108 is in the Cooper/Eromanga Basins region of the State, located in the northwest corner of South Australia. The tenure period for Year 1 of the License is April 17, 2003 to April 16, 2004.

II. Permit Summary

Interests held in PEL 108 at the time of this report are as follows:

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

Work obligations for the Permit as per the original application are as follows:

Year	Work Program	Expenditures
First Year	Geological and Geophysical Studies	
Second Year	Seismic Data Acquisition	
Third Year	Drill two (2) wells	
Fourth Year	Drill one (1) well	
Fifth Year	Drill one (1) well	

III. Exploration Activity

1. DRILLING. There were no drilling activities on the Permit area during the first year.
2. SEISMIC DATA ACQUISITION. No seismic data was acquired on the Permit area during the first year.
3. SEISMIC DATA PROCESSING/REPROCESSING. No seismic was processed or reprocessed during the first year of the Permit.
4. GEOLOGICAL AND GEOPHYSICAL STUDIES. All seismic lines on the area were acquired and examined to determine optimal location for Year 2 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 Licensee complied with all obligations imposed by the Act, the regulations, and the license, 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 license year. The Licensee 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 Licensee was granted a 14-day extension to satisfy the above-mentioned requirement, and submitted said report within this timeframe.

The Licensee did not conduct any regulated activities during Year 1 of the tenure that would require a Statement of Environmental Objectives (SEO). The Licensee 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 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.

3. Summary of Management System Audits

No Management System Audits were undertaken during the first year of the license.

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

The Licensee 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 Licensee will acquire additional seismic data over the large structures in the north-central and central-eastern portions of the Permit area. The primary goal of this seismic will be to better establish and define closure over these areas.

V. Other Reports and Information

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

VI. Expenditures – PEL 108

Expenditures on activities conducted under the Permit for Year 1 of the Permit, being April 17, 2003 to April 16, 2004, were as follows:

STATEMENT OF EXPENDITURE



VII. Report Summary

The Licensee had no "on-area" activities during the first year of the Permit. Due to this, minimal reporting was necessary, and the

Licensee submitted only the Annual Report for Year 1, as per the Regulations.

The Licensee examined existing seismic, well completion reports and other data over the Permit in order to determine optimal locations for seismic data acquisition scheduled for Year 2 of the Permit's exploration program. A number of technical professionals, from International Oil Lease Service Corp., Australian-Canadian Oil Royalties, and other sources, assisted in the examination of the data, and are confident new seismic during Year 2 will open new avenues for PEL 108's potential.

Included with this report are seismic sections and maps displaying the top lead locations, which the Group favors. Lines with leads of most importance are included below.

<u>Line #</u>	<u># of leads</u>
83 NRB -	2
82 LMK -	6
83 NRD -	4
82 LML -	7

It is important to the Group to utilize all data and information available in order to properly select well locations for the Year 3 drilling program. Year 2 promises to be an exciting year for the Group, as the new seismic program is completed, and potential 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.