Tasmania Special Exploration License SEL 32/2003

Annual Report

Period: July 30, 2005 to July 30, 2006

License Holder: OME Resources Pty Ltd

Report by: Focal Petroleum Engineering Pty Ltd

Date of Report: July 12, 2006

Summary

This report is in reference to exploration activities conducted over Special Exploration License SEL 32/2003. The license applies to coalbed methane only. On November 3, 2005, the license was renewed to July 30, 2010, over a reduced area covering 11,295 km2. This license was originally part of SEL13/98.

The commitment in the first year of the license, to July 30, 2006, was to drill, core, and test 1 well. Together with final geological and engineering preparation work for this drilling, this expenditure was anticipated to be in the order of $400,000

To date, $113,221 has been spent on final geological and engineering preparation work for the drilling program. The remaining expenditure commitment of $286,779, including the drilling of the one well, will be carried forward into Year 2 (ie. to July 30, 2007).

The work carried out in the current year included:

- further geological assessment, predominantly of the Fingal-Dalmayne Coalfield, toward identifying final well locations
- site visits to inspect terrain and access, particularly in the Fingal area
- development of drilling and testing programs
- sourcing of drilling contractors and equipment
- coordinating with the MRT on drilling programs and environmental requirements

The proposed work for next year therefore includes the drilling of a total of 3 wells, including the carried-over commitment from the first year (to July 30, 2006), as well as the original commitment to drill 2 wells in the second year. The total expenditure in Year 2 is estimated at $800,000 plus the $286,779 carried forward from Year 1, totalling $1,086,779.

If successful, then more wells would be proposed to follow, as the area moves into pilot and then phased development.

The general next steps in the exploration / appraisal process, contingent upon success, would include:

1. Final selection of drilling locations within the Fingal coalfield target area
2. Drilling of coreholes to facilitate:
    a. field and laboratory testing of selected coal samples to establish gas desorbtion characteristics
    b. Core inspection for indications of productivity potential: cleat sizing and distribution, mineralisation, coal thickness, heterogeneities, etc.
3. If successful, well-testing to establish gas presence, gas composition, and insitu permeability.
4. Drilling and completing pilot production wells

The ultimate objective is to conduct a pilot project to de-water, establish gas deliverability, and confirm/certify recoverable gas reserves.

Since the evaluation and planning work carried out to date has involved desk-stop studies and site inspections, no activities with an environmental impact were conducted.

1. Exploration / Appraisal Rationale

Coal Seam Gas (CSG) is a green energy source that will play a major role in future energy supply world-wide.

The Tasmania Basin is a mature coal-mining production province, with significant coal resources, and hence significant potential for Coal Seam Gas. Our objective is to evaluate and demonstrate both the distribution and economic viability of CSG production in the Tasmania Basin. If drilling and pilot programs are successful, we plan to rapidly develop this resource, and establish CSG as a viable alternate energy source for the state of Tasmania.

Our exploration / appraisal philosophy is to leverage the extensive existing coal-mining knowledge base to identify areas of greatest potential for Coal Seam Gas. With the "desk-top" phase complete, we will now drill and test the most promising areas, and if successful, move quickly into pilot and production.

1.1. Exploration / Appraisal Program

The first step in evaluating the CSG potential was a "desk-top" literature study, completed in 2005. The next steps in the exploration / appraisal process, contingent upon success, would include:

1. Final selection of drilling locations within the Fingal coalfield target area
2. Drilling of coreholes to facilitate:
    a. field and laboratory testing of selected coal samples to establish gas desorbtion characteristics
    b. Core inspection for indications of productivity potential: cleat sizing and distribution, mineralisation, coal thickness, heterogeneities, etc.
3. If successful, well-testing to establish gas presence, gas composition, and insitu permeability.
4. Drilling and completing pilot production wells

The ultimate objective is to conduct a pilot project to de-water, establish gas deliverability, and confirm/certify recoverable gas reserves.

1.2. Final Well Location Selection and Ranking Criteria

We are currently finalizing the selection of boreholes that will be twinned in the Fingal-Dalmayne Coalfield. There are two key types of consideration: geological, and operational / environmental.

The key geological considerations include:

1. Coal Depth
2. Total Net Coal Thickness
3. Total Net Coal with ash < 40%
4. Total Net Coal in key seams (eg. Duncan, East Fingal, D Seam)
5. Location relative to main faults: Mitchell, Richardson, Newman
6. Potential areal extent of the target seams

The key operational / environmental considerations include:

1. Surface Topography
2. Access via existing roads
3. Drilling problems with original boreholes
4. Proximity of vegetation, growth, trees
5. Proximity of water source

2. Further Analysis of the Fingal – Dalmayne Area

Of particular interest is the 5 by 5 kilometer area (dashed outline in Figure 1) directly east of the Fingal coalfield mining lease. This is an area of approximately 25 km^2, with 25 existing boreholes. Each of the grid squares in the figure is 25 km^2.

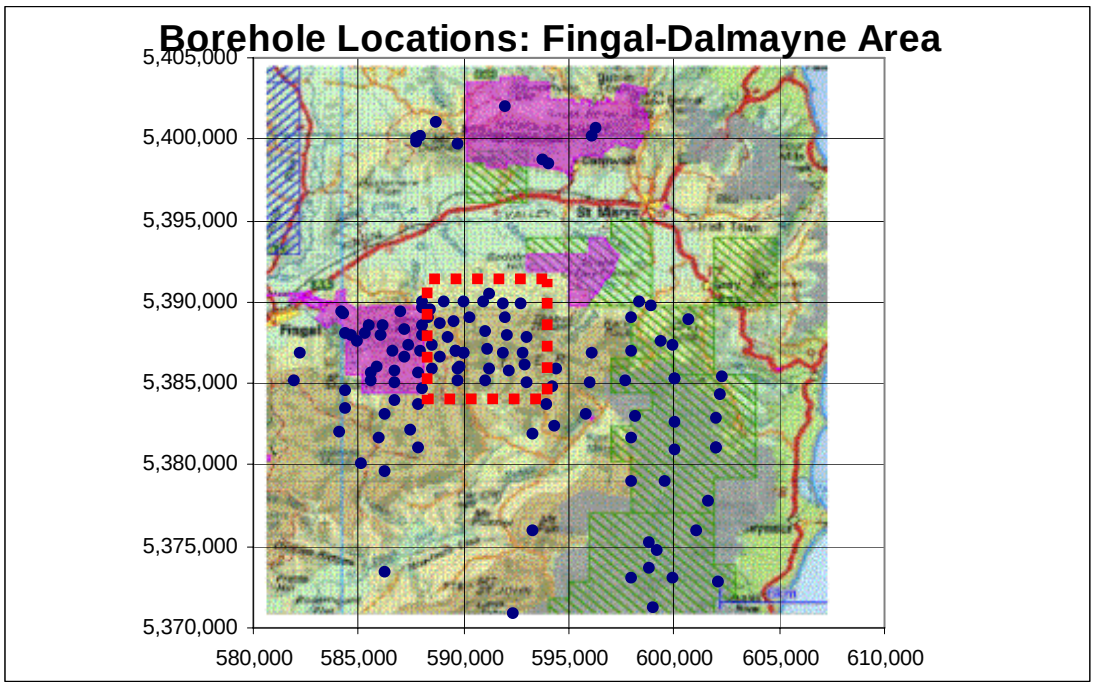


Figure 1: Borehole Locations with the Fingal-Dalmayne Area

Fingal Tier – Prospect Details

The Fingal coal fields, as described by C. Bacon, consist of up to 8 major coal seams, A – H . A and B are better described as carbonaceous intervals, as they consist of piles of coal < 0.5m thick, interbedded with carbonaceous matter and claystone over intervals of 5 – 10m.

All the seams have a high ash inherent content, and generally have only a small component of bright coal. As such, the coal is termed as medium rank, and has a low sulphur content.

The coal seams which are of the greatest economic (mineable) interest on the Fingal Tier are the Duncan Seam (F) and the East Fingal Seam (G). The Duncan Seam is currently mined at the Duncan Colliery, and typically consists of 2 – 3m of dull coal with minor clay and mudstone partings.

The East Fingal Seam is about 30m stratigraphically below the Duncan Seam, and is commonly split. The upper and lower seams are 1 – 1m thick and separated by 1 – 10m of intra – seam sediments.

A thick dolerite sill of Jurassic age covers the coal bearing sediments of the Fingal Tier and is generally 100 – 300m thick. This cover forms an extensive plateau in the area. Most coal workings in the region occur where the coal seams are exposed by the incision of streams or valleys into the extensive plateau.

The exploration program proposes to drill adjacent to existing Department of Mines drill holes to initially obtain core samples for gas desorbtion tests and possibly carry out injectivity tests on the coal seams.

Fingal Tier – Prospect Analysis

Although the analysis is ongoing, the following figures illustrate some of the interim results. Figure 2 shows the total coal thickness encountered in the DOM drillholes within this prospective area. The average total coal thickness is 10 meters, while several holes encountered considerably thicker sections. Average total coal-mining “working thickness” (cutoff > 1.5 meters for an individual seam) is in the order of 2 to 4 meters. One of the boreholes did not encounter any coal.

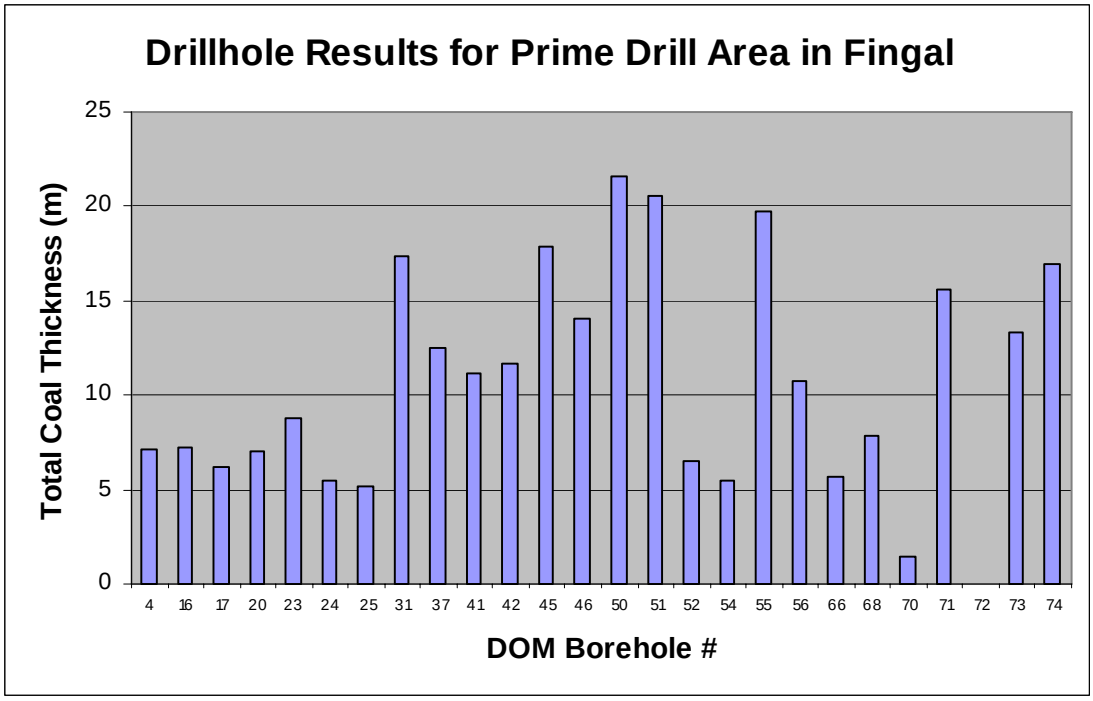


Figure 2: Total Coal Thickness of DOM Holes in Prime Drilling Area

Figure 3 shows the total coal thickness for the same boreholes, when screened for ash content < 40%. The average total net coal reduces to approximately 5 meters.

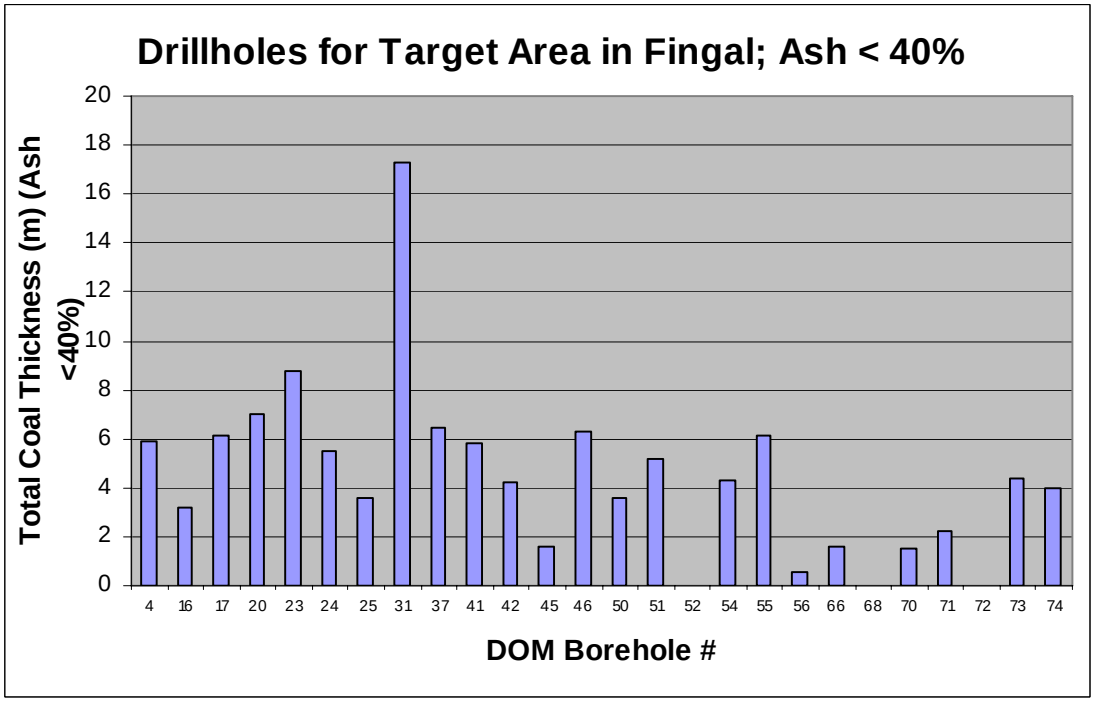
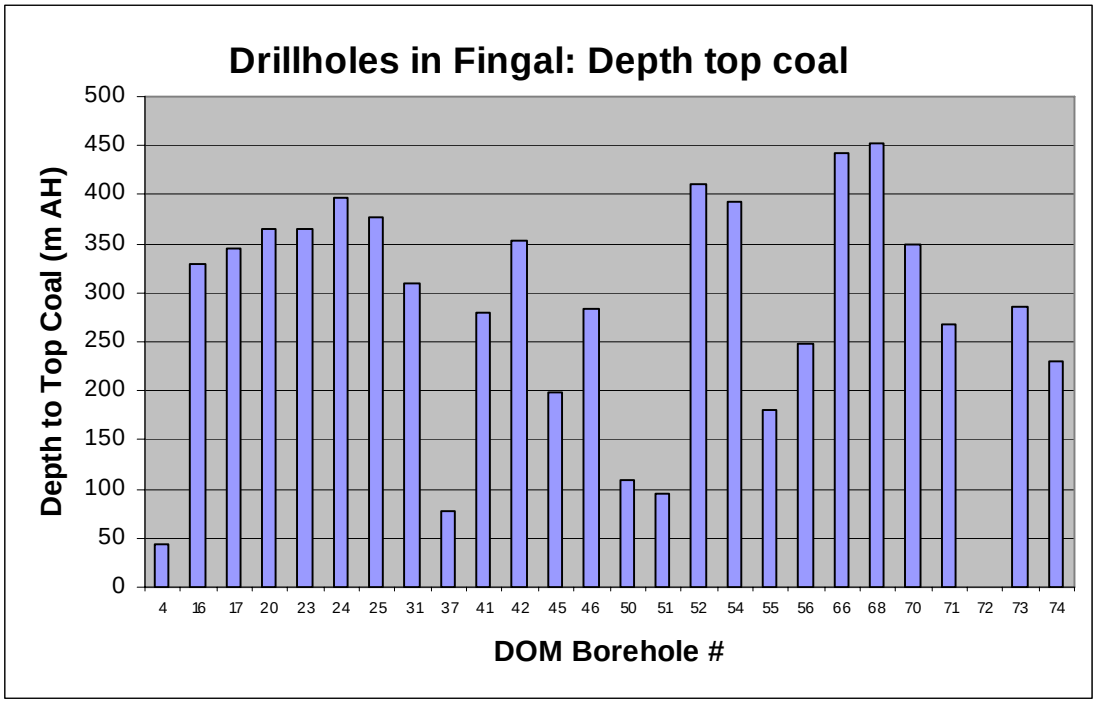
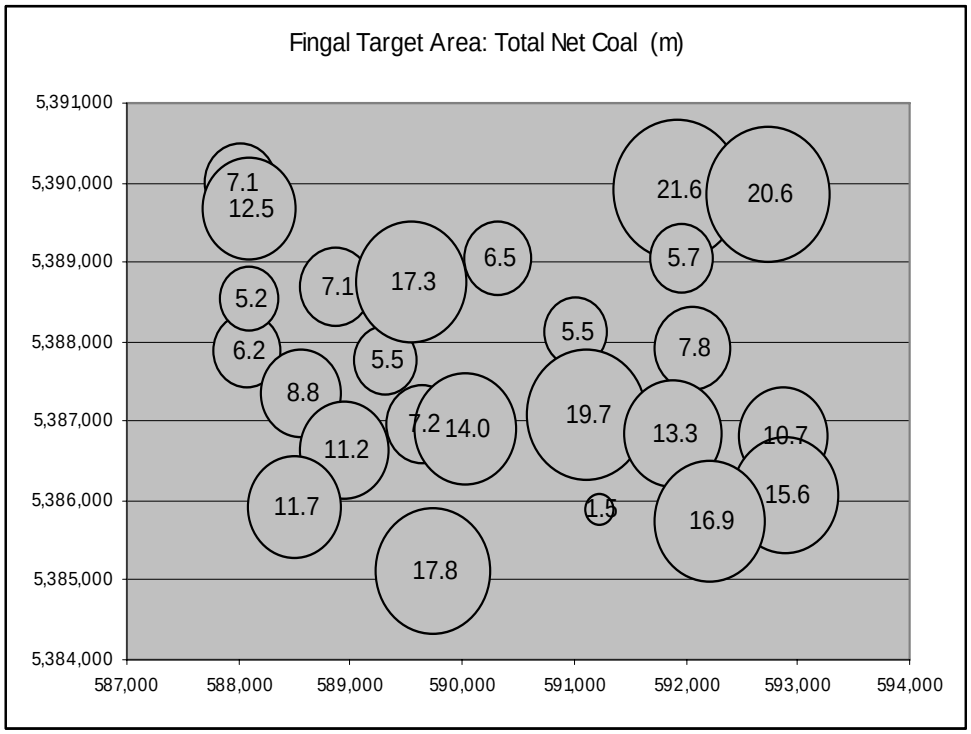
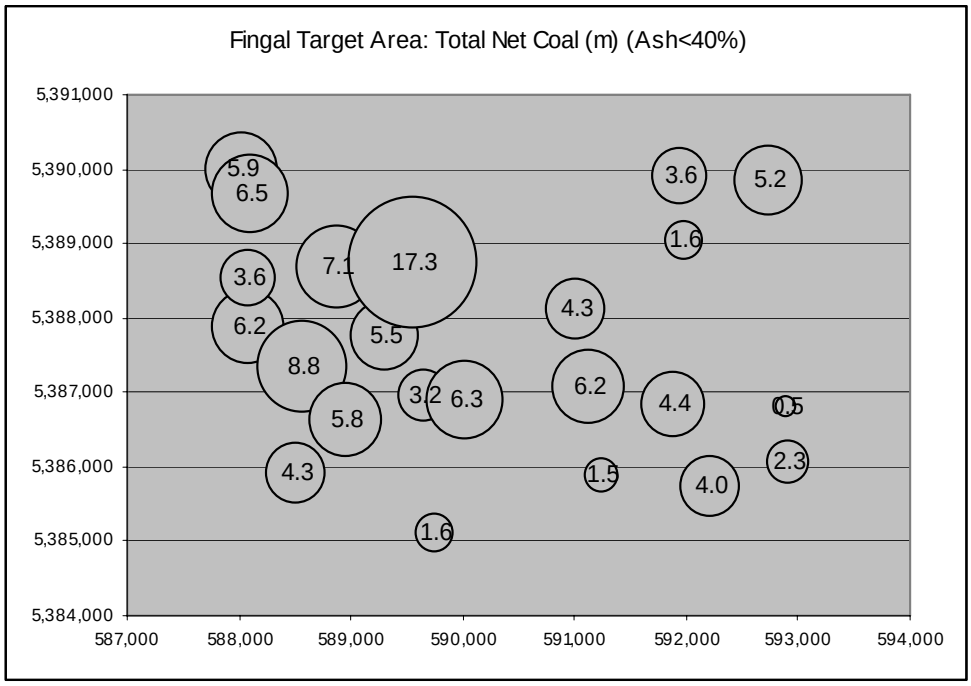


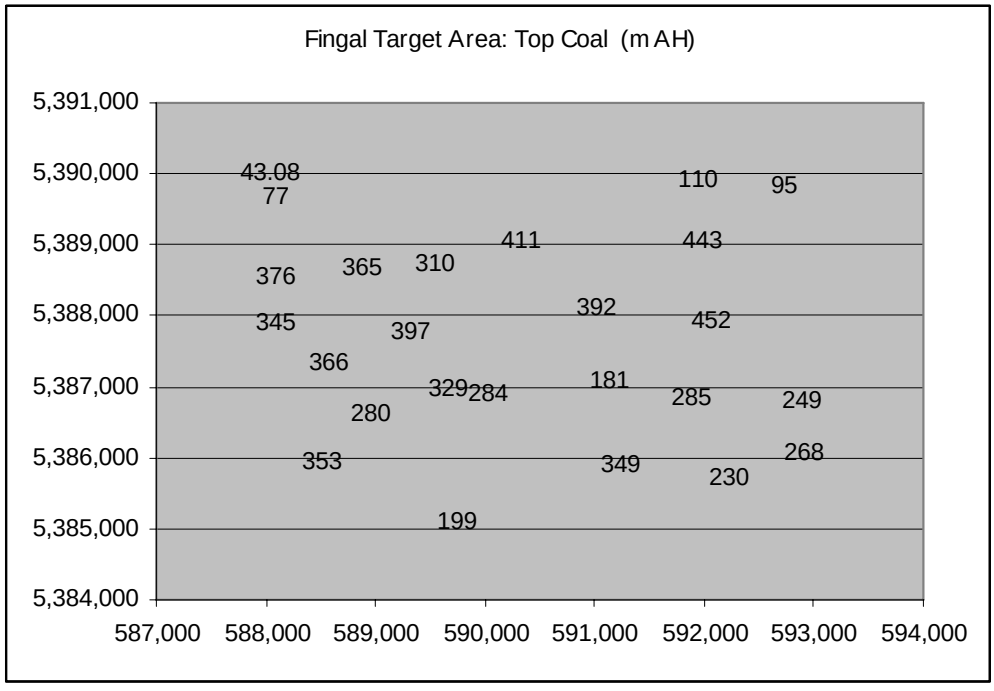
Figure 4 shows the depth to the top coal seam. A cutoff of approximately 250 to 300 meters is currently envisaged.



The following bubble maps depict the same data presented in plan view.







Further screening and mapping of the data (in particular, examining the key individual seams), will result in a shortlist of wells, which will in turn be screened against operational and environmental criteria outlined above.

3. Proposed Exploration / Appraisal Drilling Process

Drill Hole Design

Each drill hole is planned to be drilled using a combination air – rotary hammer and high-speed diamond drilling rig. Support equipment for the duration of the program will include a mud loggers caravan, Toyota tray, and water supply package.

Drill pad locations are planned to minimise the impact on the environment and, where possible, will be situated next to existing wells requiring the least disturbance to vegetation and soil profiles.

It would be preferable to site the drill holes proximal to a reliable source of water for drilling operations, in order to alleviate the need for transport of water using trucks on access roads.

The prospective drill hole co-ordinates (in Table 1) are indicative only, and have been determined from the desktop study completed to date by Focal Petroleum Engineering Pty Ltd, on behalf of Pure Energy Resources Pty Ltd and OMERA. However, it is anticipated that final or absolute well locations will be within 100m of these locations, if practical and approved. All drill holes and target areas identified within this report are based on known intersections of coal in historical drill holes.

All drilling and associated activities will be carried out in accordance with MRT Code of Environmental Practice.

Drill holes will mostly be spudded using a 5 ½" hammer, and drilled to casing point (approximately 50m).

Casing will be run into the hole and cemented in place. After the casing has set, the well will be cored through to TD, with coal-bearing core samples being placed into gas desorption canisters to determine gas content.

Should initial indications from the core samples prove encouraging, then an injectivity test may be carried out to determine permeability.

High formation pressures are not anticipated during the drilling program. Evidence for a lack of formation pressure is supplied by the numerous water bores and exploration drilling completed in the immediate vicinity of each target area over the past fifty years.

On completion of this program the wells will be plugged and abandoned.

Should the results from this program be positive, then a program will be submitted to MRT for the drilling and completion of wells to further evaluate the gas-production

capability of the coal seams. This will include de-watering the coal seams to allow the in-flow of gas.

Table 1: Existing Boreholes in the Fingal-Dalmayne Proposed Target Area

Existing Borehole	Easting	Northing	Level (m)	top coal seam (m)	bottom coal seam (m)	Total Coal interval (m)	Avg coal depth (m)	Total Coal Thickness (m)
Fingal 4	588,032	5,389,999	546.8	43.08	186.61	144	115	7.1
Fingal 16	589,656	5,386,946	837.0	329	357	28	343	7.2
Fingal 17	588,085	5,387,885	777.5	345	423	78	384	6.2
Fingal 20	588,884	5,388,677	811.0	365	460	95	413	7.1
Fingal 23	588,575	5,387,335	804.6	366	462	96	414	8.8
Fingal 24	589,313	5,387,760	830.8	397	497	100	447	5.5
Fingal 25	588,094	5,388,535	784.1	376	422	46	399	5.2
Fingal 31	589,551	5,388,735	828.9	310	340	30	325	17.3
Fingal 37	588,097	5,389,662	596.3	77	223	146	150	12.5
Fingal 41	588,949	5,386,618	812.4	280	462	182	371	11.2
Fingal 42	588,516	5,385,917	813.1	353	476	123	415	11.7
Fingal 45	589,749	5,385,088	707.8	199	389	190	294	17.8
Fingal 46	590,032	5,386,888	772.8	284	443	159	364	14.0
Fingal 50	591,939	5,389,903	563.1	110	308	198	209	21.6
Fingal 51	592,737	5,389,825	534.3	95	251	156	173	20.6
Fingal 52	590,324	5,389,038	795.8	411	495	84	453	6.5
Fingal 54	591,021	5,388,112	711.8	392	466	74	429	5.5
Fingal 55	591,126	5,387,069	626.4	181	365	184	273	19.7
Fingal 56	592,886	5,386,808	701.0	249	381	132	315	10.7
Fingal 66	591,979	5,389,037	778.2	443	550	107	497	5.7
Fingal 68	592,064	5,387,912	779.1	452	556	104	504	7.8
Fingal 70	591,243	5,385,885	603.6	349	356	7	353	1.5
Fingal 71	592,905	5,386,048	653.9	268	438	170	353	15.6
Fingal 72	591,054	5,385,192	580.8	0	0	0	0	0.0
Fingal 73	591,885	5,386,843	706.8	285	444	159	365	13.3
Fingal 74	592,215	5,385,722	643.0	230	401	171	316	16.9

4. Exploration / Appraisal Plans and Expenditures

4.1. Expenditure in Year 1: July, 2005 to July, 2006

The exploration expenditure in the past year totaled $113,221.

The expenditure is itemized as follows:

Activity	Cost ($)
Data Compilation	10,190
Geological Review	28,305
CSG Well Locations: Screening and Ranking	40,760
Site Visits, Drilling, Evaluation and Testing Programs	26,041
Administration	7,925
Total	**113,221**

4.2. Exploration / Appraisal Program in Year 2

To date, $113,221 has been spent on final geological and engineering preparation work for the drilling program. The remaining expenditure commitment of $286,779, including the drilling of the one well, will be carried forward into Year 2 (ie. to July 30, 2007). The total expenditure in Year 2 is estimated at $800,000 plus the $286,779 carried forward from Year 1, totalling $1,086,779.

The proposed work for next year therefore includes the drilling of a total of 3 wells, including the carried-over commitment from the first year (to July 30, 2006), as well as the original commitment to drill 2 wells in the second year.

STATUTORY DECLARATION

Terry Primeau
name

Managing Director
designation

Focal Petroleum Ausralia Pty Ltd
company

Petroleum Engineering
occupation

6/66 Millpoint Road, P.O. Box **952** South Perth WA 6951
address

Do solemnly and sincerely declare that the foregoing information is true and correct In **every** particular and I **make** this solemn declaration under the Act 2001.

..... signature

Declared at PERTH in the State of ~~Tasmania~~ WA this 13th day of JULY 2006

Before me, GEOFF HEWITT, HEWITT SEC 4 ASSOCIATES name and signature
(A Justice of the Peace/Commissioner for Declarations/ or authorised person)

EXPLANATORY NOTES

Tasmania Special Exploration License SEL 32/2003 Annual Report for the period ending July 30, 2006

EXPENDITURE DETAILS

Geology, **geochemistry** and should Include, **as appropriate:**

- salaries, wages, etc. paid to employees (professional. technical and field staff)
- line kilometres (if appropriate)
- payments to contractors, consultants, laboratories. etc., including ground and airborne geophysics and data processing not drilling contractors.
- travel and subsistence allowances

Feasibility **Studies** including all expenditure directly attributable to:

- ore reserves and estimation
- mineral processing and metallurgical
- feasibility/economic studies
- marketing studies

Rehabilitation rncludes all direct rehabilitation costs

Drilling **and** gridding include all direct costs. The length achieved during the quarter must be shown

Other means all other expenditure directly attributable to exploration, including:

- construction of access tracks, surveying, contract drafting etc. not attributable to geology, geochemistry or drilling
- aerial photography
- capital expenditure and hire/leasing of vehicles and equipment specifically for this enterprise

Administration overheads include

- legal cost and government fees and charges but only attributable to exploration
- proportion of office and administrative **expenses** and of capital expenditure ***but*** not exceedtng 10% of annual expenditure

Exclusion – payments other than to government. for the purchase of mineral tenements

THE EXPLORATION PROGRESS REPORT

should be a resume of exploration completed, exploration in progress and any significant results A lengthy statement is not required, as full details full details must be provtded in the annual report to the Drrector of Mines. The progress report should not **exceed** one page.

ENVIRONMENTAL AND ACTIVITIES

Full details of any activities impacting on the environment are required with a resume of the type and extent of rehabilitation proposed, in progress and completed. The report should be less than one page and should include plans and photographs where appropriate.

GENERAL

If work is undertaken on more than one tenement, a separate form for each is required. If no exploration was done during the period, a nil return must be sent. If exploration was carried out by a company or person(s) other than the tenement holder, the return may be sent and completed by them

THIS FORM **MUST** BE **COMPLETED AND** RETURNED WITHIN **14** DAYS AFTER **THE END OF THE PERIOD, TO THE** DIRECTOR OF MINES, PO **BOX 56, ROSNY PARK,** TASMANIA, AUSTRALIA, **7018**