



PURE
ENERGY RESOURCES LIMITED

Tasmania Special Exploration License SEL 32/2003

Annual Report

Period: July 31, 2007 to July 30, 2008

**License Holder: OME Resources Pty Ltd
(wholly-owned subsidiary of Pure Energy Resources Ltd)**

**Report by: Focal Petroleum Engineering Pty Ltd
(on behalf of Pure Energy Resources Ltd)**

Date of Report: July 2008

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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, granted in July 2004 to OME Resources Pty Ltd. During the past year, Pure Energy Resources Ltd acquired 100% interest in OME Resources Pty Ltd.

The expenditure commitment for the first three years of the license, from July 30, 2004 to July 30, 2007, was \$1,350,000. The total expenditure over those three years was \$1,359,793, representing an over-expenditure of approximately \$9793 carried forward into the current year.

The expenditure commitment for the current year (July 2007 to July 2008) was \$700,000. Due to delays in acquiring drilling contractors and obtaining necessary environmental clearances, the two commitment coreholes are expected to be drilled in August 2008. Thus, for the current year, a total of \$109,760 has been spent, representing a net shortfall of \$580,447 to be carried over into the next year.

The work carried out in the current year included:

- further geological evaluation, finalising followup CSG drill locations in Fingal-Dalmayne
- site visits, finalising drilling and evaluation programs with contractors
- coordinating with the MRT on drilling programs and environmental requirements

The proposed work for next year (to July 2009) includes further geological modelling, based on the soon-to-acquired corehole and test data in Fingal-Dalmayne, and the drilling and testing of 1 further appraisal corehole. The expenditure in Year 4 is estimated to be \$300,000 for the corehole and associated studies. Thus, the total expenditure commitment from July 30, 2008 to July 2009, including the carried-over commitment, will be \$880,447.

If the current program is successful, further wells would be proposed as the Fingal-Dalmayne area moves into pilot and then phased development. The Company also intends to explore other areas of the lease in the next two years, likely in the York Plains and Mount Vernon areas.

The ultimate objective for any of these exploration plays is to conduct a pilot project to de-water the coals, establish gas deliverability, and confirm/certify recoverable gas reserves.

Pure Energy Resources Ltd is committed to carrying out its CSG exploration in a safe, efficient and environmentally responsible manner.

1. Introduction

1.1. Coal Seam Gas in Tasmania

Coal Seam Gas (CSG) is a “greener” 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.

1.2. Exploration / Appraisal Program

The first step in evaluating the CSG potential was a “desk-top” literature study, completed in 2005. The second phase was to drill the first CSG exploration wells in the Fingal-Dalmyne Coalfield. Two coreholes were completed in early July 2007, and yielded encouraging, although variable, results.

The Company plans to conduct follow-up appraisal drilling of two coreholes to assess the extent of the Fingal-Dalmyne CSG resource, with a rig slot secured for August 2008.

If these appraisal wells are successful, we plan to move into pilot and production.

2. Background –Fingal Tier

The following three sections present key excerpts from the pre-drill well proposals for the first two coreholes, Fingal-55B and Fingal-41B.

2.1. Geological Setting

The Tasmania Basin is a mature coal mining production province having a significant coal resource with the potential to host a substantial coal seam gas resource (Figure 1). There are few petroleum wells, just 3 being within the permit boundary. Seismic coverage is limited to about 600km of two dimensional (2D) data.

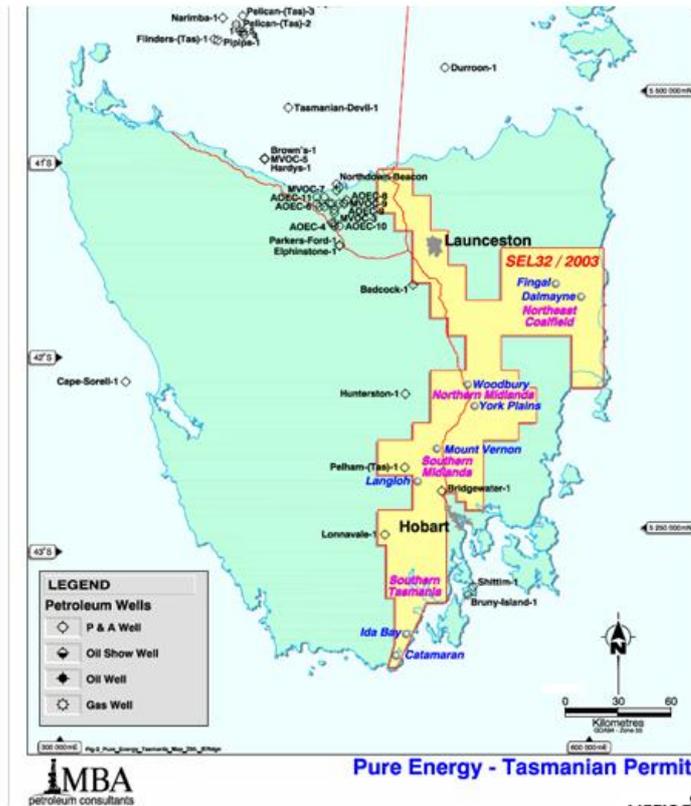


Figure 1: Pure Energy Tasmanian Permit

The basin contains a sequence up to 2km thick of flat lying rocks, ranging in age from Late Carboniferous to Late Triassic (Figure 2). The total section is called the Parmeener Supergroup and the Supergroup is separated into two divisions, the Lower Parmeener and the Upper Parmeener (Bacon, 1991).

The Late Triassic Coal Measures are, except for the northern edge, present over the bulk of the Tasmania Basin. Their best development is in the northeast corner of Tasmania, and these contain the bulk of the State's coal reserves. The coal measures are about 300-400m thick and contain some 8 seams up to 2m or more thick, totaling about 10m of net coal in the primary target seams, and up to 20m, if including the secondary target coals. A dolerite sheet intrudes through much of the coal measures and, because it is resistant to erosion, forms high topographic relief covering most of the areas of the coalfields.

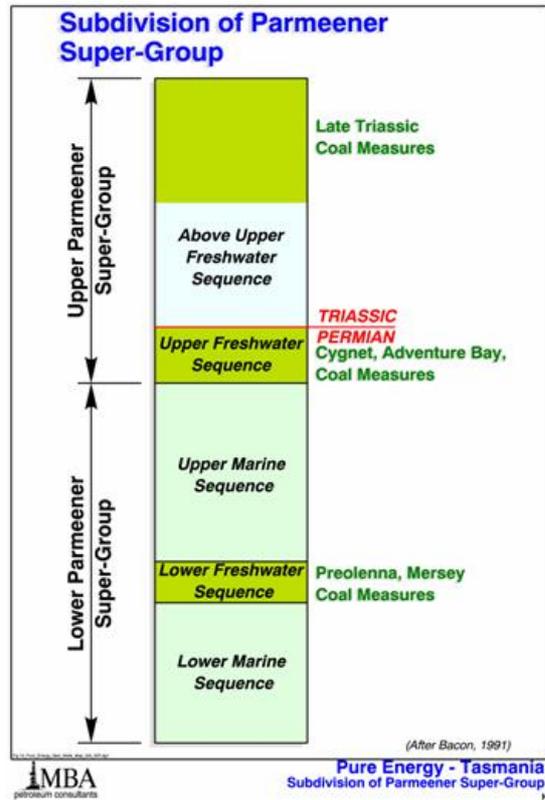
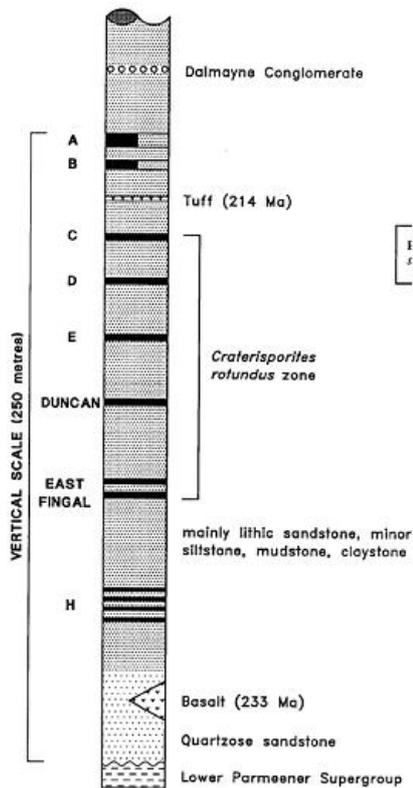


Figure 2: Parmeener Super-group of the Tasmanian Basin

The Fingal-Dalmyne Coalfields in the Northeast of the basin are the most prospective for CSG. The Fingal coals, 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. Figure 3 presents a diagrammatic stratigraphic section of the Coal Measures, from Bacon.

The coals have relatively high average ash content (20 to 40%), although variable, and generally have only a small component of bright coal. Maceral analyses indicate the coal is dominated by inertinite, with approximately 10% vitrinite and 10% exinite. The coal was termed by Bacon and Threader to be medium rank, and has low sulphur content. With the mean maximum reflectance in the range of 0.5 to 0.7%, CSIRO placed it in the high volatile C bituminous range.

The coal seams which are of the greatest interest on the Fingal Tier are the Duncan Seam (F), the East Fingal Seam (G), and the D Seam. The Duncan F 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 G Seam is about 30m stratigraphically below the Duncan Seam, and is commonly split. The upper and lower seams are 1 – 2m thick and separated by 1 – 10m of intra-seam sediments. The D seam has also been identified by Bacon to have substantial areas of “possible working coal” (defined as >1.5m thick, with ash <40%) within in the CSG prospective area.



Diagrammatic Stratigraphic Section Fingal Tier

Main Seams of Interest:

1. Duncan or "F" Seam
 - main seam mined in area
 - typically 2 – 3 meters thick
2. East Fingal or "G" Seam
 - similar to Duncan seam
 - usually split in two, each 1 -2 m thick
3. "D" Seam
 - Generally 1 - 2 m thick

Figure 3: Diagrammatic Stratigraphic Section, Fingal Tier - Bacon

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. Localised dolerite intrusions have been mapped by MRT, based on borehole and gravity and magnetics data. The Dolerite does not represent a significant risk to altering the coals and potential gas content. From Bacon and Threader, 1984: "Heat capacity of the magma was very low. In consequence the thermal metamorphic effects are generally minimal and restricted to zones rarely more than 5 meters wide, or near pipes. Coal is rarely affected and thermal changes are of no significant exploration significance." (pp35-37)

2.2. Exploration Risks

The two key exploration risks are gas content and permeability.

2.2.1. Gas Content

The Duncan Colliery in the Fingal Valley experienced an explosion of methane gas in 1977, approximately 5km from the proposed drilling locations, in one of the seams targeted here. The mine continues to experience methane readings in the order of 1%, despite continuous ventilation. Thus, the presence of at least some gas in the coals is proven.

Given the rank of the coal, the relatively low reflectance (0.5 to 0.7%) and high inertinite content, the probability of thermogenic gas generation is reduced. However, the reflectance is still within the range for thermogenic gas generation, and is similar to the Scotia / Peat coals of the Queensland Bowen Basin, and higher than the Powder River Basin.

The more likely source of prospectivity is biogenic gas. Biogenic gas generation requires an active hydrologic system to supply methanogenic bacteria, and a relatively low temperature to allow bacterial activity. An active hydrologic system appears present in the coals. The Duncan Colliery pumps fresh water from the same coals being targeted in the Fingal coalfield (the water is used by miners to shower, and for irrigation of the Fingal Valley). In addition, the coals are at a relatively shallow depth, approximately 300 to 400 meters, in a lower temperature regime. The mine explosion shows that gas can be trapped even where water has high penetration. The exploration target area is some distance from high water intake, so is even less likely to be flushed.

While it is true that higher rank coals generally have higher gas contents, gas content is not determined by coal rank alone. Gas content can be increased by biogenic gases or by the diffusion and long-distance migration of thermogenic gases toward so-called conventional traps (facies changes, anticlines, or faults) for resorption. There are a number of potential trapping mechanisms at Fingal, although trapping is still considered a risk under this scenario. This will be discussed further in the following sections.

There are of course numerous examples of low rank CSG fields, most notably the Powder River and Raton Basins in the United States. Some researchers maintain that an alternating stratigraphic mix of “dull” and “bright” coals will optimize both gas storage capacity and cleat development (R.W. Specht, JIREH Exploration and Consulting, PTTC Case Studies). This alternation of dull and bright coals is common in the Fingal Coalfield. An AAPG study of Indian coals ranging in rank from high-volatile bituminous C (Vr of 0.6%, analogous to Fingal) to medium-volatile bituminous coals, suggests that for every 10% increase in ash yield, the gas content was reduced by 100ft³/ton (or about 3m³/tonne) (Crosdale and Laxminarayana, AAPG, 2002).

2.2.2. Permeability

The following suggest that an extensive cleat or fracture system exists in the Fingal coals:

- an active hydrologic system (as outlined above)
- open cleats reported in core descriptions, along with traces of mineralisation
- an extensional environment (shallow horst and graben structures) (Calver report, MRT)
- shallow depth (300 to 400 meters)

The probability of encountering good permeability was considered high, in the order of 70 to 80%. Combined with a gas content risk of 50%, this yielded a prospect probability of success in the order of 35 to 40%.

3. Fingal Tier Prospect

3.1. Summary of Past Results

The Fingal - Dalmayne area is directly east and south of the Fingal coalfield mining lease and covers approximately 300km². The coals lie between approximately 300 to 400m depth, with an average total coal thickness of 10m, with several holes encountering considerably thicker sections. Average total coal-mining “working thickness” (cutoff > 1.5m for an individual seam) is in the order of 2 to 4m.

In 2007, Pure Energy drilled 2 coreholes, Fingal-41B and Fingal-55B. Results were encouraging for further CSG appraisal in Fingal-Dalmayne, as well as other potential CSG fields in the tenement. One of the two key exploration risks – permeability – has been demonstrated to be clearly favourable for potential CSG development in Fingal-Dalmayne. Sufficient permeability exists in most, if not all, of the prospective seams. The gas content results suggest a relatively low to variable gas content in the coals in these two locations, as expected, with the majority of the gas being biogenic. One of the objectives of the two proposed appraisal wells for this year is to evaluate the possibility of finding higher gas contents further south, as well as to establish the areal extent of the favourable permeabilities.

3.2. Plan for Further Appraisal

Pure Energy plans to “twin” 2 of the existing DOM boreholes (Fingal 59 and 82, Table 1 and Figure 4), initially to obtain core samples for gas desorption tests, and likely carry out injectivity tests on the coal seams to establish permeability.

Table 1: 2008 Proposed Boreholes for Twinning: Fingal-Dalmayne Coalfield

| Existing Borehole | Easting | Northing | Elevation (m) | top coal seam (m) | bottom coal seam (m) | Total Coal interval (m) | Avg coal depth (m) | Total Coal Thickness (m) |
|-------------------|---------|-----------|---------------|-------------------|----------------------|-------------------------|--------------------|--------------------------|
| Fingal 59 | 587,494 | 5,382,058 | 802.3 | 294 | 515 | 221 | 404 | 31 |
| Fingal 82 | 593,978 | 5,383,650 | 588.6 | 150 | 340 | 190 | 235 | 17.7 |

Duncan (F) Seam: Structural Contours

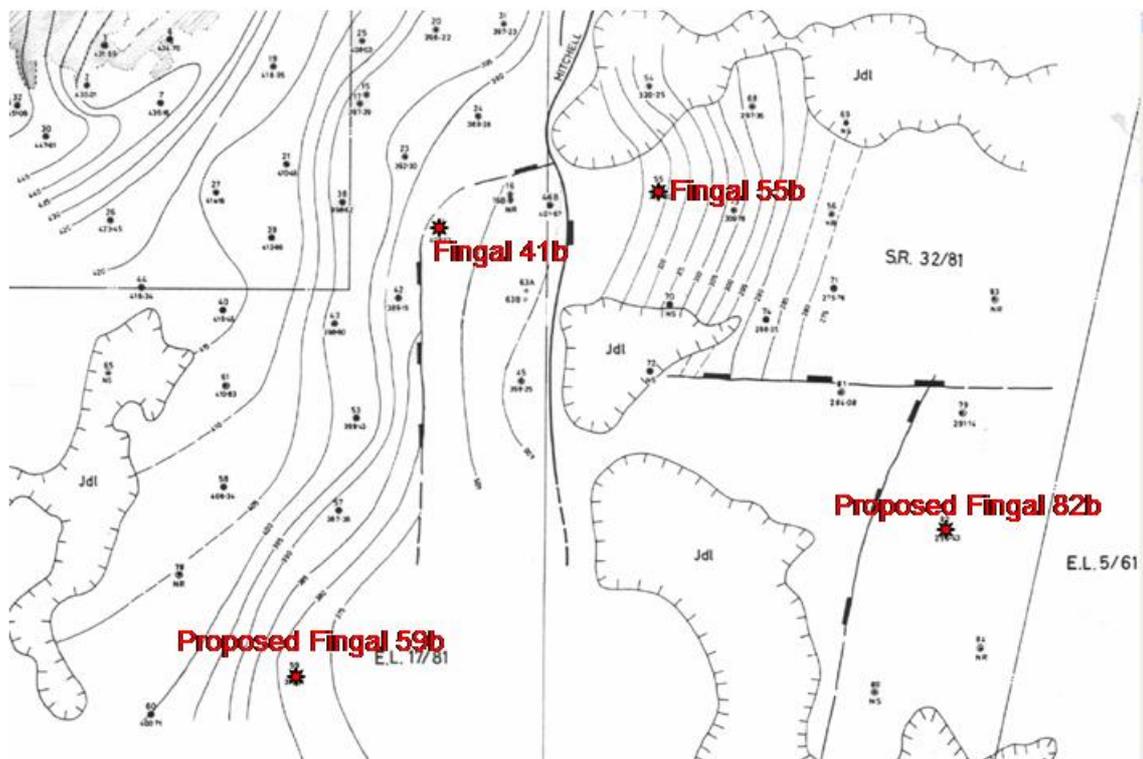


Figure 4: Duncan Seam Structure (Bacon and Threader, 1983), showing Proposed 2008 wells

4. Environment

The two well bores drilled in 2007 have been capped and labeled as per MRT guidelines. The well bores may be re entered for use as monitor wells and as such the access tracks have been left open. Should a decision be made to abandon these core holes then an excavator will be contracted to carry out the necessary site works, which will be minimal.

5. Exploration / Appraisal Plans and Expenditures

5.1. Expenditure in Year 3: July 30, 2007 to July 30, 2008

The expenditure commitment for the first three years of the license, from July 30, 2004 to July 30, 2007, was \$1,350,000. The total expenditure over those three years was \$1,359,793, representing an over-expenditure of approximately \$9793 carried forward into the current year.

The expenditure commitment for the current year (July 2007 to July 2008) was \$700,000. Due to delays in acquiring drilling contractors and obtaining necessary environmental clearances, the two coreholes are expected to be drilled in August 2008. Thus, for the current year, a total of \$109,760 has been spent, representing a shortfall of \$580,447 to be carried over into the next year.

The past year's expenditure is itemized as follows:

| Activity | Cost (\$) |
|--|------------------|
| Geological Analysis, Proposals, Well Planning | (69,794)* |
| Evaluation: Lab and Permeability of previous wells | 46,402 |
| Administration | 133,152 |
| Total | \$109,759 |

*Due to adjustment negotiated by the Company over certain expenditure items charged by consultants subsequent to the prior permit year-end, a credit has resulted in the net amount paid of \$91,838 in respect to this amount for the year.

5.2. Proposed Program: July 30, 2008 to July 30, 2009

The proposed work for next year (to July 2009) includes further geological modelling, based on the soon-to-acquired corehole and test data in Fingal-Dalmayne, and the drilling and testing of 1 further appraisal corehole. The expenditure in Year 4 is estimated to be \$300,000 for the corehole and associated studies. The total expenditure for the year from July 30, 2008 to July 2009, including the net carried-over commitment, will be \$880,447.