



31 July 2006

Manager Announcements  
Company Announcements Office  
Australian Stock Exchange Limited  
10th Floor, 20 Bond Street  
SYDNEY NSW 2000

*via electronic lodgement*

Dear Sir/Madam,

## **Quarterly Activity Report for the period ended 30 June 2006**

### **Highlights**

- Livingstone is about to embark on an aggressive drilling campaign in its 50/50 Forbes Joint Venture (JV) area with its partner Orchard Petroleum Limited (ASX: OPL), located in the Sacramento Basin California.
- A 100% exploration success rate has been achieved to date within the Forbes JV with the two discoveries at Larner Nth 2-12 and Edge 1-10.
- The success of the two initial wells supports Orchard's exploration model and the application of Seismic Attribute and Amplitude Versus Offset (AVO) techniques for discovery of gas in the area.
- Three 3D seismic surveys have been reprocessed and merged into one compatible unit to assist the application of AVO techniques to the JV area.
- Orchard is the operator in the JV area and their technical team have developed 11 high priority drillable prospects from the vast inventory of drilling opportunities in the area.
- Eight of these prospects have the Forbes Sandstone as their primary objective but some also have the Guinda, Winter and Starkey sandstones as objectives.
- A six well program is expected to commence in early September in the JV area with the aim of continuing to build the reserve and production base from this area, which currently has three discoveries and two producing fields.

### **Activities**

Livingstone has a 50% interest in the Forbes Gas Project (FGP) for the exploration for natural gas in the prolific Sacramento Basin of California. This area has produced gas from the Forbes Formation since 1934 with cumulative production to date of 600 billion cubic feet of gas.

The Forbes gas-bearing traps can be identified with a fairly high degree of confidence from their reflection character on the 3D seismic surveys, which are present in the FGP area. Since the listing of Livingstone on ASX, the JV has drilled two exploration wells in the FGP with both being discoveries. The Operator, Orchard Petroleum has accessed and interpreted three existing 3D seismic surveys. These surveys have been reprocessed and merged them into one compatible unit to

reduce uncertainties caused by inconsistent processing for phase, amplitude and statics. This will assist in the application of modern amplitude versus offset (AVO) techniques to predict gas-bearing reservoirs in the various prospects mapped in the FGP, and to distinguish these effects from low velocity shales which are also present in the sedimentary section.

AVO techniques are based on analysing increases in reflection amplitude on a seismic section ("bright spots") caused by the replacement of water normally present in reservoir sands with natural gas of a considerably lower density.

As detailed in the Independent Geologist's Report in our recent Prospectus, Orchard had defined 25 leads in the FGP. Orchard has matured 11 drillable prospects from this inventory by the application of seismic attribute techniques; compilation of the Forbes and host rock physical properties; and modelling Forbes lithologies and hydrocarbon responses on the 3D seismic data. The latter modelling studies will be constantly refined by Orchard by comparing modelled seismic responses to observed data as additional drilling results are obtained.

Eight of these prospects have the Forbes sandstone as their primary objective but some also have the Guinda Winter and Starkey sandstones as secondary objectives. Three of the prospects have Starkey Sands as their primary objective. The JV partners are planning a six well exploration program expected to commence in early September 2006.

The success of the two initial wells (the Lamer 2-12 and the Edge 1-10) drilled in the FGP supports the Orchard exploration model and the application of seismic amplitude techniques. In both of these wells, natural gas was encountered, as predicted, in the Forbes and Guinda formations. Following these encouraging exploration results, Orchard plans to drill additional exploration wells in the Forbes and shallower Starkey/Winter sands, with less frequent deeper tests in the Guinda Formation. The prospect sizes vary according to which objective formation is considered the primary target, however in general the sizes vary from 1 to 5 billion cubic feet. Some of the deeper targets in the Guinda Formation could be tens of billion cubic feet.

#### **Forbes Gas Project - Exploration Drilling Program.**

##### **Squaw Valley**

Squaw Valley will test an interval in the Forbes Formation that produced almost 3 billion cubic feet of high quality (>900 BTU) natural gas from nearby wells. This well will be drilled in an area of 3D seismic with strong amplitudes. If successful, it would upgrade two additional offset prospects. Additional shallower potential in the Starkey sands can be tested in the first and subsequent offset prospects.

##### **Mt Baldy**

Mt Baldy is also an exploration test of the Forbes Formation where the objective interval produced high quality (>900 BT) gas in a nearby well. This well will be drilled in an area of 3D seismic with strong amplitudes. If this well is successful, it would upgrade two additional similar leads for drilling.

##### **Heavenly**

Heavenly will be drilled to test two intervals in the Forbes Formation. While the main target intervals are deeper than offsetting Forbes Formation production, recent proprietary reprocessing of seismic data in the area reveals strong seismic analogies. If successful, it would upgrade one or two additional similar leads for drilling. In addition to the Forbes Formation, there is also deeper potential in the underlying Guinda Formation.

##### **Armstrong**

Armstrong has two intervals in the Forbes Formation as its main objectives. Offset on all sides by over 8 billion cubic feet of high quality Forbes gas production, this well will test deeper intervals in the same overall stratigraphic section. If successful, one to two additional leads have been defined along the trend and could add to potential gas reserves in this area. In addition, the deeper Guinda Formation is being evaluated for gas potential within this prospect area.

##### **Alpine Meadows**

Alpine Meadows will be drilled to test the shallower Starkey Formation sands, which have proven high quality gas production of several billion cubic feet within the area. This well will be drilled in an area of 3D seismic with strong

amplitudes. Several additional similar leads have been delineated and could also be drilled in this area if the first well is successful.

#### **Outside the Forbes Gas Project area- The Tennis Well**

During the quarter, Livingstone drilled the Tennis well with Nahabedian Exploration Group. This well was located outside the Forbes Project area about 8 kilometres to the south. Although the well encountered thick sections of Forbes sands, the target intervals were either water saturated or tight. The Tennis well was drilled without the benefit of 3D seismic and advanced AVO techniques used in the Forbes Project area. The well demonstrates the presence of thick Forbes sands making the area around Tennis (known as the Omega area) highly prospective but requiring 3D targeting. Livingstone is currently negotiating with Nahabedian Exploration Group a new arrangement whereby Livingstone acquires an interest in the Omega area and a 3D seismic survey is undertaken. This will enhance Livingstone's presence in, and exposure to, this highly prospective gas-bearing region.

#### **Comment**

The next six months will be a particularly exciting period for Livingstone as it embarks on its most aggressive drilling campaign since listing on ASX less than a year ago. Livingstone has already achieved excellent exploration success rate in its exploration programs in the FGP area operated by OPL and is confident additional discoveries will be made. These discoveries will add to the Company's growing production and reserves base representing a significant event for a company like Livingstone that has a current market capitalisation of just \$25 million. We have recently completed a \$3.6 million capital raising and are looking forward to commencing the upcoming exploration program.

**Craig Burton**  
Executive Director

*The geological information included in this announcement is based on information provided by Mr Robert Rosenthal, a geologist employed as a technical consultant to the Company. Mr Rosenthal has practiced as a geologist in the petroleum industry for over 25 years. Mr Rosenthal has consented to the inclusion of the geological information in this announcement in the form and context in which it appears.*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

LIVINGSTONE PETROLEUM LTD

ABN

42 112 256 649

Quarter ended ("current quarter")

30 JUNE 2006

### Consolidated statement of cash flows

	Current quarter \$A '000	Year to date \$A '000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	106	220
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	(1,631)	(5,786)
1.3 Dividends received	(52)	(311)
1.4 Interest and other items of a similar nature received	10	65
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Prepayments in the Joint Venture Trust Account*	-	(317)
<i>* This is trust monies held on behalf of Livingstone to be used for the Company's share of future joint venture expenditure at the reporting date.</i>		
<b>Net Operating Cash Flows</b>	<b>(1,567)</b>	<b>(6,129)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects (b)equity investments		
1.9 Proceeds from sale of: (a)prospects (b)equity investments		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Cash acquired in subsidiary		
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 <b>Total operating and investing cash flows (carried forward)</b>	<b>(1,567)</b>	<b>(6,129)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	4,487	7,637
1.15	Costs of the issue	(90)	(352)
1.16	Proceeds from borrowings	100	100
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other (provide details if material)		
<b>Net financing cash flows</b>		<b>4,497</b>	<b>7,385</b>
<b>Net increase (decrease) in cash held</b>		<b>2,930</b>	<b>1,256</b>
1.20	Cash at beginning of quarter/year to date	50	1708
1.21	Exchange rate adjustments to item 1.20	-	16
1.22	<b>Cash at end of quarter</b>	<b>2,980</b>	<b>2,980</b>

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	(10)
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Directors fees totalling \$10,001.81 (excluding GST) were paid during the quarter.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	(1,400)
4.2 Development	-
<b>Total</b>	<b>(1,400)</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,980	50
5.2 Deposits at call		
5.3 Bank overdraft		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>2,980</b>	<b>50</b>

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Performance +securities</b> <i>Convert to ordinary securities on development of a commercial mining project</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs.				
7.3 <b>+Ordinary securities</b>	<b>56,000,001</b>	<b>34,000,000</b>		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	<b>4,000,000</b>	<b>4,000,000</b>	<b>38 cents</b>	<b>38 cents</b>
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases (b) Decreases				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	<b>18,750,000</b>	-	<i>Exercise price</i>	<i>Expiry date</i>
	17,500,000		30 cents	18 December 2009
	1,250,000 <i>Incentive Options</i>		20 cents	18 December 2009
	Convert on a 1:1 basis			
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )		
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

**Brett Mitchell**

Company Secretary

Date: 31 July 2006

Print name:

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.  
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+ See chapter 19 for defined terms.