VICTORIA OIL EXPLORATION (1977) PTY LTD

Annual Report

Licence Year Two
of 1st Renewal

November 13 2009 to November 12 2010

PEL 115

January 2011

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APPENDIX 1 EXPENDITURE STATEMENT

1 INTRODUCTION

PEL 115 was granted on 16 May 2003. The licence is located in the Cooper/Eromanga Basins, South Australia. This report details the work conducted during Licence Year Two of the Renewal of the licence (November 13 2009 to November 12 2010 inclusive), in accordance with the Petroleum and Geothermal Energy Act 2000 ("Act") and Regulation 33 of the Petroleum and Geothermal Regulations 2000 ("Regulations")

2 LICENCE SUMMARY

At the commencement of the report period, Victoria was the sole licencee. Pursuant to a farmout agreement, Victoria assigned a 42% interest to Komodo Energy Pty Ltd (a subsidiary of Monitor Energy Limited) and a 25% interest to Lion Petroleum Pty Ltd.

The licencees of PEL 115 at the end of Year 2 were:

Victoria Oil Exploration (1977) Pty Ltd	33%
Komodo Energy Pty Ltd	42%
Lion Petroleum Pty Ltd	25%

The work requirements associated with the renewal of PEL 115 can be seen in Table 1.

Table 1 Current work commitments (including Variations) by licence year

Year of Term of Licence	Licence dates	Minimum Work Requirements
One	13 November '08 – 12 November '09	Two Wells
Two	13 November '09 – 12 November '10	
Three	13 November '10 – 12 November '11	Geological and geophysical studies
Four	13 November '11 – 12 November '12	Geological and geophysical studies
Five	13 November '12 – 12 May '14	Geological and geophysical studies

Table 2 Final work program and work completed (as of end of current reporting period) by licence year

Licence Year	Minimum Work Program	Actual Work
Year 1	Two wells	Prospect reviews to support third party investment in drilling opportunities
Year 2		Two exploration wells drilled

Suspensions:
On 4th May 2010, pursuant to s115 of the Act, a suspension of the work requirements under licence condition 1 was granted for the period 13 November 2010 to 12 May 2011 inclusive. An extension of the term of the licence by the corresponding period of the suspension was also granted, such that PEL 115 will now expire on 12 May 2014, with no further renewal.

3 REGULATED ACTIVITIES

Drilling and Related Activities

Well Name:	Fury #1
Spud:	15 November '09
Rig Release:	7 December '09
Status:	Cased and Suspended as potential Murta oil producer. Subsequently completed for production and artificial lift installed in preparation for production testing.
Access:	Refer to Activity Notification for rig road, pad, and borrow pit construction details

Well Name:	Airacobra #1
Spud:	11 December '09
Rig Release:	10 January '10
Status:	Cased and Suspended as potential Permian oil producer.
Access:	Refer to Activity Notification for rig road, pad, and borrow pit construction details

Seismic Data Acquisition
Nil

Seismic Data Processing and Reprocessing
Nil

Geochemical, Gravity, Magnetic and other surveys
Nil

Production and Processing
Nil

Pipeline/Flowline Construction and Operation
Nil

Preliminary Survey Activities
A Work Area Clearance (Cultural Heritage) was undertaken on a potential surface flowline easement from the Fury #1 well location to the Mirage Oil Facility.

Discussions commenced and are continuing with the operator of Pipeline Licences 7 & 8 concerning the crossing of their pipeline easement with the potential Fury #1 flowline.

Discussions commenced and are continuing with the Operator of PPL 213 concerning the use of the Mirage facility to handle Fury crude.

4 COMPLIANCE ISSUES

Licence and Regulatory Compliance

Victoria has complied with all relevant conditions under the Act and the Regulations.

Licence Non-Compliance

Table 3 List of licence non-compliances for current reporting year

No.	*Stated Commitment*	*Reason for Non-Compliance*	*Rectification of Non-Compliance*
nil			

Regulatory Non-Compliance

Table 4 List of regulatory non-compliances for current reporting year

No.	*Activity*	*Details of Non-Compliance*
nil		

Compliance With Statement Of Environmental Objectives

Drilling activities conducted in PEL 115 have been assessed against the following relevant Statements of Environmental Objectives:

- *South Australia Cooper Basin Operators Drilling and Well Operations: Statement of Environmental Objectives* (Santos 2003)

Compliance with this SEO was achieved. An assessment of compliance against this SEO is provided below.

Note: Although a revised version of the Drilling and Well Operations SEO was gazetted on 3 December 2009, this has not been used in this assessment as the drilling and well operations during the licence year were approved and carried out under the November 2003 Drilling and Well Operations SEO.

Table 5: Cooper Basin Operators Drilling and Well Operations SEO (Santos 2003)

Objective	***Assessment Criteria***	***Compliant/Non-Compliant***	***Comments***
Objective 1: Minimise the risk to public and other third parties.	Reasonable measures implemented to ensure no injuries to the public or third parties.	Compliant/ Achieved	Appropriate measures (e.g. signage, inductions) implemented
Objective 2: Minimise disturbance and avoid contamination to soil.	<u>Well Site and Access Track Construction</u> 0, +1 or +2 GAS criteria are attained for "Minimise visual impacts of abandoned well sites and access tracks" objective for well lease and access track construction. No unauthorised off-road driving or creation of shortcuts. No construction activities are carried out on salt lakes, steep tableland land systems or wetlands land systems (as defined in EIR). <u>Borrow pit construction and restoration</u> 0, +1 or +2 GAS criteria are attained for "Minimise Visual Impacts for constructing borrow pits" objective and "Minimise visual	Compliant/ Achieved	No sensitive land systems impacted. Dec. 2009 audit report noted the following: • formal GAS assessment program not currently in place • preliminary GAS scoring at

Objective	*Assessment Criteria*	*Compliant/Non-Compliant*	*Comments*
	impacts" and "Minimise impact on soil" objectives. <u>Production Testing/Well Blowdowns</u> No soil contamination as a result of production testing or well blowdown operations. <u>Fuel and Chemical Storage and Handling</u> No spills/leaks outside of areas designed to contain them. Level of hydrocarbon continually decreasing for in situ remediation of spills. Soils remediated to a level as determined by the SHI process. <u>Waste Disposal (domestic, sewage and sludges)</u> All domestic wastes are disposed of in accordance with EPA licensing requirements. 0, +1 or +2 GAS criteria for 'Waste material' objective is attained. No spills or leaks from sewage treatment process and sludge pits.		abandoned sites indicated generally achieving score of 0 • very few borrow pits have been reinstated to date • GAS assessment has not been carried out for borrow pits Fury-1 borrow pits cleaned up but not restored as future use is anticipated. Minor spills on Fury-1 location noted by PIRSA during inspection on 30/6/2010. Remediation completed.
Objective 3: Avoid the introduction or spread of pest plants and animals and implement control measures as necessary	No weeds or feral animals are introduced to operational areas.	Compliant/ Achieved	
Objective 4: Minimise disturbance to drainage patterns and avoid contamination of surface waters and shallow ground water resources.	<u>Well Lease and Access Track Construction</u> Well leases and access tracks are located and constructed to maintain pre-existing water flows (i.e. channel contours are maintained on floodplains and at creek crossings). <u>Drilling Mud Sumps and Flare Pits</u> No overflow of drill cuttings, muds and other drilling fluids from mud sumps. No waste material disposal to sumps and flare pits. <u>Well Heads (Oil and Gas Systems)</u> No leaks/spills outside of areas designed to contain them. <u>Well Blowdown/Production Testing</u> No water (surface or groundwater) contamination as a result of production testing or well blowdown operations. <u>Fuel/Chemical Storage and Handling</u> No leaks/spills outside of areas designed to contain them.	Compliant/ Achieved	
Objective 5: Avoid disturbance to sites of cultural and heritage significance	Proposed well sites and access tracks have been surveyed and any sites of Aboriginal and non-Aboriginal heritage identified. Any identified cultural and heritage sites have been avoided.	Compliant/ Achieved	WAC also carried out for potential flowline easement from Fury#1 to Mirage
Objective 6: Minimise loss of	<u>Drilling & Completion Activities</u> There is no uncontrolled flow to surface (Blow	Compliant/ Achieved	

Objective	*Assessment Criteria*	*Compliant/Non-Compliant*	*Comments*
aquifer pressures and avoid aquifer contamination.	out). Sufficient barriers exist in casing annulus to prevent crossflow between separate aquifers or hydrocarbon reservoirs. Relevant government approval obtained for abandonment of any radioactive tool left downhole. <u>Producing, Injection, Inactive and Abandoned Wells</u> No cross-flow behind casing between aquifers, and between aquifers and hydrocarbon reservoirs unless approved by DWLBC.		
Objective 7: Minimise disturbance to native vegetation and native fauna	<u>Well Lease and Access Track Construction and Restoration</u> Any sites with rare, vulnerable and endangered flora and fauna have been identified and avoided. 0, +1 or +2 GAS criteria are attained for "Minimise impacts on vegetation" objective, during well lease and access track site selection and construction and for "Re-establish natural vegetation on abandoned well sites and access track" objective. <u>Borrow Pits Construction and Restoration</u> 0, +1 or +2 GAS criteria are attained for "Minimise impacts on vegetation" objective during borrow pit site selection and construction, and "Minimise Impact on Vegetation" objective for borrow pit restoration. <u>Waste Management</u> Refer to assessment criteria for Objective 11. <u>Fuel and Chemical Storage and Management</u> Refer to assessment criteria for Objectives 2 and 4.	Compliant/ Achieved	See Objective 2
Objective 8: Minimise air pollution and greenhouse gas emissions.	Compliance with EPA requirements.	Compliant/ Achieved	
Objective 9: Maintain and enhance partnerships with the Cooper Basin community.	No unresolved reasonable complaints from the community.	Compliant/ Achieved	
Objective 10: Avoid or minimise disturbance to stakeholders and/or associated infrastructure.	No reasonable stakeholder complaints left unresolved.	Compliant/ Achieved	
Objective 11: Optimise waste reduction and recovery.	With the exception of drilling fluids, drill cuttings and other fluids disposed during well clean-up, and sewage wastes, all wastes to be disposed of at an EPA licensed facility in accordance with EPA Licence conditions. Attainment of GAS criteria for "Site left in clean, tidy and safe condition after final clean-up" objective during well site restoration. Attainment of GAS criteria for "Site left in clean,	Achieved to date	Rehabilitation of wellsites is not yet complete

Objective	*Assessment Criteria*	*Compliant/Non-Compliant*	*Comments*
	tidy and safe condition" objective during borrow pit restoration.		
Objective 12: Remediate and rehabilitate operational areas to agreed standards.	No unresolved reasonable stakeholder complaints. <u>Contaminated Site Remediation</u> Contaminated sites are remediated in accordance with criteria developed with the principles of the National Environment Protection Measure for Contaminated sites and in consultation with the EPA. <u>Well Site and Access Track Restoration</u> The attainment of 0, +1 or +2 GAS criteria for: "minimise visual impact of abandoned well sites" "minimise visual impact of abandoned access tracks" "re-establish natural vegetation on abandoned well sites and access tracks" <u>Borrow Pit Restoration</u> The attainment of 0, +1 or +2 GAS criteria for: "minimise impact on vegetation" "minimise impact on soil" "Minimise visual impacts" Note: Well abandonment issues addressed under objective 6.	Achieved to date	Rehabilitation of wellsites is not yet complete. See Objective 2

Management System Audits

No Management System Audits were undertaken during the reporting period.

Report and Data Submissions

Table 6 List of report and data submissions during current licence reporting year

Description of Report/Data	Date Due	Date Submitted	Compliant / Non-Compliant
WELLS: **Activity Notifications:** Fury #1 Exploration Well - Update Airacobra #1 Exploration Well Fury #1 Production Test		 15 Oct '09 6 Nov '09 29 Jun '10	
Daily Drilling/Workover Reports Daily operation and rig move reports were submitted for each day of the drilling / completion program for the following wells: Fury #1 Exploration Well Airacobra #1 Exploration Well **Well Completion Reports** Fury #1 Exploration Well Airacobra #1 Exploration Well	Daily 7 June '10 10 July '10	Daily 3 Jun '10 9 July '10	Compliant Compliant Compliant

Cased Hole Reports			
Cased Hole Activity Report - Dec '09 Q	n/a	5 Mar '10	Compliant
Cased Hole Activity Report – Mar '10 Q	n/a	31 Mar '10	Compliant
Cased Hole Activity Report - Jun '10 Q	n/a	1 Jul '10	Compliant
Cased Hole Activity Report - Sept '10 Q	n/a	1 Oct '10	Compliant
Heritage Survey Reports			
WAC report for Fury #1 (formerly Lightning DH) was submitted previously.			
WAC report for Airacobra #1 submitted as Sec10 in AN update.		6 Nov '09	
Data			
Fury #1 wireline logs	3 Feb '10	18 Dec '09	Compliant
(note: original submission mislaid by PIRSA, copy sent 5 March 2010)			
Fury #1 MDT Level 0 Report	3 Feb '10	21 Jan '10	Compliant
Fury #1 CBL	15 Aug '10	29 Jun '10	Compliant
Fury #1 cuttings and SWC	7 June '10	30 Mar '10	Compliant
Airacobra #1 cuttings and SWC	10 July '10	30 Mar '10	Compliant
Airacobra #1 wireline logs	6 Mar '10	19 Jan '10	Compliant
GEOLOGY AND GEOPHYSICS			
Activity Notifications:			
nil			
Seismic Interpretation Reports			
Nil			
Data			
nil			

Incidents

Some minor leakage of oil onto the lease pad occurred during completion operations at Fury #1. This scale of leakage is at the minor level. Use of drip trays under pipe connections will be mandated on future operations.

Table 7 List of incidents during current licence reporting year

Date of Incident	Activity	Incident Description	Type of Loss	Action to Rectify & Effectiveness of Action	Date Reported / Reported to Whom
Jun '10	Well Completion	Oil Spill	Minor spills on location	Oil stained clay removed to remediation site. 100% effective.	Noted by PIRSA during inspection on 30/6/2010 Reported to PIRSA in quarterly incident report for 2nd quarter 2010.

Threat Prevention
The year 2010 demonstrated the vulnerability of PEL 115 operations to heavy rain and major flooding of the Cooper Creek system. Corrective action can be taken by the South Australian Government to seal the major roads and construct a flood-resistant crossing of the Strzelecki Creek. In practice these actions are unlikely to be carried out and are beyond the resources of the licencees.

Future Work Program
For the Licence Year 3 (as extended), from 13 November 2010 to 12 May 2012, The licnecees are considering a work program of:

- **Drill one exploration well** to economic basement, timing and total depth to be determined.
- **Carry out the 10-day pump test on Fury #1** to determine potential for commercial development. Operations currently suspended and subject to weather.

5 EXPENDITURE STATEMENT

Please refer to Appendix 1 for the expenditure statement for the current reporting period.