

# DMS PARTNERS LP

Annual Report

Licence Year 5

27 June 2006 - 26 December 2007

PEL 73

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## 1 Introduction

Petroleum Exploration Licence (PEL) 73 was granted on 27<sup>th</sup> June 2000. The licence is located in the Stansbury Basin, South Australia. This report details the work conducted during Licence Year 5 of the licence (27 June 2006 – 26 December 2007), in accordance with Regulation 33 of the Petroleum Act 2000.

## 2 Permit Summary

Petroleum Exploration Licence (PEL) 73 was awarded to:

Mr. David Schuette 100%

The original work commitments associated with the awarding of PEL 73 can be seen in Table 1.

**Table 1 Original work commitments by licence year**

Licence Year	Licence dates	Minimum Work Program
Year 1	27 June 2000 To 26 June 2001	Acquisition, processing & interpretation of high resolution aeromagnetic data utilising micro magnetic analysis
Year 2	27 June 2001 To 26 June 2002	Analysis of magnetic, subsurface and geochemical data
Year 3	27 June 2002 To 26 June 2003	Reprocessing seismic data and integration of seismic data with aeromagnetic, subsurface and geochemical data
Year 4	27 June 2003 To 26 June 2004	Acquisition of new seismic data
Year 5	27 June 2004 To 26 June 2005	Drill one exploration well

### VARIATIONS TO INTERESTS IN PEL 73

4 March 2006	David Max Schuette	83.33%
	A.I.L. Holdings Limited	16.67%
24 May 2006	David Max Schuette	58.33%
	PEL 73 Investment Partners LP	25%
	A.I.L. Holdings Limited	16.67%
18 September 2006	David Max Schuette	16.67%
	DMS Partners LP	41.66%
	PEL 73 Investment Partners LP	25.00%
	A.I.L. Holdings Limited	16.67%

## LICENCE SUSPENSIONS

- 15 April 2004 to 14 April 2005 inclusive
- 15 April 2005 to 14 October 2005 inclusive
- 15 October 2005 to 14 April 2006 inclusive
- 15 April 2006 o 14 October 2006 inclusive

## WORK PROGRAM VARIATIONS

On the 3<sup>rd</sup> May 2004, Year 3 and Year 4 work program variations were approved. These are shown in Tale 2.

**Table 2 Final work program commitments by licence year**

Licence Year	Licence dates	Minimum Work Program
Year 1	27 June 2000 To 26 June 2001	Acquisition, processing & interpretation of high resolution aeromagnetic data utilising micro magnetic analysis
Year 2	27 June 2001 To 26 June 2002	Analysis of magnetic, subsurface and geochemical data
Year 3	27 June 2002 To 26 June 2003	Geological and geophysical studies
Year 4	27 June 2003 – 14 April 2004 15 October 2006 - 26 December 2006	
Year 5	27 December 2006 To 26 December 2007	Drill one exploration well

Licence Year 5 concluded on 26 December 2007. The following table displays the minimum work program (after all variations) and the actual work completed up until the end of the current licence period.

**Table 3 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	Acquisition, processing & interpretation of high resolution aeromagnetic data utilising micro magnetic analysis	Acquisition, processing & interpretation of high resolution aeromagnetic data utilising micro magnetic analysis
Year 2	Analysis of magnetic, subsurface and geochemical data	Analysis of magnetic, subsurface and geochemical data
Year 3	Geological and geophysical studies	Geological and geophysical studies
Year 4		
Year 5	Drill one exploration well	Drill one exploration well

### **3 Regulated Activities**

Pursuant to Regulation 33(2)(a) under the Act, an annual report must include:

*“a summary of the regulated activities conducted under the licence during the [current reporting] year.”*

This information is detailed below in designated sections.

#### ***Drilling and Related Activities***

*<Briefly describe drilling and related activities undertaken in the licence reporting period on an individual well basis. Information that should be provided includes:*

- well name: Gravestock-1*
- type of well: exploration*
- contractor: Hunt Energy and Mineral Co.*
- date spudded: 9 February 2007*
- rig release date: 10 March 2007*
- well plugged and abandoned as a dry well*
- pad, road, track and/or borrow pit construction: The well site was located on private land used for cropping barley and wheat. A drill pad, sump and turkey nest dam were constructed and were rehabilitated immediately following demobilisation of the drill rig in compliance with the SEO. The rehabilitated site was inspected by PIRSA officers and the landholder.*

#### **4 Compliance Issues**

##### ***Licence and Regulatory Compliance***

Pursuant to Regulations 33(2) (b) & (c), an annual report must include:

*“a report for the year on compliance with the Act, these regulations, the licence and any relevant statement of environmental objectives;”* and

*“a statement concerning any action to rectify non compliance with obligations imposed by the Act, these regulations or the licence, and to minimise the likelihood of recurrence of any such non-compliances.”*

DMS Partners LP, a “High Supervision” operator, were compliant with the terms of the PEL 73 licence, the Petroleum Act. The one occurrence of Regulatory Non-Compliance is shown in Table 4. DMS Partners LP met all the conditions and Objectives of the Environmental Objectives which covered operations conducted during the Licence Year 5. The field operations for the licence year were the activities associated with the drilling of one petroleum exploration well. These activities were conducted under an approved Statement of Environmental Objectives.

Detailed information on the individual instances of non-compliance are provided below in designated sections.

##### **Licence Non-Compliance**

The licensee was compliant with the conditions of PEL 73 Year 5.

##### **Regulatory Non-Compliance**

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

<b>No.</b>	<b>Date</b>	<b>Activity</b>	<b>Details of Non-Compliance</b>	<b>Rectification of Non-Compliance</b>
Ex. 1	17/05/07	Submission of final wireline logs	Final logs were not submitted by the due date (10/04/07)	Preliminary copies of wireline logs were submitted prior to the due date. The logging contractor was unable to complete final logs by the due date because of illness and insufficient personnel. Contractor to engage extra personnel

### Compliance with Statement of Environmental Objectives

Operations during Year 5 consisted of the drilling of one petroleum exploration well. The drilling was covered by the SEO “Statement of Environmental Objectives (drilling, completion and initial production testing), PEL 73, Stansbury Basin, Yorke Peninsula, South Australia.

**Table 5 Evaluation of SEO Objectives and Assessment**

OBJECTIVE	ASSESSMENT CRITERIA	Compliant? Objective achieved?	Comments
1) Avoid disturbances to known sites of Aboriginal and European heritage significance	All operations to avoid any access, by vehicle or on foot, to salt pans and associated shorelines. There has been compliance with the Aboriginal Heritage Act 1988. Personnel are trained to identify and respond appropriately to any sites discovered during construction and operation activities.	Compliant, objectives achieved	No saltpans in immediate vicinity Clearance obtained  At construction inductions
2) Avoid disturbance to rare, vulnerable and endangered flora and fauna species	The drilling pad and access road will have been scouted previously for rare, vulnerable and endangered flora and fauna species by appropriately trained and experienced people before commencement of construction. Areas to be affected by construction of the campsite, sump and flare pit will be scouted for rare, vulnerable and endangered species by appropriately trained personnel before commencement of operations Any sites of rare, vulnerable and endangered flora and fauna have been identified, flagged and subsequently avoided Records of such scouting are kept and available for auditing	Compliant, objectives achieved	All activities carried out in regularly ploughed barley field
3) Prevent the introduction and establishment of exotic weed species.	All vehicles and equipment entering the region to be assessed for risk of transporting weeds and plant pathogens. Records relating to the assessment are kept and are available for auditing No detection of exotic weed species as a consequence of activities. The landowner is aware of the risk and approves the procedures.	Compliant, objectives achieved	No weeds detected Landholder sprayed area with herbicide post site restoration as part of regular crop sowing Approved
4) Minimise impacts to soil.	Orientate site constructions to minimize soil removal. Soil removed in construction to be stored on site and returned to its original stratigraphic level upon restoration of the drill site. Restoration of the drill site to be approved by the landowner or in accordance with landowner’s wishes should retention of specific parts of the site be requested (e.g. pad). Approval by the landowner of all work. Sump to have capacity 2.5 times hole + surface volume. Camp and drill rig generators and fuel tanks to be located in polythene lined bunded areas to contain any spills. Initial production lines and tanks to be inspected prior to use. Hazardous material stored, used and disposed of in accordance with relevant legislation on dangerous substances. All hazardous materials stored in approved containers in polythene lined bunded area. Fuel tanks and delivery systems are to be inspected by DMS Partners Drilling Supervisor for any potential leaks and refused entry to the site if found to be unsuitable. MSDS information to be readily available on the well site. All oil spill bio-remediation meets end point assessment criteria developed specifically for the relevant environment. Any contaminated soil removed from the site will be treated	Compliant, objectives achieved	Stockpiled soil returned to original distribution.  Landholder approved all work.          Contaminated materials / paving immediately placed in 200 l drums and

OBJECTIVE	ASSESSMENT CRITERIA	Compliant? Objective achieved?	Comments
1) Avoid disturbances to known sites of Aboriginal and European heritage significance	All operations to avoid any access, by vehicle or on foot, to salt pans and associated shorelines. There has been compliance with the Aboriginal Heritage Act 1988. Personnel are trained to identify and respond appropriately to any sites discovered during construction and operation activities.	Compliant, objectives achieved	No salt pans in immediate vicinity Clearance obtained  At construction inductions
	/ disposed of at an EPA approved facility. Fuels, oils, production storage tanks, and chemicals are to be stored in polythene lined bunded pits.		later disposed of at EPA approved facility

OBJECTIVE	ASSESSMENT CRITERIA		
5) Avoid initiating disturbance of shallow limestone in subsoil, substrates and any area of relief such as palaeo-dunes.	Where topsoil has been removed during construction, rehabilitation includes correct replacement of any moved Kunkar limestone boulders prior to respread of topsoil and rolled over the disturbed area. Any area artificially elevated via pad or access track construction will be lowered by removal of compacted material unless retention is requested by the landowner. Areas from which pad material has been removed will be reseeded and rehabilitated in accordance with the landowner's wishes. Original drainage patterns will be restored or modified in accordance with the landowner's wishes. Approval by the landowner of all work.	Compliant, objectives achieved	All works carried out to satisfaction of landholder  Original land profile restored
6) Minimise loss of reservoir and aquifer pressures and contamination of freshwater aquifers	Observed volumes of cement return to surface match calculations. Where there is evidence of insufficient isolation, remedial action such as cement squeeze to be conducted. <u>Well abandonment activities</u> Well abandonment program to be submitted to PIRSA with wireline logs for prior approval Plugs set to isolate potential aquifers through the well bore. Records of plug depths and intervals are kept.	Compliant, objectives achieved	Casing cementing had returns to surface. LOT satisfactory. Plugs set as per approved abandonment program. Diagram submitted in well completion report
7) Avoid contamination of aquifers and minimize impact on surface water and drainage patterns	Information on muds and chemicals to be readily available on the rig. On completion of drilling the sump will be allowed to dry out and then backfilled level with the surrounding landscape. Any soil removed during the construction of the drill pad will be respread over the disturbed area during restoration. Any area artificially elevated via pad or access track construction will be lowered to original ground level by removal of paving material unless otherwise instructed by the landowner. Original drainage patterns will be restored. Restoration will be completed by light plowing of the area and sowing a crop. Fluid losses will be controlled during drilling.	Compliant, objectives achieved	Restoration completed to landholders and PIRSA satisfaction  Landholder sowed successful Barley crop immediately following site restoration
8) Conduct all operations in relation to land owners and access to the land according to the act	All procedures relating to access to the land and notification to the landholder of proposed activities to be conducted according to the Petroleum Act 2000.	Compliant, objectives achieved	Details submitted to PIRSA
9) Minimise risks to the safety of the public,	<u>Unauthorised access by third parties</u> "No Entry" signs warning of dangers associated with drilling operations placed at the entry to the site access	Compliant, objectives achieved	

OBJECTIVE	ASSESSMENT CRITERIA		
employees and other third parties	<p>track</p> <p>Site area to be fenced with a gate on the access track which will be locked when the site is not attended.</p> <p>Wellsite office and parking area located adjacent to the access track between the public road and the wellsite.</p> <p>Drilling Supervisor and Drilling Contractor Manager given authority to refuse entry of unauthorized third parties.</p> <p><u>Drilling and completion activities</u></p> <p>Drill rig, ancillary and any testing equipment to comply with Regulations, meet relevant industry standards and be “Fit for Purpose”.</p> <p>Casing design carried out to meet worst case expected loads and environmental conditions determined for the specific geology intercepted by the well. Details of work to be performed are set out in the Drilling Program.</p> <p>Casing set in accordance with design parameters.</p> <p>Casing cemented to surface with visible return.</p> <p>Blow out prevention precautions in place in accordance with defined procedures and appropriate to the expected downhole conditions.</p> <p>Satisfactory kick tolerance in casing program design</p> <p><u>Well abandonment activities</u></p> <p>Downhole abandonment is carried out to meet worst case expected loads and downhole environmental conditions.</p> <p>Effective isolation maintained between any potential aquifers to prevent crossflow.</p> <p><u>Wellsite restoration activities</u></p> <p>Assessment of the threat to third parties from well completion / downhole abandonment.</p> <p>Necessary measures taken to prevent the public accessing the wellhead equipment or waste relating to the well.</p> <p>Effective rehabilitation of the wellsite so that potentially dangerous perturbations in ground level do not remain.</p>		<p>Rig inspected on-site by PIRSA</p> <p>Returns to surface observed.</p> <p>Plugs set at appropriate intervals.</p> <p>Well P &amp; A as dry well, nothing remains at site.</p> <p>Casing capped 1m below ground level, and covered with soil.</p>
10) Minimise impact on the environment from waste handling and disposal.	<p>The attainment of this objective will be the approval of the landholder.</p> <p>All wastes generated on a wellsite (except grey water) to be recycled or disposed of at an EPA licensed facility.</p> <p>Septic tanks will be used at camp and drill rig ablutions.</p> <p>At completion of drilling septic tanks will be pumped out by a licensed septic waste removal contractor and disposed of at a licensed facility.</p> <p>Records show that sewage at drilling camps has been stored and disposed of in a manner which posed no risk to human health and hygiene.</p> <p>MSDS information will be readily available at the wellsite.</p>	Compliant, objectives achieved	All approved by landholder
11) Avoid adverse impact on livestock	<p>Adequate fencing of wellsite area to landholders satisfaction.</p> <p>In the case of an abandoned restored site, the entire area has been restored to original landsurface topography with no irregularities likely to cause injury to running stock.</p>	Compliant, objectives achieved	Completed to landholders and Workplace Safety Officers approvals Original surface restored
12) Avoid spills of oils or hazardous materials outside of areas designed to contain such spills.	<p>No spills which pose a threat to any aquifers, swamps and drainage channels outside containment areas.</p> <p>MSDS information to be available for all chemicals likely to be present in the spill.</p> <p>Any oil contamination of sump from contaminated drill cuttings to be controlled by an absorbent barrier and pumped out to a disposal tank.</p>	Compliant, objectives achieved	No spills occurred outside containment areas
13) In the event of an oil spill, minimise the impacts on	<p>In the event of an oil spill, contingency plan to be implemented after the spill event.</p> <p>Results of emergency response procedures carried out in accord with regulation 31 show that oil spill contingency</p>	Compliant, objectives achieved	1 litre of hydraulic oil was spilt to ground beneath rig floor within a

<b>OBJECTIVE</b>	<b>ASSESSMENT CRITERIA</b>		
surface and ground water, soil fertility, fauna, flora and livestock.	plan in place in the event of a spill is adequate and any necessary remedial action needed to the plan is undertaken promptly by the licensee. Bio-remediation is undertaken on the affected soil either on-site or off-site. All oil spill bio-remediation meets end point assessment criteria developed specifically for the relevant environment. End point criteria are 0.1% total petroleum hydrocarbons 12 months after the spill unless a more specific end point is prepared for this region.		bunded area. All contaminated material was removed and disposed of at a EPA licensed facility. Leaking hydraulic line was immediately repaired. A Spill Report was submitted to PIRSA
14) Control production and dispersion of dust on unsealed roads and drilling lease areas.	50kph speed limit on unsealed roads included in all inductions. Speed reduction signs to be positioned on unsealed roads vicinity of wellsite. On identification of a dust problem, roads will be sprayed with water.	Compliant, objectives achieved	Roads watered
15) Control noise from road vehicles and machinery	Noise limitation to be included as part of induction procedures (e.g. noisy tubular/pipe handling, unnecessary use of horns). Heavy truck drivers to be instructed not to use engine brake near dwellings. Vehicle speed limits observed.	Compliant, objectives achieved	Main roads avoided. Access by minor side-track away from houses and local and other traffic
16) Plan vehicle movements and schedule activities as best as possible to minimise inconveniences to the local community.	Driver behaviour and vehicle speed limits to be included in compulsory induction. Rig mobilization and demobilization to detour around town centres. Major vehicle movements to be scheduled so as to not clash with school bus times. Local community properly informed of major vehicle movements and increased usage of particular roads.	Compliant, objectives achieved	Advance warning of major vehicle movements placed in local paper. Rig mob/demob bypassed townships
17) Minimise chance of fire by constructing fire breaks.	Construction of proper fire break around wellsite area and access track. Response to grass and other fire included in Emergency Response Plan.	Compliant, objectives achieved	Fire breaks constructed and fire trailer on site
18) Confinement of flammable sources, restrictions on certain procedures and ready access to suitable fire fighting equipment.	Fire risk included in compulsory induction. Plan for safety of rig personnel should a fire approach. Fire trailer on site for activities conducted during fire season and drill crews to receive fire fighting training. CFS fully briefed on all activities. Advise CFS when conducting well testing / flaring. Advise CFS of water volumes available on site. Request CFS presence if flaring during bushfire season. Maintain pumps and water supply in readiness during periods of high fire danger.	Compliant, objectives achieved	On-site Prespud Meeting addressed by CFS

### **Management System Audits**

Pursuant to Regulation 33(2) (d) under the Act, an annual report must include:

*“a summary of any management system audits undertaken during the relevant licence year including information on any failure or deficiency identified by the audit and any corrective actions that has, or will be taken”.*

A Legislative Compliance Register was maintained and regularly updated before, during and after the operations period to ensure compliance. The Register was compiled by DMS Liaison Officer Griff Weste and distributed to key operational and organisation personnel.

### **Report and Data Submissions**

Pursuant to Regulation 33(2) (e) under the Act, an annual report must include:

*“a list of all reports and data relevant to the operation of the Act generated by the licensee during the licence year”.*

**Table 4 List of report and data submissions during current licence reporting year**

<b>Description of Report/Data</b>	<b>Date Due</b>	<b>Date Submitted</b>	<b>Compliant / Non-Compliant</b>
Activity Notification – Drilling: Gravestock-1	01/01/07	19/09/06	Compliant
Addendum to Gravestock-1 Activity Notification	01/02/07	19/01/07	Compliant
Environmental Impact Report – Gravestock-1	01/11/06	11/09/06	Compliant
Statement of Environmental Objectives (drilling, completion and initial production testing), PEL 73, Stansbury Basin, Yorke Peninsula, South Australia.	02/11/06	11/09/06	Compliant
Gravestock 1, PEL 73, Yorke Peninsula SA, Well Completion Report - Geology	10/09/07	25/05/07	Compliant
Gravestock-1, PEL 73, Well Completion Report - Drilling	10/09/07	25/05/07	Compliant
Gravestock-1 Additional well data	21/09/07	21/09/07	Compliant
Gravestock-1 Preliminary Wireline Logs	10/04/07	09/03/07	Compliant
Gravestock-1 Final Wireline Logs	10/04/07	17/05/07	Non-Compliant
PEL 73 Gravestock-1 Log Analysis Initial Interpretation	10/09/07	15/03/07	Compliant
DMS Partners LP – Drilling Operations Manual	26/01/07	21/01/07	Compliant
DMS Partners LP – Emergency Response Plan 2007	26/01/07	21/01/07	Compliant

DMS Partners LP – OHS Management System	26/01/07	18/01/07	Compliant
DMS Partners LP – Gravestock Campaign Safety Plan	26/01/07	21/01/07	Compliant
DMS Partners LP- Gravestock-1 Emergency Response Plan Bridging Document	02/02/07	31/01/07	Compliant
DMS Partners LP – Environmental Management Plan	26/01/07	22/01/07	Compliant
DMS Partners LP – Well Intervention Operations Manual	26/01/07	21/01/07	Compliant
DMS Partners LP – Detailed Drilling Program, January 2007, Gravestock-1	26/01/07	21/01/07	Compliant
Kelly Down Consultants – Gravestock -1 Cementing Program (Revision2)	26/01/07	21/01/07	Compliant
DMS Partners LP – Gravestock Induction Handbook	26/01/07	21/01/07	Compliant
Gravestock-1 Drill Bit and Hydraulics Summary	26/01/07	21/01/07	Compliant
DMS Partners LP – Operator Assessment Factors – Well Drilling	26/01/07	23/01/07	Compliant
PEL 73 Petroleum well Gravestock-1 Incident Report – Spill Report	30/04/07	16/04/07	Compliant
Gravestock-1: P&A programme after Electric Logs	09/03/07	09/03/07	Compliant
PEL 73 Annual Report Year 4	26/02/07	20/04/07	Non-compliant

## **Incidents**

Pursuant to Regulation 33(2) (f), an annual report must include:

*“in relation to any incidents reported to the Minister under the Act and these Regulations during the relevant licence year –*

- (i) an overall assessment and analysis of the incidents, including the identification and analysis of any trends that have emerged; and*
- (ii) an overall assessment of the effectiveness of any action taken to rectify non-compliance with obligations imposed by the Act, these regulations or the licence, or to minimise the risk of recurrence of any such non-compliance”.*

A minor “Reportable” incident occurred during drilling of petroleum well Gravestock-1. A very minor hydraulic oil leak (about 1 litre) contaminated a small area of paving (0.25 cubic metres) in a bunded area beneath the drill floor. Contamination of the environment was prevented because the spill occurred in a bunded area as required under the SEO. The spill was cleaned up as per the SEO, and Objectives 12 and 13 were met. The spill was dealt with as per the SEO and was reported to PIRSA inspector James Coda. A Spill Incident report was submitted. To prevent recurrence of this type of spill the drilling contractor was instructed to carry out daily checks of all hydraulic lines and to replace any hydraulic unions showing signs of wear.

**Table 5 List of incidents during current licence reporting year**

<b>Date of Incident</b>	<b>Activity</b>	<b>Incident Description</b>	<b>Type of Loss</b>	<b>Action to Rectify &amp; Effectiveness of Action</b>	<b>Date Reported / Reported to Whom</b>
02/03/07	Petroleum well drilling	“Reportable” Leaking hydraulic union under rig floor in bunded area. Union not sufficiently tightened	1 litre oil spill. 0.25 cub m of paving within bunded area contaminated	Hydraulic union was tightened to stop leak. All other hydraulic lines/unions checked for correct tightness. All contaminated materiel was removed and disposed of at an EPA approved facility	16/04/07 Reported to James Coda. Spill report submitted

### **Threat Prevention**

Pursuant to Regulation 33(2) (g) under the Act, an annual report must include:

*“a report on any reasonably foreseeable threats (other than threats previously reported on) that reasonably presents, or may present, a hazard to facilities or activities under the licence, and a report on any corrective action that has, or will be taken”.*

Operations in Year 5 consisted of the drilling of one petroleum exploration well at a location 10 km from the nearest town. The only perceived threat as from unauthorised entry to the site by unauthorised persons. The well location was within a fenced barley field. Lockable gates were installed at the entrance to the site. The gates were locked when no personnel were on active duty at the site. Post drilling site restoration resulted in no evidence of the drilling operations at the site and there was nothing for there to be a threat to.

### **Future Work Program**

Pursuant to Regulation 33(2) (h) under the Act, an annual report must include:

*“unless the relevant licence year is the last year in which the licence is to remain in force – a statement outlining operations proposed for the ensuing year”.*

PEL 73 is being renewed for a second licence term. Ensuing year is Year 1 of licence renewal. Operations will be Geological Studies.

## **5 Expenditure Statement**

Pursuant to Regulation 33(3) under the Act, an annual report must contain:

*“An annual report must be accompanied by a statement of expenditure on regulated activities conducted under the licence for the relevant licence year, showing expenditure under each of the following headings:*

- a) drilling activities;*
- b) seismic activities;*
- c) technical evaluation and analysis;*
- d) other surveys;*
- e) facility construction and modification;*
- f) operating and administration expenses (not already covered under another heading)”.*

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

**APPENDIX 1      Expenditure Statement**

Commercial in Confidence