

## **QUARTERLY REPORT**

**QUARTER ENDED 30 SEPTEMBER 2010**

- **Secured adequate funding for near term objectives of the business**
- **Established a highly experienced management team**
- **Grown our asset base by securing new tenements in our existing geographies**
- **Expanded the geographic footprint of our business**
- **Progressed assets rapidly towards early commercialisation**
- **Continued with programs to grow our resource base**
- **Taken the next step in creating a business of scale in Australia, through the intended acquisition of Apollo Gas**

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## 1. ACCESS AND EARLY-STAGE ACTIVITIES

### **DAJING PSC (Xinjiang, China)**

In May 2010, PetroChina and Dart signed a PSC to explore for natural gas within the Dajing block, whereby PetroChina will hold a 51% interest and Dart will hold a 49% interest. Under the PSC, Dart will act as operator. The PSC arrangement is awaiting regulatory approval from the Chinese Ministry of Commerce (MOFCOM). Depending on approval timing, Dart intends to undertake a 14-well exploration campaign, currently expected to commence in early 2011. During the quarter, preparatory work for this drilling campaign was conducted. This included well design and site selection, technical meetings with PetroChina and tendering for various equipment and services necessary.

In addition Dart participated in a CBM workshop in Urumqi, Xinjiang organised by PetroChina. Representatives from PetroChina's operating subsidiaries in each of the regional basins - Tarim, Junggar and Tuha - were in attendance. The purpose of the workshop was for foreign companies to showcase their expertise and knowledge in front of not only PetroChina subsidiaries but also local authorities accountable for accelerating CBM development in Xinjiang Autonomous Region.

### **ASSAM & SATPURA (CBM-IV Blocks, India)**

In July 2010, Dart was awarded two CBM licences as part of the Indian Government's CBM IV bidding round. These are the Assam block (Dart 60% and Oil India 40%) and the Satpura block (Dart 80% and Tata Power 20%). In September 2010, Dart announced initial resource estimate certifications on these two blocks (see further description under Resource Development in Section 3 below).

In the quarter Dart began the preparatory work necessary to enable exploration drilling work to commence. This includes preparation of an Environmental Impact Assessment (EIA) Terms of Reference (TOR), the approval of which is required to conduct EIA studies. This preparatory work is expected to take approximately 12 months, with drilling anticipated to commence in late 2011.

### **TANJUNG ENIM PSC (Sumatra, Indonesia)**

All permits for Tanjung Enim core drilling have been secured and a revised work program and budget approved by the Tanjung Enim Operating Committee and The Indonesian regulator. Drilling rig contracting, materials procurement and securing land access were progressed during the quarter but remain on the critical path for commencing operations. The first coring well is expected to be spudded in early 2011 though final timing will be dependant on rig availability. The main commercial aspects of the Joint Operating Agreement for the Tanjung Enim PSC was finalised during the period, and the parties are now readying the JOA for signing.

### **PEL 464 (NSW, Australia)**

Dart has the right to earn up to a 50% interest in PEL 464 (a NSW CBM licence held by Apollo Gas Limited) by funding two phases of an exploration program. Dart is the operator of the exploration program. The first phase activity included 36 km of 2D seismic to identify trends in the subsurface coal structure and was completed in February 2010. The second phase of the work program will include the drilling of two core wells for which planning, site clearances and approvals were progressed during the quarter.

**OTHER**

Dart has made a force majeure request to the Indian Government to withdraw from the Raj Mahal block due to local unrest in the area. Separately, exploration results for the Mand Raigarh block have not indicated commercial production potential and Dart has made a request to the Indian Government to relinquish this block. During the quarter under review, both requests remained under consideration by the Indian Government.

Joint Studies for up to four new PSCs have been completed and submitted to the Indonesia Government (Tanjung 1, 2 and 3 in South Kalimantan and Kebur in Sumatra). Discussions relating to the eventual terms and issue of such PSCs continued during the quarter.

In India, there were ongoing discussions relating to the potential farm-in by Dart to CBM licences held by Oil & Natural Gas Corporation, as well as the formation of potential coal mine methane ventures.

**2. APPRAISAL & PILOT ACTIVITIES****PEL 458 (Newcastle, NSW, Australia)**

Dart has the right to earn up to a 50% interest in PEL 458 (a NSW CBM licence held by Apollo Gas Limited) by funding two phases of an exploration program. Dart is the operator of the exploration program. The phase 1 farm-in expenditure commitment of A\$3 million for 15% of PEL 458 was completed by Arrow Energy Limited and transferred to Dart as part of the Demerger Scheme. During the quarter Dart elected to move to phase 2 of the farm-in, under which it will incur a further A\$7 million of capital expenditure to earn a further 35% interest. Dart has begun work in respect of phase 2 activities, including technical review of pilot design options and locations along with initiating discussion with drilling rig contractors.

**LIULIN PSC (Shanxi, China)**

During the quarter, the exploration and pilot testing campaign on the Liulin PSC continued. Fortune Liulin Gas Company (FLG), in which Dart has a 35% stake, completed in-seam pilot wells in both the seam 3/4/5 and seam 8/9 coal measures. Ongoing production testing and pump optimisation was completed in these wells and previously drilled vertical wells have been fracture stimulated. The production potential from the in-seam wells is expected to be better understood by the end of 2010 when the water flows have stabilised. During the quarter, FLG's Chinese partner in Liulin, CUCBM, completed their second vertical drilling campaign. To date, CUCBM has drilled 36 vertical wells and two in-seam wells at Liulin, and currently has ongoing production testing operations on 16 wells. Commercial gas rates (according to Chinese reserve certification standards) have been observed on four of the vertical wells and both (2) in-seam wells which have exceeded 9,000 cubic metres per day (315,000 cubic feet per day).

**SANGATTA WEST PSC (East Kalimantan, Indonesia)**

During the quarter, the Sangatta West work program and budget for the balance of the 2010 pilot drilling campaign (four pilot wells) was approved by both the Sangatta West Operating Committee and the Indonesian regulators. Drilling rig and material procurement, land access and completion design for pilot wells were all progressed in the period and are close to being finalised. The first pilot well is expected to be spudded by the end of 2010, subject to rig ancillary equipment availability and the rig being mobilised to site.

**TATAPANI RAMKOLA (CBM III BLOCK, INDIA)**

Core drilling under phase 1 exploration on the Tatapani Ramkola block indicated potential for commercial production. A five-well phase 2 drilling program was commenced on the block in May 2010 so as to further assess the commercial potential of the block. The pilot wells have now been drilled, under reamed and completed. Water pumps have been installed and dewatering has commenced. Work on surface facilities is ongoing and installation of separators, pipeline laying and flaring is expected to be completed by the end of 2010. Development plans for this block will be assessed following analysis of these phase 2 results.

**HANOI TROUGH PSC (HANOI, VIETNAM)**

In 2009, Dart completed phase 1 of an initial eight-well exploration drilling campaign. Results from two wells indicated increasing gas volumes with depth. In early 2010, Dart commenced a second phase of exploration drilling, focusing on deepening a number of the earlier exploration wells. This work was completed and results were analysed during the quarter under review, which indicated some potential for commercial CBM production, albeit at depths greater than 1,000m. Consequently during the quarter Dart has sought an extension of the PSC exploration period for the purpose of enabling further technical studies and, if appropriate, pilot testing at the Hanoi Trough block.

**PEDL 133 (AIRTH, SCOTLAND – COMPOSITE HELD LICENCE)**

During the quarter Dart acquired a 10 percent shareholding in Composite Energy Limited, with a series of options to move to 100% ownership over time (see further description under Corporate Activities in Section 6 below). During the quarter, two senior Dart staff were seconded to Scotland to focus on preparatory work for a pilot well at Composite's PEDL 133 in an attempt to commence drilling in early 2011. During the quarter a new well design and likely surface well-site locations were agreed, so as to optimise the 'cost-efficient hole in coal' and to develop in parallel commercial options for CBM development.

**3. RESOURCE DEVELOPMENT****ASSAM & SATPURA (CBM-IV BLOCKS, INDIA)<sup>1</sup>**

As previously noted, in July 2010, Dart was awarded two CBM licences as part of the Indian Government's CBM IV bidding round. In September 2010, Dart announced initial resource estimate certifications (per Netherland, Sewell & Associates, Inc) on these two blocks, being:

- Assam block: OGIP 1,177 BCF and Prospective CSG resource of 450 BCF (Dart net share)
- Satpura block: OGIP 1,438 BCF and Prospective CSG resource of 728 BCF (Dart net share)

On the Assam block, Dart has proposed a program of exploration and development consisting of drilling 15 core holes and two production wells in two years under Phase-I, and 30 production wells in

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<sup>1</sup> Dart resource estimates used in this report were compiled by John Hattner of Netherland, Sewell & Associates Inc., Dallas and are consistent with the definitions of "proved hydrocarbon reserves", "possible hydrocarbon reserves" and probable hydrocarbon reserves that appear in the ASX Listing Rules. Mr Hattner is qualified in accordance with the requirements of ASX Listing Rule 5.11 and consents to the use of the resource figures in the form and context in which they appear in this report.

the following two years under the Phase-II pilot drilling program. Commercial production is expected to start from 2014.

On the Satpura Block, Dart's proposed program is to drill 15 core holes and two pilot wells in two years under a Phase-I exploration program and 21 pilot wells during Phase-II program. Dart believes that it may be possible to combine Phase-II with an early commercial development project so that first gas may be produced as early as 2014 in the form of compressed natural gas (CNG) for supply to local cities and industries.

## **4. COMMERCIALISATION ACTIVITIES**

### **LIULIN PSC (Shanxi, China)**

In September 2010, an initial 15-year Gas Sales Agreement for the Liulin block was signed, for an annual volume of 1.4 Bcf, commencing 1 July 2011, with take-or-pay arrangements commencing 1 July 2012. Initial prices for the gas under this agreement will be in the order of US\$6.60 / Mcf, subject to annual review and escalation.

### **OTHER**

Dart continued to progress other early commercialisation options for a number of blocks in its portfolio, and in particular the Sangatta West block (Indonesia), the TR block (India), Airth (Composite – Scotland) and PEL 458 (Newcastle, NSW).

## **5. CORPORATE**

Dart is committed to providing a healthy, safe and secure workplace for all employees, consultants, contractors, service providers and visitors across all facets of our operations. We have taken the opportunity of a new management team to re-examine our policies and procedures for currency, relevance and applicability in order to positively reaffirm their context within Dart. We are ramping up for a renewed phase of activity and expansion in a number of different locations. In order to ensure delivery of the highest standards we are focusing accountability locally and therefore our attention has been on visible local leadership and integration of health, safety, environment and security into all business practices. Emphasis remains focused on staff training to ensure heightened awareness of risk and ensuring that contractors meet necessary standards.

The demerger of Dart from Arrow Energy Limited, pursuant to a Demerger Scheme, was approved by the shareholders of Arrow Energy Limited and implemented in July 2010. Following the implementation of the Demerger Scheme, Dart was listed on the ASX, on 22 July 2010 (ASX code: DTE).

During the quarter, Dart continued to recruit a number of key executives / management, so as to develop and enhance the overall Dart management team, both at a corporate level and in-country. Also during the quarter, David Williamson joined the Board of Directors of Dart as a Non-Executive Director.

Following the demerger of Dart from Arrow Energy Limited, Dart moved into a new head office in Singapore and office in Beijing, and a new office was established in Brisbane. Contact details for the

new Dart office in Brisbane, and the Singapore head office, are included in the revised Directory in Section 9 below.

Contemporaneously with the listing of Dart on ASX, Dart raised approximately AUD\$35m of fresh capital through an institutional placement at \$0.69 per share.

In September 2010, Dart acquired a 10 percent stake in Composite Energy Ltd by subscription of US\$7 million. Composite is a company engaged in the CBM and shale gas business in Europe and currently has a portfolio of 15 CBM licences in the United Kingdom and two in Poland. Dart has an option to increase its stake in Composite to 20 percent prior to the end of January 2011 via subscription of an additional US\$5 million. Dart also has the further option to increase its ownership to 100 percent, exercisable prior to the end of June 2011, for US\$56 million, payable in cash, in Dart shares at the then prevailing market price, or in a combination of cash and shares at Dart's election.

At the end of the quarter, Dart announced that it had reached agreement with Apollo Gas Limited to make a recommended offer for all issued securities in Apollo, other than those already owned by Dart. The transaction implies an enterprise value for Apollo of approximately AUD\$145 million based on the last traded price of Dart on the ASX prior to the deal announcement. Apollo is a company engaged in the CBM, geothermal and shale gas business in NSW, Australia and currently holds a large acreage position of seven CBM exploration permits amounting to over 23,000km<sup>2</sup> and two Geothermal licences covering approximately 3,500km<sup>2</sup>.

## 6. FINANCIAL INFORMATION

### FINANCIAL POSITION

Dart's cash position at the end of the quarter was approximately AUD\$62.2million.

### EXPLORATION EXPENDITURE

Dart's exploration expenditure for the period was approximately \$6.1million

The annual financial report for the company for the year ended 30 June 2010 was released on 29 September 2010. Dart released its Annual Report for 2010 on 27th October 2010. These documents can be obtained via the ASX or at the Dart web-site: [www.dartenergy.com.au](http://www.dartenergy.com.au).

## 7. CORPORATE INFORMATION

### SHAREHOLDER BASE

As at end of September 2010, Dart had approximately 14,000 shareholders and the share capital position was as follows:

Category	ASX Code	Number on Issue
Issued Ordinary Shares	DTE	419,748,184
Unlisted Options (all \$0.98625 expiring 31/3/14)		6,672,482

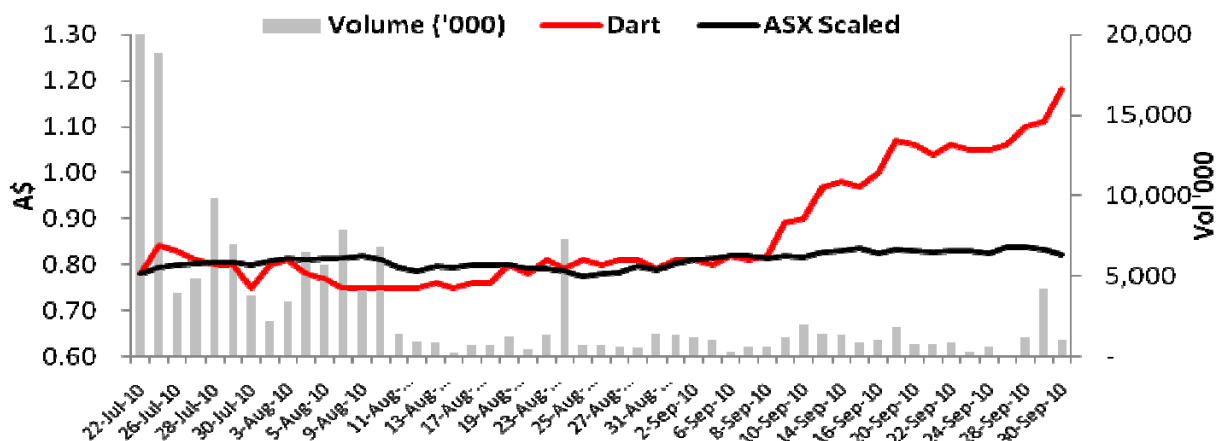
During the quarter, substantial shareholder notices were filed as follows:

- Mathews Capital Partners : 83.0m shares
- Bank of America : 71.3m shares

- Arkdale (New Hope) : 61.3m shares
- Concord Capital : 21.6m shares

**SHARE PERFORMANCE**

During the quarter, the price and volume of Dart securities, and performance against the ASX All Ordinaries Index, was as follows:



- Following the listing of Dart and capital raising, Dart has approximately 419.7 million shares on issue
- Dart securities commenced trading on ASX on 22 July 2010, at a price of \$0.78 per share
- On 30 September 2010, Dart securities closed at a price of \$1.10 per share
- The highest traded price of Dart securities in the quarter was \$1.18 (29 and 30 September); the lowest traded price was \$0.75 ( 6, 9, 10, 11 and 12 August)
- Average daily traded volume of Dart securities was approximately 3.8 million securities.

**8. CONTACTS**

Dart Energy Limited	ACN
Simon Potter, Chief Executive Officer spotter@dartcbm.com	Stephen Bizzell, Executive Director sbizzell@dartcbm.com
Eytan Uliel, Chief Commercial Officer euliel@dartcbm.com	Shaun Scott, Executive Director sscott@dartcbm.com
Paul Marshall, Company Secretary pmarshall@dartcbm.com	

## 9. DIRECTORY

<b>Directors</b>	Nicholas Davies– Non-Executive Chairman Simon Potter - Managing Director and Chief Executive Officer Stephen Bizzell– Executive Director Shaun Scott – Executive Director David Williamson – Non-Executive Director
<b>Company Secretary</b>	Paul Marshall
<b>Principal Registered Office in Australia</b>	Level 11, Waterfront Place, 1 Eagle Street Brisbane 4000, Queensland  Telephone: +61 07 3149 2100 Facsimile: + 61 07 3149 2101  Postal Address: GPO Box 3120 Brisbane 4001, Queensland
<b>Head Office</b>	152 Beach Road #19-01/04 The Gateway East, Singapore 189 721  Telephone: +65 6508 9840 Facsimile: +65 6294 6904
<b>Share Registry</b>	Link Market Services Locked Bag 14 Sydney South NSW 1235  Telephone + 61 02 8280 7454 Facsimile: +61 02 9287 0303
<b>Auditor</b>	PWC Riverside Centre, 123 Eagle Street Brisbane 4000, Queensland
<b>Stock Exchange Listing</b>	Australian Securities Exchange ASX Code: DTE
<b>Website Address</b>	<a href="http://www.dartenergy.com.au">www.dartenergy.com.au</a>
<b>ACN</b>	122 588 505