ASX ANNOUNCEMENT **27 OCTOBER 2010**

Significant Resource Estimated in PEL 456

Apollo Gas Ltd (ASX:AZO) is pleased to announce it has received an initial **3C Contingent Resource estimate of 939 BCF** for PEL 456, located in the upper Hunter Valley in NSW. Importantly, the Contingent Resource estimate was based on an area of 218km^2, out of the total permit area of 5,953km^2.

Independent consultants, MBA Petroleum Consultants Pty Ltd (MBA), has estimated the original gas-in-place (OGIP) and 3C contingent coal seam gas (CSG) resource in PEL 456. MBA's resource estimates are outlined in Table 1.

Table 1 – PEL 456 Resource Summary

Category	Gross (100%)	Apollo Net[1] Interest (85%)[2]	Apollo Net[1] Interest (50%)[3]
Gas in place (BCF)	2,042	1,736	1,021
3C Contingent Resource (BCF)	939	799	470

Apollo Gas Ltd (Apollo) currently owns 85% of the CSG rights in PEL 456, with its farm-in partner, Santos QNT, owning the remaining 15%. Santos QNT completed Phase 2(a) in August 2010 and has until 15 November 2010 to elect to proceed to Phase 2(b) and 2(c). Upon completion of the Phase 2(b) and 2(c) work program, Santos QNT will earn a further 35% interest in the CSG rights. The farm-in agreement relates solely to CSG resources. Apollo retains 100% of the non-CSG rights to PEL 456.

Commenting on the initial resource estimate, Apollo's Chairman, Peter Hood, said,

"Apollo is encouraged by the initial contingent resource estimates for PEL 456. Despite the corporate activity surrounding the company at present, Apollo continues to progress activities on its seven PELs across the Sydney-Gunnedah Basin."

Based on the area of study of 218km^2, MBA reported average coal reservoir properties as shown in Table 2.

[1] Net resources are after deductions for shrinkage due to system use gas (8%)
[2] Current Apollo interest
[3] Apollo interest after phases 2(b) and 2(c) have been completed

Table 2 – Average coal reservoir properties

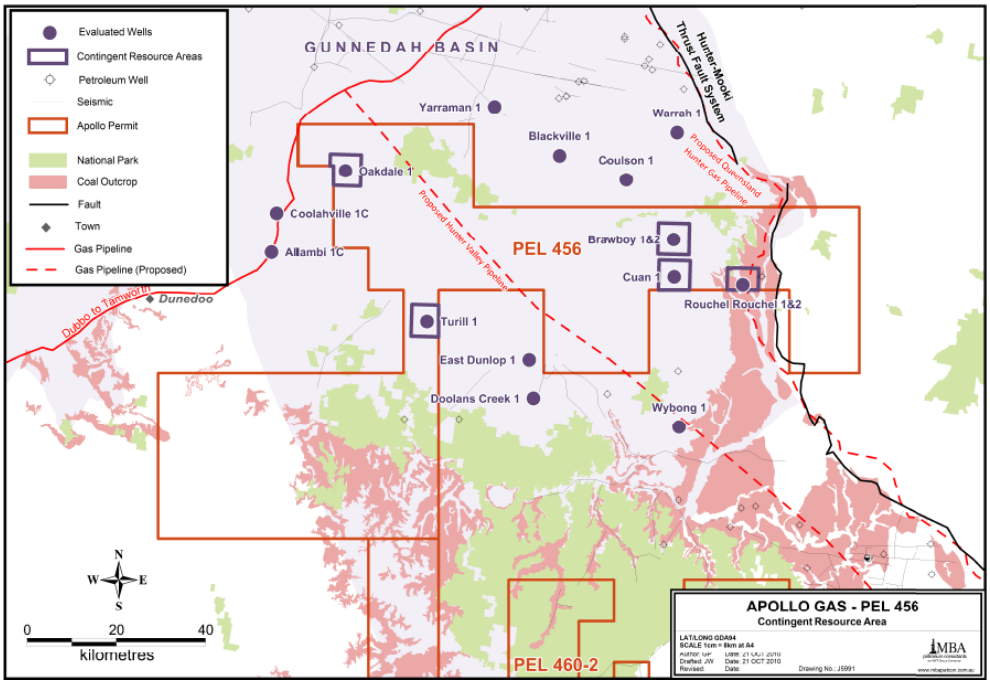
Total 3C Area (km^2)	Average Coal Properties[4]		
	Net Coal (m)	Density (g/cc)	Raw Gas (methane) Content (m^3/t)
218	33	1.6	4.65

Apollo and Santos QNT intend to focus future exploration and appraisal programs initially in the eastern area of PEL 456, surrounding core holes Cuan-1 and Brawboy-1 (as shown in Figure 1 below), with the objective of adding to this initial resource estimation. Table 3 outlines the coal reservoir properties for the 95km^2 area surrounding the two core hole sites.

Table 3 – Average coal reservoir properties surrounding Cuan-1 and Brawboy-1 core holes

Cuan-Brawboy 3C Area (km^2)	Average Coal Properties		
	Net Coal (m)	Density (g/cc)	Raw Gas (methane) Content (m^3/t)
95	38	1.6	6.2

Figure 1 – PEL 456

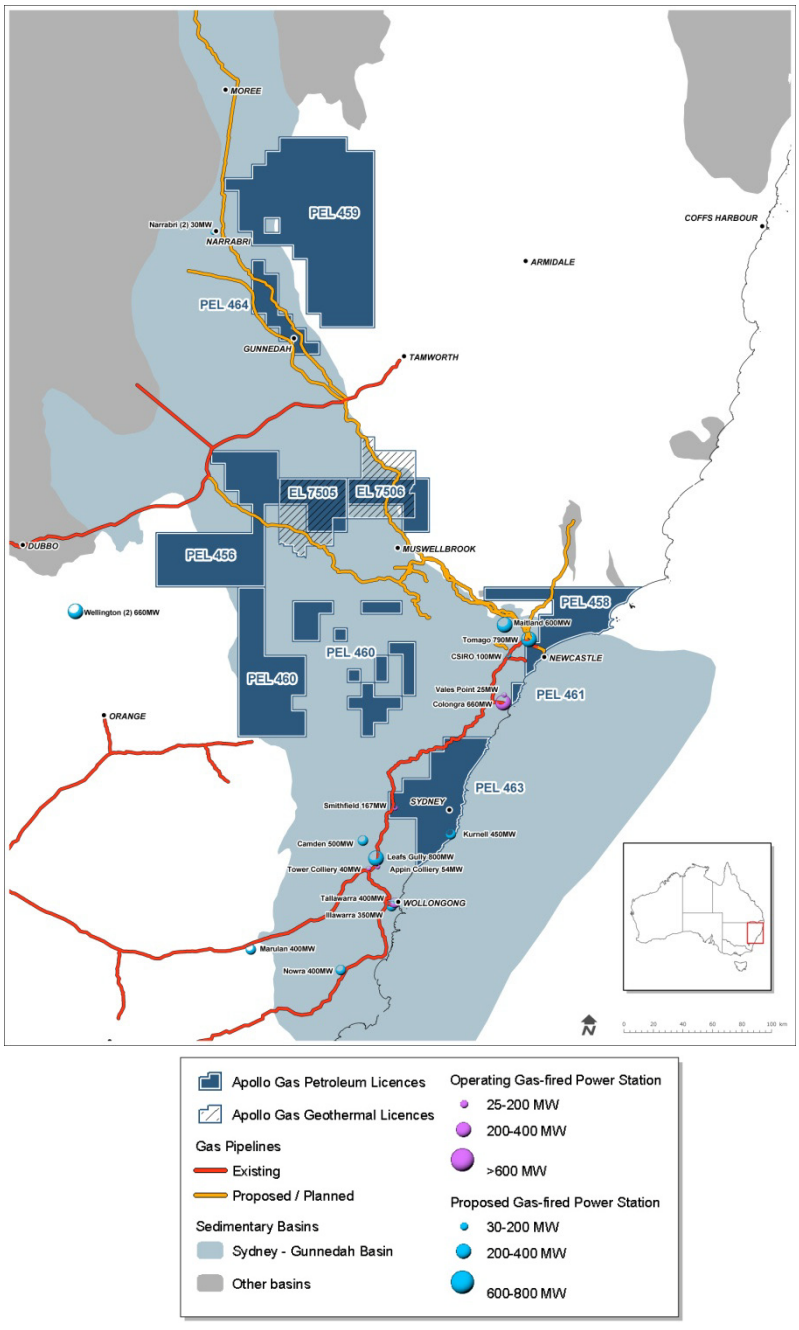


[4] *km^2 = square kilometres; m = metres; g/cc = grams per cubic centimetre; m^3/t = cubic metres per tonne*

About Apollo

Apollo's principal activities include exploration for and exploitation of CSG, conventional gas and geothermal energy in NSW. Apollo's Exploration Licences include seven PELs covering 23,600km^2 over the Sydney-Gunnedah Basin and two geothermal exploration licences (ELs) covering 3,500km^2 over the Murrurundi Trough. The Exploration Licences are positioned in and around Sydney, Newcastle, the Hunter Valley and Gunnedah, near to existing and planned gas infrastructure.

Figure 2 – Location of Apollo's Exploration Licences



It should be noted that this resource assessment was commissioned by Apollo, Santos QNT have not been party to the assessment.

Compliance Statement

The Contingent Resource estimate provided in this announcement has been prepared by Mr Doug Barrenger of MBA and personnel under his supervision. Mr Barrenger is considered to be a qualified person as defined under the ASX Listing Rule 5.11 and has given his consent to the use of the Contingent Resources figures in this announcement.

The Contingent Resource estimates described in this announcement have been developed within the guidelines as defined by the Society of Petroleum Engineers, Petroleum Resources Management System (SPEPRMS), 2007, guidelines:

> *"Contingent resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development because of one or more contingencies."*

The resources outlined in the report by MBA have been estimated by deterministic methods using geological and geophysical data provided by Apollo.

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