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28 January 2010

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

Dear Sir/Madam,

DECEMBER 2009 QUARTERLY ACTIVITY REPORT

Highlights

- Following the completion of the Warro 3 testing program in September, during the December quarter the joint venture has been completing preparations for a 3D seismic survey in early 2010 and technical evaluation work programs including planning of the Warro 4 drill and frac program.
- Transerv holds a free carried 10% interest in the Warro Gas Project for the first two appraisal wells (Warro 3 and Warro 4) and a 3D seismic survey.
- Transerv is encouraged by results of Warro 3 and is committed to the next phase of the evaluation program, including the drilling of the next well, Warro 4.
- Flow testing of Warro 3 during the year confirmed that commercial gas flows are possible from the reservoir following fracture stimulation, given a water free environment. This was demonstrated with the flow rate of more than 5 mmcfpd over a 7 hour period from only 4 of the 8 gas sand zones.

Warro 3 Overview

The Warro 3 appraisal well was drilled in 2009 to a total depth of 4,280mRT with electric logs identifying a total gas column of 500m containing a potential net gas pay zone of 280m with an average porosity of 9.1% and gas saturation of 73%. A fracture stimulation program was designed following analysis of the electric logs to optimise the gas flow achievable from the Warro 3 well. The fracture stimulation program is designed to promote gas flow from tight gas bearing sands through the placement of proppant into fractures created in the reservoir.

Tight gas sand reservoirs achieve commercial gas flows through the process of fracture stimulation by increasing the exposed surface area of the reservoir to the well bore. The first Warro 3 fracture stimulation program commenced in early April, which successfully injected over 380 tonnes of proppant into the targeted gas sand zones 1 to 6 from the base of the well. This was followed by an extended flow testing program from these gas sand zones in the reservoir that ran from May through to July, establishing a gas flow of more than 5 mmcfpd for 7 hours from zones 3 to 6 with water absent from the wellbore.

The test program was hampered by the presence of water in the well bore coming from the bottom of the well through zones 1 and 2. It is thought that water is being drawn into the wellbore from an overlying aquifer following the fracture

stimulation which intersected a major natural fault at the base of the well in zone 1. It is considered most likely that this fault acted as a conduit for the water to flow back into the well.
The presence of this water is inhibiting the optimal flow rate of the gas and masking the true gas production potential of the zones. The full impact of this water on the reservoir dynamics requires further analysis to be fully understood and is currently the focus of the technical review that is underway.

Independent Expert Analysis of Warro 3 Results

The Warro 3 appraisal well has generated critical new information for the Warro Joint Venture to guide the future appraisal wells on this field, and the independent analysis of this information by US tight gas industry experts was the focus of the joint ventures activities in the December quarter. The confirmation that fracture stimulation of the Warro reservoir can potentially liberate commercial quantities of gas from the tight reservoirs is an important step in the commercial evaluation of the field. The flow rate of 5 mmcfpd achieved for a 7 hour period from zones 3 to 6 prior to water breakthrough is considered highly encouraging for the potential of commercial gas production from the Warro project.

Prior to the fracture stimulation of Warro 3, the presence of natural fractures in this part of the field were considered to be a positive feature that could assist the production of gas based on evidence from operating tight gas fields. The fracture stimulation of zone 1 was designed to tap into the substantial natural fracture system observed in the well. The testing campaign just completed has shown that rather than assisting gas production the natural fractures were acting as a conduit for water from shallower intervals.

Upon completion of the detailed technical review of Warro 3 that was undertaken during the December quarter, the presence of these natural fractures that have produced water will be addressed in two ways in the planning and drilling of future appraisal wells. Firstly, large areas of the field appear unaffected by existing fault structures and the future evaluation work will now be focussed on these areas. This work is expected to comprise the acquisition of a 3D seismic survey in conjunction with further drilling. The 3D seismic data will provide a high fidelity image of the faulting in the field.

Secondly, many tight gas fields produce water along with the gas and handle this mix effectively through the appropriate completion design. The Warro 3 completion was not of this type but future wells will use the Warro 3 experience and ensure any water can be efficiently removed from the well, to not inhibit the gas flows achievable from the reservoir.

Importantly, Transerv is free carried for the drilling of Warro 4 and fracture stimulation program.

Cash Position at 31 December

At the end of the December quarter, the company had a closing cash balance of $2.5m.

For and on behalf of the Board

Rule 5.3

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

TRANSERV ENERGY LIMITED

ABN	Quarter ended ("current quarter")
68 079 432 796	31 DECEMBER 2009

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date $A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for		
	(a) exploration and evaluation	-	-
	(b) development	-	-
	(c) production	-	-
	(d) administration	(73)	(234)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	25	56
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
	Net Operating Cash Flows	**(48)**	**(178)**
	Cash flows related to investing activities		
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of:	-	-
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Cash acquired in subsidiary	-	-
	Net investing cash flows	**-**	**-**
1.13	**Total operating and investing cash flows (carried forward)**	**(48)**	**(178)**

+ See chapter 19 for defined terms.

	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	60
1.15	Costs of the issue	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	**-**	**60**
	Net increase (decrease) in cash held	**(48)**	**(118)**
1.20	Cash at beginning of quarter/year to date	2,536	2,606
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	**Cash at end of quarter**	**2,488**	**2,488**

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	(49)
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors and executive service fees paid for 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	-	-

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	-
4.2	Development	-
	Total	-

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	38	86
5.2	Deposits at call	2,450	2,450
5.3	Bank overdraft	-	-
	Total: cash at end of quarter (item 1.22)	2,488	2,536

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.

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)	Amount paid up per security (see note 3)
7.1	**Performance** +**securities** *Convert to ordinary securities on development of a commercial mining project*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs.				
7.3	+**Ordinary securities**	**829,549,071**	**829,549,071**		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	+**Convertible debt securities** (*description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	**158,700,000** Convert on a 1:1 basis		*Exercise price* 2.5 cents (87.5m) 1 cent (57.2m) 2.5 cents (11m) 2 cents (3m)	*Expiry date* 31 January 2011 30 June 2010 30 June 2010 30 June 2010
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Cancelled during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

+ See chapter 19 for defined terms.

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

Executive Director

Date: 28 January 2010

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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