



QUARTERLY REPORT

Quarter Ending 30 June 2010

ASX CODE: AZO

30 July 2010

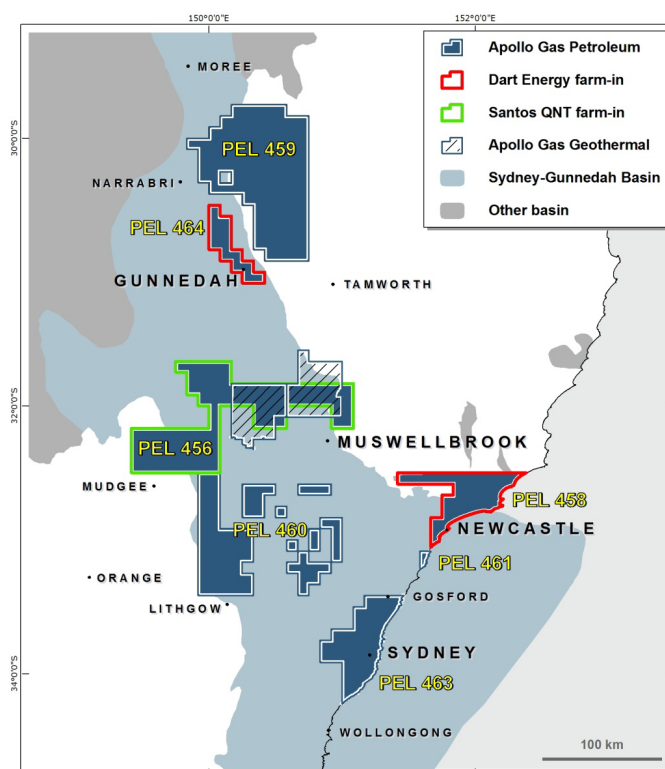
Securing clean energy for NSW

APOLLO GAS LIMITED [ASX CODE: AZO]
QUARTERLY REPORT – QUARTER ENDING 30 June 2010

Apollo Gas Limited (“Apollo”) continued to deliver positive results from its exploration and development programs in New South Wales during the quarter. The programs in seven Petroleum Exploration Licences, (“PEL”s), are operated by its wholly owned subsidiary Macquarie Energy Pty Ltd (“Macquarie Energy”) and its farm-in partners Santos QNT Pty Ltd (“Santos”) and Dart Energy Limited (“Dart”) (Dart has taken over the farm-in obligations of Arrow Energy Ltd, (“Arrow”), following the takeover of Arrow and the demerger of Dart from Arrow).

HIGHLIGHTS

- Arrow completes 3 of the 4 core holes of the Phase 1 drilling program in PEL 458 (Newcastle);
- Arrow completes demerger scheme and Dart assumes responsibility for the farm in agreements in PEL 458 and 464;
- Netherland, Sewell and Associates, Inc. (“NSAI”) (USA) undertakes assessment of contingent and unrisked prospective coal seam gas resources in PEL 458 (Newcastle);
- Santos drills Brawboy-2 and Cuan-1 as part of Phase 2A in PEL 456 (Upper Hunter); and
- Well test programme at Catherine Hill Bay-1 completed PEL 461 (Central Coast).


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PEL 458 – Newcastle (Dart farmin)
Operator: Dart

Interest: Apollo 85% | Dart 15% (Dart can earn up to 50%)

Dart is the operator of the PEL 458 farm-in exploration work program and has completed three exploration drill holes near Fullerton Cove, north of Newcastle. Completion of the fourth drill hole at Fullerton-3 is currently in progress. On the conclusion of drilling at Fullerton-3, Phase 1 of the farm-in program will be complete.

Dart has committed to Phase 2 of the farm-in program, which is estimated to cost \$7million.

Phase 1 Results	Total Depth (m)	Cumul. Coal Seam Thickness (m)	Average Gas Composition	Depth (m) as at 30/6/10	Status
Fullerton-1	900.9	41.5	80 - 95% CH ₄	900.9	P&A ¹ 6/7/10
Fullerton-2	1,151.9	36.1	Not tested	1151.9	P&A 20/2/10
Fullerton-3	834.9 (to 850m)	33.9	99.5% CH ₄	627.3	In Progress
Fullerton-4	750.12	24.31	99.25% CH ₄	750.12	P&A 15/4/10

Drilling has intersected the CSG target seams of the Tomago Coal Measures at each location. Drill Stem Tests (DSTs) have been conducted on Fullerton 1, 3 and 4. DSTs conducted on Fullerton-4 indicated permeability of 3 to 51mD. Testing and reporting of DSTs on Fullerton 1 & 3 is in progress.

As part of the Dart demerger, Arrow commissioned NSAI to undertake an assessment of contingent and unrisked prospective coal seam gas resources. NSAI contingent Original-Gas-In-Place (OGIP) and contingent resource estimates for PEL 458 are outlined below.

Category	Contingent CSG Resources (BCF)		
	OGIP (BCF)	Gross ²	Net ³
Low Estimate (1C)	1,156	322	178
Best Estimate (2C)	1,342	542	299
High estimate (3C)	1,529	871	481

¹ Plugged & Abandoned

² Accessible Tomago CM resource, Fullerton Cove area

³ Net resource attributable to Dart Energy, assuming 60% share, after an 8 percent reduction for shrinkage due to system use gas

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PEL 456 - Upper Hunter
Operator: Santos

Interest: Apollo 85% | Santos 15% (Santos can earn up to 50%)

Santos is the operator of the CSG exploration program for PEL 456 and positive results have been achieved.

Santos earned a 15% interest in the CSG rights in PEL 456 by successfully completing the Phase 1 farm-in program commitments during the previous quarter. The work program included 3 coreholes at Brawboy-1, Rouchel Rouchel-2 and Oakdale-1. Rouchel Rouchel-1 was abandoned due to down hole conditions and the hole was re-drilled as Rouchel Rouchel-2.

Phase 1 Results	Total Depth (m)	Gross Coal (m)	Gas Content	Gas Composition	Status
Brawboy-1	1,434.7	73.3	3-25 m ³ /t (daf)	92% CH ₄ , 0.5% CO ₂ 7.5% N	P&A
Rouchel Rouchel-2	999.7	78.0	3-10m ³ /t (daf)	24% CH ₄ , 76% CO ₂	P&A
Oakdale-1	891.7	9.9	1-2m ³ /t (daf)	50% CH ₄ , 50% CO ₂	P&A

Phase 2A continues to focus on exploratory drilling in the Murrurundi Trough where CSG potential has been demonstrated by the encouraging results of Phase 1. Santos began Phase 2A of the farm-in work program in May 2010.

Phase 2 Results	Total Depth (m)	Gross Coal (m)	Gas Content	Gas Composition	Status
Cuan-1	1,335.8	78.5	In progress	In progress	In progress
Brawboy-2	1,098	21 (Net)			Suspended
Turill-1					Scheduled

Cuan-1 was spudded on 20 May 2010. Drilling targets are coal seams in the Black Jack Group, including the Clift, Hoskissons and Melville seams.

At 30 June 2010 Cuan-1 had reached a depth of 1008.8m and by 30 July, Cuan-1 had reached a depth of 1422m in the Watermark Formation. A total of approximately 78.5 m of coal seams have been intersected, of which, 42.4m have been sampled for gas desorption test work.

Six DSTs, to determine formation permeability, have been conducted at Cuan-1. Although full and final interpretations of the DSTs are yet to be received, the field observations are encouraging.

- DST #3 at 830m reported a strong “blow” of gas. During circulation gas was flared;
- DST #4 at 1,126m indicated good permeability. Also significant gas was recovered from the drilling mud on reverse circulation;

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- DST #5 at 1,209m indicated lower permeability of a 7.8m thick seam; and
- DST #6 at 1,269m on a 13m coal seam was conducted on 21 July 2010 and is yet to be reported.

Brawboy-2 was completed on 3 June 2010. Results interpreted to date indicate that the Clift coal seam was intersected at 881m, followed by the Hoskissons at 1,025m and Melville at 1,078m. Interpretation of DST's at Brawboy-2 is underway.

Turill-1 will be spudded in the next quarter following completion of Cuan-1. The Late Permian coal measures are being targeted in the western portion of the tenement. Gas desorption, wireline logging and drill stem tests (DSTs) are scheduled for this hole.

PEL 461 – Central Coast

Operator: Macquarie Energy
Interest: Apollo 100%

Drilling of Catherine Hill Bay-1 reached a total depth of 1,092.3m on 30 March 2010. Operations are now underway to plug and abandon the well. Drilling stopped at 1,092.3m when attempts to retrieve a stuck core barrel were unsuccessful. The drill string was retrieved. 5 DSTs and wireline logs and were successfully completed.

Hole conditions prevented the well from reaching its planned depth of 1,200m which was intended to test the full sequence of the Upper Tomago Coal Measures and reach the Kulnura Marine Tongue. 60 metres of gross coal has been intersected in the Newcastle and Upper Tomago Coal Measures. Coal-gas desorption testing on 22m of coal is ongoing.

Results	Total Depth (m)	Gross Coal Seam Thickness (m)	Avg Gas Composition	Depth (m) as at 30/6/10	Status
Catherine Hill Bay -1	1,092.3	60.0	>98% CH ₄ & C ₂ H ₆	1,092.3	P&A in progress

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PEL 463 – Sydney

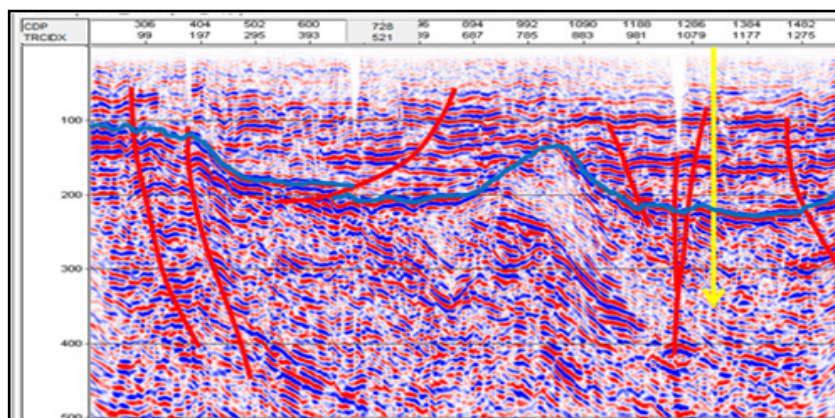
Operator: Macquarie Energy
Interest: Apollo 100%

A Review of Environmental Factors (“REF”), has been submitted to the Department of Industry and Investment. The REF has been approved for a single exploration hole in an industrial precinct in central Sydney. Drilling is scheduled to commence in quarter 4 of the current calendar year.

PEL 464 – Gunnedah (Dart farm-in)

Operator: Dart
Interest: Apollo 100% (Dart can earn up to 50%)

Dart is the operator of the PEL 464 farm-in work program following the Arrow demerger. To date, 36km of 2D seismic reflection survey over 6 lines have been completed as part of the Phase 1 exploration program. Interpretation of the seismic has defined strong reflectors which may indicate the presence of coals within the Maules Creek formation. The image below shows the Line #3 interpretation.



Two stratigraphic drill holes are planned and four sites have been selected between Boggabri and Gunnedah. The exploratory drilling program in PEL 464 has been designed to provide well control for the newly acquired seismic data. Approval to drill has been received from the Department of Industry and Investment and it is anticipated that drilling will commence in the following quarter.

PEL 459 Narrabri East

Operator: Macquarie Energy
Interest: Apollo 100%

A REF has been submitted to the Department of Industry and Investment for an exploratory drilling program of 10 optional drill sites within PEL 459. Negotiations for land access have commenced and it is anticipated that drilling will commence in quarter 3 of the current calendar year. A 2D reflection seismic survey is also planned within the tenement and a seismic REF is being prepared.

PEL 460 Hunter West

Operator: Macquarie Energy
Interest: Apollo 100%

Two cored exploration drill holes are planned within the central section of PEL 460. The primary target is the Permian Coal Measures. A REF is being prepared and land access negotiations are underway.

EL 7505 & EL 7506 Murrurundi Trough Geothermal Project

Operator: Macquarie Energy
Interest: Apollo 100%

The Murrurundi Trough Geothermal Project encompassing both EL 7505 & EL 7506 overlay PEL 456. A geothermal systems assessment has been undertaken by Hot Dry Rocks Pty Ltd consultancy. The assessment identified that, despite a lack of deep 3D basin architecture and direct thermal conductivity measurements, preliminary modelling suggests an average heat flow of $83 \pm 11 \text{mW/m}^2$ and that the 150°C isotherm may be present at as shallow as 3,100m ($\pm 200\text{m}$) depth.

The results of recent drilling in PEL 456 will be incorporated into a revised 3D model.

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