

# ASX RELEASE

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## **ACTIVITIES REPORT FOR THE QUARTER ENDED 31 MARCH, 2009**

The Directors of Marion Energy Limited ("Marion") (ASX: MAE) present their Activities Report for the March 2009 Quarter.

The Quarter saw the preparation of a new Reserve Report which has now been completed and for which the details have been released today in a separate ASX Announcement. The Reserves estimates have been affected by the current lower gas price environment (as has been the case for many companies in the oil and gas sector) and in particular this has impacted and reduced the reserves calculations for the Helper Project. However the new report has confirmed that the Reserves at the Clear Creek project are economically strong and that the company has a very valuable asset in this project.

The Quarter also saw the Company's management necessarily devote significant attention to non operational matters as a result of the decision taken in early February 2009 to mandate Goldman Sachs & Co to undertake a process which may lead to the sale of the Company and/or its assets either in whole or in part. As at the date of this report the information required has been completed and the sale process has now commenced.

This process by its nature has created information requirements which in turn required management to devote significant time to achieve these requirements. As outlined below, for a number of reasons production and revenue was necessarily scaled back during the quarter at Clear Creek in particular and minimal production revenue was generated from this project.

### **HIGHLIGHTS**

- Goldman Sachs commence sale of company and/or assets in whole or in part process
- New Reserve Report completed
- Finance – negotiations with bankers regarding terms of banking facilities well advanced

**Goldman Sachs mandated to undertake a process to sell the company and/or its assets either in whole or in part.**

On February 16, 2009 the Company announced that Goldman Sachs had, in conjunction with management, completed a review of strategic alternatives for the Company and as a result Goldman Sachs had been mandated to seek possible buyers for the Company and/or its assets. Since that time, a significant amount of work has been required to provide the information required to enable Goldman Sachs to complete its Sale Information Memorandum and Virtual Data Room. Goldman will now commence the process of seeking interested parties (Refer ASX Release dated 30 April, 2009). Parties registering expressions of interest will be required to sign Confidentiality Agreements before being able to access the Virtual Data Room. The Company remains confident there will be considerable interest in the Company and its assets, although there can be no assurance that a formal proposal or offer will be presented and, if presented, that a sale transaction will be approved by the board.

**New Reserve Report completed.**

The Company announced to the ASX today details of the new Reserve Report. Refer to this ASX Announcement for full details. The report was completed by MHA Petroleum Consultants, Inc, a Denver, Colorado based petroleum engineering consultancy which is well known in Australia as it has undertaken reserve studies for a number of Australian companies. The key points of the reserve report are:

- This Reserve Report has re-confirmed the commercial viability of the reserves for the producing Clear Creek reservoir with 1P, 2P and 3P Reserves calculated in total at 210 Bcf of gas
- The reserves have been impacted as a result of lower natural gas pricing with the Helper reserves in particular being affected and further development at the Helper field is considered uneconomical at current pricing levels. Nonetheless the Clear Creek reserves have been relatively unaffected experiencing only a small reduction in the level of booked reserves
- Most companies in the US natural gas industry have experienced some reserve declines based upon current soft commodity pricing. The contango futures strip indicates much firmer natural gas prices in the months ahead.
- Natural gas price assumptions are US\$4.04 per mcf at Clear Creek and \$ 4.40 per mcf at Helper. The Clear Creek reserves were also stress tested at a US\$2.50 per mcf field price and even at this price all categories of reserves remained economical.
- Total 1P reserves are 139.28 Bcfe
- Total 2p reserves are 85.51 Bcfe
- Total 3P reserves are 18.24 Bcf
- Total reserves are 240.03 Bcfe
- These reserves are in addition to the Recoverable Resource in ground calculation as evaluated by Ryder Scott in November 2008 which calculated Marion having a total potential recoverable resource from its non-producing reservoirs of between 2.4 and 4.3 Tcf (refer to section below which details in summary form the total recoverable resource). A small portion of this resource was included in the reserve report of June 2007.

Note: the Reserve Report does not include any allowance for non-conventional Mancos Shale reserves at Helper and Clear Creek, a portion of which were evaluated (drilled) and included in the 2007 Reserve Report. These reserves are now included in the Resource Report prepared by Ryder Scott in November 2008.

In order for Goldman Sachs to complete its Sale Information Memorandum and Data Room it was necessary to provide them with a new Reserve Report on our Utah properties. To complete the Reserve Report the Company undertook operations on its wells at Clear Creek to generate additional data for this purpose. The Company has been doing this on selected wells over an extended period and given residual clean up issues associated with the wells this could only be done by producing to atmosphere for most of the period. These operations were affected by a lack of access to the well sites as a result of severe snowfalls over the period.

The Reserve Report detailed in this announcement together with the November 2008 announcement detailing the Recoverable Resource, demonstrate that the Company has been successful in achieving a major part of its initial strategy, namely the proving up of a significant reserve/resource.

#### **Field operations.**

As indicated above in the section dealing with the Reserve Report, production operations for the quarter were severely curtailed in terms of producing revenue with most production being vented to atmosphere and severe winter conditions restricting access.

Operations focus will now revert back to bringing the wells back on to saleable production in a controlled manner although it is prudent to caution that at current gas price levels, production may also be deliberately held back from some wells which have higher operating costs until prices improve.

It is not planned to undertake any drilling activity during the current quarter.

#### **Finance – negotiations with Bankers re terms of facilities well advanced.**

As advised in the previous quarter, the Company commenced the process of renegotiating its existing banking facilities and successfully secured an increase in its borrowing base for its Senior Secured Credit Facility of US\$ 10.5 million to US\$36.0 million.

The Company is currently in advanced negotiations with its existing bankers and an additional U.S. financial institution with regard to varying the terms of its existing facilities in order to provide it with better financing for its future operations.

Further information will be released to the ASX when it becomes available.

### **Corporate – Share Options.**

During the quarter 3,000,000 unlisted 60 cent staff options expired unexercised and 1,500,000 unlisted 50 cent staff options and 500,000 unlisted \$1.50 staff options were cancelled. 5,000,000 unlisted 45 cent staff options were issued with an expiry date of 31 December, 2009. A total of 7,000,000 unlisted 30 cent options with an expiry date of 18 September, 2012 and 1,500,000 unlisted 90 cent options with an expiry date of 14 November, 2011 were issued to the Company's bankers as part of the terms of the Company's credit facilities.

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