



# Quarterly Report

**SOMERTON** ENERGY

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## QUARTERLY REPORT

**For the three month period ending 31 December 2010**

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### OVERVIEW

Somerton's strategic focus is on unconventional oil and gas plays and other high impact petroleum projects, initially in the onshore Otway and Gippsland Basins. During the quarter further steps were taken in building a portfolio of oil and gas prospects consistent with this strategy.

Interests in two additional Otway Basin tenements, PEL 186 and PEL 495 were acquired<sup>(1)</sup> and Somerton confirmed its farmin to the Wombat tight gas project (PRL 2) in the Gippsland Basin.

The farmins to PELs 186 and 495 will give Somerton exposure to exploration plays targeting oil sourced from the basal Otway Group section, which contains excellent source rocks and has yielded oil flows, recoveries and shows over a wide area, particularly along the northern flank of the Penola Trough. Somerton's objective is, firstly, to obtain a broad suite of tenements which are prospective for this play and then to participate in a multi-well drilling program addressing both conventional and unconventional oil targets.

Participation in PRL 2 will provide Somerton with a net 3C gas resource of more than 150 BCF and the potential to yield a return far above Somerton's initial investment of approximately \$3 million.

Somerton's activities can now be categorised into three core projects:

- Oil exploration in the western Otway Basin (PEP 151, PELs 186 and 495)
- Gas exploration in the Port Campbell region of the eastern Otway Basin (PEP 168)
- Appraisal of the Wombat tight gas field, Gippsland Basin (PRL 2)

During 2011 Somerton expects to participate in 4 exploration wells and the fracture stimulation and testing of at least one well in the Wombat field.

#### **Somerton Energy Limited**

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AUSTRALIA

Managing Director:  
**Hector Gordon**

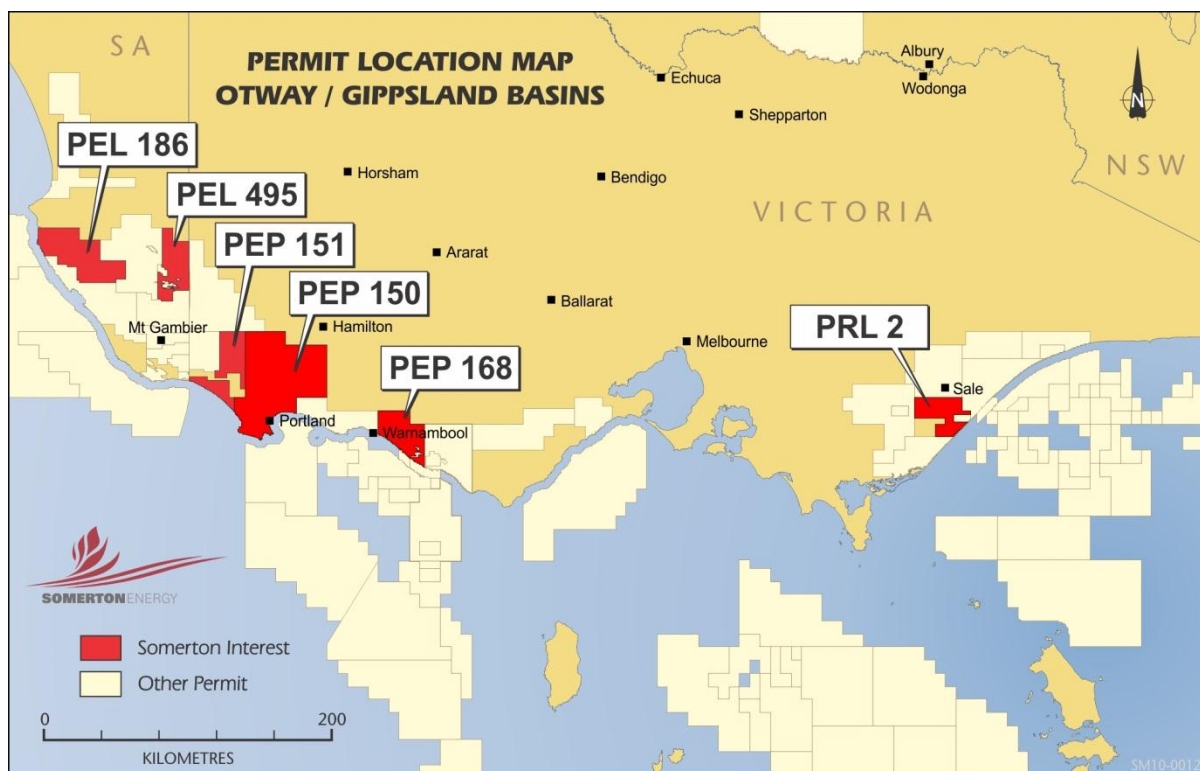
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<sup>(1)</sup> Somerton’s interests in PEL 495 and PRL2 are subject to completion of farmin agreements and regulatory approvals. Acquisition of the interest in PEL186 is subject to regulatory approval.

## CORPORATE

The capital structure of Somerton as at 31 December 2010 was:

Capital Structure	31 December 2010
Fully Paid Ordinary Shares	141,486,642
Employee Incentive Rights	3,000,000

### Competent Persons Statement:

This report contains information on Somerton’s petroleum Resources which has been compiled by Mr Hector Gordon who is a full time employee of Somerton, is qualified in accordance with ASX listing rule 5.11 and has consented to the inclusion of this information in the form and context in which it appears.

## OPERATIONS

### **PEL 186 (Otway Basin SA, Somerton 100%)**

In December 2010, the Company entered into an agreement to acquire a 100% interest in PEL 186 from Geothermal Resources Limited, for a cash payment of \$200,000.

PEL 186 lies in the western Otway Basin and includes portions of the Penola, Robe and St Clair Troughs. Somerton considers the tenement to be prospective for a wide variety of oil and gas plays, but will particularly focus on evaluating basal Otway Group plays with significant oil potential. Somerton plans to drill one exploration well in PEL 186 in late 2011.

In accordance with Somerton's strategic alliance with Beach Energy Limited, Somerton has offered that company a 66.67% interest in PEL 186 on the same terms as the transaction between Somerton and Geothermal. Beach has accepted this offer and, consequently, Somerton's interest in the tenement will be reduced to 33.33% and its cash outlay to \$66,667 (subject to completion of a Sales and Purchase Agreement and regulatory approval).

### **PEL 495 (Otway Basin SA, Somerton 15%)**

In December 2010, Somerton agreed the terms of a farmin agreement under which it will acquire a 15% interest in PEL 495 from Cooper Energy Limited.

PEL 495 covers a portion of the Penola Trough which Somerton considers to be primarily prospective for oil. The permit contains seven prospects and leads, each of which Somerton considers to have the potential to contain up to 4 million barrels of recoverable oil. The "Sawpit" prospect will be drilled as soon as practicable, with timing primarily dependent on rig availability.

#### The Sawpit Prospect

Sawpit-2 will test an oil prospect located approximately 4 km northeast of Penola. The well's primary objective will be the early Cretaceous Sawpit Sandstone, which is near the base of the Otway Basin section. This basal section and the underlying Casterton Formation contain the best oil source rocks in the Otway Basin and have yielded oil shows and recoveries over a wide area, particularly along the northern flank of the Penola Trough. Most relevantly to PEL 495, Sawpit-1, drilled near the limit of closure on the Sawpit structure, encountered oil shows in the Sawpit sequence and recovered 1.5 bbls of oil during a Drill Stem Test (DST) of fractured basement.

Sawpit-2 will be located approximately 1 km north of Sawpit-1 and will be drilled to a total depth of approximately 2,500 metres. Somerton assesses the prospect to have the potential to contain up to 4.2 million barrels of recoverable oil in the Sawpit Sandstone.

#### Farmin Terms

Somerton will earn a 15% interest in PEL 495, by:

1. A cash payment of \$95,000; and
2. A payment of \$95,000 as reimbursement of 15% of past costs incurred in PEL 495; and
3. Contributing 30% of the cost to drill the Sawpit-2 exploration well.

Assuming a well cost of \$3 million, this represents a financial commitment by Somerton of approximately \$1.1 million.

**PRL 13 (Otway Basin SA, Somerton 20%)**

Somerton has entered into an agreement with Adelaide Energy Limited to sell its 20% interest in PRL 13 (Killanoola) to that company for a cash sum of \$110,000. This decision has been made as participation in PRL 13 is not considered to be consistent with Somerton's strategic focus.

**PEP 151 (Otway Basin Vic, Somerton 75%)**

During the quarter seismic interpretation of the northern portion of PEP 151 was undertaken. This work has confirmed the presence of two potential drilling locations, both of which will be further delineated by 100km of 2D seismic, to be acquired in March-April 2011.

Of most interest is the 'Arkarua' prospect, which Somerton considers to have the potential to contain more than 5 million barrels of recoverable oil in sandstones of the lower Otway Group. There is also potential for an unconventional oil play at Arkarua in the Casterton Formation and underlying basement.

Somerton expects to drill one well in PEP 151 in late 2011, subject to seismic results and rig availability.

**PEP 168 (Otway Basin Vic, Somerton 50%)**

Approximately 100km of 2D seismic is planned for acquisition in PEP 168 in the second quarter of 2011. This program is designed to delineate new drilling targets in the vicinity of the East Wing gas discovery. Somerton expects that at least one gas exploration well will be drilled in PEP 168 in late 2011, subject to seismic results and rig availability.

Options to develop the East Wing gas discovery during FY12 are being assessed.

**PEP 150 (Otway Basin Vic, Somerton 20%)**

Grant of PEP 150 is contingent upon entering into agreement with the native title claimants. Somerton expects these negotiations will be completed by the end of FY11, which should allow exploration to commence in FY12.

**PRL 2 (Gippsland Basin Vic, Somerton option to earn up to 16.7%)**

Work associated with Somerton's farmin<sup>(2)</sup> to the Wombat tight gas project in the Gippsland Basin commenced on 17 December 2010 with start-up of an extended flow and pressure build-up test of a single zone (at approximately 1,470m) in the Wombat-2 well. The well was flowed for 12 days through a 1" choke at an average rate of approximately 0.8 million standard cubic feet of gas per day (mmscfd) before being shut-in for a four week build-up.

This work will be used to determine whether long term production from the well is economically viable and to assist in the design of the fracture stimulation program of Wombat-4, scheduled for the first

quarter of 2011. The Wombat-4 test is expected to involve fracture stimulation and testing of at least four zones.

*<sup>(2)</sup>Subject to completion of final documentation, Somerton will acquire up to a 5% interest in PRL2, by funding 33.3% of the cost of fracture stimulation and well testing at a cost to Somerton of up to \$3.33 million. Somerton will have an option to earn a further 11.7% (bringing Somerton's total interest to 16.7%) by contributing a further \$13.33 million (bringing total expenditure to \$16.7 million) to further appraisal and development in PRL 2.*

**For more information contact:**

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# Appendix 5B

## Mining exploration entity quarterly report

Name of entity: Somerton Energy Limited

ACN or ARBN  
089 956 150

Quarter ended  
("current quarter")  
31 December 2010

### Consolidated statement of cash flows

	Current quarter \$A'000	YTD (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
[a] exploration and evaluation	(66)	(70)
[b] development	-	-
[c] production	-	-
[d] administration	(615)	(1,091)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	120	124
1.5 Interest and other costs of finance paid	(2)	(31)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(563)</b>	<b>(1,068)</b>
<b>Cash flows related to investing activities</b>		
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 Other (provide details if material)	-	-
<b>Net Investing Cash Flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(563)</b>	<b>(1,068)</b>

**Appendix 5B**

**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(563)	(1,068)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	12,577
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	367
1.17	Repayment of borrowings	-	(748)
1.18	Dividends paid	-	-
1.19	Other - settlement of Mitsui debt	(698)	(698)
	- payment in relation to capital raising	(115)	(535)
	<b>Net financing cash flows</b>	<b>(813)</b>	<b>10,963</b>
	<b>Net increase (decrease) in cash held</b>	<b>(1,376)</b>	<b>9,895</b>
1.20	Cash at beginning of quarter/year to date	11,296	25
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>9,920</b>	<b>9,920</b>

**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	196
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**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

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.

### Financing facilities available

	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	920
4.2 Development	-
4.3 Production	-
4.4 Administration	330
<b>Total</b>	<b>1,250</b>

### 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	47	992
5.2 Deposits at call	9,873	10,304
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>9,920</b>	<b>11,296</b>

### 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			

## 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) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> (description)				
7.2 Changes during quarter: (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>Ordinary securities</b>	141,486,642	141,486,642		
7.4 Changes during quarter: (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.5 <b>Convertible debt securities</b> (description)				
7.6 Changes during quarter: (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> (description and conversion factor)			<i>Exercise price</i>	<i>Expiry date</i>
Employee Options				
Unlisted Options				
- Unlisted Incentive Rights converted on a one for one basis	3,000,000	-	-	30 June 2013
7.8 Issued during quarter				
- Employee Options				
- Unlisted Options				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> (total only)				
7.12 <b>Unsecured notes</b> (totals only)				

## 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.

Sign  
here:

  
\_\_\_\_\_  
(Director)

Date:

13/1/2011

Print Name: **H M Gordon**

### 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.
- 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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