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31 January, 2011

Centralised Company Announcements Platform  
Australian Stock Exchange  
10<sup>th</sup> floor, 20 Bond Street  
Sydney NSW 2000

**QUARTERLY ACTIVITIES AND CASHFLOW REPORT  
DECEMBER 31, 2010**

Please find attached the Quarterly Activities Report and Appendix 5B Quarterly Cashflow Report for the quarter ended December 31, 2010.

Yours sincerely,

A handwritten signature in black ink that reads "Mike Krzus".

**MIKE KRZUS**  
Chief Executive Officer  
[mkrzus@emeraldoilandgas.com](mailto:mkrzus@emeraldoilandgas.com)

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## ASX Release

31 January 2011

### EMERALD OIL & GAS NL

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#### Directors/Officers:

Jeremy Shervington - Chairman  
Mike Krzus – Managing Director  
John Hannaford – Director

#### Issued Capital (31 Jan 11):

270,303,764	Shares (EMR)
78,750,000	Listed options (EMRO)
18,661,115	Unlisted options

#### Market Capitalisation:

Undiluted \$6.2m (@ 2.3 cents)

#### Cash on hand 31.12.10

\$1.5m

#### ASX Codes:

EMR, EMRO

## QUARTERLY ACTIVITIES REPORT FOR THREE MONTHS ENDED 31 DECEMBER 2010

### Highlights

#### USA

##### ❖ *NW Alice Project, Jim Wells County, Texas.*

- Lake Alice Gas Unit #1 well drilled in December
- Assessing production potential of Hockley sands

##### ❖ *Appalachian Basin Gas Development Projects, Magoffin County, Kentucky*

- Initial gas Beetree Project production up to 180Mcf/d from single well
- Awaiting hookup of additional wells and compression

#### AUSTRALIA

##### ❖ *Canning Basin, WA*

- Seeking farm-in partner for 100% exploration permits

#### CORPORATE

- Director Bob Berven retired from EMR Board of Directors

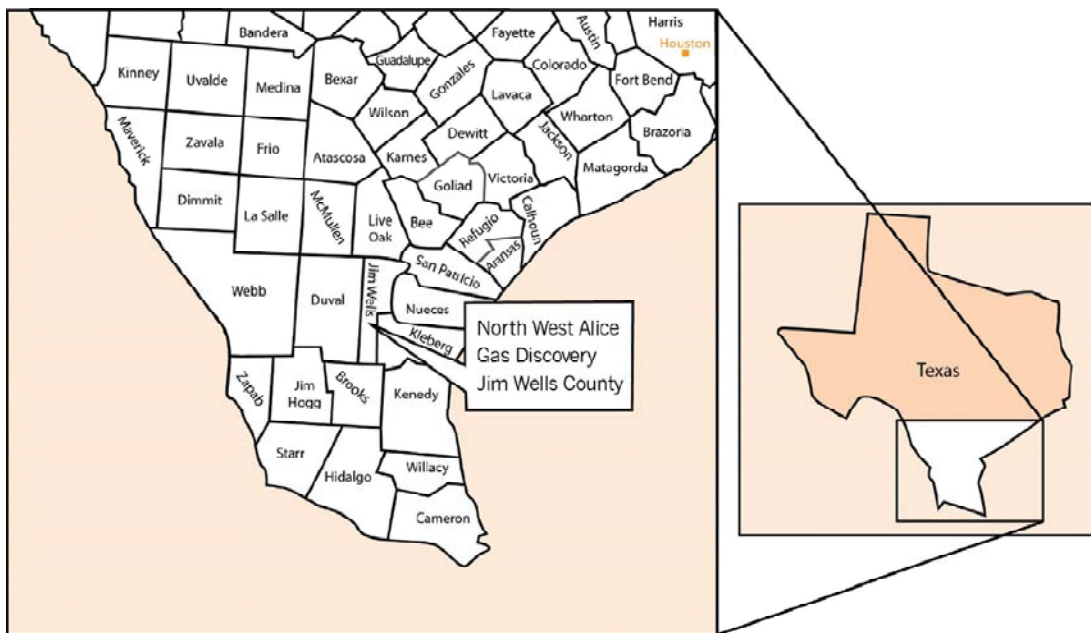
# USA Projects

## North West Alice, Jim Wells County, Texas

(Emerald 35% Working Interest; Operator: OSO Exploration)

### Highlights

- ❖ Lake Alice Gas Unit #1 well drilled to 8,300 feet TD
- ❖ Yegua sands (primary target) found to be tight
- ❖ Currently assessing Hockley Sands for potential oil/gas production



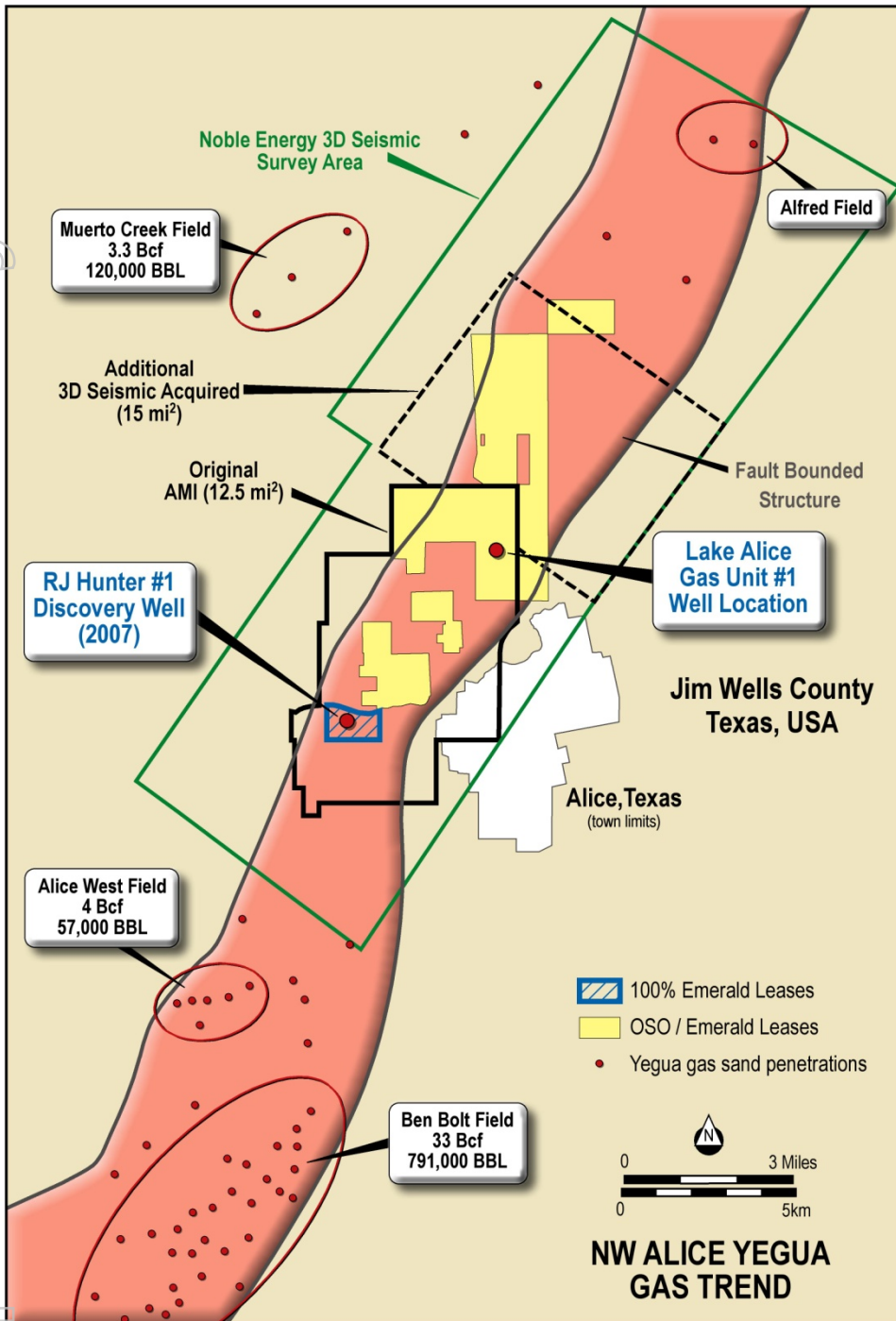
### Project location Jim Wells County, South Texas

#### Lake Alice Gas Unit #1 Well

Lake Alice Gas Unit #1 spudded 15 November and was drilled trouble free to TD of 8300 feet on December 7, 2010. Operations were trouble free, with no environmental incidents. Strong gas shows were recorded in the Hockley sands in the intermediate hole section and these sands are believed to be potentially productive. Gas shows were apparent in the target Yegua sands and log data suggested several feet of net pay. However, sidewall cores subsequently indicated anomalously tight sands unlikely to flow at commercial rates.

The well was plugged back to the intermediate casing and the Hockley sands were subsequently perforated for testing. Cement bond logs indicated a poor cement job and heavy mud trapped behind casing due to a poor cement job entered the well during cleanup flow, plugging the bottom of the tubing string. An attempt was made to circulate the well clean with a coiled tubing unit, but pressure data suggests this was not successful and that the well had plugged itself off again. Initial gas influx after perforation suggests the well may be capable of economic production and Operator recommendation on further well operations is expected shortly.

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**NW Alice project area, current lease holdings and 3D survey area.**

Emerald holds a 35% Working Interest in approximately 3700 acres of oil and gas leases and 27 square miles of high quality 3D seismic data over the gas bearing NW Alice structure near the town of Alice in Jim Wells County, Texas.

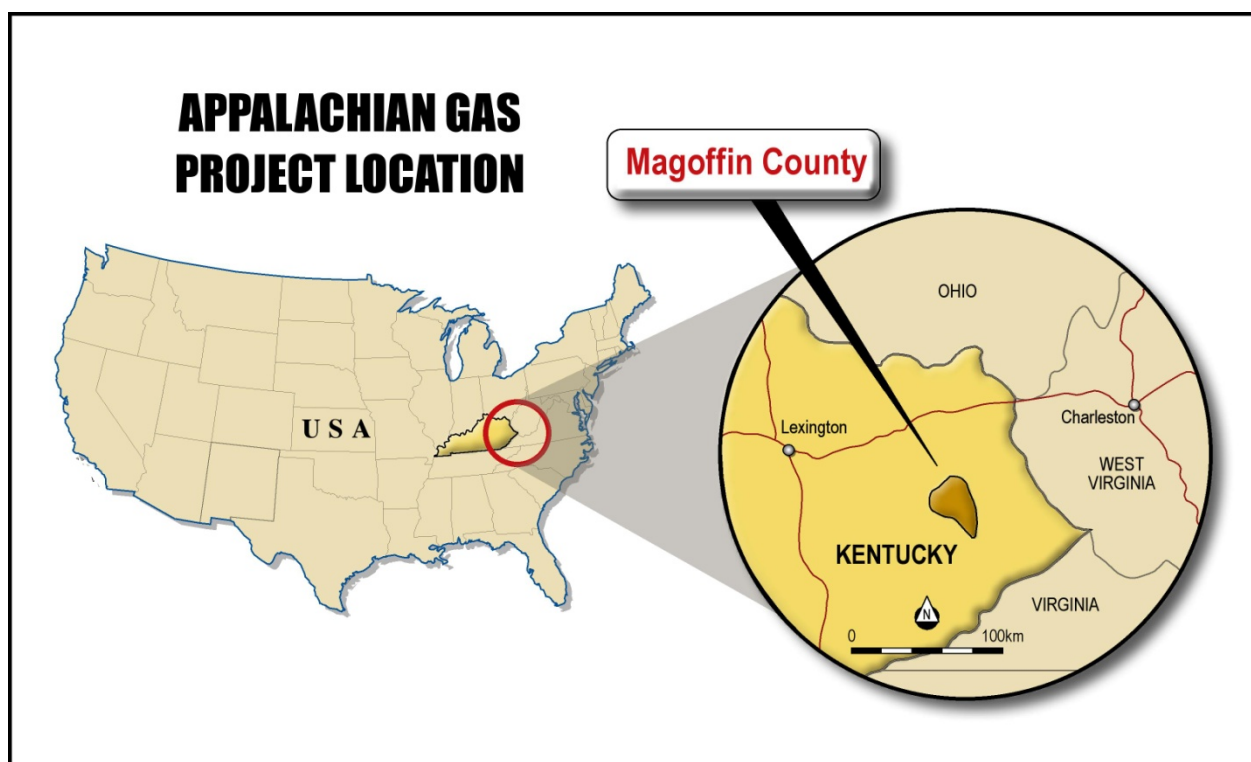
## Appalachian Gas - Magoffin County, Kentucky

*Emerald 75% Equity Interest in Kentucky Energy Partners LLC)*

### Highlights:

- ❖ Initial gas production from Beetree project of up to 180 Mcfd from one well
- ❖ Production expected to increase to 500+MCFD after second well hooked up and compressor commissioned
- ❖ Additional wells identified for testing, possible acquisition and tie-in
- ❖ Negotiating to secure access to sour gas processing facilities to capture sour gas potential

### LOCATION



In November 2009, Emerald formed Kentucky Energy Partners (KEP) with Slone Production LLC. Emerald holds a 75% interest, with Slone owning the remaining 25% in KEP. To date KEP has secured approximately 2000 acres of leases, containing 14 potentially productive existing gas wells in Magoffin County, Kentucky.

Gas from most of the existing wells in the area contains varying levels of Hydrogen Sulphide ( $H_2S$ ), which must be removed prior to sale. Where  $H_2S$  levels are low, the  $H_2S$  can be economically removed from gas with dry chemical scrubbers at the well site (sweet gas). Gas with higher  $H_2S$  which cannot be produced economically with wellhead treatment (sour gas), requires a gas processing plant to remove the sulphur compounds including  $H_2S$ .

Another local operator is in the process of commissioning a sour gas plant and gas gathering pipeline system, and negotiations are underway to secure gas transportation, processing and sales terms for KEP gas through these facilities. KEP's strong competitive operating position in the area enables it to unlock the sour gas potential.



### **Beetree Project**

The Beetree Project, consists of a new 10 km gathering line and a new sales gas pipeline tap and several existing sweet gas wells.

Construction was completed and initial production established at end October with production from one well. Production rates as high as 180 Mcfd have been obtained to date and this is expected to increase to over 500Mcf/d after a second well is hooked up and compression is commissioned. Timing for this is dependent on weather, with wet winter conditions constraining field activity.

#### ***Beetree pipelining operations***

**NOXXE LLC, Harris County and Galveston County, Texas**  
(Emerald 31.5% Equity Interest)

Emerald is still pursuing its lawsuit against NOXXE.

## **Australian Projects**

**EP104/R1, Canning Basin WA**  
(Emerald 12.75% Working Interest; Operator: Buru Energy Ltd)

In November, Buru Energy conducted coiled tubing well operations on Stokes Bay #1 to obtain reservoir fluid samples. The well recovered salt water with no hydrocarbons.

Emerald elected not to participate in this well operation, but retained its rights to the well and EP104/R1.

### **Production Licence L15, Canning Basin WA**

(Emerald option to acquire 12.75% Working Interest; Operator: Buru Energy Ltd)

Emerald holds an option to farm in to the West Kora Production Licence L15 (two rectangular blocks, 6054 and 6126 containing the West Kora-1 oil discovery) by paying 13% of West Kora #1 work over costs to earn a 12.75% WI.

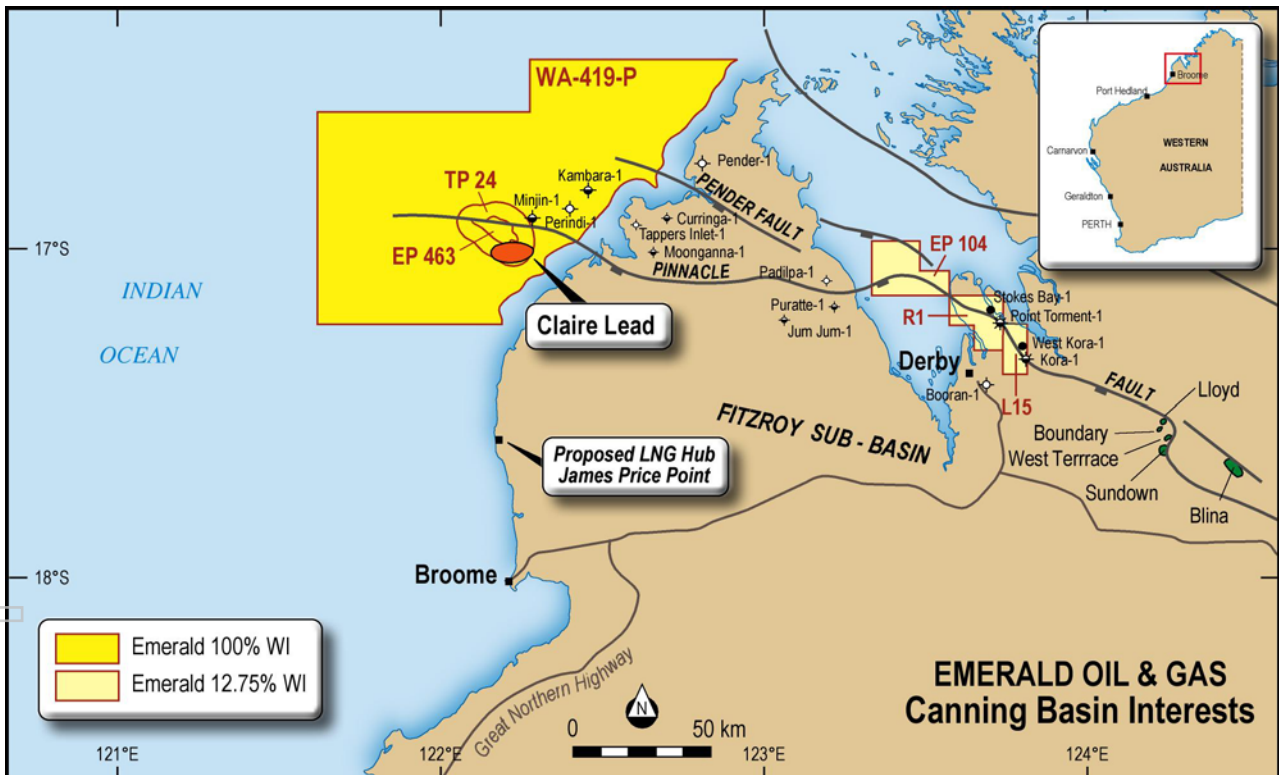
West Kora-1 was drilled in 1984 in EP 104 by Esso Australia and had oil in the Anderson Formation. Approximately 20,000 barrels of oil were produced before the well was shut in due to increasing water cut.

Emerald is currently awaiting advice from Buru regarding the activity plans to re-establish oil production from West Kora #1.

### **EP463 & TP24 (Lacepede Islands) AND WA-419-P (Offshore) Canning Basin, WA**

(Emerald 100% Working interest, Operator)

Seismic feasibility studies were completed and Emerald is now seeking to farm out a portion its 100% interest in the Claire lead and permit areas in anticipation of new seismic acquisition in 2011.



**Exploration Permit/Retention  
Licence/Applications****Emerald Net  
Working Interest****Permit Size  
(approx sq km)**

EP 104	12.75%	500
Retention Lease R1	12.75%	300
Production Licence L98-1 (option)	12.75%	200
EP463	100%	200
TP24	100%	400
WA-419-P	100%	8,000
Total		<b>9,600</b>

## Corporate

At 31 December 2010 the Group had \$1.5m cash on hand.

The Group is currently reviewing a number of substantial oil and gas opportunities.

Bob Berven retired from the Board of Directors effective 31 December, 2010.

The Company made the following announcements during the quarter and up to the date of this quarterly report:

Date	Headline
4/01/2011	Director Resignation - Appendix 3Z
31/12/2010	Securities Trading Policy
22/12/2010	Well Update - Lake Alice Gas Unit 1 Well (NW Alice)
14/12/2010	Well Update - Lake Alice Gas Unit 2 Well, NW Alice Project
6/12/2010	Drilling Update - Lake Alice Gas Unit 2 Well
2/12/2010	Drilling Update 2 - Lake Alice Gas Unit 1 Well (NW Alice)
25/11/2010	Results of Meeting
25/11/2010	Drilling Update - Lake Alice Gas Unit 1 Well (NW Alice)
16/11/2010	Drilling Commences on Lake Alice Gas Unit No.1 Well
15/11/2010	PCL: Stokes Bay testing
4/11/2010	Initial Appalachian Gas Production - Beetree Project
29/10/2010	Quarterly Activities and Cash Flow Report
22/10/2010	EGO: Further Testing of Stokes Bay-1 Well/R1 Canning Basin WA
22/10/2010	BRU: Further Testing of the Stokes Bay-1 Well
12/10/2010	Notice of Annual General Meeting/Proxy Form



For more information please contact:

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**MIKE KRZUS**

**Managing Director**

[mkrzus@emeraldoilandgas.com](mailto:mkrzus@emeraldoilandgas.com)

**About Emerald Oil & Gas NL**

Emerald Oil & Gas NL (ASX: EMR) was listed on the ASX in June 2006. Emerald is an oil and gas exploration and production company with project interests in Kentucky and Texas in the USA and in the Canning Basin of Western Australia.

*Statements regarding Emerald's plans with respect to its petroleum properties are forward-looking statements. There can be no assurance that Emerald's plans for development of its petroleum properties will proceed as currently expected. There can be no assurance that Emerald will be able to confirm the presence of additional petroleum deposits, that any discovery will prove to be economic or that an oil or gas field will successfully be developed on any of Emerald's petroleum properties.*

## Appendix 5B

### Mining exploration entity quarterly report

Name of entity

Emerald Oil & Gas NL

ABN

009 795 046

Quarter ended ("current quarter")

31 December 2010

#### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>		Current quarter \$A'000	Year to date (6 months) \$A'000
1.1	Receipts from product sales and related debtors	5	113
1.2	Payments for:		
	(a) exploration and evaluation	(547)	(779)
	(b) development	(195)	(195)
	(c) production	(3)	(12)
	(d) administration	(421)	(934)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	10	12
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)		
	- R&D rebate	-	18
	- US legal expenses	(126)	(126)
	<b>Net Operating Cash Flows</b>	<b>(1,277)</b>	<b>(1,903)</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)		
	Unsolicited return of NOXXE equity contributions	-	633
	<b>Net investing cash flows</b>	<b>-</b>	<b>633</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(1,277)</b>	<b>(1,270)</b>

1.13	Total operating and investing cash flows (brought forward)	(1,277)	(1,270)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	2,750
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other - Capital Raising Costs	(1)	(191)
1.20	Other - Subscriptions received		
	<b>Net financing cash flows</b>	(1)	2,559
	<b>Net increase (decrease) in cash held</b>	(1,278)	1,289
1.20	Cash at beginning of quarter/year to date	2,739	172
1.21	Exchange rate adjustments to item 1.20	(26)	(26)
1.22	<b>Cash at end of quarter</b>	1,435	1,435

**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	167
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

The amount above includes payments to directors and to companies associated with John Hannaford and Jeremy Shervington for this quarter and previous quarters.

The payments to Ventnor Capital, accompany associated with John Hannaford relate to the provision of consulting fees, company secretarial services, accounting and bookkeeping, secretarial services and the provision serviced offices on commercial terms.

The payments to Jeremy Shervington Legal Practice relate to the provision of legal services on commercial terms.

**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

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N/A
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### 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	100
4.2 Development	50
4.3 Production	50
4.4 Administration	200
<b>Total</b>	<b>400</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	1,452	2,724
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,452</b>	<b>2,724</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 (cents)	Amount paid up per security (cents)
7.1 <b>Preference + securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+ Ordinary securities</b>	270,303,764	270,303,764		
7.4 Changes during quarter (a) Increases through issues (b) Increases through conversion of options (c) Release from escrow (d) Decreases through returns of capital, buy-backs				
7.5 <b>+ Convertible debt securities</b> <i>(description)</i>	-	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	-	-		
7.7 <b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	661,638	-	17.68 cents	23/01/11
	2,000,000	-	25 cents	31/05/11
	5,000,000	-	10 cents	31/03/14
	11,661,115	-	10 cents	30/06/12
	78,750,000	78,750,000	5 cents	31/08/12
7.8 Issued during quarter				
7.9 Exercised during quarter	-	-		
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-	-		

**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 ~~not~~\* give a true and fair view of the matters disclosed.



Sign here:

Date: 31 January 2011

(Director)

Print name: Mike Krzus

**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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Cash Flow Statements* 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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