

U-Gas News Report

Unconventional Gas Activities in the World

www.cedigaz.org

Published by Cedigaz

Edited by Thierry Rouaud

N° 26 — March 2009

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COALBED METHANE & COAL SEAM GAS

EXPLORATION DISCOVERIES

CHINA : Far East Energy and Arrow Energy in partnership to develop CBM resources in the Shanxi province — UG26-1

Far East Energy Corporation announced recently the formation of a strategic alliance with Arrow Energy International Pte Ltd. As part of the strategic alliance, under a farm-out agreement, Arrow will pay Far East US \$8 million in cash, and Far East will assign to Arrow a 75.25% share of Far East's participating interest in the Qinnan Production Sharing Contract to develop

CBM resources in the Shanxi province of China. The farm-out agreement is subject to certain conditions precedent, including approval by appropriate Chinese authorities. Far East and Arrow believe this work program will accelerate the parties' understanding of the potential of the Qinnan Block. (Far East Energy press release, March 16, 2009)

INDONESIA : CBM Asia starts study on CBM Kutai block — UG26-2

CBM Asia Development Corp. announced recently that the company, along with its joint venture partners in Indonesia, PT Ephindo, is commencing an internal study of its Kutai coalbed methane block. The company intends to submit this study to the Government of Indonesia as part of its application for a production sharing contract on the Kutai Block. (Marketwire, March 20, 2009)

PRODUCTION

AUSTRALIA : Coal seam gas production increased by 39% in 2008 — UG26-3

The Australian Petroleum Production & Exploration Association announced recently that Australian production of coal-seam gas surged 39 percent in 2008 to a record and now represents more than 13 percent of gas supply in the country. Output of gas extracted from coal seams rose to 142.9 billion cubic feet in 2008 up from 102.7 billion in 2007. Origin Energy Ltd., Santos Ltd. and Arrow Energy Ltd. were among Australian coal-seam gas producers that boosted output in 2008 to meet rising demand from power generators. BG Group Plc, Malaysia's Petroliam Nasional Bhd. And ConocoPhillips all bought stakes in coal-seam gas ventures in Queensland. Australia's reserves of coal-seam gas have more than doubled in the past 12 months to 17.451 petajoules, or 16.5 trillion cubic feet, EnergyQuest said in a separate report. There has been massive growth in coal-seam gas proven and probable reserves in recent years, while reserves of conventional gas in eastern Australia have declined, EnergyQuest said. BG is the biggest holder of coal-seam gas reserves in Australia, followed by Origin Energy, ConocoPhillips and Santos, it said. Production of conventional gas for sale into the Australian market rose 3.4 percent in 2008 to 917 billion cubic feet, while liquefied natural gas output advanced 3.7 percent to 15.7 million metric tons. (Bloomberg, March 20, 2009)

UNITED STATES : GST-WellDog completes CBM best practices study — UG26-4

GST-WellDog announced recently that it has completed a study establishing best practices for improving multizone completion success in coalbed methane wells. The study demonstrated how technical evaluation of coalbed production potential can be used to produce more gas and less water from multizone wells.

John M. Pope, president & CEO of GST-WellDog said "Our testing revealed a surprising result: the shallower coals in this area hold more gas and less water. Clearly, with seam-by-seam testing it is possible to improve the water-gas production ratio for multizone wells and increase operator profit". (Marketwire, March 17, 2009)

A summary of the study is available at:

http://www.welldog.com/GST-WellDog_case-study_o8o3.pdf.

RESERVES

CANADA : Canada Energy Partners increases reserves and resources on Peace River CBM Project — UG26-5

Canada Energy Partners Inc. announced recently a significant increase in its reserves and contingent resources on the Peace River coalbed methane project. The reserves and resources data is based upon an independent reserve assessment and evaluation prepared as of February 28, 2009 by Netherland, Sewell & Associates, Inc. an independent reservoir engineering firm. Total gas-in-place for the Project has increased to 1.466 trillion cubic feet in the coal formations. This represents a 34.9% increase in gas-in-place over the 1.072 Tcf reported in the July 2007 NSA report and is attributed to land acquisitions and larger

quantities of coal encountered during recent drilling activities.

Recoverable gas from the Project is estimated at 733.1 billion cubic feet, including proved, probable, possible and contingent resource. This is 36.7% higher than the 536.3 Bcf estimate of ultimate recoverable gas in the July 2007 NSA report. The total estimated remaining recoverable gas reserves and remaining contingent gas resources net to the company are 262.2 Bcf, including 0.3 Bcf proved developed producing reserves, 12.1 Bcf probable reserves, 41.5 Bcf possible reserves and 208.3 Bcf contingent resources. (Oilvoice, March 14, 2009)

FRANCE : European Gas reports increased reserves of Gazonor project — UG26-6

European Gas Limited announced recently that it has completed the Contingent Resources assessment for the recently granted Poissonnière Extension production permit located in northern France. The production permit area covers 188 square kilometres of the Nord Pas de Calais Basin at the company's 100% owned Gazonor Project.

The production permit includes the exclusive rights to produce all hydrocarbons including coal bed and coal mine methane. The granting forms an extension to the Company's Poissonnière production permit, is valid until December

2017 and is renewable. The initial Contingent Resource (C₁+C₂+C₃) estimates for the Poissonnière Extension are 95 Bcm. The initial estimates were conducted by the European Gas technical group under Society of Petroleum Engineers and Petroleum Resource Management System guidelines.

Total Contingent Resources for the Gazonor project are now expanded by 70% and are: Gazonor 1P 1.3 Bcm, Gazonor 2P 3.7 Bcm, Gazonor 3P 10.1 Bcm. Gazonor Contingent Resources (C₁+C₂+C₃) are: Poissonnière 122 Bcm, Poissonnière Extension 95 Bcm and Desirée 14 Bcm (European Gas press release, March 4, 2009)

COMPANIES

AUSTRALIA : BG becomes major shareholder of Pure Energy — UG26-7

BG Group acquired recently majority control of Pure Energy Resources, raising its stake in the coal seam gas producer to 70pc. Rival bidder Arrow Energy holds about 20pc of Pure and hasn't said whether it will

sell its stake into BG's bid. BG, along with Shell, Arrow and others, is planning to build one of five liquefied natural gas processing plants at Gladstone in Queensland State. (The Telegraph, March 23, 2009)

SHALE GAS

EXPLORATION - DISCOVERIES

UNITED STATES : Mainland Resources reports shale gas flow at the Griffith II #1 well — UG26-8

Mainland Resources, Inc. reported recently that the Griffith II #1 well, located in the Haynesville shale, was completed and brought online in January 2009. The company believes that the recoverable reserves for the Griffith well may ultimately be from 7.5 Bcf to 15.81 Bcf. The 15.81 Bcf rate was determined by a reserve report for the Griffith #1 done by T.W.

McQuire & Associates, Inc., prepared pursuant to U.S. Securities legislation. The ultimate recovery was determined by using a type curve that uses 80% decline for the first year, followed by 30% decline for the second year, 15% decline for the third year, and then a 10% decline over the remaining expected life of the well. (Oilonline, March 16, 2009)

PRODUCTION

UNITED STATES : Barnett Shale gathering system near to be completed — UG26-9

Barry Davis, president of Crosstex Energy said recently that Barnett Shale's producers will still need to build gathering systems, to carry gas from their wells to processing plants. But "probably 80 or 90 percent of the capital spending" on big transmission lines to distant trading hubs has been done, he said. Davis estimated that the Barnett Shale's takeaway stands at 5.5 billion to 6 billion cubic feet a day. That's compared with producers' and analysts' estimates of

4.6 to 5 Bcf a day at year's end. Today's expected peak is far short of early predictions that the field could grow to 8 or 9 Bcf a day, Davis said. In retrospect, he said, the flattening of the Barnett's production rate will probably result in a more effective use of those pipelines. "So now the Barnett gets to 4.5 or 5 billion Bcf," he said, and as drilling stabilizes, "it just stays there forever". (Fort Worth Star-Telegram, March 6, 2009)

UNITED STATES : Current gas price lower than shale gas production cost — UG26-10

Recent reports indicated that drilling activity in the Barnett, Haynesville, Marcellus, and Fayetteville Shales gas plays has seen huge declines in recent months. Wells will may not be able to sustain production at prices below breakeven for long. Production costs in most of these plays exceed the current \$4/MMBtu market price. Most operators require at least \$5-\$6/MMBtu as a minimum to maintain profitable production. A \$7-\$10/MMBtu price should be a policy objective that keeps the domestic industry healthy and contributes to further exploration and US energy independence. According to Lokke Advertising, CEO, Don Lokke, Jr. "Natural gas, locally produced, is critical to energy independence and local economies.

Cities and utilities need to embrace the economies of local energy independence. Cities and consumers need to start thinking on a local or regional basis with regard to natural gas consumption. It is most economical when produced and used locally”. (Oilonline, March 16, 2009)

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