



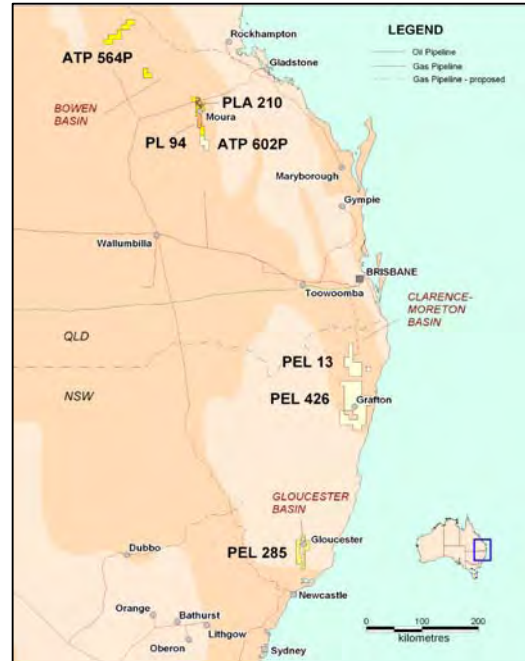
## Quarterly Report

December 2008

### Highlights

- As a preliminary indication Molopo estimates that its unaudited first half net profit before tax for FY09 is likely to be in the range of \$90-\$100m due to the sale of the Gloucester Project.
- Sale of Gloucester Project (PEL 285) to AGL for \$111m cash.
- Second Queensland production well brought on-line.
- Exploration drilling commences in South Africa.
- Quebec shale gas play expanding in scope and potential for Molopo.
- Clarence Moreton commitment well drilled with small gas discovery.
- China Project pilot expansion to 5 wells.

### Molopo's Australian Permits



### About Molopo Australia

Molopo Australia Limited is an Australian based gas producer with a diversified portfolio of large scale gas projects in Australia, Canada, China, South Africa and the USA.

The Company has built a portfolio of gas projects where substantial gas accumulations have been identified. Molopo's portfolio now includes the following:

#### Australia

##### Queensland:

- PL94 – Mungi Gas Field
- PLA210 – Harcourt
- ATP602P - Timmy
- ATP564P – Lilyvale & Oak Park

##### New South Wales:

- PEL 13 & 426 – Clarence Moreton Basin

#### International

- Canada - Quebec
- China - Liulin, Shanxi Province
- USA - Mason County, West Virginia
- South Africa - Evander & Virginia

Currently the main focus of Molopo is the development of additional production, reserves and cash flow from its Queensland assets, proving reserves in China, assessing short-term cash flow possibilities from gas production in South Africa, and assessing production possibilities for its shale gas projects in the US and Canada.

|                      |                |
|----------------------|----------------|
| ASX Code:            | MPO            |
| Share Price:         | A\$0.66        |
| Market Cap @ \$0.66: | \$121 million  |
| Cash Reserves:       | \$ 120 million |
| Debt Free            |                |

## PROJECT REVIEW

### GLOUCESTER BASIN, NSW PEL 285 (30% INTEREST SOLD)

In the latter half of 2008, Molopo adopted a strategy that would make the Company independent of financial markets and the need to raise capital in the period ahead by bolstering Molopo's cash position and reducing the number of core projects to three (with the consequent reduction in spending commitments).

A key component of that strategy was the sale of Molopo's 30% interest in the Gloucester Basin project. The sale process resulted in the sale of Molopo's interest to AGL for \$111 million in cash. The sale not only strengthens Molopo's cash position, but it also allows the Company to focus its technical, managerial and financial resources on its core projects in which it has operational control and a 50% interest or greater, namely Queensland, Canada and South Africa.

### MUNGI GAS FIELD, BOWEN BASIN, QUEENSLAND - PL94 (50% INTEREST NORTHERN PORTION)

During the Quarter Molopo announced the completion of the first triple seam dual lateral trial well in Australia. A total of approximately 2900 m of net coal was completed in six laterals from 2 surface locations involving 3 seams. The well was completed and tied-in to the sales system with dewatering underway by the end of the Quarter. Mungi-22 was also returned to its dewatering schedule following a workover to investigate a blocked lateral. At the time of reporting both wells had commenced gas flow and were gradually increasing in gas rate as dewatering continued. Pressures are being decreased gradually due to issues associated with the generation of coal fines and temporary blockage of the pumps.

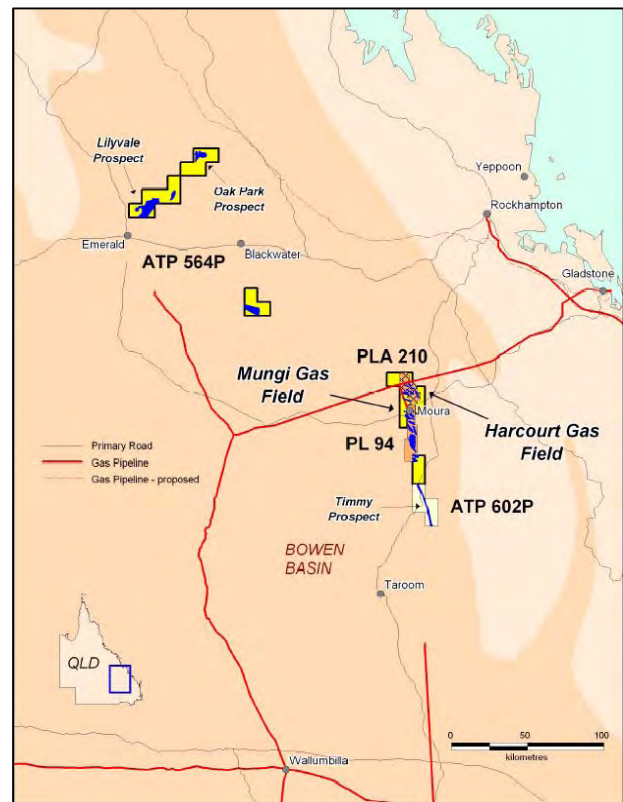
The next well in the three well programme, will re-use the existing initial Mungi-20 vertical well. The radius bends for this well are already completed. The in-seam laterals of 1000 m and greater will be drilled by a new rig Molopo has commissioned for use at Mungi. Delivery of the new rig out of the US was delayed until January, due to weather delays related to Hurricane Ike impacting Galveston in Texas.

Another of the Molopo sole risk wells in the field

has also been re-configured as a medium radius drilling target well with under-reaming of the target seams partially completed with the old rig.

A sole risk seismic exploration programme was undertaken during the Quarter to provide structural control for existing planned production wells and potential future producers.

### Queensland Permits



Molopo's share of production (excluding compressor gas consumption) and gas sales from the Mungi Field for the Quarter were approximately 61.02TJ and \$120,897 respectively.

During the Quarter Molopo extended its Mungi gas sales contract with Dawson Sales P/L (a company owned by Anglo Coal (Dawson) Limited and Mitsui Moura Investment Pty Ltd) for a further year. The gas sales agreement continues to provide for the sale of up to 6 TJ/d on an as available basis. Molopo has also signed a long-term agreement for the supply of 0.3TJ/day of gas to Qenergy Pty Ltd, a licensed electricity retailer in Queensland, for the first stage of its new power station in the Bowen Basin.

## HARCOURT/BINDAREE GAS PROSPECTS, PLA210/ATP564P (50% INTEREST), BOWEN BASIN, QUEENSLAND

During the Quarter Molopo completed a seismic acquisition programme in Harcourt South on behalf of the JV, this was conducted as an adjunct to its sole risk seismic acquisition at Mungi.

PLA210 was re-submitted under the new petroleum regulations in Queensland and was accepted as a valid application by the Government. The revised application area covers the Harcourt South area. During the Quarter discussions continued with the coal company interested in developing an underground mine at Harcourt South on a potential cooperation and co-development agreement.

## TIMMY GAS PROSPECT, ATP602P (50% INTEREST), BOWEN BASIN, QUEENSLAND

No work was carried out during the Quarter.

## LILYVALE/OAK PARK PROSPECT, ATP564P (50% INTEREST), BOWEN BASIN, QUEENSLAND

During the Quarter co-development discussions commenced with a coal company interested in developing an underground mine over part of the area. A production license application (PLA) has been accepted for the Oak Park area as PLA296.

## CLARENCE –MORETON BASIN, NSW PEL 426 (43-46% INTEREST)

As part of its farm-in obligations, Metgasco commenced an exploration well (Orara-E1) targeting both the CBM and conventional potential in PEL 426.

The well reached TD early in the new year and encountered some gas shows while drilling that subsequently commenced producing gas at rates of up to 155 Mscfd and declined to rates between 75 and 100 Mscfd in two tests over periods of 1 hour.

Further evaluation of the implications of the gas discovery are underway at the time of reporting.

Molopo elected to undertake a small dilution of its equity interest as a consequence of the drilling of this well, the exact level of dilution will depend on the final well costs. Preliminary estimates indicate that Molopo's interest is likely to reduce from 50% to between 43% and 46% subject to finalisation of an agreement between the joint venture participants.

## Clarence Moreton Basin



## PEL 13 (INTEREST: 25% OF CBM AND 50% OF CONVENTIONAL)

During the Quarter interpretation of the recently acquired 2D seismic programme in PEL 13 was completed. A commitment well is due to be drilled by the second quarter 2009.

## SOUTH AFRICA (100% INTEREST)

During the Quarter exploration drilling commenced in the Virginia Project with a three well programme. The surface hole and intermediate casing sections were completed prior to the Christmas period. Drilling of the lower Karoo and top Wits/Ventersdorp target sequences re-commenced in mid January. The three wells are located in the Sand River play area and are expected to provide modern logs, core and petroleum systems delineation of the

area that has already demonstrated long term gas flow from old minerals core holes.

Pilot testing of the 10 minerals core wells emitting gas continued during the Quarter with production steady at slightly more than 1 MMscf/d. No obvious decline has been observed on these wells over the last 12 months. Gas quality testing has continued at Virginia and has commenced in the Evander Project area.

Activities around commercialisation of the Virginia Field continue with electricity generation, CNG and LNG being evaluated. A proposal to supply initial production gas to local mines for use in Power Generation was under discussion with interested parties. A detailed FEED process commenced as part of the gas commercialisation and sales focus. A carbon credits application is also underway

During the Quarter discussions commenced on expressions of interest for farming into the South African projects and will be conducted as part of ongoing Black Economic Empowerment (BEE) considerations.

### CANADA, QUEBEC SHALE GAS (100% WORKING INTEREST, 80.0-87.5% NRI)

During the Quarter Molopo acquired approximately 100 km of new seismic data in the Richelieu Area in support of its planned exploration drilling activities in 2009.

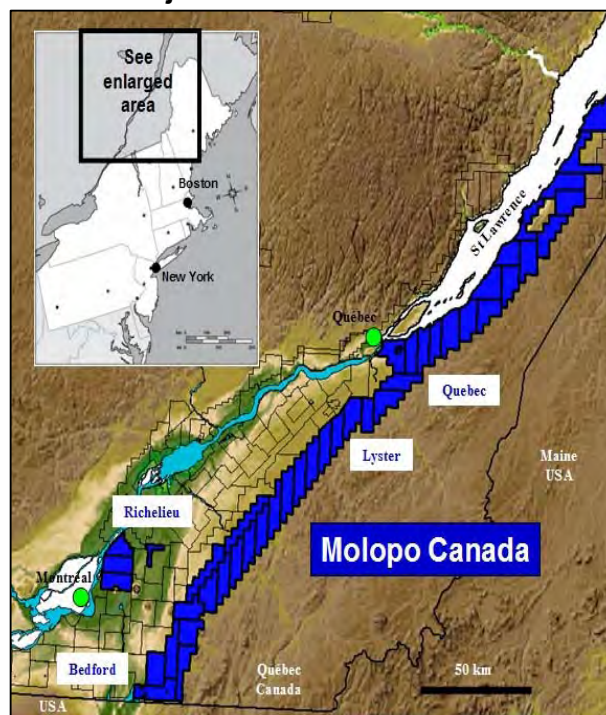
The seismic data quality was particularly good and a significant improvement on previous vintage of seismic acquisition.

A positive view of the overall Quebec shale play was presented by a number of companies and investment groups at the annual Quebec Minerals and Resources Conference in late November. The shale play is now recognised to extend well beyond the Yamaska Fault to Logans Line corridor comprising 3-4 different play areas and covering a significant portion of the 2.1 million acres acreage position held by Molopo.

The thermogenic gas model is being extended to cover the shallow as well as deep acreage and early gas quality analysis results have been published by Junex confirming low inerts and pipeline quality gas with 65-70% methane and

30-33% higher hydrocarbons (ethane, propane, butane etc).

### Quebec Project Area



Two farm-out deals have been announced in the last three months, these relate to acreage adjacent to Molopo's Richelieu, Bedford & Drummondville prospect areas. The deals' value metrics equate to US\$500-1000 per acre, depending on cost assumptions, with approximately 1/3 of the deal value payable in cash. Molopo has identified approximately 150,000 acres of core acreage in these areas and holds a total of 783,000 acres in the areas adjacent to the focus of the farm-in deals.

### CHINA – LIULIN PROJECT, SHANXI PROVINCE (34.3% GROSS, 17.15% NET)

During the Quarter two existing pilot wells were re-fractured on the seam 3/4/5 interval and two additional pilot producers were also completed on these seams and the deeper seam 8/9 interval. Dewatering of the new completions has commenced with gas desorption now underway with modest but gradually increasing levels of gas production being observed from the re-configured wells.

The remaining pilot well (LW-L3) suffered a number of pump failure related issues which have now been resolved and de-watering has

recommenced with gas rates starting to build back towards the previous peak rate.

### USA – MASON COUNTY, WEST VIRGINIA (50% INTEREST)

No field work was undertaken during the Quarter.

## CORPORATE

Last December Molopo announced the execution and subsequent completion of the sale of its 30% non-operating interest in PEL 285 (Gloucester Basin) to AGL Energy for \$111million in cash. The transaction was part of a sale of the entire Gloucester Basin project by the joint venture participants for \$370million in cash.

At the end of the Quarter Molopo had approximately \$120m cash reserves and no debt. Molopo highlights that its cash position is likely to materially reduce with the tax payable on the gain on sale of its Gloucester asset. Molopo estimates that up until the end of the 2008 financial year it has tax losses available of approximately \$35m. Additional losses may also be available for the current financial year.

## OUTLOOK

Molopo will continue to focus on its Canadian, South African and core Queensland interests. This is reflected in the Company's ongoing assessment of corporate alternatives for Lilyvale / Oak Park (part of ATP 564P, Queensland), Liulin (China), and the permits in the Clarence Moreton Basin (NSW).

Subsequent to Quarter end the Company reduced its interest in Liulin through a reduced interest in the joint venture company, Fortune Liulin Gas Company Limited, to 34.3% (was 40%) as part of the ongoing cash call process for exploration funding.

It is likely that Molopo will realise a significant accounting profit for its interim FY09 result as a consequence of the one-off impacts of the sale of its 30% interest in PEL 285, the Gloucester Project. As a preliminary indication Molopo estimates that its unaudited first half net profit before tax for

FY09 is likely to be in the range of \$90-\$100m. Molopo notes that the actual result could vary from its guidance range due to other factors including asset carrying values, amortisation rates and associated company results.

Yours faithfully,

## MOLOPO AUSTRALIA LIMITED

For further information contact:

|                  |     |                 |
|------------------|-----|-----------------|
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|      |   |         |         |
|------|---|---------|---------|
|      | <b>Cash flows related to financing activities</b> |         |         |
| 1.14 | Net Proceeds from issues of shares, options, etc. | -       | (1)     |
| 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 (provide details if material)               | -       | -       |
|      | <b>Net financing cash flows</b>                   | -       | -       |
|      | <b>Net increase (decrease) in cash held</b>       | 104,864 | 99,725  |
| 1.20 | Cash at beginning of quarter/year to date         | 15,670  | 20,808  |
| 1.21 | Exchange rate adjustments to item 1.20            | 1       | -       |
| 1.22 | Cash at end of quarter                            | 120,534 | 120,534 |

### 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<br>\$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 205                        |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10   | -                          |

1.25 Explanation necessary for an understanding of the transactions

Per 1.23 Payments made to entities associated with a director pursuant to (i) payment of consulting fees, (ii) payment of salaries & director's fees, (iii) an administration contract between Molopo and the related entity, and (iv) rental of offices.

### 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

None

### Non-cash financing and investing activities (continued)

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

None.

## Financing facilities available

Add notes as necessary for an understanding of the position.

|                                 | Amount available<br>\$A'000 | Amount used<br>\$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities             | None                        | None                   |
| 3.2 Credit standby arrangements | None                        | None                   |

## Estimated cash outflows for next quarter

|   | (Not committed) | \$A'000      |
|---|-----------------|--------------|
| 4.1 Exploration and evaluation (excludes JV partner contributions to project) |                 | 2,640        |
| 4.2 Development (excludes JV partner contributions to project)                |                 | 4,908        |
| <b>Total</b>  |                 | <b>7,548</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<br>\$A'000 | Previous quarter<br>\$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank  | 4,555                      | 98                          |
| 5.2 Deposits at call  | 115,654                    | 15,251                      |
| 5.3 Bank overdraft  | -                          | -                           |
| 5.4 Other (security deposit held by bank)   | 325                        | 321                         |
| <b>Total: cash at end of quarter (item 1.22)</b>  | <b>120,534</b>             | <b>15,670</b>               |

## Changes in interests in leases

|  | Tenement reference          | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|--|-----------------------------|-------------------------------|----------------------------------|----------------------------|
| 6.1 Interests in mining leases relinquished, reduced or lapsed | Gloucester Basin<br>PEL 285 | Direct                        | 30%                              | 0%                         |
| 6.2 Interests in mining leases acquired or increased           | NONE                        |                               |                                  |                            |

## 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><br><i>(description)</i>   |              |               |   |  |
| 7.2 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions |              |               |   |  |
| 7.3 | <b>+Ordinary securities *</b><br><b>(fully paid)</b>   |              |               |   |  |
|     | MPO  | 182,850,415  | 182,850,415   | -   | -  |
| 7.4 | Changes during quarter<br>(a) Increases through issues<br><br>(b) Decreases  | -            | -             | -   | -  |
| 7.5 | <b>+Convertible debt securities</b><br><i>(description)</i>  |              |               |   |  |
| 7.6 | Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted              |              |               |   |  |

## 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) |
|--|--------------|---------------|---|--|
| 7.7 Options                              |              |               | <i>Exercise price</i>                         | <i>Expiry date</i>                               |
| <b>(Unlisted mgmt incentive options)</b> |              |               |   |  |
| MPOAI                                    | 300,000      | -             | \$0.250                                       | 06 Nov 2009                                      |
| MPOAQ                                    | 400,000      | -             | \$0.250                                       | 29 Apr 2010                                      |
| MPOAS                                    | 500,000      | -             | \$0.375                                       | 14 Aug 2010                                      |
| MPOAU                                    | 50,000       | -             | \$0.550                                       | 14 Aug 2010                                      |
| MPOAO                                    | 400,000      | -             | \$0.250                                       | 30 Aug 2010                                      |
| MPOAO                                    | 400,000      | -             | \$0.375                                       | 30 Aug 2010                                      |
| MPOAM                                    | 100,000      | -             | \$0.375                                       | 10 Jul 2011                                      |
| MPOAK                                    | 300,000      | -             | \$0.375                                       | 6 Nov 2011                                       |
| MPOAY                                    | 50,000       | -             | \$1.25  | 20 Dec 2010                                      |
| MPOAZ                                    | 300,000      | -             | \$1.25  | 21 Jan 2011                                      |
| MPOAA                                    | 200,000      | -             | \$1.50  | 15 Jul 2010                                      |
| MPOAB                                    | 420,000      | -             | \$1.25  | 21 April 2011                                    |
| MPOAB                                    | 100,000      | -             | \$1.25  | 02 March 2011                                    |
| MPOAB                                    | 200,000      | -             | \$1.50  | 09 July 2010                                     |
| MPOAB                                    | 50,000       | -             | \$1.25  | 31 March 2011                                    |
| MPOAB                                    | 75,000       | -             | \$1.25  | 10 March 2011                                    |
| MPOAB                                    | 1,708,087*   | -             | \$2.08  | 30 June 2011                                     |
| MPOAB                                    | 800,000      | -             | \$1.88  | 3 July 2011                                      |
|  | 6,353,087    | -             |   |  |
| 7.8 Issued during quarter                |              |               |   |  |
| <b>(Unlisted mgmt incentive options)</b> |              |               |   |  |
|  | -            | -             |   |  |
| 7.9 Exercised during quarter             | -            | -             | -   | -  |

|      |                                  |   |   |   |   |
|------|----------------------------------|---|---|---|---|
| 7.10 | Expired during quarter           | - | - | - | - |
| 7.11 | Debentures<br>(totals only)      |   |   |   |   |
| 7.12 | Unsecured notes<br>(totals only) |   |   |   |   |

\* The September 2008 Appendix 5B stated 1,708,087 options with an exercise price of \$2.08 expiring 30/06/2011 were issued. Of the 1,708,087 options issued, 716,246 were allotted in November 2008.

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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law 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: ..... Dated 30th January 2009  
(CFO / Company Secretary)

Print name: Anthony Bishop

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## 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.