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## Composite Energy: Announcement of Early Acquisition

Global coal seam gas company Dart Energy Limited (ASX: **DTE**) is pleased to announce that it has agreed to acquire the 90% of Composite Energy Limited ("**Composite**") that it does not already own for approximately US\$46.7 million. The consideration will be satisfied by way of issue of approximately 35.9 million new Dart shares to the current shareholders of Composite and the issue of approximately 5.6 million new Dart-J Class options to existing Composite optionholders (largely being Composite employees). The new Dart shares to be issued will represent approximately 6% of Dart's enlarged share capital.

This transaction represents an acceleration and replacement of the previous arrangement entered into in August 2010 whereby Dart had an option to inject US\$5m into Composite in January 2011 for an additional 10% of Composite, and then an option to acquire the remaining 80% of Composite prior to June 2011 for US\$56 million payable in Dart shares, or cash or a mix of both.

Dart's Chief Executive Officer, Mr Simon Potter, in announcing the transaction, said:

*"The move to acquire 100% of Composite is a significant milestone for Dart.*

*Since becoming a 10% shareholder in Composite, we have had an opportunity to undertake a detailed review of Composite's existing assets and in particular the prospects for early commercialisation of the PEDL133 licence in Scotland. We have also been able to work alongside Composite to help them secure two high potential new licences in Poland and to further progress a number of other opportunities in their pipeline across continental Europe.*

*By moving to full ownership of Composite today, we are able to fully avail ourselves of the entry platform into the European CBM and shale gas industry that Composite represents by taking control of and full responsibility for the 2011 work programme.*

*Our immediate near-term focus at Composite in 2011 will be on deploying our technical expertise at PEDL133, where over the last few months we have designed a pilot programme along with an associated gas marketing scheme. We expect drilling to commence in the next six months, and we hope to have PEDL133 pilot gas flowing and commercialised within a year. We also*

*expect to start drilling in Poland during 2011 and to engage in a reserves recertification and upgrade exercise across the Composite portfolio. Finally, we intend to continue looking for ways to maximise value across the entire Composite portfolio, and will actively seek to add new assets to the portfolio if strategically relevant and where we can add value through our global experience. Overall, the remaining 2011 work programme at Composite will see a total expenditure of approximately US\$10 million.*

*We are delighted to welcome into the Dart group the Composite employee base. Composite's staff have done a great job in creating and maintaining the current portfolio and bringing the assets to the current level of maturity and we look forward to fully integrating their skills and experience into the overall Dart business.*

*Our objective for Composite remains clear: to establish a basis for commercialisation of CBM resources in the UK and Europe by improving both cost performance and reservoir delivery in progressing Composite's existing assets expeditiously to development, to build on that initial Composite platform so as to establish Dart as the CBM operator of scale in Europe and to further expand our shale gas exploitation competencies".*

## **About Composite**

Composite is a privately held company established in 2004 for the purposes of pursuing CBM business in Europe. Prior to the acquisition by Dart, it was owned by its founders and management, and strategic and financial investors, including Royal Bank of Scotland and BG Group.

Composite currently holds interests in 15 UK CBM Licences and 3 Poland CBM Licenses, and has a pipeline of licence opportunities across Continental Europe that it expects to secure in the near-term.

Composite is party to an agreement with BG Group whereby BG Group can farm-in to a 50 percent non-operating stake in individual Composite projects by agreeing to pay early stage appraisal and exploration costs on those projects, once secured by Composite. BG Group has farmed-in to most of Composite's current UK projects on this basis, but is not involved with CBM on PEDL133 and with Composite's Polish licences. This agreement will remain in place notwithstanding the change of ownership of Composite and expires in 2013.

Composite also owns 100% of Geometric, a business that owns and operates drilling rigs in Europe. This business is not part of the acquisition, and will be separated from Composite contemporaneously with Dart's acquisition.

## **About Composite's Assets & Business**

The assets within the Composite portfolio are summarised as follows:

### **PEDL 133**

- PEDL 133 is the furthest developed of Composite licenses with over £20 million invested previously by Composite and BG
  - 14 CBM exploration, appraisal and development wells drilled
  - A variety of vertical and horizontal drilling techniques used
  - Infrastructure includes: pumping, venting, flaring, water treatment and outfall
  - In 2008, Airth 10 pilot well on PEDL133 demonstrated continuous gas production of >200,000scf/day
  - Netherland Sewell & Associates Inc reported (as at 31 December 2008) an estimated gross CBM Gas in Place of 1.2 Tcf and gross Contingent Resource 2C of 0.8 Tcf (range 0.2 Tcf to 1.6 Tcf)
  - In addition, there is considerable shale gas potential on PEDL 133, in two horizons – the shallower Black Metal shales and the deeper Lothian shales. Netherland Sewell & Associates Inc reported (as at 31 December 2008) an estimated 1.2 Tcf shale OGIP in the shallower Black Metal shales. No third party certification of the deeper Lothian shales has been commissioned, although Composite internal estimates are approximately 8 Tcf gross shale gas OGIP
  - BG has no entitlement in respect of the CBM and shallow Black Metal shale horizon, such that Composite's net interest in these is 100%. BG has a 50% interest in the deeper Lothian shales
- Since September 2010 when Dart acquired a 10% shareholding in Composite, Dart has focussed considerable effort on better understanding and evaluating the CBM potential of PEDL133. This has included:
  - A detailed technical review of all available data
  - Redesigning a pilot project for PEDL 133, that could enable early commercialisation based upon anticipated cost efficiencies and enhanced reservoir performance, and undertaking preliminary work associated with that pilot project, including submission of various planning and permitting applications
  - Detailed evaluation of near-term gas sales options and available pricing for PEDL 133 pilot gas
- Immediately on Dart assuming ownership of Composite, Dart intends to initiate the PEDL 133 pilot project, and expects to have drilling underway during 2011. The PEDL 133 work program in 2011 / 2012 will also likely include a single shale core well on the block

### **Other UK Licences**

- In addition to PEDL 133, Composite holds 14 other licences across the UK
  - Midland Valley, Scotland (PEDL 161, 163)
  - East Midlands (PEDL 173, 174, 176, 178, 179, 200, 207, 210)
  - Wrexham/Chester (PEDL 185, 188, 189)
  - South Wales (PEDL 211)
  - Total acreage across these licences is 1,720 km<sup>2</sup>. Netherland Sewell & Associates Inc reported (as at 31 December 2008) estimated gross CBM OGIP of 9.6 Tcf and gross Prospective CBM Resource of 5.2 Tcf across these licences

- Composite is operator and holds a 50% interest in all of these licences, with BG holding a 50% non-operating share. BG has obligations to fund the cost of drilling of a further nine core wells and one contingent well across the portfolio, prior to 2014

### **Poland Assets**

- Since Dart became a shareholder in Composite in September 2010, Composite has secured two new titles in Poland, extended one, and relinquished one, such that its Poland portfolio is now comprised of 3 blocks. BG has not elected to participate in any of Composite's Poland licences, and thus Composite's interest in each licence is 100%. These are summarised as follows:

**Chelm** – one of the two Poland blocks that Composite held at the time of Dart's initial investment, with an area of 760 km<sup>2</sup>. Since Dart's initial investment, the exploration period for this licence has been extended until February 2013. During the extension period, the obligation is for Composite to drill one additional core well. This licence is adjacent to Composite's new Milejow concession (see below). Netherland Sewell & Associates Inc reported (as at 31 December 2008) an estimated gross CBM Gas in Place of 4.0 Tcf and gross Prospective Resource of 1.8 Tcf

**USCB** – this licence is 323 km<sup>2</sup> and is located in the centre of the Upper Silesian coal basin, which has had a 15 year history of CBM activity. The licence was acquired by Composite from its previous owner in December 2010. The licence is due to expire in April 2011, and has existing work obligations to drill shallow pilot-holes. In acquiring the licence, Composite has applied to the Polish authorities to extend the exploration period and allow a substitution of the work programme for a more targeted CBM exploration work programme. The block is considered to have excellent CBM potential - Dart intends to undertake an independent resource certification exercise during 2011. The USCB work programme that Dart intends to pursue involves commencing drilling of a multi-seam pilot well towards the end of 2011, with further exploration wells and a pilot scheme during 2012

**Milejow** – this licence was a direct award licence issued to Composite in November 2010 by the Polish authorities. It is adjacent to Composite's existing Chelm licence. It has an area of 372 km<sup>2</sup>. The primary interest in Milejow is for its shale gas potential where Composite has previously estimated sizable shale gas OGIP potential - Milejow is adjacent to several blocks held by Exxon, who are presently drilling extensively for shale gas on those blocks (as with USCB, Dart intends to undertake an independent resource certification exercise during 2011). The Milejow CBM work programme that Dart intends to pursue during 2011 and 2012 involves a number of studies during 2011 and acquisition of seismic data in 2012. Dart will decide on an appropriate shale strategy and work programme for Milejow pending the outcome of shale drilling programmes on nearby blocks

### **Composite's Business**

In addition to the assets described above, in acquiring Composite, Dart will be acquiring a fully formed operating CBM business platform in Europe. This includes:

- A total staff base of approximately 25, including technical, engineering, land access and planning, financial, business development and commercial capabilities
- Offices and staff located in Scotland and Poland
- An extensive geological and commercial data-base in relation to European CBM opportunities
- A strong pipeline of further licence opportunities across continental Europe and in the UK

## **Strategic Rationale**

- The Composite opportunity is strategically relevant to Dart:
  - It is geographically strategic, representing a low-cost entry strategy for Europe consistent with the overall Dart strategy to access significant under-exploited resources adjacent to markets with latent demand and pricing upside
  - Establishes Dart's market presence via an incumbent European CBM specialist player, which in addition to assets brings with it local management, know-how, database, skills, and relationships with no dilution to Dart management efforts elsewhere in the portfolio
  - To the extent Dart is able to apply its skill base to solving technical issues that have thus far hampered commercialisation of CBM in UK and Europe this will provide considerable competitive advantage as a CBM "partner of choice" in the region and offer considerable further upside
- Since Dart's initial investment, as anticipated, value has been added to Composite as Dart has worked together with Composite's staff to advance their business and our understanding of both Composite's asset base and the broader European CBM opportunity:
  - Detailed review of PEDL 133, including development of a pilot plan and associated marketing scheme;
  - Better understanding of other UK assets;
  - Secured two high-quality new assets in Poland with both CBM and shale potential; and
  - Advanced negotiations in relation to a range of potential new licences across Europe
- The decision to acquire Composite ahead of June 2011 has several advantages:
  - Dart can establish immediate and complete control of the business and the work programmes over the next 6 months
  - Given the early exercise and the likely cost of the work programme in 2011, Dart has been able to negotiate a material discount to the overall acquisition price previously agreed with Composite shareholders, as detailed further below

## **The Transaction**

Dart is currently a 10% shareholder of Composite, pursuant to a subscription of \$7m in September 2011. Dart will now acquire the 90% of Composite that it does not already own nominally for US\$46.7 million.

The consideration will be satisfied partially through the issue of 35,940,441 new, fully paid Dart ordinary shares, partially through the issue of 5,613,971 new, fully vested 1c exercise price Dart-J

Class Options (issued to certain Composite employee option-holders to replace similar Composite options currently held), and the balance as non-cash adjustments to reflect the value of repayment of certain inter-company loans and the value attributable to the exercise price of existing Composite options on issue. The number of shares and options to be issued was determined by reference to the 30 day volume weighted average price of Dart securities on ASX as at 25 February 2011, being \$1.116.

The original price agreed in September 2010 for Dart to move to 100% of Composite was an injection of US\$5m at 31 January 2011 for a further 10% shareholding, followed by a further payment of US\$56 million in June 2011 to acquire the balance of Composite. The consideration paid by Dart to acquire 100% of Composite today therefore represents a material discount to that originally contemplated, which reflects several factors:

- The extent of Dart's proposed work programme on the Composite's portfolio of assets in 2011, which the existing shareholders of Composite were unwilling / unable to commit to funding;
- the time value of money inherent in the earlier receipt of payment by the Composite shareholders;
- adjustments required in relation to allocation of part of the consideration value to existing Composite employee optionholders, the majority of whom have elected to replace those options with newly issued Dart J-Class options, and adjustments related to the exercise price payable on exercise of existing Composite options; and
- Dart's desire to capitalize on the value accretion derived from the appreciation of the Australian dollar and the Dart share price since September 2010 – as all consideration was agreed to be paid in Dart shares based on a fixed formula, the appreciation of the Australian dollar and the Dart share price has meant that the acquisition of Composite today will require the issue of approximately 35.9 million Dart shares initially (and potentially an additional 5.6 million on exercise of Dart J-Class options), or approximately 6% of Dart on a fully diluted basis. Compared to the time of the initial investment in Composite, this represents a more than halving of the dilution for Dart shareholders to that previous envisaged.

The UK Department of Energy & Climate Control has provided a letter indicating that it will support the change of control of Composite. All other conditions precedent to the transaction have been satisfied, and the expectation is that the transaction will complete in the immediate near-term.

## **Dart's Operating Plan for Composite**

Immediate work priorities at Composite over the next several months will primarily be focussed on smoothly transitioning the business to Dart ownership and simultaneously moving forward the Composite business at pace:

- Initiating the PEDL 133 pilot program, and securing an initial GSA for PEDL 133 pilot gas
- Planning for work commencement at USCB in Poland, estimated to commence end 2011
- Continuing to aggressively pursue and secure additional European licences
- Review the existing UK portfolio of assets, including shale potential, and development of a plan for each asset that maximises value

Peter Roles, the Dart Chief Technical Officer, will assume the role of interim MD of the Composite business, and has already temporarily relocated to the UK where he will remain for approximately the next six months. The Board of Composite will be replaced with Dart personnel.

A review is underway of the Composite organisational structure, so as to ensure the continuing functional integration of the Composite team into the broader Dart business, two-way transfer of best practices and the expanded participation in peer reviews.

The intention is to rebrand Composite into Dart Europe.

Keith Lough, Composite's Chief Executive Officer said:

*"Over the past seven years the team at Composite has built an attractive CBM and shale portfolio in the UK and Poland, with mature opportunities also in both Belgium and Germany, and we are delighted that Dart Energy, a committed CBM developer with significant experience, will be building on those foundations to take the assets further."*

*"I would like to express my thanks to the Composite team and investors for helping to build a material business and I am particularly pleased that Dart is retaining our staff in what now becomes Dart Europe. I have worked closely with incoming Managing Director Peter Roles over the last six months and wish him well in his new position".*

**ENDS**

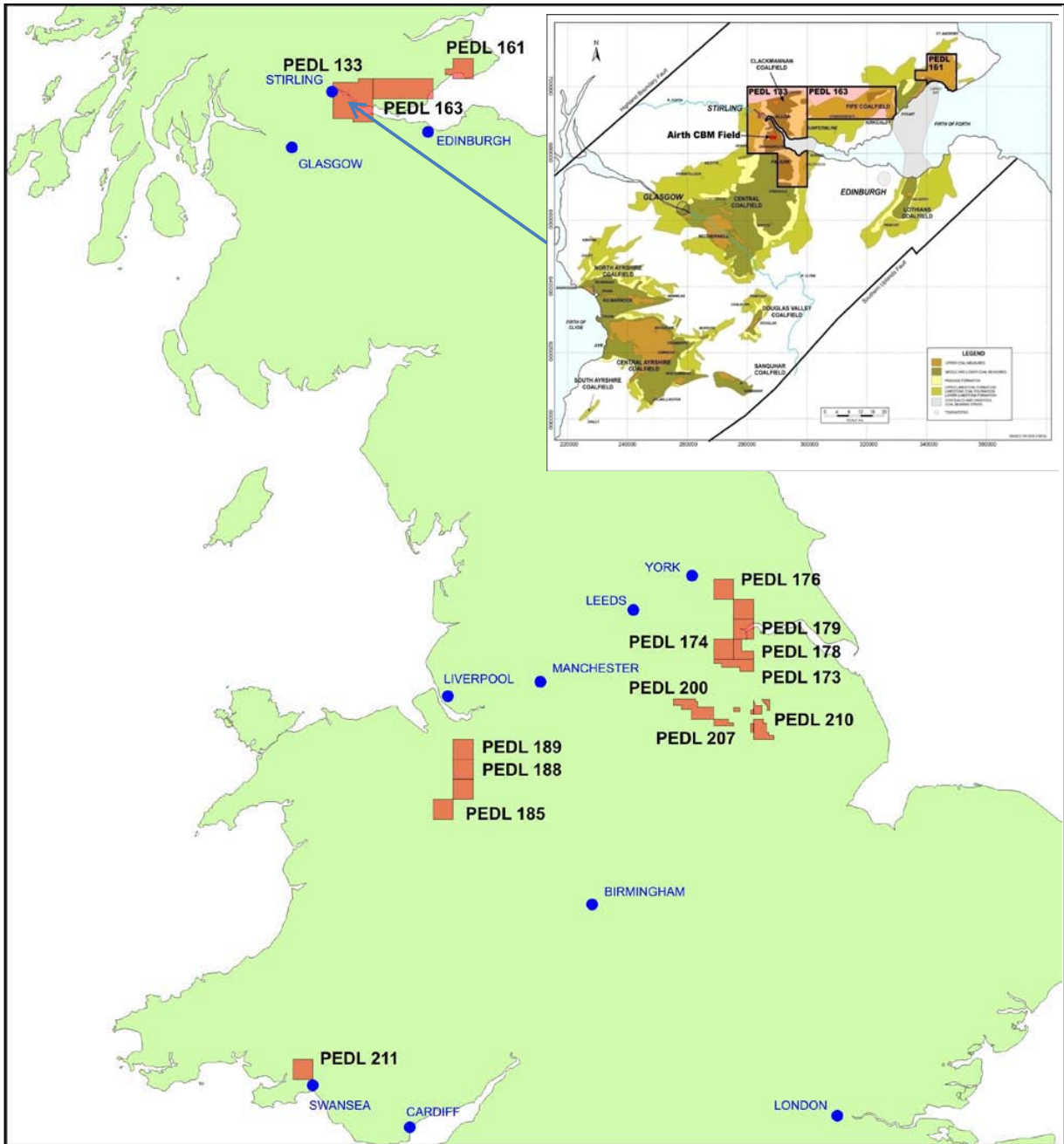
For and on behalf of the Board  
Paul Marshall, Company Secretary

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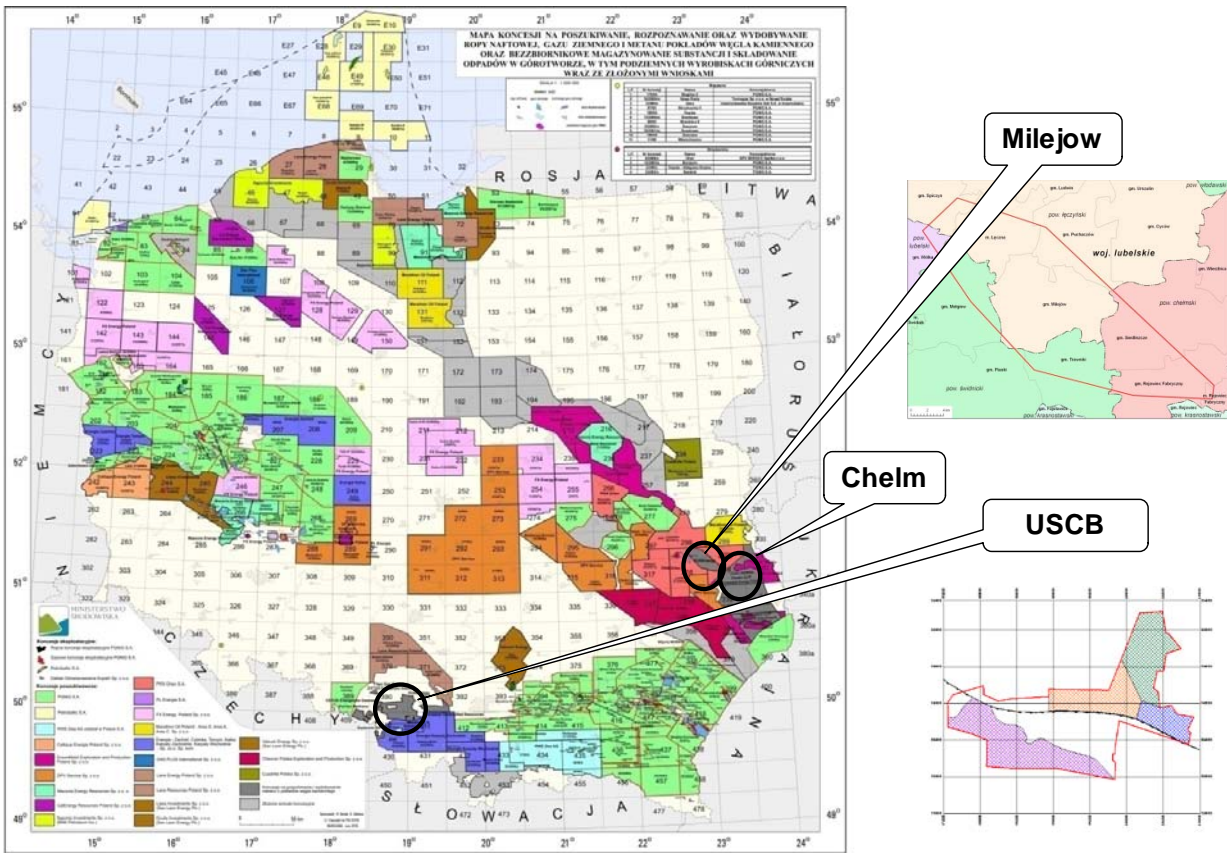
*The resource estimates used in this announcement were, where indicated, compiled by Dan Paul Smith and John Hattner of Netherland, Sewell & Associated, Inc., Dallas (and in the case of PEL 456, by Mr Doug Barenger of MBA Petroleum Consultants) and are consistent with the definitions of proved, probable, and possible hydrocarbon reserves that appear in the Australian Stock Exchange (ASX) Listing Rules. Mr. Smith, Mr Hattner and Mr Barenger are qualified in accordance with the requirements of ASX listing rule 5.11 and both consent to the use of the resource and reserve figures in the form and context in which they appear in this announcement. All other resource estimates used in this announcement were, where indicated, compiled by Dr Tim Moore (a consultant to Dart Energy Limited) and by Mr Peter Roles (a full-time employee of Dart Energy Limited) and are consistent with the definitions of proved, probable, and possible hydrocarbon reserves that appear in the Australian Stock Exchange (ASX) Listing Rules. Dr. Moore and Mr Roles are qualified in accordance with the requirements of ASX listing rule 5.11 and consent to the use of the resource and reserve figures in the form and context in which they appear in this announcement.*

# LOCATION MAP - COMPOSITE UK LICENCES





# LOCATION MAP - COMPOSITE POLAND LICENCES



## SUMMARY TABLE – AGGREGATED DART PORTFOLIO

The following table summarises the aggregated Dart portfolio following the acquisition of Composite, the completion of the takeover of Apollo Gas Limited, and other recent events:

Dart Portfolio Summary	
Active CBM Licences <sup>(1)</sup>	34
Countries	7
Coal Basins	17
Gross CBM Acreage (km <sup>2</sup> )	37,732
Net CBM Acreage (km <sup>2</sup> ) <sup>(1)</sup>	28,503
Gross CBM OGIP (Tcf)	32.7
Net CBM OGIP (Tcf)	17.8
Gross Shale OGIP (Tcf)	1.2
Net Shale OGIP (Tcf)	1.2

1. Does not include 2 geothermal licences in Australia and 2 licences in India for which relinquishment requests have been submitted

DART ASIA	Location	Dart Interest	Operator	Area (km <sup>2</sup> )	OGIP	Prospective (All Tcf, gross)	3C	2C
Sangatta West PSC	East Kalimantan, Indonesia	24%	Dart & Ephindo	1,301	0.6			0.3
Tanjung Enim PSC	South Sumatra, Indonesia	45%	Dart	308	0.5	0.3		
Muralim PSC	Central Sumatra, Indonesia	50%	Dart	983	2.7	1.4		
Dajing PSC	Xinjiang Province, China	49%	Dart	3,969	6.6	3.5		
Liulin PSC	Shaanxi Province, China	22.5%	Dart & Fortune Oil	183	0.8			0.2
Tatapani Ramkola Block	Chattisgarh, India	50%	Dart	458				
Assam Block	Assam, India	60%	Dart	113	1.2	0.8		
Satpura Block	Satpura, India	80%	Dart	714	1.4	1.0		
Hanoi Trough Block	Hanoi, Vietnam	70%	Dart	2,601	0.8			0.3

DART AUSTRALIA (APOLLO)	Location	Apollo Interest	Operator	Area (km <sup>2</sup> )	OGIP	Prospective (All Tcf, gross)	3C	2C
PEL 456 <sup>(1)</sup>	Upper Hunter, NSW	50%	Santos	5,953	2.0		0.9	
PEL 458	Newcastle, NSW	100%	Apollo	2,000	1.3			0.5
PEL 459	Narrabri East, NSW	100%	Apollo	7,488				
PEL 460	Hunter West, NSW	100%	Apollo	4,741				
PEL 461	Central Coast, NSW	100%	Apollo	73				
PEL 463	Cumberland, NSW	100%	Apollo	2,385				
PEL 464	Gunnedah, NSW	100%	Apollo	958				
EL 7505 (Geothermal)	Murrurundi Trough, NSW	100%	Apollo	1,747				
EL 7506 (Geothermal)	Murrurundi Trough, NSW	100%	Apollo	1,749				

1. PEL456 is subject to farm-in by Santos; current Dart interest 85%; at conclusion fo farm-in Santos interest to increase to 50%

DART EUROPE (COMPOSITE)	Location	Composite Interest	Operator	Area (km <sup>2</sup> )	OGIP	Prospective (All Tcf, gross)	3C	2C
PEDL 133	Midlands Valley, Scotland	CBM - 100% Black Metal Shale - 100% Lothian Shale - 50%	Composite	329	1.2 1.2			0.8
PEDLs 161 / 163	Midlands Valley, Scotland	50%	Composite	412	0.6	0.3		
PEDLs 173 / 174 / 176 / 178 / 179	East Midlands, UK	50%	Composite	550	3.9	2.1		
PEDLs 200 / 207 / 210	East Midlands, UK	50%	Composite	258	1.9	1.0		
PEDLs 185 / 188 / 189	Wrexham / Chester, UK	50%	Composite	400	2.6	1.5		
PEDL 211	South Wales	50%	Composite	100	0.6	0.3		
Chelm	Lublin Basin, Poland	50%	Composite	760	4.0	1.8		
USCB	Upper Silesia Basin, Poland	100%	Composite	323	See note 1			
Milejow	Lublin Basin, Poland	CBM - 100% Shale - 100%	Composite	372	See note 1 See note 1			

Note 1: Internal Composite estimates suggest material CBM and shale gas OGIP potential for PEDL 133 Lothian Shale and USCB / Milejow blocks. Dart intends to undertake an independent Resource certification exercise for each of these areas during 2011 and will announce outcomes accordingly

Basis of Resources estimates: all per Netherland Sewell & Associates Inc, except PEL 456 which is per MBA Petroleum Associates