



ASX RELEASE

29 January 2010

QUARTERLY REPORT

Eureka Energy Limited (ASX:EKA, "Eureka" or "Company")

QUARTER ENDING

31 December 2009

EXPLORATION, APPRAISAL AND DEVELOPMENT ACTIVITIES

SUGARLOAF PROSPECT:
Eureka ownership:

On-shore Texas Gulf Coast Basin, USA
12.5% Working Interest

Highlights

- Significant ramp up of activities following the recent farmin with Hilcorp Energy ("Hilcorp").
- Installation of production facilities on the Weston-1H well in readiness for the planned fracture stimulation of the horizontal section of this well.
- Commencement of the fracture stimulation of the Kowalik-1H well in December 2009.
- Fracture stimulation of the Kennedy-1H well commenced 18 January 2010.
- Spud of the first new horizontal well under the farmin program, Easley-1H, occurred on 21 January 2010 with the well currently drilling in the vertical section.
- Continued positive results reported within the regional Eagle Ford trend supporting the increasing profile and value of Eureka's assets. The Eagle Ford shale is now amongst the most sought after of the US shales.

Overview

Eureka holds a pre farmout working interest of 12.5% at the Sugarloaf Area of Mutual Interest ("AMI"). The gross acreage under lease within the Sugarloaf AMI is approximately 23,500 acres, with the net acres to Eureka being just over 2,970 net acres, pre farmout. The Sugarloaf AMI is situated centrally within the greater Sugarkane Field.

The Sugarkane reservoir is a regional pool, estimated at some 200,000 acres, of naturally fractured Austin Chalk graduating down into a much broader and regional Eagle Ford shale trend. These two horizons form a continuous reservoir at Sugarkane which is over pressured and contains condensate rich gas.

The profile of the regional Eagle Ford shale trend continued to grow during the December 2009 quarter with further announcements of significant acreage acquisitions and successful drilling activity within and surrounding the Sugarkane Field. Initial production results from this drilling activity continue to support the premise that the Eagle Ford shale is one of the most economic within the USA. Within the regional play, three of the best publically available initial production rates, on a gas equivalent basis, are from wells drilled within or on the boundary of the Sugarkane field.

There have now been 15 recent wells drilled into the Sugarkane Field and 8 historical wells with modern logs that helped delineate the area. All available data from these penetrations support that they have encountered a correlatable section of Eagle Ford/Austin Chalk and, where tested, have produced a consistent hydrocarbon to surface.

Under the terms of the Hilcorp farmout, Eureka is free carried for the stimulation of the three existing Sugarloaf AMI wells (Kowalik-1H, Kennedy-1H and Weston-1H) and the drilling, completion and tie in to production of a further 3 new horizontal wells within the Sugarloaf AMI. The farminee receives a preferential repayment of costs from the wells drilled and once repaid, Eureka receives production income based on its farmed down interest. Hilcorp earns its interest on an incremental basis as the farmin work program is completed.

Eureka believes this activity, together with Hilcorp's proposed drilling activity within its other farmin areas at the Sugarkane Field and the widespread ongoing regional activity occurring within the Eagle Ford Shale play will continue the process of demonstrating and establishing the considerable value of Eureka's interest in the Sugarloaf AMI.

Sugarloaf AMI

Immediately upon finalisation of the Hilcorp farmin, preparation and planning activity commenced at the three existing Sugarloaf wells that are to be stimulated in phase 1 of the farmin workscope.

The fracture stimulation treats the horizontal reservoir section in a number of separate stages with isolation plugs being set between each stage. Production was suspended during the quarter from Kennedy-1H and Kowalik-1H in preparation for the fracture stimulation program. These two wells and Weston-1H have now been prepared for stimulation. Existing completions, where deployed, have been recovered and integrity testing undertaken in preparation for the high pressures associated with the fracturing operations. On Kowalik-1H an attempt to pull the slotted liner proved problematic and the decision was made to revert to alternative completion and stimulation plans.

The water required for the stimulations proposed for all three existing wells was sourced through dedicated wells and holding pits at each location. These have been linked to provide infrastructure for future operations.

Stimulation operations commenced in late December 2009 at the Kowalik-1H well. A large stimulation was successfully pumped across the slotted liner in this well but subsequent operational complications have prevented the well from being tested at this point in time.



Stimulation operations commenced on the Kennedy-1H well during January 2010 with over 2,200 ft of the horizontal liner within the well fracture stimulated in 8 separate stages. At the date of this report, the isolation plugs are being drilled out and once completed the stimulated section of the well will be flowed. This is expected to provide a reasonable test of production performance that can be scaled up for a longer horizontal well leg.

Also in January 2010, the first new farmin well, Easley-1H, spudded. At report date drilling of a vertical pilot hole to the Austin Chalk and Eagle Ford Shale targets continues ahead of being sidetracked as a horizontal production well.

Hilcorp Farmout Program

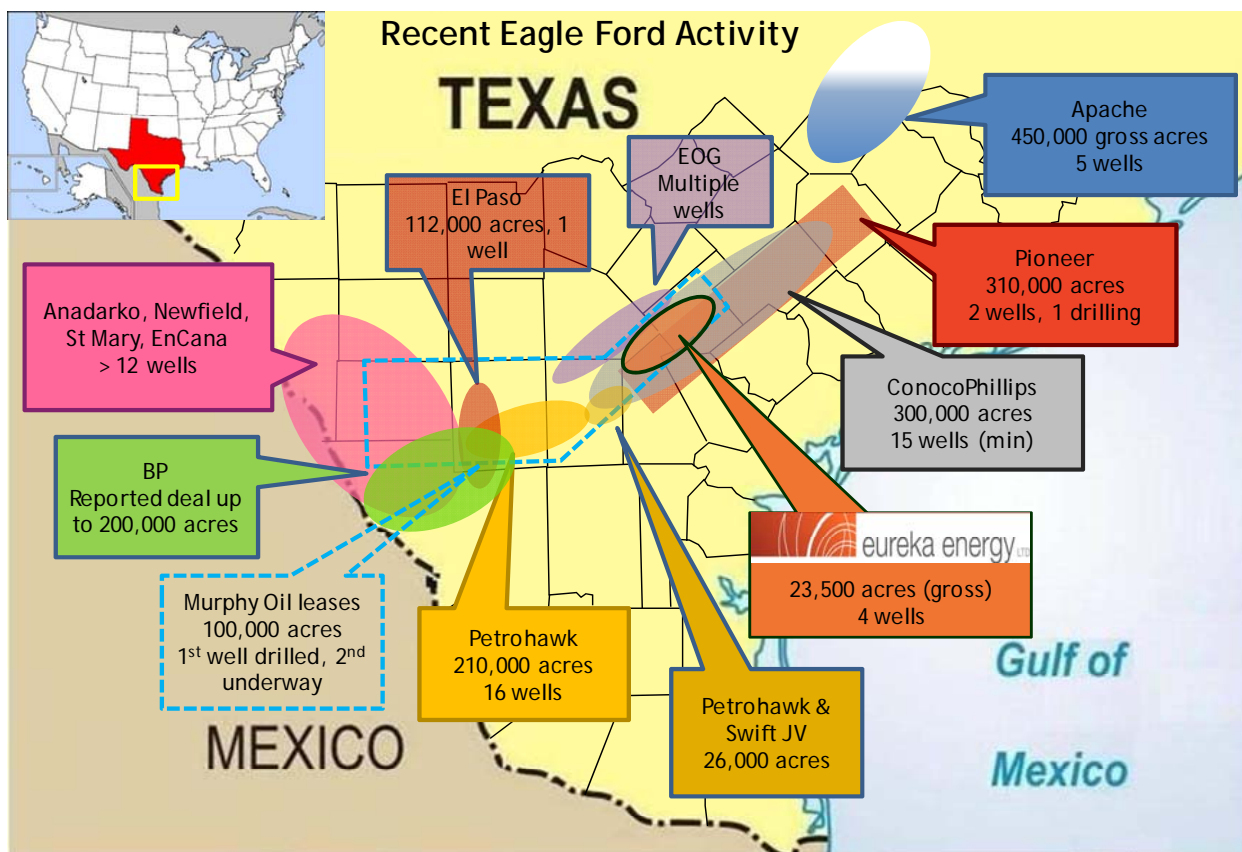
The key elements of the farmout at Sugarloaf are as follows:

- Hilcorp is the 4th largest private E&P company by production operating in the USA. Their farmin to the Sugarloaf AMI and other AMI's within the Sugarkane field is a significant endorsement of the multi Tcfe potential and value of this gas and condensate asset.
- Eureka will be free carried for the drilling, completion and tie in of up to 3 new horizontal wells and the stimulation of the three existing Sugarloaf AMI horizontal wells; Kennedy-1H, Kowalik-1H and Weston-1H. The Sugarloaf AMI farmin program aims to establish a total of 6 wells on production.
- The Farminee will earn an interest in Eureka's acreage incrementally as each farmin activity is completed up to a maximum of 50% of Eureka's interest in the Sugarloaf AMI.
- Hilcorp has also entered into a farmin over land areas either adjacent to or nearby to the Sugarloaf AMI, in which Eureka has no working interest, with additional drilling requirements. This will lead to a meaningful drilling and completion program that aims to establish a portfolio of producing wells within the Sugarkane acreage that in turn will assist in demonstrating the multi Tcfe potential of the Sugarloaf AMI.
- Eureka's financial commitments at Sugarloaf through this development phase are now minimal. Eureka will continue to contribute funds to ongoing lease maintenance activities on a post farmout basis.

Regional Activity

Over the last 18 months drilling activity and leasing within South Texas has defined a regional trend which has become known as the Eagle Ford Shale play. At Sugarkane this shale play is a connected lower extension of the Austin Chalk reservoir. The shale consists of interbedded chalk and rich organic shale. Companies began reporting their regional activity in late 2008 and throughout 2009.

The map below provides an update on recent Eagle Ford activity.



Petrohawk provides the most publicly available information. Based on their presentation dated 12th Jan 2010, they have drilled 27 wells and have 16 operated wells on production with an average initial rate of 7.8 mmcf/d and 143 bpd condensate (8.7 mmcf/d or 10.0 mmcf/d using a 6:1 or 15:1 ratio for condensate respectively). They have continued to acquire land on trend towards the Sugarkane field in a venture with Swift Energy.

Recent announcements have been made relating to nearby Eagle Ford Shale wells which are located just outside the Sugarkane Field. These are summarised in the table below.

Company	Well	Location	Initial production	Other information
Pioneer	Sinor #5	Live Oak County, 18 miles SW of Sugarloaf #1 well	8.3 mmscf/d gas 500 bpd condensate	2,600 ft horizontal
Pioneer	Robert Crawley Gas Unit #1 well	Few miles SE of Sinor #5	17 mmscf/d dry gas	
ConocoPhillips	Bordovsky #1H	18 miles NE of Sugarloaf #1 well	4 mmscf/d gas 1500 bpd condensate	

These three results, on a gas equivalent basis, represent some of the highest initial rates made publically available in the trend.

To date we estimate that there have been over 70 wells reportedly drilled within the regional Eagle Ford play and an analysis of recent announcements indicate that this activity will continue to accelerate in 2010. Petrohawk suggests “*the Eagle Ford shale in this particular area is one of the highest quality shale reservoirs discovered to date in the United States.*” The results that we have reviewed and the information released regarding initial flow rates, production decline curve, condensate levels, porosity, organic content, estimated in place resource per unit etc are not only excellent reference points for Sugarkane, but also give us confidence in terms of the relative quality of our acreage.

END

Information contained in this report with respect to the Sugarloaf Project and Sugarkane Field was compiled from information provided by the project operator and other publicly available sources. This information was reviewed by P D Allchurch, BSc, FAIMM, MPESA, who has had 40 years experience in the practice of geology including more than 29 years experience in petroleum geology. Mr Allchurch consents to the inclusion in this report of the information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

EUREKA ENERGY LIMITED

ABN

46 116 829 139

Quarter ended ("current quarter")

31 December 2009

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	3	50
1.2 Payments for		
(a) exploration and evaluation	(143)	(180)
(b) development	-	-
(c) production	-	-
(d) administration	(264)	(438)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(403)	(566)
Cash flows related to investing activities		
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)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(403)	(566)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(403)	(566)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	656	656
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		
	Issue Costs	(38)	(38)
	Net financing cash flows	618	618
	Net increase (decrease) in cash held	215	52
1.20	Cash at beginning of quarter/year to date	214	387
1.21	Exchange rate adjustments to item 1.20	(4)	(14)
1.22	Cash at end of quarter	425	425

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	90
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

Directors fee Rentals & outgoings

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

N/A

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

N/A

+ See chapter 19 for defined terms.

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	50
4.2 Development	-
Total	50

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	425	214
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	425	214

Changes in interests in mining tenements

	Tenement reference	Nature of interest	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			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

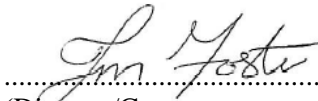
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities (<i>description</i>)	-	-	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 +Ordinary securities	132,253,875	132,253,875	Various	Fully Paid
7.4 Changes during quarter				
(a) Increases through issues	17,250,000	17,250,000	\$0.038	Fully Paid
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities (<i>description</i>)	-	-	-	-
7.6 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through securities matured, converted	-	-	-	-
7.7 Options (i)			<i>Exercise price</i>	<i>Expiry date</i>
Listed Options				
Unlisted Options	1,000,000		\$0.35	30/06/2010
7.8 Issued during quarter				
Unlisted Options				
Incentive Options	-	-	-	-
Consultant Options	-	-	-	-
(i) Upon exercise each option entitles the holder to one ordinary share which will rank pari passu in all respects with the Company's then issued shares.				
7.9 Exercised during quarter				
Listed Options	-	-	-	-
7.10 Expired during quarter	-	-	-	-
7.11 Debentures (<i>totals only</i>)	-	-	-	-
7.12 Unsecured notes (<i>totals only</i>)	-	-	-	-

+ See chapter 19 for defined terms.

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
- 2 This statement does ~~/does not*~~ (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  Date: 29 January 2010
(~~Director~~/Company secretary)

Print name: JULIE FOSTER