



9th January 2008

Manager of Company Announcements  
ASX Limited  
Level 6, 20 Bridge Street  
SYDNEY NSW 2000

### **Participation Agreement – Oil and Gas Lease**

The Board of Modena Resources Limited (“Modena”) is pleased to announce it has entered into a Participation Agreement with BNP Petroleum Corporation of Houston, Texas, to acquire an undivided 25% leasehold and working interest in and to a defined oil and gas lease, covering certain lands and lease located in Kenedy County, Texas, USA (“the Lease”).

Pursuant to the Participation Agreement Modena has agreed to participation in the drilling of a test well within the Lease area, Tobin Armstrong #2 well.

The Lease covers an area of approximately 1,477 acres on the southwest flank of the Candelaria field structure. The targets are a thick section of numerous Frio sands that are deposited in wedges on the downthrown block of a large growth fault west of the field. The Candelaria Field itself is a faulted four way structure that has produced over 100 BCFe since discovery by Humble in 1953.

Frio sands in this area are the result of complex delta and bar deposition, complicated by the presence of an active system of growth faults during deposition. Sands are difficult to correlate from well to well and apparently do not connect over long distances. In the prospect area they trap by wedge out updip onto the Candelaria structure and may also trap where they are truncated by later shale filled channels cut into them.

Statistically the area is very attractive. Out of 147 wells completed in four fields nearby (Candelaria, Rita, Don Tomas and Barreta), 107 wells had two or more pays, with one well at Rita having 13.

The Lease block has the potential for a number of prospective targets.

Drilling of the Tobin Armstrong #2 well has commenced and will drill to a target depth of 10,500'. Drilling is expected to take between 15 to 20 days.

For personal use only

### ***Principle Terms***

The principle terms of the Participation Agreement are:

- (i) the payment of the sum of US\$351,000 as acquisition cost for the interest in the Lease;
- (ii) payment of an undivided 50% of all of the well costs attributable or allocable to the leasehold and working interest in the Tobin Armstrong #2 well, including those well costs incurred prior to completion under the Participation Agreement. Modena's share of drilling and testing the first well to casing point will be approximately US\$675,000; and
- (iii) other than with regard to the Tobin Armstrong #2 well, any other operations on the Lease and any other wells drilled on the Lease, Modena is not obligated to bear more than its 25% proportionate ownership (working interest) share of the costs relating thereto.

### **Convertible Note**

Modena has also reached agreement for the issue of unsecured convertible notes ("Notes") with a face value of \$1,200,000, for the purpose of providing funds for participation in the Tobin Armstrong #2 well and for additional working capital. The issue of the Notes will be to sophisticated or professional investors and will not require disclosure under the Corporations Act.

The principle terms of the Notes will be as follows:

- (i) Redemption Date: 31 January 2010;
- (ii) Convertible into ordinary fully paid shares at an issue price determined as the lesser of:
  - (a) 35 cents per share; or
  - (b) the price that is 85% of the average market price of the company's ordinary fully paid shares calculated over the last 5 days on which sales were recorded before the date of conversion and issue.
- (iii) Subject to the Corporations Act, ASX Listing Rules and shareholder approval, if necessary, convertible, in whole or part, by either the Noteholder or the Company at any time from the date of issue and prior to the Redemption Date;
- (iv) Shares issued upon conversion of any Note will carry standard rights applicable to quoted ordinary shares in the Company and will, from the date of issue, rank equally with fully paid ordinary shares currently on issue;
- (v) Interest rate – 10.5% per annum;
- (vi) The company does not intend to list the Notes for quotation on ASX and it is not obligated to do so;

- (vii) The Notes shall not provide for any voting rights at shareholder meetings of the Company;
- (viii) Unless converted or redeemed during the term, the Notes will be redeemed at the Redemption Date at the face value of the Notes;
- (ix) The Notes will be unsecured and the Noteholder will rank equally with all other unsecured creditors of the Company.

Yours faithfully

Craig Willis  
**Director**  
**Modena Resources Limited**

For personal use only