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The Manager
Company Announcements Office
Australian Securities Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir

UPDATE ON DRILLING STATUS LYDIA PILOT LP-4 AND LP3

Lydia Pilot LP4 has been completed with the running of production tubing and sucker rods together with the bottom hole pump assembly, sensor unit telemetry bundles and tubing string in preparation for dewatering and gas build up testing. The completed well is showing a well head pressure of 40 pounds per square inch, suggesting that the coals are saturated with gas.

The rig was mobilized to LP-3 on Saturday April 25th and drilling commenced on Sunday April 26th. Drilling has continued to a depth of 80 metres.

When the three wells have been completed and the installation of well instrumentation and transducers in Lydia No1 has been completed, water samples will be obtained to test the quality of the water and commence the permeability draw down test on the three wells. The gas cut water tests from Natasha No. 1 measured water of a potable quality with impurities for 600 parts per million. This has important implications for water treatment and the costs of production.

The dewatering phase will then commence. This phase consists of the slow reduction in well head pressure on one well only to gauge the effects on well pressure in the other wells. The water drawdown process must be managed carefully to prevent the coals from caving or sluffing in the hole.

As previously advised, the reserves in the permit have not been determined at this point. However, establishing the existence of gas saturation in the coals of LP4 means we are on target for completing those activities necessary to move some of the 5.4 TCF (5400PJ) Gas Initially In Place (GIIP) to 1P, 2P and 3P reserves status.



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