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

Dear Sir

LYDIA PILOT WATER FLOW BREAKOUT

Last week Lydia No 4 which was producing low volumes of water kicked in with the best water flow yet of 170 barrels per day. This breakout increase in water flow brings production from the three (3) pilot wells to about 400 barrels of water per day with constantly increasing gas pressure build up.

A gas flow of 45,000 cubic feet per day was measured in Lydia No 2 during a twenty-five (25) minute period using a 14/64 inch choke. The well was shut in pending further flow tests. We require a steady state of gas flow which can be safely placed on continuous production.

The gas in Lydia has been analysed and has the following composition :

Methane	97.87%	Ethane	0.44%
Nitrogen	1.14%	Propane	0.10%
Carbon dioxide	0.43%	Isobutane	0.02%

The gross heating value of the gas was 999 Btu/Scf dry gas. This gas analysis indicates that gas from the Lydia Pilot will not require any special treatment to meet specifications for the intended use in Stanwell's proposed power station.

The Lydia Pilot will remain on production until a sustained flow of gas can be produced.

Lucy No 1 has reached its target depth of 853 metres and drill stem tests have been run over the Walloon Coal Measures. Good visible permeability has been observed in several coals and the DST data has been sent off for detailed analysis.

The rig will be moved to Lydia No 7 after Lucy No 1 is completed. Lydia No 9 will be the last well to be drilled under this contract and when all data is analysed, drilling will recommence in a few months time when pilot production sites have been identified.

Currently, Lucy No 1 is flooded and isolated. The crew moved out before the flood arrived and it will be several days before the flood waters drop and the roads can be used again.

Yours faithfully

A handwritten signature in black ink that reads "Ray James". The signature is written in a cursive style and is underlined with a long, sweeping horizontal line that extends to the left and then curves back under the signature.

Ray James
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