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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

All preparations for the initial production tests of the Lydia Pilot have been completed. All pumping and pressure sensing equipment has been installed and tested. The initial drawdown and build-up tests are expected to commence on Wednesday 17th June 2009.

Work on the water storage pond was hampered by adverse weather conditions however the excavation of the pond is nearing completion. When excavation is complete and the liners installed, the finished pond should accommodate up to 25,000 kiloliters of water. This should be more than sufficient volume for our testing purposes.

While we are yet to achieve any certifiable measures of gas content, the pressure gauge on Natasha No. 1 is showing readings in the 135psi to 160psi range. Natasha was drilled in November 2007 and is considered as the base measure for minimum coal thickness. Although Natasha is located in our sub-block with the thinnest coal seams, the gas measures indicate potential gas saturation.

As previously advised, the reserves in the permit have not been determined at this point. However, on establishing the existence of gas saturation in the coals of the Lydia Pilot 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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