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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-2 and LP-3 COMPLETION

As previously advised, drilling on LP-2 was finalised at a target depth of 818 metres. Coal intervals in LP-2 were under-reamed and, cementing of the 7 inch casing and placement of the slotted liner completed. The slotted liner combined with the under-reaming of the coal seams will permit the maximum exposure of the gas rich coals and capture to well bore. Following logging, 10.7 metres of net coal were recorded over 11 seams. Core samples are currently at the laboratory for analysis. Preliminary results are expected within the next three to four weeks.



Completion Rig #17 from Easterwell Services was mobilized to LP-3 on May 25th and, the running of production tubing and sucker rods together with the bottom hole pump assembly has commenced. Sensor unit telemetry bundles and tubing string in preparation for dewatering and gas build up testing will also be undertaken. When this is completed, the rig will be moved to LP-2 for similar work before completing LP-1 as a monitor well. The picture shows the completed LP-4 well including the power head and monitoring equipment.

Construction has commenced on the storage pond to store water from the dewatering process. Three wells (LP-2, LP-3, and LP-4) will be placed on pumps to remove the water from the well bores to determine gas flow rates. Gas flow rates do not usually reach commercial rates for some time and the buildup of production gas will be reported on a regular basis.

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