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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

Lydia Pilot LP-2, the final of the three well Lydia Pilot Program, has reached its target depth of 818 metres. Three cores have been successfully cut and recovered from LP-2. These cores have been sent to the laboratory and gas desorption of the coal samples is underway.

Coal intervals in LP-2 have been under-reamed and cementing of the 7 inch casing and placement of the integral slotted liner will be completed by tomorrow. 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.

An Easternwell workover rig is being mobilized to LP-2 to complete 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. The rig will then complete the same procedure on LP-3 and convert LP-1 to a monitor well. This rig is expected to arrive by the end of week.

When the three wells have been completed and the installation of well instrumentation and transducers in Lydia No1 has been completed, the wells will be ready for initial tests and then dewatering. Dewatering removes 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 build-up of production gas will be reported on a regular basis.

The new storage holding pond is under construction to take the water produced from the Lydia Pilot.

Yours sincerely



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