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Update on Drilling Activity - Malolos-1 and Nuevo Malolos-1, SC44, Cebu Island, Philippines

Nuevo Malolos 1 Daily Status Report (Day 17)

Time of report:	6 am (Philippines = GMT + 8), 13th January 2006
Current depth:	4,175ft (1,273 m)
Current operation:	Drilling ahead
Forward operation:	Drilling ahead
Comment:	Strong gas shows (15.5%, total gas 789 units) were encountered in an interbedded sand/silt stone sequence between 3,900 ft and 3,940 ft. Higher carbons (nC4 and iC5/nC5) were present as well, indicative of condensate. The plan is to drill ahead to the tentative total depth of about 6,560 ft. After logging the well, the best sands will be selected for 2 or more Drill Stem Tests. Depending on the outcome of the test and the logging analysis, completion options will be considered.

Background

Gas2Grid owns 100% of the 100,000 hectare onshore licence SC44 on Cebu Island in the Philippines. The licence contains two 1960's gas discoveries, Malolos-1 and Zaragosa-1. Gas2Grid's objective is to appraise the Malolos feature with a view to establishing a sustainable gas flow. In 1960, the well flowed gas from drill stem tests at rates of 5 mmscfd and 12.6 mmscfd from zones at 850m and 1850m respectively. If the aggregate flow of 17.6 mmscfd flow could be sustained, it would be sufficient to fire a 40MW power plant.

The objective of the current campaign is collect modern reservoir data and establish if the gas flow can be sustained and if, at what rates and pressure. A longer term (6 – 8 week) production test is scheduled to be carried out following the drilling campaign, should the result of the well be sufficiently encouraging.

The Malolos feature alone has potential gas resources of 50 bcf. It is on trend with three other culminations (Butak, Barili and Esperanza) which have a combined area of closure of 24 sq. km and estimated gas resources of 240 bcf based on simple assumptions derived from the Malolos-1 discovery. There are another 10 leads in the licence, the most attractive of which have potential gas resources in the order of 150 bcf. The tax regime in the Philippines is benign and affords returns similar to those achieved in Australia.

In the 60's, gas had no commercial value, as gas-fired power generation as it is now used was not yet developed. Furthermore, an electricity-hungry market has developed some 30 km north of SC44 where Cebu City has 1.5 million inhabitants, and is the 2nd largest city in the Philippines and a significant manufacturing centre. Gas2Grid will be appraising the Malolos discovery with the aim to produce gas for electricity generation. A deed of agreement has been entered into with Marubeni who would operate any power installation.

Gundi Royle
Managing Director