



## **OPERATIONS UPDATE - NATURAL GAS PRODUCED 9<sup>th</sup> May, 2011**

### **SERVICE CONTRACT 44 (100%), Onshore Cebu, Philippines**

#### **Malolos-1 Workover**

Malolos-1 Phase 2 Workover operations commenced in early April, 2011 with the implementation of a nitrogen enhancement of the existing shallow perforations (between 367 – 777 metres) in an attempt to improve natural gas productivity through blocked perforations or damaged, near well bore, rock formation.

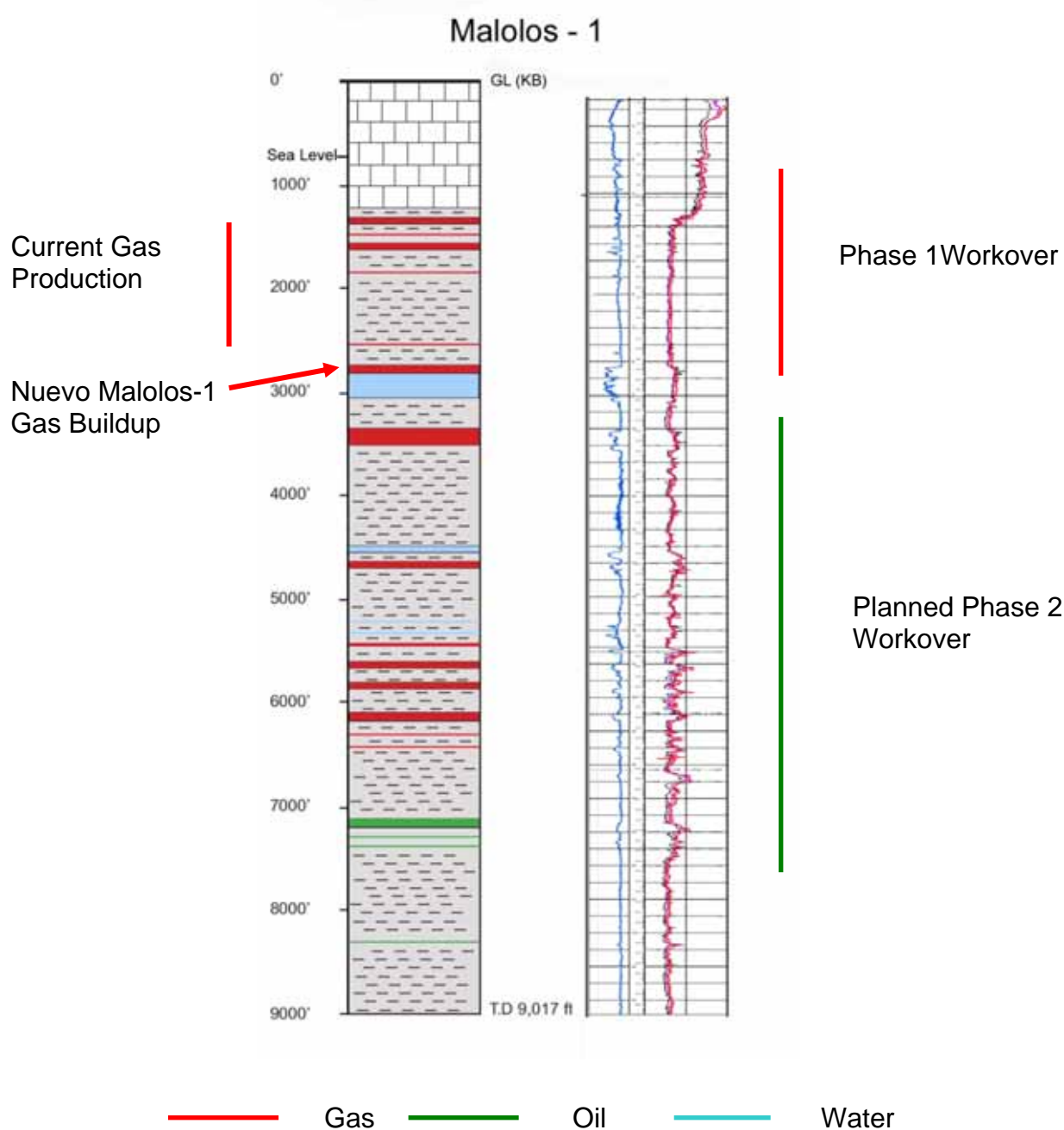


**Malolos-1: Natural gas being produced from the shallow reservoirs (26<sup>th</sup> April, 2011)**

The nitrogen enhancement program has resulted in very encouraging results with significant volumes of natural gas being produced from the well. Natural gas is flowing into the annulus and is quickly building up pressure. The annulus is periodically flowed to depletion and the well shut-in. Natural gas then immediately starts to build-up pressure in the annulus. We are cyclically flowing and shutting-in the annulus in an attempt to improve the gas flow rates.

The nitrogen enhancement was not planned as part of the original Phase 2 Workover, however as there have been equipment delivery delays we decided to proceed with this work in the interim.

We have been waiting for several months now on the delivery of essential equipment associated with the mud circulating system in order to drill-out cement plugs and clean the cased well-bore to provide clear access to approximately 2,200 metres. Once the well bore is clean we will record cased-hole electric logs and determine a well flow test program. The essential equipment is in short supply and the package we sourced has a priority agreement between the owner and another operator who are currently using it to drill an exploration well elsewhere in the Philippines. That operation has experienced significant delays. It now seems likely that those delays will result in a conflict with equipment availability. Gas2Grid is now sourcing alternative equipment so that further delays on the Malolos-1, Phase 2 Workover are not incurred.



Nuevo Malolos-1, which has been completed for production in the 822 metre sandstone reservoir, has now built up pressure in the tubing (140 psi). This is almost certainly due to the accumulation of natural gas and it is also a very encouraging sign. The 822 metre sandstone is assessed to have natural gas in a lower permeability, thick sandstone interval with a water contact located at the top of a much higher permeability part of the reservoir. We will review the likely testing of this well at a later date.

Gas and oil bearing sandstones are present deeper in the Malolos-1 well but they were not targeted during the Phase 1 workover which was conducted in March, 2010. The Phase 1 workover targeted gas bearing sandstones above 1,000 metres in depth. This work confirmed the existence of multiple, natural gas bearing sandstone intervals and also determined that the sandstone reservoirs are of good-excellent quality and they have not been damaged by previous drilling and completion work.

**Significance:** The flow of natural gas to surface from Malolos-1 and the build-up of gas pressure in Nuevo Malolos-1 are very encouraging and hopefully these results will increase the chance of success with the Phase 2 Workover that targets the lower, hydrocarbon bearing sandstone intervals. The presence of natural gas (no water) in the shallow sandstone intervals (367-777 metres) indicates that the current interpretation of natural gas and oil in the deeper sandstones reservoirs is highly probable. The presence of high quality reservoir sandstones is confirmed by Core-1 which was recovered in Nuevo Malolos-1 and the Phase 1 Workover flow test of the 822 metre interval in Malolos-1.

The Philippines remains an attractive region for oil and gas exploration with a fiscal regime providing for one of the lowest government payment systems across Asia. The region, from which SC44 is located, has a strong history of production for both oil and gas and will provide a number of commercial options for either the supply of oil to Asian refineries or recoverable gas as a fuel supply for a local, natural gas fired power station.

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