

26 October 2006

QUARTERLY ACTIVITIES REPORT FOR THE QTR ENDED 30 SEP 2006

This report summarises the activities for GulfX limited (GulfX) for the period 1 July 2006 to 30 September 2006.

Activity Highlights

- **Capital structure:** The capital structure remains as detailed in the previous quarter.
 - o 54.1 million Ordinary shares
 - o 7.5 million discovery shares (detailed conditions contained in the March Prospectus)
 - o 26.8 million options exercisable at 20 cents, expiry 31-Dec 2009

- **Cash balance:** Cash balance is \$3.0 million compared to \$3.2 million at June 30. The board remains committed to minimising cash expenditures in the lead up to drilling program. The changes made in the June quarter have had the desired effect of reducing the cash expenditures of GulfX. It is anticipated the reduced monthly expenditures will continue until GulfX nears the commencement of the drilling program or new activities necessitate the need for additional expertise and expenditures.

- **Corporate structure:** No further changes were made in the September quarter. The board is aware of the potential need for enhanced technical skills required for the future expansion of GulfX but believe the existing suite of drilling opportunities in conjunction with Ridgelake provides the appropriate platform from which to grow GulfX into the future. The board of GulfX continues to be confident in the capabilities of Ridgelake as the operating partner and that the relationship is of significant value.

- The board will continue to review the resources required in conjunction with the opportunities that arise in the near future.

EXPLORATION PROGRAM:

GulfX has worked with Ridgelake to develop an appropriate drilling program that targets the prime objectives whilst optimising the drilling costs. This will be achieved by:

- Taking advantage of the recently reduced exploration drilling costs. The Rigs required to drill the South Marsh leases are now available at close to US\$100,000 per day compared to US\$165,000 per day prior to the hurricane season.
- The experience of Ridgelake over recent years and the shortage of skilled labor for some of the drilling companies has encouraged Ridgelake to move from pay as you go drilling contracts to full turnkey contracts. The selective Turnkey contractors have experienced labor, appropriately maintained equipment and the technical know how to deliver drilling programs on time and on budget.
- The program attempts to avoid potential cost penalties and delays associated with drilling during the Hurricane season, particularly with the higher rig costs needed to drill the South Marsh Leases.
- The proximity of the targets to proposed operations within adjacent leases has facilitated negotiations with other exploration companies to share costs and opportunities. More details will be provided shortly once Ridgelake has finalised the development of their plans across a wider range of drilling activities.
- South Marsh 138 will be drilled independently of other leasehold operations and can be described in more detail below:

SOUTH MARSH ISLAND BLOCK 138 OCS-G 27089

Plans for drilling of South Marsh Island Block 138 OCS-G 27089 located in the Gulf of Mexico off the Louisiana coast in 225 feet of water, are at an advanced stage. The Operator is preparing the final Authority for Expenditure, to be circulated and approved by joint venture partners. When joint venture approval is received, the Operator will proceed with negotiations to contract a drilling rig.

The joint venture is optimistic that drilling of the first well on South Marsh 138 can commence in December 2006.

The drilling objectives are multiple Pleistocene age Lentic sands that range in depth from 9800 feet to 11,800 feet. The prospective area is covered by licensed 3D seismic.

In July and August, 2005, two wells were drilled in the adjoining Block 139, confirming 3D seismic hydrocarbon indicators. Well OCS-G-21106 B2 ST discovered hydrocarbons at approximately 9,500' TVD and nearly 100' deeper they found additional resources followed by mechanical problems causing them to discontinue drilling. Daily production of oil or gas has been released from the Office of Minerals Management for the month of May 2006. Average daily

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

GulfX Ltd

ABN

41 062 284 084

Quarter ended ("current quarter")

30 September 2006

Consolidated statement of cash flows

	Current quarter \$A '000	Year to date (3 months) \$A '000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	---	---
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	--- --- --- (168)	--- --- --- (168)
1.3 Dividends received	---	---
1.4 Interest and other items of a similar nature received	33	33
1.5 Interest and other costs of finance paid	---	---
1.6 Income taxes paid	---	---
1.7 Other (provide details if material)	---	---
Net Operating Cash Flows	(135)	(135)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	--- --- ---	--- --- ---
1.9 Proceeds from sale of: (a)prospects (b)equity investments (c)other fixed assets	--- --- ---	--- --- ---
1.10 Loans to other entities	---	---
1.11 Loans repaid by other entities	---	---
1.12 Other (provide details if material)	---	---
Net investing cash flows	---	---
1.13 Total operating and investing cash flows (carried forward)	(135)	(135)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(135)	(135)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	—	—
1.15	Proceeds from sale of forfeited shares	—	—
1.16	Proceeds from borrowings	—	—
1.17	Repayment of borrowings	—	—
1.18	Dividends paid	—	—
1.19	Other — Share issue expenses	—	—
	Net financing cash flows	—	—
	Net increase (decrease) in cash held	(135)	(135)
1.20	Cash at beginning of quarter/year to date	3,154	3,154
1.21	Exchange rate adjustments to item 1.20	(4)	(4)
1.22	Cash at end of quarter	3,015	3,015

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	30
1.24	Aggregate amount of loans to the parties included in item 1.10	—

1.25 Explanation necessary for an understanding of the transactions

Consulting fees and directors fees.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

+ See chapter 19 for defined terms.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	---	---
3.2 Credit standby arrangements	---	---

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	2,000
4.2 Development	---
Total	2,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	3,015	3,154
5.2 Deposits at call	---	---
5.3 Bank overdraft	---	---
5.4 Other (provide details)	---	---
Total: cash at end of quarter (item 1.22)	3,015	3,154

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 Ordinary securities	54,126,907	54,126,907		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 Discovery Shares	7,500,000	Nil		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	26,842,407	23,342,407	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 31-Dec-2009
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

Compliance statement

+ See chapter 19 for defined terms.

