

25 January 2007

QUARTERLY ACTIVITIES REPORT FOR THE QTR ENDED 31 DEC 2006

This report summarises the activities for GulfX limited (GulfX) for the period 1 October 2006 to 31 December 2006.

Activity Highlights

- **Capital structure:** During the quarter, GulfX raised approximately \$2.1 million, primarily to finance the drilling of South Marsh Island Block 138 Exploration Drilling commencing in December 2006. The updated capital structure of the Company is:
 - o 68,176,907 ordinary shares
 - o 7.5 million discovery shares (detailed conditions contained in the March Prospectus)
 - o 40,892,407 options exercisable at 20 cents, expiry 31-Dec 2009
- **SMI 138 Increased Working Interest:** In early December GulfX negotiated an increase of its working interest in SMI Block 138 from 12.5% to 16.25%.
- **Corporate structure:** To enhance technical skills for the future expansion of GulfX, the Board have engaged the Consulting services of David Rowell, an Oil and Gas professional with 22+ years experience in the Offshore exploration and development sector. Also they have commenced a recruitment process with Beilby Corporation to source a CEO to take the company into the next phase of Strategic growth. The existing suite of drilling opportunities developed in conjunction with Ridgelake Energy 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 of choice and that the relationship is of significant value. The board will continue to review the resources required to capture 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. Key factors are:

- 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 Island 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 as soon as 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 is described in more detail below:

SOUTH MARSH ISLAND BLOCK 138 OCS-G 27089

The Jack-up Drilling Rig Pride Georgia was moving to location South Marsh Island Block 138 OCS-G 27089 Well #1 in the Gulf of Mexico off the Louisiana coast on 31st December 2006. The Authority for Expenditure for this well had been approved and signed by all JV partners on 11 December for US\$11.9 million. GulfX commitment is A\$3.2million. This contract has been negotiated on a “turnkey” basis.

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 production rates for the B2 ST were 589 MCFG plus 565 barrels of oil per day. The B1 well produced an average 567 MCFG plus 559 barrels of oil per day during the same period.

The first well to be drilled in South Marsh Island Block 138 will target reserves estimated by an independent consultant with considerable interpretation experience in the region, at between a low of 6.7 million barrels of oil or 22.5 BCF of gas and a high of 10.1 million barrels of oil or 33.6 BCF of gas. This well represents one of a number of targets in South Marsh Island Block 138.

In summary, the South Marsh Island 138 prospects have multiple objectives with amplitude anomalies. Targets range from sands considered low risk (due to direct correlation of seismic amplitudes from producing wells in adjacent block South Marsh Island 139), with upside potential from the deeper targets

with anticipation of sizeable resources. A combination of good quality 3D seismic data and nearby discovery wells lower the exploration risk for block 138 leaving credible reservoirs to drill.

EXPLORATION SUMMARY

GulfX is excited by the opportunities within the 5 leases and believe a 16.25% working interest in South Marsh Is. 138, 12.5% in SMI 152 and 20% working interest of the remaining leases provides the potential for substantial upside. The target resource estimates (Note 1) are:

		Low	High
South Marsh Island 138 ---	mmbbls Oil	11.3	18.1
South Marsh Island 152 ---	mmbbls Oil	0.502	0.921
	bcf Gas	11.62	16.84
Vermilion 317 ---	bcf Gas	15.38	29.10
High Island 307 ---	bcf Gas	6.82	13.56
Viosca Knoll 79 ---	bcf Gas	6.99	18.02

(project details can be found on the GulfX website --- www.gulfx.com.au)

1. Apex Geophysical Services Inc. independent estimates of potential

KEY EVENTS SINCE END DECEMBER

Gulf of Mexico Drilling Update – SMI 138 #1

On the 24th January the depth reached in this exploration well was 2526m (8288ft). Progress is on schedule and the subsurface Geology is on trend. The first target Petroleum resource interval should be penetrated in early February. Regular reports are distributed via ASX to Shareholders.

Upcoming Drilling Program

While SMI 138 continues to be our immediate focus, with drilling only a few days from the target zone, GulfX is finalising a drilling program for the lower cost gas targets within Vermilion 317, High Island 307 and Viosca Knoll 79. It is hoped a program for at least 2 of these leases can be finalised to ensure drilling prior to the 2007 hurricane season.

GulfX with its operating partner Ridgelake is continuing negotiations with 3rd party operators with a view to expediting activities whilst lowering cost exposures.

GulfX will be in a position to communicate the details of the program by the end of Q1.

Paul Garner
Director

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")

31 December 2006

Consolidated statement of cash flows

	Current quarter \$A '000	Year to date (6 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	(3,416)	(3,416)
(b) development	—	—
(c) production	—	—
(d) administration	(261)	(429)
1.3 Dividends received	—	—
1.4 Interest and other items of a similar nature received	30	63
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	(3,647)	(3,782)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects	—	—
(b)equity investments	(563)	(563)
(c) other fixed assets	(3)	(3)
1.9 Proceeds from sale of: (a)prospects	—	—
(b)equity investments	—	—
(c)other fixed assets	4	4
1.10 Loans to other entities	—	—
1.11 Loans repaid by other entities	—	—
1.12 Other (provide details if material)	—	—
Net investing cash flows	(562)	(562)
1.13 Total operating and investing cash flows (carried forward)	(4,209)	(4,344)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(4,209)	(4,344)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	2,107	2,107
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	(112)	(112)
	Net financing cash flows	1,995	1,995
	Net increase (decrease) in cash held	(2,214)	(2,349)
1.20	Cash at beginning of quarter/year to date	3,015	3,154
1.21	Exchange rate adjustments to item 1.20	(38)	(42)
1.22	Cash at end of quarter	763	763

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	111
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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+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	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	200
4.2 Development	---
Total	200

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	763	3,015
5.2 Deposits at call	---	---
5.3 Bank overdraft	---	---
5.4 Other (provide details)	---	---
Total: cash at end of quarter (item 1.22)	763	3,015

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	68,176,907	68,176,907		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	4,050,000 10,000,000	4,050,000 10,000,000	15 cents 14 cents	15 cents 14 cents
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>	40,892,407	37,392,407	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 31-Dec-2009
7.8 Issued during quarter	14,050,000	14,050,000	20 cents	31-Dec-2009
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.

