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## PADRE ISLAND ACQUISITION QUESTIONS & ANSWERS

A number of investors have sought further information following the Company's announcement of the acquisition of Novus' interest in the Padre Island assets on 1 August 2005. The Board has consolidated the most commonly asked questions and provided answers based on current circumstances.

### **1. How was Golden Gate Petroleum Ltd able to purchase the assets for just US\$1 million compared to the much higher previous estimates of their value?**

Since Medco (an Indonesian company) completed its takeover of Novus (who was the operator of the joint venture), in approximately July 2004, the Padre Island asset was put on a "caretaker" basis while Medco decided its future plans for the US assets. Later in the year Medco announced its intention to sell all of the US properties of Novus and appointed an investment bank advisor to assist with the sale. However in April this year, Golden Gate was informed that the sale process had been suspended. In the meantime, due to the uncertainty of ownership of the Padre Island Joint Venture ("PIJV"), it was impossible to implement a drilling program, or even to have discussions with potential joint venture parties as they were vitally concerned as to the composition of the joint venture. Meanwhile, Golden Gate was becoming increasingly alarmed as leases to the underlying mineral rights were approaching renewal.

Accordingly, using its rights amongst other things to "sole risk" projects under the PIJV operating agreements, Golden Gate sought to force a resolution of this matter and sole risked the three largest drilling prospects. Medco were reluctant to comply with the drilling timetable set by Golden Gate or to commit to the funds required for lease renewal and drilling. If they failed to do so, under the joint operating agreements, their working interests in the key drilling prospects would be forfeit or placed in legal uncertainty. As a result, Golden Gate was in a position to emerge with Novus' interest in each of the 3 most mature prospects Plum Deep, Manzano and Murdock South without any payment to Novus.

In addition to the sole risk notices there were issues regarding the transfer of the seismic licences over the PIJV assets that made it considerably less expensive and easier for an existing JV partner to acquire the assets.

As a consequence the Novus interest in PIJV owned by Medco had much reduced sale value, and subsequent negotiations with Medco allowed the two companies to reach agreement on a sale price of US\$1 million. This sale price is predominately reflecting the value of the established reserves in the shallow producing fields and not Medco's interest in the exploration upside.

### **2. What is the value of the exploration assets in Padre Island?**

Given the inherent risks, there is never a sure way of valuing exploration before it is drilled. The Company believes the following information provides some guidance into the potential value of the PIJV assets:

- The PIJV internal “P50” pre-drilling volume estimates for each of Plum Deep, Manzano and Murdock South are respectively 293, 337 and 232 bcf (100% basis). A “P50” estimate is a probabilistically-derived estimate of the amount of gas that is just as likely to be exceeded as not if the prospect is drilled and discovers gas.
- In today’s market with spot gas prices above \$11 per mmbtu, and a forward gas curve declining to approximately \$7 per mmbtu only by end of 2010, Golden Gate estimates one bcf of gas in the ground at Padre Island to have a PV<sub>10</sub> (present value using a 10% discount rate) of at least US\$2 million. Thus a discovery of 200 bcf would be worth US\$400 million on this basis.
- The independent experts (Gaffney Cline & Associates) report undertaken during Novus’ defence of the Medco takeover offer valued Novus’ PIJV interests at between US\$20 million and US\$40 million. This was prepared in March 2004.

### **3. How much will it cost to drill up the acreage at Padre Island?**

The prime three exploration wells which Golden Gate plans to drill are Plum Deep, Manzano and Murdock South. Having taken over the operatorship, we are currently reviewing the former operator’s cost estimates for these wells. We need to allow for the increased drilling and other service costs that are prevailing in today’s market in the USA, as well as the much higher cost of tubulars as a result of worldwide steel prices. However, our preliminary estimate is that it will require US\$17-US\$22 million to drill these three wells on a 100% basis.

Of course, if these wells, or any one of them, result in a discovery then there would be further drilling of other unexplored prospects as well as developing and producing the gas discovered. Such follow-up drilling is planned to be funded out of the production and value of the reserves established by the first exploration successes.

### **4. How will Golden Gate pay for the exploration drilling?**

The issue by Golden Gate of the sole risk notice involved a potentially large financial commitment and was undertaken with the support of a third party industry player. This sole risk notice created the opportunity to acquire Novus’ interest at such an attractive price. In accordance with understandings made at the time the notice was issued, Golden Gate is finalising an agreement to on-sell half its Padre Island exploration interests to the third party at cost. An announcement in relation to this on-sale will be made as soon as the agreement is finalised.

Golden Gate will retain all of the production assets it acquired from Novus, leaving it with a 40% to 80% working interest in the PIJV production assets and a 40% to 50% working interest in the key PIJV exploration assets (post the above on-sale). The attached table sets out the PIJV interests on a post on-sale basis.

Golden Gate intends to farm down its interest in the key exploration assets (Plum Deep, Manzano and Murdock South) to a target level of 20-30%. The Company is in discussions with a number of parties who are interested in participating in this ready-made, high impact exploration drilling campaign. The Board is confident of being able to farm down to such levels on terms that will be attractive to our shareholders. We are considering transactions that will cover a substantial portion of exploration and development costs that will leave Golden Gate with a reduced working interest (20-30%), as against transactions in which Golden Gate is exposed to making its own capital contribution and taking on more direct risk.

Prior to our recent acquisition of Novus’ interests, Golden Gate’s exposure to Padre Island was only 10%. The Novus acquisition will double to treble the Company’s exposure to future drilling in the high impact exploration prospects as well as at least quadrupling its share of gas production from existing production. At current prices and recent production rates the Company’s monthly income exceeds A\$200,000.

## **5. Is Golden Gate capable of being operator?**

Yes, operatorship of an oil or gas project, especially in an environment (such as Texas) where there is a very deep pool of skills available through contracting and service companies is manageable. Golden Gate has been carefully planning over recent months for the contingency that it would become operator of at least part of the Padre Island project. We have identified office space, and potential staff (both as direct hires and as contractors).

Of course to get the best terms for a farm in on behalf of our shareholders, it may make sense for a farminee to become operator of one or more of the drilling projects, and we will consider this in the broader context of our detailed farmin negotiations.

## **6. Who are Sampala Investments, and how will the Company repay the loan?**

Sampala Investments Pty Ltd is a private company associated with Mr Craig Burton, a non executive director of the Company. The essential terms of the loan were described in the release of 1 August 2005.

The opportunity for the Company to secure the additional interest in Padre Island arose in a short time frame. The loan was on short notice to enable Golden Gate to quickly secure this valuable asset and to give Golden Gate time, having secured the asset to advance a farm down, partial disposal or equity raising.

The loan from Sampala is repayable 6 months after drawdown or in the event that the Company makes an equity offering. However, at this stage Golden Gate has been approached by several parties interested in participating in the exploration campaign, hence suggesting that cash may be available from the refund of sunk costs or other means which could be available to repay the debt. It is the Board's intention to go forward with the Company's projects under the best financial terms to create the best possible economic result for the Company and its existing shareholders.

## **7. Are you planning a rights issue?**

Not at this stage. As we said above, it is the Board's intention to go forward with the Company's projects using various means that are available to us. Having a higher starting equity position gives us the ability to either sell or farm down our exposure. The strong interest in the US energy sector as gas prices reach record highs, combined with the fact that we have large exploration targets defined by 3D seismic gives us a high degree of comfort we can fund our Padre Island interests on attractive terms.

The increased working interest in production from Padre Island as well as the Bethany production currently give Golden Gate its highest production volumes at a time of record high gas which also enhances our funding capabilities.

On behalf of the  
Board of Directors

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<b>PADRE ISLAND JOINT VENTURE PARTICIPATING INTERESTS</b>				
	<b>GGP</b>	<b>3<sup>rd</sup> Party</b>	<b>MITSUI</b>	<b>BNP</b>
<b>Production Fields</b>				
La Playa field (local private company KCS has a 20% interest)	40%		15%	25%
West Bird field	50%		20%	30%
La Playa Deep	80%		20%	
<b>Prospects</b>				
Murdock South and Plum Deep*	50%	50%		
Manzano*	40%	40%	20%	
Kingsway*	50%	50%		
Wilson*	40%	40%	20%	
Lemon Seed prospect (deep) *	25%	25%	20%	30%
Ultra deep sections *	25%	25%	20%	30%
Shallow leases over the Hook, Fault/County Line, El Mar and Dunn Deep areas*	10%			90%
All other leases (including all identified Deep prospects excluding Lemon Seed; the balance of the Shallow leases excluding those noted above; the Tomato gas field.	40%	40%	20%	

\* GGP as Operator

#### **Disclaimer**

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