

29 October 2004

The Manager Companies  
Australian Stock Exchange Limited  
20 Bridge Street  
Sydney NSW 2000

(5 pages by email)

Dear Madam

**REPORT ON ACTIVITIES FOR THE QUARTER ENDED  
30 SEPTEMBER 2004**

**1. QUARTERLY HIGHLIGHTS**

**USA**

- East Esponda pipeline construction being completed, allowing gas production to commence in the December quarter.
- Planning complete for the commencement of drilling at West Esponda in the December quarter.
- Oriva Gas-In-Place resource estimate completed.
- Further acquisitions in the USA treble the Company's holdings to 16,636 net hectares (41,109 acres) since listing.

**AUSTRALIA**

- Planning completed for commencement of drilling in the Gippsland Basin in the December Quarter.

**2. USA OPERATIONS**

The Company has rights to the East Esponda, West Esponda, Whisky Draw and Oriva Projects in the Powder River Basin, Wyoming. These projects cover a combined 5,063 net hectares (12,511 acres).

The Powder River Basin encompasses approximately 67,000 square kilometres in the northern Rocky Mountains of the USA straddling the northeast of Wyoming and the southeast of Montana. The Powder River Basin is estimated to contain more than one trillion short tons (0.9 trillion tonnes) of coal with potential coal bed methane ('CBM') resources of over 25 trillion cubic feet. CBM production in the Powder River Basin has increased at a rapid rate since 1995 with production today of around 900 million cubic feet per day from over 10,000 producing wells.

In addition, the Company has secured the rights to the Skull Creek Project in the Cherokee Basin, Kansas. This project covers 11,573 net hectares (28,598 acres).

The Cherokee Basin contains nearly two dozen Pennsylvanian aged coals with thickness ranging up to 9 metres but more typically up to 4 metres with gas contents ranging from 150 to 375 standard cubic feet per tonne. The principal CBM target coal seams occur in the Cabaniss and Krebs Formations of the Cherokee Group at depths of approximately 600 metres.

## **2.1 ESPONDA PROJECT, POWDER RIVER BASIN, WYOMING, USA**

### **East Esponda**

Under two separate arrangements, the East Esponda Project, covering 469 net hectares (1,160 acres) are being developed by the Company's partners, Western Gas Resources Inc ("Western Gas") and Kennedy Oil.

The drilling programs have been completed by the Company's two joint venture partners with Kennedy Oil completing twelve wells and Western Gas completing eight wells. All wells have been completed as future production wells.

During the quarter, Kennedy continued its dewatering program prior to initial gas recovery which is anticipated before the end of the year.

Also during the quarter, Kennedy commenced the construction of 19 kilometres of pipeline which will link the project to the Powder River Basin gas pipeline network.

Western Gas has completed its eight wells at East Esponda as part of its much larger development program. Western Gas has continued with its dewatering activities and in-field infrastructure construction during the quarter with initial production expected during the March quarter.

### **West Esponda**

During the quarter, a State of Wyoming land parcel was leased by the Company through competitive bidding. The area is known as the West Esponda State and lies within the Company's West Esponda Project area. The block consists of 259 net hectares (640 acres) and is subject to a 16.67% State royalty. Besides increasing the number of drill locations by eight, this acquisition consolidates the land position in this prospective northern area of West Esponda.

The West Esponda Project lies near the Powder River Basin's asymmetric structural axis, and situated between the depositional centres of the stratigraphically higher Buffalo-Lake De Smet Coalfield to the west (Eocene Wasatch Formation) and the Gillette Coalfield (Paleocene Fort Union Formation) to the east. Thus, the more shallow Eocene-aged coals are being eroded to the east and south across the region and depositionally splitting with less ash content than its thickest member near Buffalo; and the Big George Coal, a part of the Gillette Coalfield, present at East Esponda is splitting towards the west. Total coal isopach mapping of this sparsely drilled area of the deep Powder River Basin estimates between 20 - 45 metres of coal is present.

The Company plans to drill up to eight stratigraphic wells totalling 7,300 metres at West Esponda to confirm the total coal isopach mapping prior to development drilling programs. Drilling is expected to commence in December quarter.

## 2.2 ORIVA PROJECT, POWDER RIVER BASIN WYOMING, USA

The Oriva Project contains nearly all productive coals in the Powder River Basin: Felix, Smith, and Anderson Seams (depths 60 - 300 metres), Canyon/Cook and Wall Seams (depths 300 - 500 metres). In addition to these primary coal bed targets, there are two deeper seams, Moyer & Danner at depths of approximately 750 metres. State mandated 33 hectare (80 acre) well spacing allows eleven well locations to be drilled upon and the multiple seams present will likely warrant a minimum of two wells per location be completed. Drilling at the Oriva Project is expected to commence in the first half of 2005.

During the September quarter, a Gas-In-Place ('GIP') resource estimate was completed for the Oriva Project. The GIP resource estimate totalled 12.5 billion cubic feet ('Bcf') within the Felix, Smith, Anderson, Anderson Lower, Canyon and Wall seams.

| Seam           | Gross GIP (Bcf) | Average Seam Depth (m) | Average Seam Thickness (m) |
|----------------|-----------------|------------------------|----------------------------|
| Felix          | 0.794           | 97                     | 7.9                        |
| Smith          | 0.896           | 211                    | 4.1                        |
| Anderson       | 2.760           | 297                    | 9.3                        |
| Anderson Lower | 1.494           | 315                    | 4.6                        |
| Canyon         | 1.784           | 362                    | 5.2                        |
| Wall           | 4.752           | 481                    | 11.5                       |
| <b>Total</b>   | <b>12.479</b>   |                        | <b>42.6</b>                |

The resource estimate was completed by Dr. Jimmy E. Goolsby of Goolsby, Finley & Associates of Casper Wyoming. Goolsby, Finley & Associates are considered to be pre-eminent authorities on the CBM geology of the Powder River Basin, providing consulting services to the State's leading CBM producers and developers. The GIP resource is calculated using 80 acre blocks (legal drill spacing unit), the seam's thickness (closest neighbour interpolation) and a varying gas content factor of between 15 and 85 standard cubic feet per ton ('Scf/t') depending on specific coal depth.

Studies are underway for the Federal POD (Plan of Development) to determine the manner in which the eleven multiple well locations will be operated. The primary aspect of the POD is the Water Management Plan to determine the methods for the handling and disposition of produced coal bed water.

In addition to the CBM potential of the leasehold, a conventional oil and gas prospect in the Lower Cretaceous Muddy Formation may be developed. The Company would likely farm-out the drilling of this deep (3,000 metre) exploration well.

## **2.3 SKULL CREEK PROJECT, CHEROKEE BASIN KANSAS, USA**

The Skull Creek Project is located in the western portion of the Cherokee Basin of southeast Kansas. The tenement occupies 11,573 net hectares (28,598 acres) in Cowley, Elk and Chautauqua Counties near existing infrastructure and within a receptive State regulatory regime.

The project lies to the west and north or south of CBM projects currently being drilled by J M Huber, Amvest, Layne Christensen and others where at least three to five coal seams of the Cherokee Group are present and productive.

The Cherokee Group coals are Pennsylvanian in age and typically of high-volatile A and B bituminous rank. The Cherokee Basin contains nearly two dozen coals with thicknesses from nil to 9 metres but more typically are approximately 4 metres with gas contents ranging from 150 to 375 Scf/t. The cyclic nature of the deposits makes it possible to intersect multiple coal seams in a single well. The major Cherokee Group coal beds make up the largest portion of this resource and include the "Aw", Bevier, Mineral, Riverton, and Weir-Pittsburg coals. The Weir-Pittsburg Seam has been actively mined by both open pit and underground methods in southeast Kansas since the 1900s. With the exception of the Weir-Pittsburg coal these as well as the "Bw", Drywood and Tebo coals are present within the Skull Creek prospect.

The leases are not restricted to CBM, but convey all oil and gas rights to the Company. Conventional oil and gas targets may also exist in the Skull Creek Project and will be evaluated during all drilling operations. Underlying the region are Mississippian and Ordovician aged carbonates that yield conventional hydrocarbons. Also, the Ordovician sediments serve as a water disposal zone for co-produced coalbed methane water. Additional conventional hydrocarbon occurrences in the overlying strata of the Kansas City-Lancing Group are potential targets.

The Company plans to drill up to seven stratigraphic wells totalling 6,400 metres on its tenement to confirm the total coal isopach mapping and assess the in-situ gas of both the coal horizons and conventional reservoirs prior to development drilling programmes. Drilling is expected to commence in the first half of 2005.

## **3.0 AUSTRALIAN OPERATIONS**

The Company holds rights to prospective CBM projects in the Gippsland and Otway Basins of Victoria, the Eromanga and Willochra Basins of South Australia and the Gunnedah Basin of New South Wales. The Company continues its data collation program leading to the development of initial exploration programs, the most advanced being in the Gippsland Basin. In addition, the Company continues its appraisal program of potential CBM prospects in Australia.

### **3.1 GIPPSLAND BASIN**

The Work Plan Application submitted to the Victorian Department of Primary Industries is awaiting final approval. It proposes to drill eighteen stratigraphic bores to depths of 500 metres throughout the Gippsland Basin tenement to evaluate the prospective coal bed methane potential of the Cretaceous Strzelecki Group. Approval is expected imminently with drilling to commence shortly thereafter.

The CBM potential in the Gippsland Basin occurs in the black coals of the Early Cretaceous Strzelecki Group. The Gippsland Basin including the Bass and Otway Basins is a complex rift basin system between the margin of Australia and the Lord Howe Rise formed during the Jurassic-Early Cretaceous. This was followed by the eventual continental separation and formation of the seafloor spread between Australia, Antarctica and New Zealand. The northeast trending structural lineaments of the onshore Gippsland Basin are composed of anticlines, synclines, monoclines, extensional and compressional faults.

The black coalfields of the onshore Gippsland Basin are within feldspathic sediments of the Early Cretaceous Strzelecki Group. The stratigraphy of the non-marine volcanolithic Strzelecki Group has been further subdivided into the Tyers Conglomerate, the Reintouls Creek Sandstone and the "normal" Strzelecki Group for the eastern part of the Gippsland Basin. The principal rocks are arkosic sandstones with interbedded mudstones, conglomerates and coal. The black coals are confined to the lower sections of the Strzelecki Group. Black coal mining commenced during the late 1890s to approximately 1960 to supply the State Railway system with locomotive fuel and heating. Mining areas included those around Korumburra, Outtrim-Jumbunna, Wonthaggi, Kilcunda-Woolami and Cape Paterson. With the exception of the latter area, these historical mining centres will receive stratigraphic bore evaluations.

The various Gippsland tenements with the exception of EL 4807 have become amalgamated into a single exploration licence, EL 4500. The consequence of this facilitates both the reporting and permitting process. Concurrently the tenements have been reduced to a total 2,442 square kilometres with a commensurate reduction in exploration expenditures.

#### **4.0 OTHER**

The information in this report that relates to mineral resources is based on information compiled by Dr. Jimmy E. Goolsby of Goolsby, Finley & Associates and supervised by Dr. Richard Haren who is a Member of The Australasian Institute of Mining and Metallurgy and who is a competent person as defined by the 1999 edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves.

For further information, contact Norman Seckold, Bruce Riederer or Peter Nightingale on (61-2) 92475112.

Yours sincerely



Peter J. Nightingale  
Director

pjn2769