

29 July 2005

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

(9 pages by email)

Dear Madam

**REPORT ON ACTIVITIES FOR THE QUARTER ENDED
30 JUNE 2005**

1. QUARTERLY HIGHLIGHTS

USA

- CBM production of 31,029 Mcf (18,850 Mcf NRI) despite well shut-ins.
- Average CBM sale price received was US\$5.88 per Mcf.
- Three Wall seam production wells drilled at Oriva Throne.
- BLM Plan of Development application prepared for Oriva Federal.
- Further strategic acquisitions at West Esponda.
- Production test well at Skull Creek well being completed.

AUSTRALIA

- Positive stratigraphic drilling program results in the Gippsland Basin.

2. USA OPERATIONS

2.1 POWDER RIVER BASIN, WYOMING, USA

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.

2.1.1 EAST ESPONDA

Under two separate arrangements, the East Esponda Project, covering 469 net hectares (1,160 acres) is 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 in its Big Cat field and Western Gas completing eight wells. All wells have been completed as future production wells.

Western Gas has informed the Company that the necessary permits to commence production activities cleared the public comment process and Western Gas is now waiting for a water discharge permit and pipeline and water treatment facility construction permit to be granted by the Wyoming Department of Environmental Quality ('WDEQ'). Upon receipt of these permits, Western Gas will commence construction of approximately 15 miles of water discharge pipeline and a water treatment facility followed by the commencement of production.

The remaining East Esponda tenements developed by Kennedy Oil at its Big Cat CBM field continue in a dewatering phase with two areas reporting initial gas flows totalling 130 Mcf per day.

Due to the fact that commercial scale gas production is behind schedule, the Company commissioned CBM International Engineering ('CBMIE') to carry out an independent geological and reservoir assessment of the Big Cat CBM field. CBMIE completed its reservoir assessment by using the nearest commercial analogues, Devon Energy's Juniper Draw and Anadarko's County Line projects. The study indicates that greater dewatering rates must be attained to accelerate desorbed methane gas production from the Big George Seam. It is projected that by increasing the wells' water flow rates from their current 450 barrels water per day (bwpd/well) to 750 - 850 bwpd/well the time to desorbed gas production ranges between 14 and 7 months, respectively. Without greater water volumes being attained the projected time is 26 months.

CBMIE's recommendations to accomplish commercial sales and increase water production are twofold. Firstly, to install a temporary smaller compressor which would require a lesser amount of field gas to operate to generate revenues from the already produced gas; and, more importantly, this compression will allow for lower wellhead pressures and reduce any back-pressure on the reservoir which will accelerate the coal desorption. Secondly, an aggressive well work-over plan should be initiated to reduce any pressure drop between the reservoir and well bore by re-perforating the wells with a greater number shots per foot (spf) from Kennedy's current 2 spf to 6 - 8 spf (i.e. a standard practice in the western Powder River Basin). In conjunction with this work, a thorough analysis of the water quality information should be undertaken to mitigate any scaling tendencies and to proactively complete a more systemic well cleanout schedule, which may be likely through remedial acid treatments.

The previously announced East Esponda gas in place resource estimate is unchanged. Kennedy Oil, who as the operator and is sole funding these wells (to be repaid from production), has been provided with, and is assessing, these recommendations.

2.1.2 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 to 45 metres of coal is present.

This estimate is supported by results from the Company's eight well stratigraphic drilling program which was completed at West Esponda during the March quarter which intersected gassy coal with cumulative intersections of up to 50.0 metres and an average of 35.4 metres, thereby indicating that the Big George coal horizon can be extended 16 kilometres to the northwest with a total thickness correlative to that present in the western portions of the Company's East Esponda Project.

Acquisitions

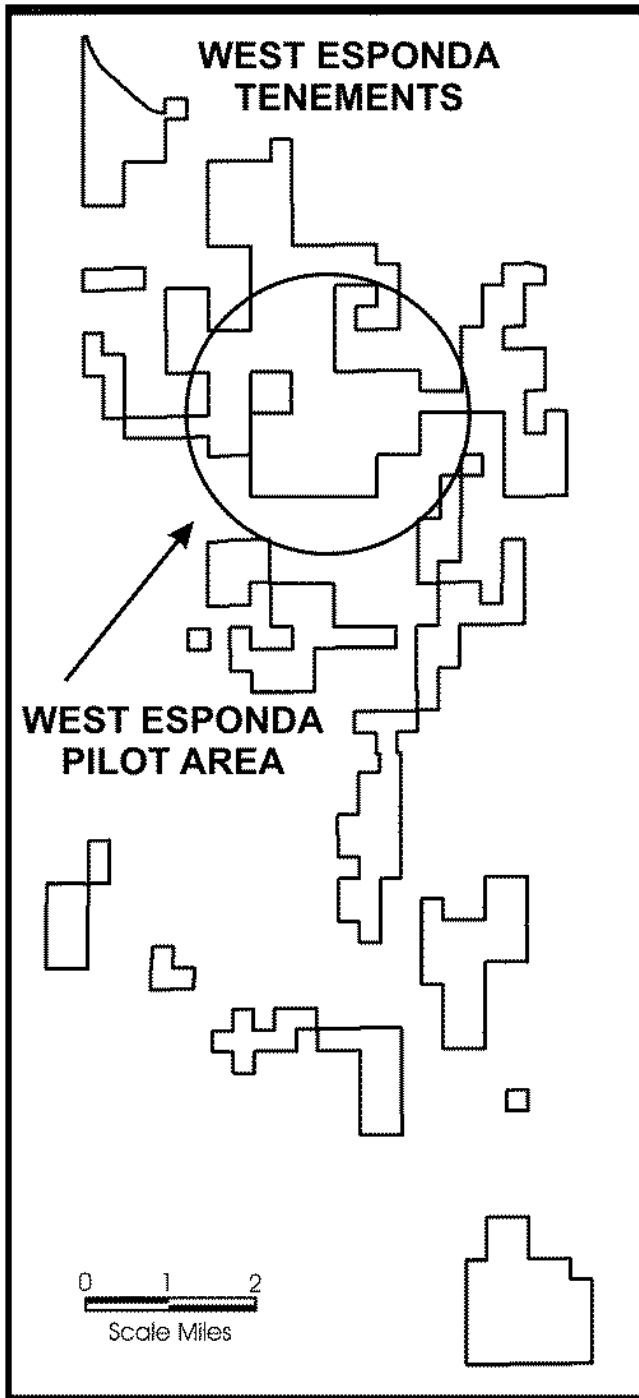
The Company has continued its tenure consolidation in the northern area of the West Esponda leasehold with the acquisition of seven freehold tenements totalling 363 net hectares (898 acres) in Townships 49N and 50N, Ranges 80W and contiguous with the Company's existing tenements. These acquisitions, which cost US\$59,756, are strategic as more efficient methods of producing the reservoir can be accomplished. In fact, one of these leases will be utilised as an initial production well on West Esponda.

Future work

The coal resources identified during the stratigraphic drilling program, completed in the March 2005 quarter, in the northern portion of the West Esponda project area will be initially developed through a ten well pilot project ('Pilot') which is the first phase of the planned 80 well development program.

The Pilot will not only test the most westerly extensions of the Big George Seam in the Powder River Basin, but will provide invaluable site specific technical knowledge of the reservoir by its initial development, dewatering and production and will provide an evaluation of the completion methodologies.

Although several additional shallow coals will remain 'behind pipe' the primary emphasis will be on the testing of two deeper seams between 1,850 and 2,050 feet. The two seams selected for development, correlative to the Big George, contain the majority of the Pilot area's gas in place resources.



The estimated cost to drill and complete the ten wells is \$2.0 million with a projected monthly operating cost of \$33,000. The development schedule projects initial dewatering beginning in the fourth quarter of 2005.

The Company is currently selecting its primary contractor for the Pilot from a limited number of currently available, and qualified, drilling companies. This limited availability of drilling contractors has been exacerbated with the significantly increased natural gas pricing for in North America (up over 15% between January and June) causing another Powder River Basin 'boom' in equipment utilisation.

2.1.3 ORIVA PROJECT

The Oriva Project comprises two project areas, Oriva Throne which is in production and Oriva Federal which is in the permitting phase. The Oriva Project is located approximately 21 kilometres west of Gillette, Wyoming, and totals 505 net hectares (1,248 acres) in Sections 8, 9 and 10, Township 50 North, Range 74 West, Campbell County.

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.

The Company's interest in Oriva Throne is a 75.975% Working Interest (60.78% Net Revenue Interest). The Oriva Throne leasehold interest is subject to a 20% land/mineral owner royalty.

The Company's interest in Oriva Federal is a 100% Working Interest (85.5% Net Revenue Interest) and subject to a 12.5% mineral owner royalty and a 2% overriding royalty.

The proximity of Oriva Throne to Oriva Federal is of strategic importance, not only for the addition of reserves but to the overall project development with access to existing infrastructure and operations.

Oriva Throne Production

Oriva Throne is operated by Emerald Operating Company and Rocky Mountain Exploration of Denver, Colorado ('EOC-RMEI') which holds the remaining 24.025% Working Interest (19.25% Net Revenue Interest) in Oriva Throne.

Production at Oriva Throne is from 5 State mandated 32 hectare (80 acre) spacing CBM pad sites each of which have been developed with 3 wells, producing CBM from the Felix, Smith, Anderson and Wall Coal seams. In addition, during the June 2005 quarter, a further 3 additional wells were completed in the Wall seam as 16 hectare (40 acre) 'exception locations'.

Because of the excellent permeability in the coal seams in the Powder River Basin, the Oriva Throne Project production wells were shut in during the quarter to prevent fouling during the drilling of three additional 'exception location' wells (refer below). During this shut in period there is no production from the wells. All wells are now back on-line.

CBM production for the June 2005 quarter was as follows:

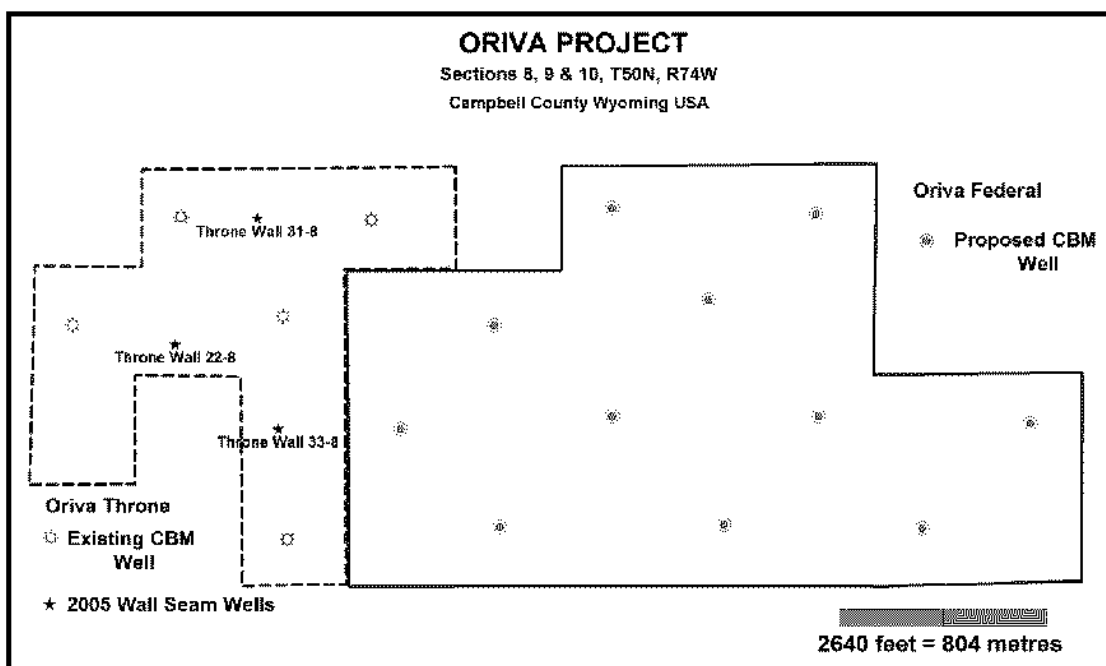
Coal Seam	CBM Production (Mcf)	Net Revenue Interest (Mcf)
Anderson	25,537	15,514
Felix	4,994	3,034
Wall	498	302
Total	31,029	18,850

The Company's NRI share of production was sold for an average of US\$5.88 per Mcf for total net revenues of US\$110,895 and the Company's share of operating costs totalled US\$169,362. Production and unit operating costs were adversely affected, as a one-off, by the well shut-ins necessitated by the 'exception spacing' drilling of the Wall seam during the June 2005 quarter.

Oriva Throne Drilling

During the June 2005 quarter, 3 additional wells were completed in the Wall seam at approximately 460 metres (~1,500 feet) and drilled as 16 hectare (40 acre) 'exception locations' to the usual State mandated 32 hectare (80 acre) well spacing.

The locations of these wells are shown below in relation to the existing drilling at the Oriva Throne Project and to the Company's wholly owned Oriva Federal Project.



Results from the drilling, which were positive and confirmatory of the project, are as follows:

Well	Total Depth (metres)	Intercept From - To (metres)	Total Intercept (metres)
Throne Wall 33-8	479	460 - 477	17
Throne Wall 31-8	482	465 - 481	16
Throne Wall 22-8	462	443 - 461	18

Although prior pump change-outs in the existing Wall wells successfully increased water production and decreased water levels, the completion of these new wells is expected to more rapidly accelerate dewatering times to gas production in this newly developing CBM horizon in this portion of the Powder River Basin.

All pipeline and electrical infrastructure to the three wells has been completed, the wells have been water enhanced and have already been brought on-line utilising the existing infrastructure.

It is planned that five additional wells will be completed to produce from the remaining Smith, Lower Anderson and Canyon seams. These wells are planned to be completed conventionally with commingled production.

The Company is reviewing opportunities to acquire additional producing acreage in the proximity of the Oriva Project.

Oriva Federal

Documentation to support the Company's Plan of Development ('POD') application is undergoing final internal review prior to its submission to the Federal Bureau of Land Management's Buffalo Field Office (BLM-BFO). The Oriva Federal project will develop eleven pad sites on the State mandated 32 hectare well spacing with three CBM production wells on each pad.

To meet the specific requirements of the POD, the Company has completed Archaeological and Wildlife studies and developed a Water Management Plan to contain the water generated from its well dewatering program.

The requisite Spring wildlife survey identified two new Sage Grouse leks (breeding areas) not previously colonised within the boundaries of the tenure. These new sites have necessitated some mitigation measures to avoid and/or minimise disturbance to these ground nesting birds. The BLM-BFO may place certain restrictions on the Company's ground disturbing activities during the Spring breeding time.

Although the Company's Water Management Plan will provide for standard CBM style reservoirs either along or in ephemeral channels, the project has been designed to fully contain its water output of nearly 25,000 bwpd in constructed earthen pits, called Off-Channel Containment Pits. Without application for a beneficial water use, these pits are not regulated by the WDEQ as at East Esponda but regulated through the Wyoming Oil and Gas Conservation Commission (WOGCC). The Company's plan to fully contain its water production should be reviewed favourably during the Federal permitting process.

2.2 CHEROKEE BASIN KANSAS, USA

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.

2.2.1 SKULL CREEK PROJECT

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 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 up to 9 metres but more typically up to 4 metres with gas contents ranging from 150 to 375 standard cubic feet per ton. 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 FR11-31 well scheduled to be perforated and tested was postponed during the previous quarter pending drill rig availability, and the on-site delivery of the tubing, rods and pump, tank battery, separator and other ancillary surface equipment. A testing period of several months is anticipated before a final decision to drill and complete additional production wells can be made.

3. 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 Gippsland Basin Project is located to the southeast of metropolitan Melbourne between Dandenong, Wonthaggi, Leongatha and Moe.

The CBM potential in the Gippsland Basin occurs in the black coals of the Early Cretaceous Strzelecki Group. The Gippsland Basin is a complex rift basin system with the northeast trending structural lineaments composed of anticlines, synclines, monoclines, extensional and compressional faults.

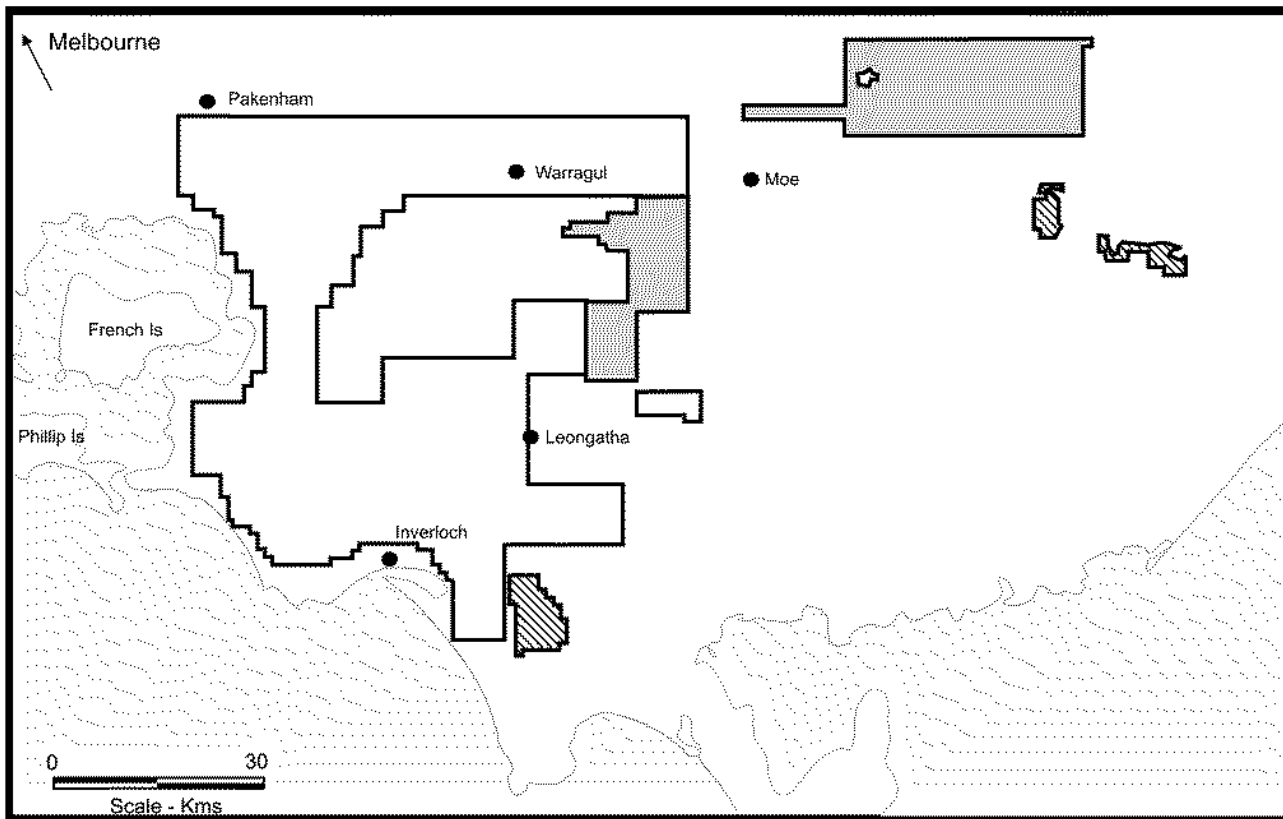
As shown in the map below, during the June 2005 quarter, three tenements, ELs 4859, 4861 and 4862 (hatched), totalling approximately 127 km² have been granted in the greater Gippsland Basin Victoria and two other applications, ELAs 4860 and 4877 (shaded grey) which total approximately 658 km² are pending. These tenements add to the Company's existing tenements (ELs 4500 and 4807) which total approximately 244 km².

Since the end of the March 2005 quarter hole GS13 was completed. This was the first hole drilled with the larger rig. The previous rig was limited to a depth capacity of 360 metres. GS13 intercepted similar coals at shallow depths to those encountered in GS12, which was drilled with the smaller rig. Hole GS13 intercepted a cumulative 7.5 metres of gassy bright and ashy coals. More than half of the intercepts were in coals not previously encountered as they were below the limits of the smaller rig.

The prospectivity of the deeper stratigraphic section, as encountered in this hole, is highlighted by the fact that the cumulative average for the previous five (shallow) holes was 1.95 metres. It is important to note that the base of the prospective Strzelecki Group's coals was not reached in GS13, again due to rig limitations.

The GS15 offset well to the very prospective areas located by the stratigraphic drilling program in bores GS12 and GS13 was abandoned due to ground conditions and water inflow. All further drilling was temporarily suspended until a more suitable drilling rig can be secured.

A desorption core hole is planned to be drilled at this location prior to the continuation of completing more stratigraphic bores.



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

Yours sincerely

Peter J. Nightingale
Director

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