

31 October 2006

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

(11 pages by email)

Dear Madam

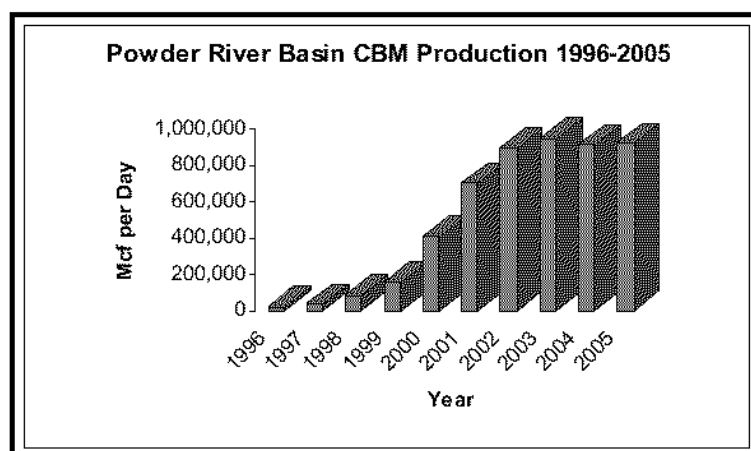
**REPORT ON ACTIVITIES FOR THE QUARTER ENDED  
30 SEPTEMBER 2006**

**1. QUARTERLY HIGHLIGHTS**

- Wyoming reserves and future revenue report estimate completed.
- West Esponda gas-in-place resource estimate completed.
- West Esponda pilot production dewatering continues.

**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 (see graph below) with current production steadily above 900 million cubic feet per day from over 10,000 producing wells.



## 2.1.1 INDEPENDENT REPORT ON THE COMPANY'S POWDER RIVER BASIN RESERVES AND FUTURE REVENUES

Netherland, Sewell & Associates, Inc ('NSAI'), a worldwide petroleum consultancy group based in Dallas Texas, has prepared an Estimate of Reserves and Future Revenues report for all of the Company's Powder River Basin projects as at 30 June 2006. The summary of the NSAI forecast Estimate of Reserves and Future Revenues is as follows:

Reserve Category	Company Interest Gross Reserves (MMcf)	Company Interest Net Reserve (MMcf)	Company Interest Gross Revenue (US\$M)	Company Interest Net Revenue (US\$M)
Proved	4,384.3	3,716.1	25,926.3	8,045.8
Proved+Probable	8,991.1	7,458.9	52,639.0	19,918.3
Proved+Probable+Possible	44,597.0	36,541.0	252,957.1	65,182.0

NSAI's reported forecast reserves and revenues are based on the following key assumptions:

- gas prices (US\$/MMbtu) ranging between \$7.32 to \$9.17;
- lease and well operating costs escalated at 1.5% per year;
- future capital costs escalated at 1.5% per year to the date of expenditure;
- Company interest net revenue is after deductions for state production taxes and ad valorem taxes, royalties, future capital costs, operating expenses and payments to net profits interests but before USA federal income taxes.

NSAI states: "This report has been prepared in accordance with Canadian National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101) and the Canadian Oil and Gas Evaluation Handbook (COGEH)"; and, further "The reserves included in this report conform to the definitions set forth in Section 5 of Volume I of the COGEH from the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society)."

An analysis of the NSAI Estimate of Reserves and Future Revenues by project is as follows:

Reserve Category	Company Interest Gross Reserves (MMcf)	Company Interest Net Reserve (MMcf)	Company Interest Gross Revenue (US\$M)	Company Interest Net Revenue (US\$M)
<b>Oriva Federal</b>				
Proved	3,673.4	3,140.8	21,530.2	7,027.1
Proved+Probable	4,426.6	3,784.8	26,177.8	9,156.1
Proved+Probable+Possible	4,964.9	4,245.0	29,579.0	10,215.5
<b>Oriva Throne</b>				
Proved	710.9	575.4	4,396.1	1,018.7
Proved+Probable	1,905.9	1,531.4	11,627.6	4,219.0
Proved+Probable+Possible	2,124.9	1,706.6	12,995.6	4,615.5
<b>East Esponda</b>				
Probable	2,658.6	2,142.7	14,833.6	6,543.2

<b>West Esponda</b>				
Possible	34,848.7	28,446.8	195,548.9	43,807.8
<b>Total All Projects</b>				
Proved	4,384.3	3,716.1	25,926.3	8,045.8
Proved+Probable	8,991.1	7,458.9	52,639.0	19,918.3
Proved+Probable+Possible	44,597.0	36,541.0	252,957.1	65,182.0

As the Company's projects are developed the reserve categories presented above will ultimately be upgraded to a proven category and consequently attain higher valuations. For example many of the wells at East Esponda were previously in a possible category when they were evaluated earlier for Kennedy Oil by NSAI but with the continued dewatering they have all moved up to the probable category herein. A similar situation exists at West Esponda since at the effective date of the NSAI report these wells did not have a sufficient dewatering time to increase their reserve categorisation. Also, the completion of wells at the permitted Oriva Federal project will upgrade both the Oriva Federal and Oriva Throne project values because the Oriva Federal dewatering will assist the Oriva Throne wells achieve their gas production through the combined dewatering of a larger development area. The Company believes that the conservative approach (ie recovery factors and gas content) utilised in the reserve estimate will allow for an overall increase in reserves.

### 2.1.2 WEST ESPONDA

The West Esponda project lies near the Powder River Basin's asymmetric structural axis, and is 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 positionally 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 stratigraphic drilling program which was completed by the Company at West Esponda late last year which intersected gassy coal with cumulative intersections of up to 50 metres and an average of 35.4 metres, of which the Big George coal seam intervals were between 17 to 22 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.

### West Esponda Project GIP Resources

An overall Gas-In-Place ('GIP') resource calculation based upon volumetric calculations for the Company's entire leasehold interest totaling 7,540 net hectares (18,631 acres) has been estimated for five regionally correlated coal seams. The resource calculation has been completed by Dr. Jimmy E. Goolsby of Goolsby, Finley & Associates ('GFA') of Casper Wyoming who are considered to be pre-eminent authorities on the Coal Bed Methane ('CBM') geology of the Powder River Basin, providing consulting services to the State's leading CBM producers and developers. Additionally the State of Wyoming retained GFA to conduct a study of the CBM reserve potential of the Powder River Basin.

The following tabulates the West Esponda project's GIP resources:

<b>Northern Area Gross GIP (MMcf)</b>	<b>Southern Area Gross GIP (MMcf)</b>	<b>Total Gross GIP (MMcf)</b>	<b>Total Net GIP (MMcf)</b>
106,988.4	51,662.1	158,650.5	101,377.7

The GIP resource was calculated using 32 hectare (80 acre) blocks (legal drill spacing units), the seams' thicknesses (contour interpolation) and a gas content factor of up 100 standard cubic feet per ton ('Scf/t') depending on each coal seam's depth. The gas content factor is an estimation based on a published study by GFA completed on behalf of the State of Wyoming.

### **Pilot Production Program**

Through the September 2006 quarter the pilot production program in the northern portion of the West Esponda project continued its dewatering period. A second phase of drilling and well completions is scheduled to commence upon receipt of State drilling permit approvals.

Following a geological review of the initial wells which have shown indications of early gas production, there appears to be a geological structural high developing to the north of the initial pilot production wells. This favourable geological anomaly will be investigated with the Phase 2 drilling program.

Located in the northern portion of the West Esponda project there are approximately 106 contiguous or near contiguous well locations including the 10 completed pilot production program wells. The wells in the pilot production program were completed in a staggered offset pattern on the State's mandated 32 hectare spacing. The initial wells total 6,874 metres of drilling and are centred on the State lease which was acquired in October 2004 as part of the Company's continuing program of tenure consolidation.

The sole focus of the pilot production program is CBM production from the Big George coal seam. Last year's stratigraphic drilling indicated the Big George coal seam intervals at the West Esponda project were between 17 to 22 metres. These results have been confirmed by the ten pilot production wells. Additionally coals of 17 to 24 metres in total thickness overly the Big George coal seam. Whilst these are not intended to be produced from at this time, they will be 'behind pipe' so they can be readily accessed in the future. Also the stratigraphic program intersected deeper coal units which will be valid targets for future development.

The pilot production program not only tests the most westerly extensions of the Big George coal 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.

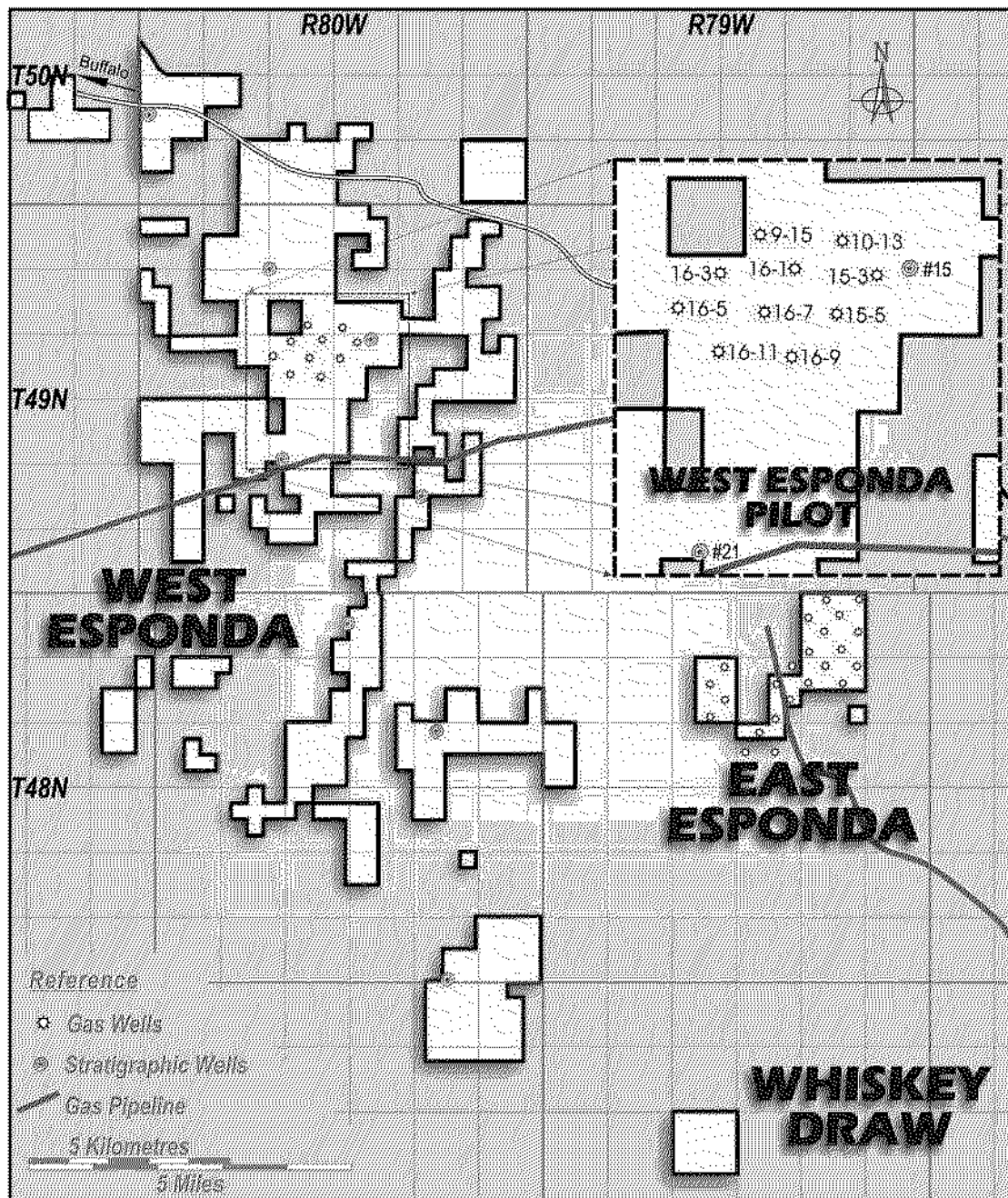
### **Pilot Production Program GIP Resources**

GIP resource calculations completed by GFA, based upon volumetric calculations from the 10 well pilot production program's database for all coal seams intersected, covering 320 hectares (800 acres) are as follows:

<b>Zone 1 Gross GIP (MMcf)</b>	<b>Zone 2 Gross GIP (MMcf)</b>	<b>Zone 3 Gross GIP (MMcf)</b>	<b>Zone 4 Gross GIP (MMcf)</b>	<b>Total Gross GIP (MMcf)</b>	<b>Total Net GIP (MMcf)</b>
1,086.8	1,840.3	9,986.6	3,376.2	16,289.9	13,418.5

Individual coal seams were grouped for resource analysis into four different zones based on depth of coal, its aerial extent, and its relationship to other coals. Zones 1 and 2 are Wasatch (Eocene age) Formation coals, lying at more shallow depths. Zones 3 and 4 are the deeper Fort Union (Paleocene age) coals. The pilot production program wells have been developed in the upper and lower Big George seams which are within Zone 3. With the exception of Zone 4 coals which are deeper targets, the other coals in Zones 1 to 3 are all 'behind pipe' and are capable of being produced by perforating existing wells rather than having to drill new wells.

The GIP resource was calculated using 32 hectare (80 acre) blocks, the seams' thicknesses (contour interpolation) and a gas content factor of up to 123 Scf/t depending on each coal seam's depth. The gas content factor is an estimation based on a published study by GFA completed on behalf of the State of Wyoming.



## Acquisitions

The Company continued to review select areas for tenure consolidation in the West Esponda leasehold. To date the West Esponda Project area consists of freehold CBM leases and State of Wyoming leases totalling 7,540 net hectares (18,631 acres).

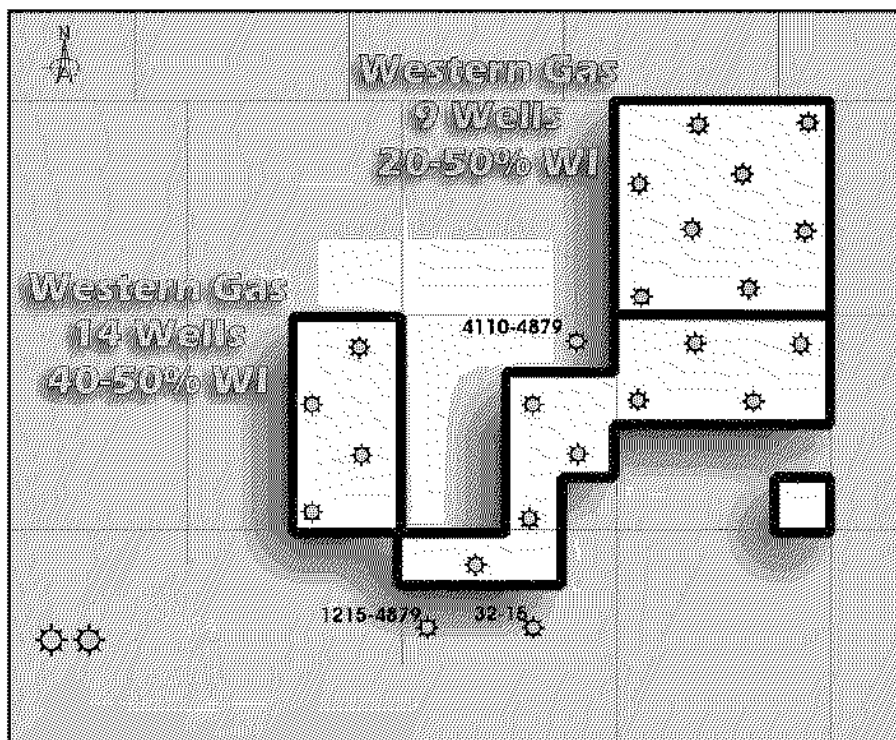
The Company's continuing acquisition program is both strategic by increasing the Company's net gas resource potential as well as practical as more efficient methods of producing the reservoir may be accomplished through a more consolidated leasehold position. It should be noted that a State lease acquired by the Company is the site of the pilot production program and primary facilities.

### 2.1.3 EAST ESPONDA

The East Esponda Project covers a total of 469 net hectares (1,160 acres). To date there have been 23 wells completed within the Company's East Esponda leasehold interests. These include 14 wells in the Big Cat Field and 9 in the Indian Creek Field. Although 3 wells are located exterior to the Company's leasehold (see diagram below), the Company retains an interest in these wells due to the State's mandated 32 hectare (80 acre) spacing orders in its proportional share.

Following an acquisition by Western Gas Resources Inc. ('Western Gas') of select Powder River Basin assets, including the Big Cat Field which includes the Company's East Esponda leasehold, Western Gas is the Operator and the Company's only partner in the East Esponda Project.

The Company's East Esponda project is situated in the Western Gas Indian Creek-Big Cat fields. Since the commencement of production, ranging between 200 to +1,000 barrels water per day per well (bwpd/well), there are no saleable gas quantities to report; however, there is early gas being produced in the field. Western Gas has missed their October target date for commercial gas production but remains committed to the Big George coal seam development.



## 2.1.4 ORIVA PROJECT

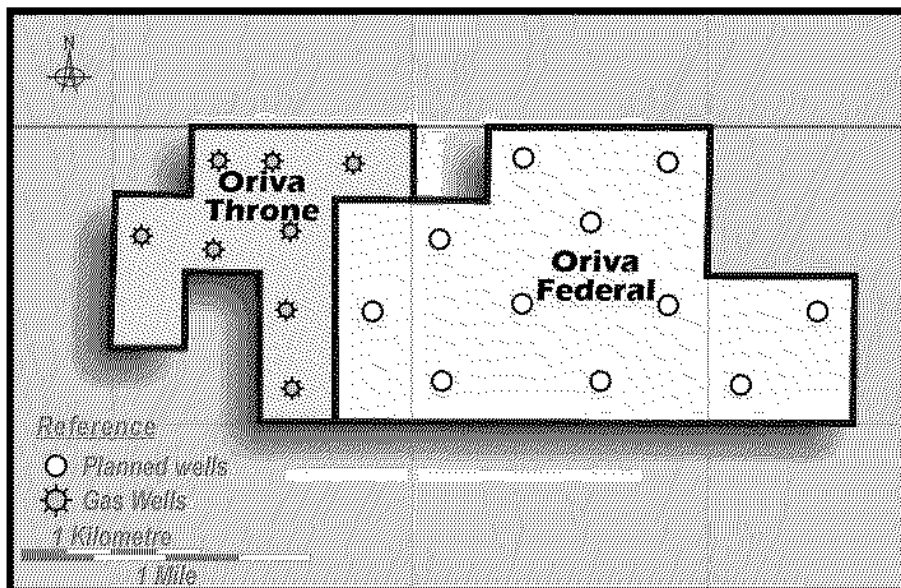
The Oriva project comprises two project areas, Oriva Throne which is in production and Oriva Federal which is in the permitting phase. The Oriva project is located approximately 21 kilometres west of Gillette, Wyoming, and totals 505 net hectares (1,248 acres) in Sections 8, 9 and 10, Township 50 North, 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 (60.75% 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 there are 3 'exception location' wells completed in the Wall seam during the June 2005 quarter that are presently in the dewatering stage.

CBM production for the September 2006 quarter was as follows:

<b>Coal Seam</b>	<b>CBM Production (Mcf)</b>	<b>Net Revenue Interest (Mcf)</b>
Anderson	18,955	11,515
Felix	4,052	2,462
Wall	467	284
<b>Total</b>	<b>23,474</b>	<b>14,261</b>

The Company's NRI share of production was sold for an average of US\$4.88 per Mcf for total net revenues of US\$69,527 and the Company's share of operating costs totalled US\$141,857.

### **Oriva Federal CBM**

The commencement of developing the Oriva Federal project is scheduled for late in the second quarter next year after the federally mandated annual wildlife stipulations are lifted. The Company anticipates a sixty to ninety day development period for the drilling, completion and development of its assets. Since the final contracts for in-field gas compression (Western Gas) and gas transportation (Thunder Creek) to markets have been signed; electrical power is hooked up; compression is on-site; and, the necessary permits for water disposal are in-hand, the Anderson coal seam should be produced with minor dewatering, and the Wall coal seam development should greatly enhance the neighbouring Oriva Throne area.

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. Overall project development will involve the drilling of 33 wells totalling approximately 13,400 metres (44,000 feet), in-field for gas and water gathering 20,000 metres (66,000 feet), underground electrification for its pumping requirements, and construction of multiple water retention reservoirs and pits. The Company's Water Management Plan provides for standard CBM style reservoirs either along or in ephemeral channels with the project designed to fully contain its water output of nearly 25,000 barrels of water per day in constructed earthen pits, called Off-Channel Containment Pits.

### **Oriva Federal Conventional Oil and Gas**

The Company's Conventional Oil and Gas Farmout Agreement ('Farmout Agreement') with Carpenter & Sons and North Finn ('C&S-NF'), both located in Casper Wyoming, over the non-CBM rights at the Company's Oriva Federal project is targeting the Cretaceous Muddy Formation at a depth of approximately 2,900 metres with secondary objectives being Cretaceous aged fractured shales situated above the prospective Muddy zone.

C&S-NF have requested an extension to the drilling commence date due to a continuing conflict with the USA Bureau of Land Management (BLM) in agreeing to an exact location of the convention wells drilling site in relation to those of the Company's coalbed wells in order to reduce habitat disturbance. The Company recognises the constraints that the BLM places upon operators in these matters and will agree to their request.

C&S-NF, as Operator, will earn their interest in the conventional oil and gas (not CBM) from the Oriva Federal lease as follows:

- By drilling a well which must commence on or before 31 October 2006, C&S-NF will earn an 81% net revenue interest in 50% of the non-CBM interests in the Oriva Federal lease.
- By the completion of a second well, C&S-NF will earn an 81% net revenue interest in the remaining non-CBM Oriva Federal lease.



Under the terms of the Farmout Agreement the consolidated entity will retain a 19% interest which will cover all royalties (totalling 14.5%) which are payable in respect of the Oriva Federal lease. The Company retains a net 4.5% net revenue interest in the conventional oil and gas production from the Oriva Federal lease which the Company may convert a 20% working interest. In the event of this conversion, the royalties payable will be shared in proportion to the parties working interests.

## **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 is 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.

As previously reported, the first of multiple zones on the FR11-31 (which was drilled in 2005) was completed in the Tebo B at a depth 844 metres (2,768 feet). Initial testing showed water volumes more than 40 bwpd with some associated gas (not measured). The static fluid level indicated a reservoir pressure gradient of 0.32 psi/ft from the Tebo B zone which is consistent with the range of pressure gradients in the Cherokee from 0.25 to 0.43 psi/ft.

Completion and testing operations are in progress for multiple zones in the Cherokee formation. Individual zone stimulations on the Tebo A, Mineral, V-Shale, and Summit/Excello formations were performed in January 2006. The well was cleaned out and setup for pump testing of all zones. Pump testing has commenced with associated fluid levels being measured to understand the pressure drawdown of the dewatering effort.

Field activities have been temporarily suspended due to the termination of the local operating entity. The Company expects to resume field activities during the next quarter.

Dewatering of the Cherokee coals will recommence with an overall testing period of several months being anticipated before a final decision to drill and complete additional production wells will 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 further exploration programs in Victoria. Work programs have been prepared for ELs 4807, 4859, 4860, 4861, 4862 and 4877 in the Gippsland Basin and EL4811 in the Otway Basin. In addition, the Company continues its appraisal program of other potential CBM prospects in Australia.

#### **Gippsland Basin, Victoria**

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.

Following the granting of additional tenements and the consolidation of the Company's Gippsland project tenements, the Company's Gippsland project has an area of approximately 4,625 km<sup>2</sup>.

The Company plans to drill up to twenty four stratigraphic holes totalling up to 22,000 metres on portions of its Gippsland tenements to depths of up to 1,000 metres to evaluate the prospective CBM potential of the Cretaceous Strzelecki Group. With the exception of the Cape Paterson region, the historic black coal mining centres in and around the communities of Korumburra, Outtrim-Jumbunna, Wonthaggi and Kilcunda-Woolami as well as the Koo-Wee-Rup coalfield will receive stratigraphic bore evaluations in the consolidated entity's initial evaluation.

The general prospectivity of the Gippsland region for CBM has been proven by the earlier drilling but the Company needs to source drilling equipment that is up to the task of penetrating to approximately 1,000 metres. The prospectivity of the deeper stratigraphic section, as encountered in hole GS13, is highlighted by the fact that the cumulative average coal thickness for the previous five (shallow) holes was 1.95 metres, while GS13 produced a cumulative coal thickness of 7.5 metres. It is important to note that the base of the prospective Strzelecki Group's coals was not reached in GS13.

The Department of Primary Industries has granted a variation of location for one of the undrilled stratigraphic holes within EL 4500 and the company plans to drill a desorption core hole at this location which will provide data on the coals encountered in GS13. It is intended to drill this hole prior to the continuation of drilling the outstanding stratigraphic bores.

## Otway Basin, Victoria

The Otway Basin project Area is adjacent to the South Australian border and alongside the route of the South East Australia gas pipeline. During this quarter the company received information that the Indigenous Land Use Agreements with respect to two tenements that are contiguous with EL4811 were signed and lodged. It is expected that within the next few months these two Exploration Licences will be granted providing an additional 839 km<sup>2</sup> of prospective ground to explore in the Otway Basin.

A work program on EL 4811 to facilitate the drilling of up to four 1,200 metre stratigraphic test holes has been lodged with the Department of Primary Industries and, once this has been accepted and registered the initial test drilling is planned to commence.

## Gunnedah Basin, New South Wales

PEL 428 covers an area of 6,021 km<sup>2</sup> in northern New South Wales and lies immediately north and west of Eastern Star Gas' PEL 238 permit which contains the Coonarah Gas Field, the Wilga Park Power Station and the Bohena coal seam gas pilot. Eastern Star Gas is funding Comet Ridge Limited's expenditure commitment at present and is the operator. No significant exploration work was completed during the quarter.

Interests in PEL 428 after Eastern Star Gas has fulfilled its earning obligation will be:

Planet Gas Limited (through its wholly owned subsidiary Davidson Prospecting Pty Limited)	20%
Eastern Star Gas Limited	60%
Comet Ridge Limited	20%

## 4. OTHER

The information in this report that relates to exploration results is based on information compiled by Bruce F. Riederer, Executive Director of Exploration and Development of Planet Gas Limited and supervised by Dr. Richard Haren who is a Member of The Australasian Institute of Mining and Metallurgy and who has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr. Richard Haren is self employed and has consented to the inclusion in this report of the matters based on his information in the form and context in which it appears.

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

Yours sincerely



Peter J. Nightingale  
Director

pjn3666