KESTREL ENERGY INC
Form 10KSB
October 13, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)
[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2004

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No: 0-9261

KESTREL ENERGY, INC.

(Exact name of registrant as specified in its charter)

State of Incorporation: Colorado

I.R.S. Employer Identification No. 84-0772451

1726 Cole Boulevard, Suite 210
Lakewood, Colorado 80401
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (303) 295-0344

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

TITLE OF EACH CLASS
COMMON STOCK, NO PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[X] YES [ ] NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for its most recent fiscal year were $1,304,581.

At September 30, 2004, 10,133,200 common shares (the registrant's only class of voting stock) were outstanding. The aggregate market value of the 4,925,473 common shares of the registrant held by nonaffiliates on that date (based upon the mean of the closing bid and asked price on the OTC Bulletin Board) was $2,955,284.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

GENERAL DESCRIPTION OF BUSINESS

Kestrel Energy, Inc. (the "Company") was incorporated under the laws of the State of Colorado on November 1, 1978. The Company's principal business is the acquisition, either alone or with others, of interests in proved developed producing oil and gas leases, and exploratory and developmental drilling.

At June 30, 2004 the Company owned oil and gas interests in the states of Louisiana, New Mexico, Oklahoma, Texas and Wyoming

RECENT DEVELOPMENTS

RECENT ACTIVITIES

The Company continues to develop its coal bed methane ("CBM") resources at the Company's Hilight project. During the year, the Company participated in the drilling of 8 additional wells. Continued development of the field is expected during the coming year.

The Company expects a CBM well will be drilled in its Green River Basin project during the first half of fiscal year 2005. Depending on the results from this well more wells could be drilled. Kestrel has a 10% free carried interest on the first $3 million expended in this project with the right to buy back an additional 10% interest. Kestrel will operate the wells in this project.

The Company is continuing to look for ways to maximize its operated production with workovers or recompletions.

PROVED RESERVES POSITION

As of June 30, 2004, the Company's undiscounted net future cash flows have been estimated by Sproule Associates Inc., an independent petroleum engineering firm, to be approximately $27,505,200. This compares to $21,667,000 as of June 30, 2003. The increase in the current year is the result of higher oil and natural gas prices offset against revisions of previous quantity estimates.

For the fiscal year ended June 30, 2004, the Company's proved oil reserves increased approximately 57,000 bbls. to 367,700 bbls., or 18% from 310,700 in 2003. The Company's proved gas reserves decreased 17 Mmcf to 4,742 Mmcf, or less than one percent, from 4,759 Mmcf in 2003. The decrease in proved gas reserves is attributable primarily to the recommendation by the Company's independent engineering consultants, Sproule Associates, Inc., to make the maximum well life no more than fifty years. In the past, some of our wells had a life expectancy of more than 50 years, therefore increasing the reserves. The Company's core properties have extremely long lived reserves, in excess of 40 years, which will provide a solid foundation as the Company moves forward.

The Company is also investigating other petroleum targets at different horizons on the Company's leasehold in the Greens Canyon property. The other horizons include numerous coalbed methane zones at depths up to 5,800 feet. While these targets remain unproved they do provide the potential for significant reserve additions should exploration efforts prove successful.

BORROWING ACTIVITIES

On January 24, 2003, the Company borrowed $400,000 from R&M Oil and Gas, Ltd., of which Timothy L. Hoops, one of the Company's directors and its President and CEO, is a partner. That loan is due on January 31, 2005, bears interest at 12.5% per annum and is secured by the Company's oil and gas interests in Grady County, Oklahoma. In the event of a default under the terms of the R&M loan, and the sale of the collateral securing the loan, the Company would receive any remaining proceeds after payment to R&M of its expenses in connection with such sale(s) and any indebtedness due and payable to R&M under the loan. The proceeds from the R&M loan were used to retire all of then outstanding debt to Samson Exploration N.L. (an affiliate of the Company) and reduce the Company's accounts payable position at the time. The R&M loan was approved unanimously by the Board of Directors with Mr. Hoops abstaining.

On May 5, 2003, the Company entered into a Line of Credit Agreement with Barry D. Lasker, the Company's former President and CEO for a maximum of $200,000. Under the terms of the agreement all outstanding amounts were due on May 4, 2005 and bore interest at 10% per annum. The initial proceeds of the loan consisted of $40,000 cash and the conversion to debt of approximately $152,000 of unpaid wages and unreimbursed business expenses owed to Mr. Lasker by the Company. The Lasker loan was secured by the Company's oil and gas interests in

Campbell County, Wyoming. In the event of a default under the terms of the Lasker loan, and the sale of the collateral securing the loan, the Company would receive any remaining proceeds after payment to Mr. Lasker of his expenses in connection with such sale(s) and the indebtedness due and payable to him under the loan. On February 5, 2004, Mr. Lasker assigned the $200,000 Lasker Loan to Samson Exploration N.L. (an affiliate of the Company) and Mr. Lasker was paid in full. The terms and conditions of the Samson loan are a continuance of the terms and conditions of the Lasker loan, except for the deletion of a provision providing for acceleration upon termination of Mr. Lasker's employment by the Company.

On June 8, 2004, the Company borrowed $50,000 from VP with an 8% interest rate which is to be paid on repayment of the loan. This is an unsecured loan due on demand.

GREENS CANYON PROJECT

Beginning in fiscal 2000, the Company began accumulating a substantial amount of acreage in southwest Wyoming's Green River Basin (the "Greens Canyon Prospect"). The Company also drilled and completed two wells, the Greens Canyon #1 (UPRC #27-3) and Greens Canyon #2 (UPRC #29-2). While the drilling results of both wells indicated that substantial amounts of gas were present and could be produced, the Company encountered a series of mechanical problems when it attempted to fracture the wells to stimulate production. As a result, initial production from the wells was only 500 to 700 mcf per day. Information gathered during the completion process made it clear that the mechanical problems, which were unrelated to any specific characteristics of the wells themselves, were the sole cause of the lower production. The Company announced its intent to take necessary corrective actions to remedy the mechanical problems and re-establish commercial production levels. In consultation with its independent petroleum engineering consultants, Sproule Associates Inc., the Company classified a substantial amount of Greens Canyon reserves as proved undeveloped reserves in its June 30, 2000 petroleum reserves report because the Company believed that its geological and engineering data demonstrated with reasonable certainty that those known reserves were recoverable under existing economic and operating conditions.

During fiscal 2001, the Company began the process of re-working the Greens Canyon wells. The Company re-completed the 27-3 well, resulting in improved production levels in the short run. By the end of fiscal 2001, however, daily production rates for the well had declined to modest levels. In October of 2001, new Company management declared that, while the Company was still convinced that significant gas reserves were present, the Company would bring in additional participants into the Greens Canyon project in order to share the financial burden of further development. As a result, the Company reported a decrease in the total proved gas reserves to 13.4 Bcf and oil reserves to 355,000 barrels.

In fiscal 2002 the Company was overburdened by debt and limited cash flow, which was at least partially attributable to additional debt incurred to support development of the Greens Canyon project. Management's resulting focus on strengthening its balance sheet in fiscal 2003 and 2004 prevented it from focusing its full attention on the Greens Canyon farm out effort. During fiscal 2003, the Company pursued the Greens Canyon farm out effort, and, as of this date, it has not secured a suitable farm-out partner. Several parties have expressed an interest in the project and negotiations with these parties are ongoing. As of June 30, 2003, the Company removed all proved undeveloped and proved developed non-producing reserves formally attributed to the Greens Canyon project from its reported reserves until further drilling activity demonstrates that commercial flow-rates can be achieved. The Company continues to believe that an economic resource has been discovered at Greens Canyon and will continue to press forward seeking out additional industry participants.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2003, the FASB approved SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 is not expected to have an effect on the Company's financial position.

OPERATIONS AND POLICIES

The Company currently is focusing its exploration, acquisition and development opportunities in areas where it has gained historical knowledge, specifically within its current project inventory. However, the acquisition, development, production and sale of oil and gas acreage are subject to many factors outside the Company's control. These factors include worldwide and domestic economic conditions; proximity to pipelines; existing oil and gas sales contracts on properties being evaluated; the supply and price of oil and gas as well as other energy forms; the regulation of prices, production, transportation and marketing by federal and state governmental authorities; and the availability of, and interest rates charged on, borrowed funds.

Historically, in attempting to acquire, explore and drill wells on oil and gas leases, the Company has often been at a competitive disadvantage since it had to compete with many companies and individuals with greater capital and financial resources and larger technical staffs. The Company has in the past sought to mitigate some of these problems by forming acquisition joint ventures with other companies. These joint ventures allow the Company access to more acquisition candidates and enable the Company to share the evaluation and other costs among the venture partners.

The Company's operations are also subject to various provisions of federal, state and local laws regarding environmental matters. The impact of these environmental laws on the Company may necessitate significant capital outlays, which may materially affect the earnings potential of the Company's oil and gas business in particular, and could cause material changes in the industry in general. The Company strongly encourages the operators of the Company's oil and gas wells to do periodic environmental assessments of potential liabilities. To date, environmental laws have not materially hindered nor adversely affected the Company's business.

The Company has four employees, including the Company's President and CEO, Timothy L. Hoops. The Company also hires outside professional consultants to handle certain additional aspects of the Company's business. Management believes this type of contracting for professional services is the most economical and practical means for the Company to obtain such services at this time.

CUSTOMERS

During fiscal year 2004, the Company had three major customers: Rim Operating Inc., Kaiser Francis Oil Company and Eighty-Eight Oil LLC. Sales to these customers accounted for 33%, 19% and 18%, respectively, of oil and gas sales in 2004. The Company does not believe that it is dependent on a single customer. The Company has the option at most properties to change purchasers if conditions so warrant.

RISK FACTORS

WE MUST CONTINUE TO EXPAND OUR OPERATIONS

Our long term success is ultimately dependent on our ability to expand our revenue base through the acquisition of producing properties and, to a much greater extent, by successful results in our exploration efforts. We will need to continue to raise capital to make additional acquisitions and to make further investments in our current portfolio of exploration properties. We have made significant investments in exploration properties in the Green River Basin in Wyoming. There is no assurance that any of these acquisitions or investments or any other acquisitions or investments in the future will be successful. In fact, while we have already had some measure of success with these acquisitions, we have also had some disappointments. All of our exploration projects are subject to failure and the loss of our investment.

PRICES OF OIL AND NATURAL GAS FLUCTUATE WIDELY BASED ON MARKET CONDITIONS AND ANY DECLINE WILL ADVERSELY AFFECT OUR FINANCIAL CONDITION

Our revenues, operating results, cash flow and future rate of growth are very dependent upon prevailing prices for oil and gas. Historically, oil and gas prices and markets have been volatile and not predictable, and they are likely to continue to be volatile in the future. Prices for oil and gas are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors that are beyond our control, including:

o the strength of the United States and global economy;
o political conditions in the Middle East and elsewhere;
o the supply and price of foreign oil and gas;
o the level of consumer product demand;
o the price and availability of alternative fuels;
o the effect of federal and state regulation of production and transportation; and
o the proximity of our natural gas to pipelines and their capacity.

WE MUST REPLACE THE RESERVES WE PRODUCE

Even though we have recently removed a substantial amount of proved undeveloped reserves attributable to the Greens Canyon Project in Wyoming, a substantial portion of our oil and gas properties still contain proved undeveloped reserves. Successful development and production of those reserves cannot be assured. Additional drilling will be necessary in future years both to maintain production levels and to define the extent and recoverability of existing reserves. There is no assurance that our present oil and gas wells will continue to produce at current or anticipated rates of production, that development drilling will be successful, that production of oil and gas will commence when expected, that there will be favorable markets for oil and gas which may be produced in the future or that production rates achieved in early periods can be maintained.

THERE ARE MANY RISKS IN DRILLING OIL AND GAS WELLS

The cost of drilling, completing and operating wells is often uncertain. Moreover, drilling may be curtailed, delayed or canceled as a result of many factors, including title problems, weather conditions, shortages of or delays in delivery of equipment, as well as the financial instability of well operators, major working interest owners and well servicing companies. Our gas wells may be shut-in for lack of a market until a gas pipeline or gathering system with available capacity is extended into our area. Our oil wells may have production curtailed until production facilities and delivery arrangements are acquired or developed for them.

WE FACE INTENSE COMPETITION

The oil and natural gas industry is highly competitive. We compete with others for property acquisitions and for opportunities to explore or to develop and produce oil and natural gas. We have previously formed acquisition joint ventures with several other companies, including Victoria Petroleum N.L. and other affiliates, which have allowed us more access to acquisition candidates and to share the evaluation costs with them. We face strong competition from many companies and individuals with greater capital, financial resources and larger technical staffs. We also face strong competition in procuring services from a limited pool of laborers, drilling service contractors and equipment vendors.

THE AMOUNT OF INSURANCE WE CARRY MAY NOT BE SUFFICIENT TO PROTECT US

We, our partners, co-venturers and well operators maintain general liability insurance but it may not cover all future claims. If a large claim is successfully asserted against us, we might not be covered by insurance, or it might be covered but cause us to pay much higher insurance premiums or a large deductible or co-payment. Furthermore, regardless of the outcome, litigation involving our operations or even insurance companies disputing coverage could divert management's attentions and energies away from operations. The nature of the oil and gas business involves a variety of operating hazards such as fires, explosions, cratering, blow-outs, adverse weather conditions, pollution and environmental risks, encountering formations with abnormal pressures, and, in horizontal wellbores, the increased risk of mechanical failure and collapsed holes, the occurrence of any of which could result in substantial losses to us.

OUR SUCCESS MAY BE DEPENDENT ON OUR ABILITY TO RETAIN TIMOTHY HOOPS AND BOB PETT AS KEY PERSONNEL

We believe that the oil and gas exploration and development and related management experience of our key personnel is important to our success. The active participation in the Company of our President, Timothy L. Hoops and Robert J. Pett, our Chairman, is a necessity for our continued operations. We do not have key person life insurance on either Mr. Hoops' or Mr. Pett's lives. We compete with bigger and better financed oil and gas exploration companies for these individuals. Our future success may depend on whether we can attract, retain and motivate highly qualified personnel. We cannot assure you that we will be able to do so.

OUR RESERVES ARE UNCERTAIN

Estimating our proved reserves involves many uncertainties, including factors beyond our control. Our annual report on Form 10-KSB for fiscal year 2004 contains estimates of our oil and natural gas reserves and the future cash flow to be realized from those reserves for fiscal years 2004 and 2003, as prepared by our independent petroleum engineers, Sproule Associates Inc. There are uncertainties inherent in estimating quantities of proved oil and natural gas reserves since petroleum engineering is not an exact science. Estimates of commercially recoverable oil and gas reserves and of the future net cash flows from them are based upon a number of variable factors and assumptions including:

- historical production from the properties compared with production from other producing properties;
- the effects of regulation by governmental agencies;
- future oil and gas prices; and
- future operating costs, severance and excise taxes, abandonment costs, development costs and workover and remedial costs.

GOVERNMENTAL REGULATION, ENVIRONMENTAL RISKS AND TAXES COULD ADVERSELY AFFECT OUR OIL AND GAS OPERATIONS IN THE UNITED STATES

Our oil and natural gas operations in the United States are subject to regulation by federal and state government, including environmental laws. To date, we have not had to expend significant resources in order to satisfy environmental laws and regulations presently in effect. However, compliance costs under any new laws and regulations that might be enacted could adversely affect our business and increase the costs of planning, designing, drilling, installing, operating and abandoning our oil and gas wells and other facilities. Additional matters that are, or have been from time to time, subject to governmental regulation include land tenure, royalties, production rates, spacing, completion procedures, water injections, utilization, the maximum price at which products could be sold, energy taxes and the discharge of materials into the environment.

THE MARKET FOR OUR STOCK IS HIGHLY VOLATILE

Our stock is currently traded on the OTC Bulletin Board, but there has historically been a relatively low volume of trading in the shares even when we were listed on the Nasdaq Small Cap Market. Consequently, the price at which the shares trade may be highly volatile. We were delisted from the Nasdaq SmallCap Market on April 8, 2003 because our stock traded below the minimum $1.00 share requirement for too long a period of time. Under current rules our stock will be listed on the OTC Bulletin Board as long as we continue to file our reports with the SEC. The change to the OCT Bulletin Board may have reduced the liquidity of our stock which, in turn, may adversely affect its trading price.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. We use words such as "anticipate", "believe", "expect", "future", "may", "will", "should", "plan", "intend", and similar expressions to identify forward-looking statements. These statements are based on our beliefs and the assurances we made using information currently available to us. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties and assumptions. Our actual results could differ materially from the results discussed in the forward-looking statements. Some, but not all, of the factors that may cause these differences include those discussed in the risk factors in this report. You should not place undue reliance on these forward-looking statements. You should also remember that these statements are made only as of the date of this report and future events may cause them to be less likely to prove to be true.

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ITEM 2. DESCRIPTION OF PROPERTY.

OIL AND GAS INTERESTS

The following table describes the Company's leasehold interests in developed and undeveloped oil and gas acreage at June 30, 2004:

	Total Developed Acreage (1)(2)		Total Undeveloped Acreage (1)(2)	
State	Gross	Net	Gross	Net
Louisiana	480	480	111	111
New Mexico	240	91	320	87
Oklahoma	1,567	451	-0-	-0-
Texas	148	4	-0-	-0-
Wyoming	10,263	3,056	28,454	28,454
TOTAL	12,698	4,082	28,885	28,652

(1) Gross acres are the total acreage involved in a single lease or group of leases. Net acres represent the number of acres attributable to an owner's proportionate working interest in a lease (e.g., a 50% working interest in a lease covering 320 acres is equivalent to 160 net acres).

(2) The acreage figures are stated on the basis of applicable state oil and gas spacing regulations.

ROYALTY INTERESTS UNDER PRODUCING PROPERTIES

At June 30, 2004, the Company held overriding royalty interests ranging from .2% to 1.4% in 3 producing oil and gas wells located on 1,280 gross developed acres in the United States, which remains unchanged since June 30, 2003. The net production for the royalty interests for the year ended June 30, 2004 were 137 Bbls and 19 Mcf for oil and gas respectively. The net production for the Company's royalty interests for the fiscal year ended June 30, 2003 was 101 Bbls and 101 Mcf for oil and gas respectively. The royalty interests are considered to be immaterial by the Company.

DRILLING ACTIVITIES

The Company participated in drilling 8 Hilight CBM wells located in Campbell Co., Wyoming during the year ended June 30, 2004. The Company participated in drilling 4 Hilight CBM wells located in Campbell Co., Wyoming and the Chadron prospect, located in Dawes Co., Nebraska during the year ended June 30, 2003.

Kestrel Energy, Inc. owned interests in net exploratory and net development wells for the years ended June 30, 2004, and 2003 are as set forth below. This information does not include wells drilled under farmout agreements.

	United States	
	6/30/04	6/30/03
Net Exploratory Wells: (1)		
Dry (2)	-	.5
Productive (3)	-	-
	-	.5
Net Development Wells: (1)		
Dry (2)	0	-
Productive (3)	1.5	.7
	1.5	.7

(1) A net well is deemed to exist when the sum of fractional ownership working interests in gross wells equals one. The number of net wells is the sum of the fractional working interests owned in gross wells expressed as whole numbers and fractions thereof.

(2) A dry well (hole) is a well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion as an oil or natural gas well.

(3) Productive wells are producing wells and wells capable of production, including wells that are shut-in.

FARMOUT AGREEMENTS

Under a farmout agreement, outside parties undertake exploration activities using prospects owned by Kestrel. This enables the Company to participate in the exploration prospects without incurring additional capital costs, although with a substantially reduced ownership interest in each prospect.

During the year ended June 30, 2004, no wells were drilled under farmout agreements.

OIL AND GAS PRODUCTION, PRICES AND COSTS

As of June 30, 2004, the Company had a royalty and/or working interest in 90 gross (3.4 net) wells that produce oil only, 44 gross (11.2 net) wells that produce gas only, and 19 (1.2 net) wells that produce both oil and gas. All wells that produced gas are connected to pipelines. As of June 30, 2003, the Company had a royalty and/or working interest in 90 gross (3.4 net) wells that produce oil only, 36 gross (9.7 net) wells that produce gas only, and 19 (1.2 net) wells that produce both oil and gas.

For information concerning the Company's oil and gas production, estimated oil and gas reserves, and estimated future cash inflows relating to proved oil and gas reserves, see Note 8 (Unaudited) to the consolidated financial statements included in this Report. The reserve estimates for the reporting year were prepared by Sproule Associates Inc., an independent petroleum engineering firm. The Company did not file any oil and gas reserve estimates with any federal authority or agency during its fiscal year ended June 30, 2004.

For the year ended June 30, 2004, the Company's average operating cost (including taxes and marketing) per barrel of oil equivalent (BOE) (converting gas to oil at 6:1) was $11.51. The average operating cost per BOE on an equivalent basis for fiscal years 2003 was $10.45. The average sales price per barrel of oil sold was $27.05 for 2004 and $24.10 for 2003. The average sales price per mcf of gas sold was $4.20 for 2004 and $3.18 for 2003.

OFFICE FACILITIES

The Company's executive offices are located at 1726 Cole Blvd., Suite 210, Lakewood, Colorado 80401, where it leases approximately 2,358 square feet of general office space, at an initial annual lease rate of $16.50 per square foot escalating to $17.50 per square foot over the life of the lease. The Company's current lease obligation expires July 31, 2006. The Company also had, under lease, approximately 560 square feet of office space located at 1717 St. James Place, Suite 240, Houston, Texas 77057, at an annual rate of $9,168. The lease obligation expired September 15, 2004.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

OUTSTANDING SHARES OF COMMON STOCK

The Company's common stock trades over-the-counter on the OTC: Bulletin Board Market under the symbol "KEST." At June 30, 2004, the Company had 10,133,200 shares outstanding. At June 30, 2004, the Company had approximately 1,425 shareholders of record, although the Company believes that there are more beneficial owners of its stock, the number of which is unknown.

STOCK PRICE

These quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

Fiscal Year June 30, 2003	Sales Price	
	High	Low
First Quarter	$0.74	$0.22
Second Quarter	0.70	0.17
Third Quarter	0.65	0.29

Fourth Quarter	0.55	0.10

Fiscal Year June 30, 2004	Sales Price	
	High	Low
First Quarter	$0.40	$0.31
Second Quarter	0.35	0.31
Third Quarter	0.85	0.40
Fourth Quarter	0.85	0.52

DIVIDEND POLICY

While there are no covenants or other aspects of any finance agreements or bylaws that restrict the declaration or payment of cash dividends, the Company has not paid any dividends on its common stock and does not expect to do so in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Cash Flows: Net working capital deficit at June 30, 2004, was $439,824 compared to a working capital deficit of $4,643 at June 30, 2003. The increase in working capital deficit of $435,181 for the year ended 2004 resulted from the reclassification of the loans from R&M Oil & Gas, Ltd and Samson Exploration N.L. Both loans will be renegotiated or paid in fiscal 2005 and are no longer considered long term debt.

Net cash provided by operating activities was $12,225 for fiscal 2004 as compared to cash used by operating activities of $100,067 for fiscal 2003, an increase in provided cash of $112,292. The increase in operating cash flows is attributed to higher oil and gas prices offset by a lesser increase in lease operating expenses.

Net cash used by investing activities was $195,822 in fiscal 2004 as compared to net cash used of $349,904 in fiscal 2003. For the year ended June 30, 2004, $195,822 was used for capital expenditures including $58,000 on completion of 8 coalbed methane wells in Campbell Co., Wyoming.

Net cash provided by financing activities was $217,500 for fiscal 2004 versus $522,027 provided by financing activities a year ago. In 2003, the Company borrowed $500,000 from Samson Exploration N.L. (a related party). Also in 2003, the Company borrowed $400,000 from R&M Oil and Gas, Ltd. The proceeds from the R&M loan were used to retire the outstanding debt to Samson Exploration N.L. and reduce the Company's accounts payable position at the time. The Company repaid Samson Exploration N.L. in full at that time, including all accrued interest and fees, with $327,143 in cash and the transfer of the Company's remaining 25,000,000 shares of Victoria Petroleum N.L. common stock.

The Company entered into a Line of Credit Agreement with Barry D. Lasker, former President and CEO of Kestrel, for a maximum loan to the Company of $200,000. The initial proceeds of the loan consisted of $40,000 cash and the conversion to debt of approximately $152,000 of unpaid wages and unreimbursed business expenses.

In June 2003, the Company completed a private placement of 335,000 units at a price of $1.00 per unit with net proceeds of approximately $335,000. During fiscal 2004, 335,000 warrants were exercised at $0.50 with net proceeds of $167,500. These proceeds were used to reduce the Company's accounts payable position at the time.

On February 5, 2004, Mr. Lasker assigned the $200,000 Lasker Loan to Samson Exploration N.L. and Mr. Lasker was paid off in full. The terms and conditions of the Samson loan are a continuance of the terms and conditions of the Lasker loan, except for the deletion of a provision providing for acceleration upon termination of Mr. Lasker's employment by the Company.

On June 8, 2004, the Company borrowed $50,000 from VP with an 8% interest rate which is to be paid on repayment of the loan. This is an unsecured loan due on demand.

Debt Obligations: As of June 30, 2004, the Company had the following debt obligations (all short-term):

Note Payable of $400,000 due to R&M Oil and Gas LTD (a related party). Under the terms of the loan agreement, the note is due on January 31, 2005 and bears interest at 12.5% per annum and is secured by the Company's oil and gas interests in Grady County, Oklahoma. The proceeds from the loan were used to retire outstanding indebtedness and reduce the Company's accounts payable position at the time.

Note Payable of approximately $200,000 due Samson Exploration N.L. Under the terms of the agreement all outstanding amounts are due on May 4th, 2005 and bear interest at 10% per annum. The Loan was transferred from Barry D. Lasker, the Company's former President and CEO.

On June 8, 2004, the Company borrowed $50,000 from VP with an 8% interest rate which is to be paid on repayment of the loan. This is an unsecured loan due on demand.

Reserves and Future Cash Flows: For the fiscal year ended June 30, 2004, the Company's proved oil reserves increased approximately 57,000 bbls. to 367,700 bbls., or 18% from 310,700 in 2003. The Company's proved gas reserves decreased 17 Mmcf to 4,742 Mmcf, or less than one percent, from 4,759 Mmcf in 2003. The decrease in proved gas reserves is attributable primarily to the recommendation by the Company's independent engineering consultants, Sproule Associates, Inc. ("Sproule"), to make the maximum well life no more than fifty years. In the past, some of the Company's wells had a life expectancy of more than 50 years, therefore, increasing the reserves.

The Company's undiscounted net future cash flows have been estimated by Sproule to be approximately $27,505,200 as of June 30, 2004. This compares to $21,667,000 as of June 30, 2003. The increase in the current year is the result of higher oil and natural gas prices offset against revisions of previous quantity estimates.

Gas Balancing: At June 30, 2004, the Company held no under-produced or over-produced properties. The Company at June 30, 2003 held no under-produced or over-produced properties.

Natural Gas Sales Contracts: The Company's gas production is generally sold under short term contracts with pricing set on current spot markets with adjustments for marketing and transportation costs. All contracts are cancelable within 30-90 days notice by the Company. The Company has no contracts that are based on a fixed natural gas price.

Net Operating Loss and Tax Credit Carryforwards: At June 30, 2004, the Company estimated that, for United States federal income tax purposes, it had net operating loss carryforwards of approximately $13,240,000. The utilization of approximately $178,000 of these carryforwards are limited to an estimated $80,000 annually. Of the balance of the loss carryforwards, $13,062,000 is available to offset any future taxable income of the Company. If not utilized, the net operating loss carry forwards will expire during the period from 2003 through 2024.

RESULTS OF OPERATIONS

FISCAL 2004 VS. FISCAL 2003

Net Earnings: The Company reported net earnings of $60,977 in fiscal 2004 compared to a net loss of $2,335,980 in fiscal 2003, which was net gain of $2,396,957. In fiscal 2004, the Company recorded abandonment and impairment expenses of $52,438 versus $1,238,214 in fiscal 2003, depreciation and depletion expenses of $124,002 versus $339,002 in 2003 and no loss on sale of available-for-sale securities versus a loss of $575,893 in fiscal 2003.

Revenue: Revenue from oil and gas sales increased in fiscal 2004 by $347,215, or 27%, to $1,651,796. Average prices per barrel of oil increased 12% to $27.05 from $24.10 a year ago. Average prices received per Mcf of gas increased 32% to $4.10 from $3.18 a year ago. Sales volumes for oil increased 13% to 19,300 barrels from 17,100 barrels a year ago. Sales volumes for gas decreased 4% to 255 Mmcf from 267 Mmcf a year ago.

In July 2003, the Company recorded a gain on sale of property and equipment of $21,538 as it sold, at auction, its over-riding royalty interests in 5 wells for gross proceeds of $22,300. After expenses of $2,083 the Company received net proceeds of $20,017. In fiscal 2003, the Company also disposed of 30,100,000 shares of common stock of Victoria Petroleum, NL. The common stock was acquired as part of the merger with Victoria Petroleum, NL in May of 2000. The Company received cash of $56,241 for the sale of 5,100,000 shares and transferred the remaining 25,000,000 shares to Samson, which together with the cash payment of $327,143 paid off the Samson loan in full. As a result, the Company realized a loss of $575,893 the year ended June 30, 2003.

Lease Operating Expenses: Lease operating expenses increased $88,564, or 14%, to $733,315 from $644,751 a year ago. The caption "Lease Operating Expenses" includes not only the direct costs of operating a well, but workover costs, gas handling fees and production taxes. Direct lease expense increased 15% to $485,963 from $421,148 a year ago. Workover costs decreased 78% to $7,038 from $32,141 last year. Gas handling fees increased 7% to $50,655 from $50,156 a year ago. Production taxes increased 22% to $157,147 from $128,864 a year ago. The increase in direct lease expenses is attributable to the increase in the number of wells producing at the Hilight CBM wells located in Campbell Co., Wyoming. The decrease in workover expenses is attributable to lower workover costs in the Company's Pierce water-flood project. The increase in gas handling fees and production taxes was a result of higher oil and gas revenues. Lease operating expenses on a BOE (barrel of oil equivalent) basis increased 10% to $11.51 from $10.45 a year ago.

Exploration Expenses: Exploration expenses increased $39,965, or 63%, to $103,642 from $63,677 in 2003. The increase in exploration expense reflects the Company's interest in continued development at core properties.

Dry Holes, Abandoned and Impaired Properties: The Company had no dry holes, abandoned and impaired property in fiscal 2004 as compared to $1,238,214 a year ago.

General and Administrative Expense: General and administrative expenses decreased $174,637, or 22%, to $622,645 as compared to $797,282 a year ago. The decrease in general and administrative expenses is attributable to lower accounting, legal, rent, travel and insurance costs. The Company continues to review ways to reduce overhead expenses.

Interest Expense and Loan Fees: Interest expense totaled $73,536 for the fiscal year ended June 30, 2004 versus $115,690 a year ago. The interest is attributable to the line of credit the Company had with Barry D. Lasker, short term borrowings from Victoria Petroleum N.L., and long term borrowings from R&M Oil and Gas LTD and Samson Exploration NL. The Barry D. Lasker line of credit has been satisfied in full, however, $50,000 remains owed to VP N.L., $400,000 to R&M, and $200,000 to Samson Exploration.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

The Company believes the following critical accounting policies affect our most significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

RESERVE ESTIMATES:

Our estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably form actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of our oil and gas properties and/or the rate of depletion of the respect to our reserves will likely vary from estimates, and such variances may be material.

Many factors will affect actual future net cash flows, including:

- the amount and timing of actual production;
- supply and demand for natural gas;
- curtailments or increases in consumption by natural gas purchasers; and
- changes in governmental regulations or taxation.

PROPERTY AND EQUIPMENT

The Company follows the successful efforts method of accounting for its oil and gas activities. Accordingly, costs associated with the acquisition, drilling and equipping of successful exploratory wells are capitalized. Geological and geophysical costs, delay and surface rentals and drilling costs of unsuccessful exploratory wells are charged to expense as incurred. Costs of drilling development wells, both successful and unsuccessful, are capitalized. Upon the sale or retirement of oil and gas properties, the cost thereof and the accumulated depreciation or depletion are removed from the accounts and any gain or loss is credited or charged to operations.

Proved oil and gas properties are assessed for impairment on a well by well basis or a field-by-field basis where unitized. If the net capitalized costs of proved properties exceeds the estimated undiscounted future net cash flows from the property, a provision for impairment is recorded to reduce the carrying value of the property to its estimated fair value.

ASSET RETIREMENT OBLIGATIONS:

We recognize the future cost to plug and abandon wells over the estimated useful life of the wells in accordance with the provision of SFAS No.143. SFAS No.143 requires that we record a liability for the present value of the asset retirement obligation increase to the carrying value of the related long-lived asset. We amortize the amount added to the oil and gas properties and recognize accretion expense in connection with the discount liability over the remaining lives of the respective gas wells. Our liability estimate is based on our historical experience in plugging and abandoning wells, estimated well lives based on engineering studies, external estimates as to the cost to plug and abandon wells in the future and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate. Revisions to the liability could occur due to changes in well lives, or if federal and state regulators enact new requirements on the plugging and abandonment of wells.

ITEM 7. FINANCIAL STATEMENTS.

See pages F-1 through F-19 for this information.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

ITEM 8A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures:

At the time of the period reported in this report, the Company carried out an evaluation, under the supervision and participation of the Company's Chief Executive and Principal Financial Officer (the "Officer") of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14. Based upon that evaluation, the Officer concluded that the Company's disclosure controls and procedures are effective in all material respects with respect to the recording, processing, summarizing and reporting, with the time periods specified in the SEC's rules and forms, of information required to be disclosed in the reports the Company files or submits under the Exchange Act.

Internal Controls:

There were no significant changes made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of his evaluation.

ITEM 8B. OTHER INFORMATION

Reports on Form 8-K.

A Form 8-K under Item 12 dated May 17, 2004 was filed with the Commission on May 28, 2004.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

Set forth below are the names of all directors and executive officers of the Company, their ages, all

positions and offices held by each such person, the period during which he has served as such, and the principal occupations and employment of such persons during at least the last five years.

TIMOTHY L. HOOPS, age 48, has been President of the Company since May 15, 2004 and a Director since June 1, 1992. He also previously served as President and Chief Executive Officer of the Company from June 1, 1992 until August 15, 2001, when he resigned from those positions, but he remained as a consultant to the Company. On July 1, 2002, Mr. Hoops was hired as the Company's Operations Manager, and on May 15, 2004, the board of Directors named him President, Chief Executive Officer, Chief Financial Officer and Secretary of the Company. Mr. Hoops is a petroleum geologist with 25 years experience in the continental USA and Australia. Mr. Hoops was the President and a Director of the Company's wholly owned subsidiary, Victoria Exploration, Inc., an independent oil and gas producer, where he had served as an officer and Director since 1987 until it was merged into the Company in June 2001. He was a Director and President of Kestrel Energy California, Inc. ("KEC"), a former wholly owned subsidiary and oil and gas producer, from March 1997 until it was acquired by Victoria Petroleum N.L. in May 2000. After the acquisition, he remained as a Director and he became Vice President and Assistant Secretary. He has also been a Director of Victoria International Petroleum N.L., an Australian oil and gas company, and of Victoria Petroleum N.L., its parent, since 1987. Mr. Hoops was Exploration Manager for Royal Resources Corporation, a publicly held Denver based company engaged in the exploration and development of oil and gas, from 1984 to 1987. Prior to 1984, Mr. Hoops was employed by Amoco Production, Cities Service and Santa Fe Energy. Mr. Hoops is a 1979 graduate of the Colorado School of Mines, with a degree in geology.

ROBERT J. PETT, age 57, was appointed as a Director on June 1, 1992 and Chairman of the Board on January 16, 1995. Mr. Pett served as Secretary, Treasurer and Vice President of the Company during various periods from June 1992 to January 1995. Mr. Pett has been a director of Victoria International Petroleum N.L. since 1986 and he has been Chairman of Victoria Petroleum N.L. for 20 years. He is currently Chairman of Kestrel Energy California, Inc. After the acquisition of Kestrel Energy California in May 2000, Mr. Pett was also appointed as its President. Mr. Pett was a Director of Victoria Exploration, Inc. until it was merged into the Company in June 2001. Mr. Pett holds a Masters Degree in Economics (Queens University, Canada).

JOHN T. KOPCHEFF, age 56, was appointed as a Director on January 16, 1995. He served as Vice President - International from January 16, 1995 until June 30, 2002. He also held the same positions at Victoria Exploration, Inc. until it was merged into the Company in June 2001. He was also the Vice President - International and a Director at Kestrel Energy California, Inc. until it was merged in May 2000. He remained as a Director and became its Secretary. Mr. Kopcheff is a geologist with 34 years experience in petroleum in Australia, Southeast Asia, United States, South America and the North Sea, both in field geological operations and management. Mr. Kopcheff has been a Director of Victoria International Petroleum N.L. since 1986, and a Director of Victoria Petroleum N.L. since 1984. Prior to his appointment with the Company, he provided various services to the Company relating to its international exploration activities on a consulting basis. He received a Bachelor of Science degree with honors from the University of Adelaide in 1970.

KENNETH W. NICKERSON, age 84, is an independent petroleum and mineral geologist with over 54 years experience. He was appointed as a Director on December 16, 1992. From 1981 until 1988, Mr. Nickerson served as President, Director and Chief Operating Officer of Royal Resources Corporation, a publicly held Denver based company engaged in the exploration and development of oil and gas. Since then Mr. Nickerson has worked as a consulting geologist for various energy companies. Mr. Nickerson is a 1948 graduate of the Colorado School of Mines with a degree in geological engineering.

MARK A.E. SYROPOULO, age 52, was appointed as a Director on January 14, 1998. Mr. Syropoulo has been an independent corporate consultant since 1994 and has during that time provided services to various entities in the natural resources, information technology and investment sectors, principally in Australia. He also acted as a consultant to the Company from May 1997 until January 1998. From 1987 to 1993, Mr. Syropoulo was managing director of Anglo Pacific Resources Limited, a United Kingdom mining and oil company associated with Anglovaal Holdings Limited, a major South African mining house.

Mr. Syropoulo is a graduate of mathematics and economics and an honors graduate in economics of the University of Natal Durban, South Africa.

NEIL T. MACLACHLAN, age 62, was appointed as a Director on September 27, 2000. He is the Chairman and major shareholder in Markham Associates, a London based corporate investment and advisory business. He is also a non-executive director of Samson Exploration N.L. and Titan Resources Ltd., both publicly traded Australian mining companies, and Golden Prospect Plc, a publicly traded United Kingdom mining investment company listed in London on the Alternative Investment Market. Golden Prospect is one of the principal shareholders of the Company, holding, directly and indirectly, approximately 30% of its stock. Samson

Exploration N.L. is another principal shareholder of the Company holding approximately 24% of the Company's stock. Because Golden Prospect owns 29.95% of Samson, the 24% held by Samson is included in the 30% held by Golden Prospect. Mr. MacLachlan has over 28 years investment banking experience gained in Europe, Southeast Asia and Australia. Mr. MacLachlan was employed by Barrick Gold Corporation as Executive Vice President Asia from 1993 to 1997. He was a former director of Wardley Holdings and James Capel & Co. Limited, investment banking subsidiaries of the Hong Kong and Shanghai Banking Corporation. Mr. MacLachlan graduated from Manchester University in 1964 with a Bachelor of Science in Biochemistry and he took the post graduate Business Studies course at London Polytechnic at Rutherford College.

BARRY D. LASKER, age 44, was appointed President, Chief Executive Officer and Director on August 16, 2001, and he was appointed Chief Financial Officer and Secretary on February 15, 2002. Mr. Lasker resigned from those positions on May 15, 2004, and resigned as a Director on July 12, 2004. Mr. Lasker was the President and Chief Executive Officer of TransAtlantic Petroleum Corp., an oil and gas exploration company located in Calgary, Alberta, Canada with offices in Houston, Texas, from December 1998 until August 2001. From January 1997 to December 1998, he was the President and Chief Executive Officer of GHP Exploration located in Houston, Texas of which he was a co-founder. It became a publicly held company in April 1997 and was acquired in September 1998 by Profco Resources, a Toronto, Canada listed company, which then changed its name to TransAtlantic Petroleum Corp in December 1998. Prior to that time, Mr. Lasker was the Asset Manager of GOM Shelf/Flex Trend for BHP Petroleum, an oil and gas exploration and production company in Houston, Texas, from January to December 1996. From 1993 to January 1996, Mr. Lasker was an Exploration Manager in Southern Australia, New Zealand and Western Australia for BHP Petroleum. He also worked in various positions as a geophysicist and geoscientist from 1982 to 1992. Mr. Lasker received his Bachelor of Science in Geology and Geophysics from Macquarie University in Sydney, Australia in 1981.

AUDIT COMMITTEE FINANCIAL EXPERT

The Company does not have a "financial expert", as defined by the SEC's rules promulgated under section 407 of Sarbanes-Oxley Act of 2002, serving on the Committee because the Board of Directors believes that all of the members of the Board, including but not limited to those serving on the Audit Committee, have sufficient financial knowledge, experience and sophistication to comprehend and critically analyze the Company's financial statements and the audit thereof. Accordingly, the Board has determined that adding a "financial expert" to the Board and the Audit Committee at this time is not a necessary or productive expenditure of the Company's limited resources.

CODE OF ETHICS

The Company has not yet adopted a code of ethics for its principal executive officer and principal financial officer since he is the only executive officer of the Company. The Board of Directors will continue to evaluate, from time to time, whether a code of ethics should be developed and adopted. If the Company does adopt a code of ethics in the future, in light of the Company's moderate size, it is likely to apply to all employees rather than only executive officers.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than ten percent of the Common Stock of the Company, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the exchange on which the Common Stock is listed for trading. Those persons are required by regulations promulgated under the Exchange Act to furnish the Company with copies of all reports filed pursuant to Section 16(a). Barry D. Lasker, one of the Company's former officers and a director, failed to make a timely filing of three ownership reports to report three transactions. Two of the Company's principal shareholders, Victoria International Petroleum N.L. and Samson Exploration N.L., each failed to make a timely filing of one ownership report to report one transaction. To the Company's knowledge, as of the date hereof, all Section 16(a) ownership reports have been filed.

ITEM 10. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following sets forth in summary form the compensation received during each of the Company's last three completed fiscal years by the Chief Executive Officer of the Company, the former Chief Executive Officer, and one other non-executive officer of the Company who received salary, bonus or other annual compensation in total from the Company, in excess of $100,000 during the same period.

	Annual Compensation			
NAME AND PRINCIPAL POSITION	Fiscal Year	Salary ($)	Other Annual Compensation ($)	Options (#)
Timothy L. Hoops, President, Chief Executive and Financial Officer(1)	2004 2003 2002	$72,000 $72,000 $43,754	$0 $23,639 $57,847	0 0 20,000
Barry D. Lasker, former President, Chief Executive and Financial Officer	2004 2003 2002	$55,500(2) $180,000(4) $165,000(5)	$22,500(3) $0 $0	0 0 320,000
Ira Pasternack, former Vice President -Exploration(6)	2004 2003 2002	$0 $15,000 $86,250	$0 $4,080 $0	0 0 20,000

(1) Besides his salary, Mr. Hoops received fees as a director of Victoria Petroleum N.L. in the amount of Australian $5,000 for fiscal 2004, roughly US$3,475 based on a June 30, 2004 exchange rate, and expects to receive the same amount in fiscal 2005. Mr. Hoops resigned as President and Chief Executive Officer on August 15, 2001, but remained as a consultant. On July 1, 2002, Mr. Hoops was also hired as the Company's Operations Manager, and on May 15, 2004, he was elected President, Chief Executive Officer and Chief Financial Officer. As a consultant, Mr. Hoops accrued no consulting fees in fiscal 2004 through his employer, Peak Resource Management, Inc., of which $809 was deferred until fiscal 2005. In fiscal 2003 he received $23,639 in consulting fees through Peak Resource. In fiscal 2002, Mr. Hoops

received $57,847, of which $13,962 remains unpaid as of the date of this Report.

(2) Includes $7,500 for accrued salary which was rolled into a line of credit to the Company by Mr. Lasker. See "Certain Relationships and Related Transactions."

(3) Mr. Lasker resigned as President and Chief Executive Officer on May 15, 2004, but has remained as a consultant.

(4) Includes $60,000 for accrued salary which was rolled into a line of credit to the Company by Mr. Lasker. See "Certain Relationships and Related Transactions."

(5) Includes $10,000 for accrued salary which was rolled into a line of credit to the Company by Mr. Lasker. See "Certain Relationships and Related Transactions."

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(6) Mr. Pasternack resigned as an officer effective June 30, 2002, but continued as an employee until October 15, 2002. Since that date, Mr. Pasternack remained as a consultant. The other annual compensation received in fiscal 2003 is related to those consulting activities.

None of the named officers received additional compensation other than noted above the aggregate amount of which was the lesser of either $50,000 or 10% of the total of annual salary, bonus and consulting fees reported for such officer. The Company reimburses its officers and directors for ordinary and necessary business expenses incurred by them on behalf of the Company.

OPTION GRANTS FOR FISCAL YEAR ENDED JUNE 30, 2004

Name	Number Of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/share)	Expiration Date
Timothy L. Hoops President, Chief Executive and Financial Officer and Director	-0-	0%	N/A	N/A
Barry D. Lasker former President, Chief Executive and Financial Officer and Director	-0-	0%	N/A	N/A
Ira Pasternack former Vice President - Exploration	-0-	0%	N/A	N/A
Robert J. Pett Chairman of the Board and Director	-0-	N/A	N/A	N/A

John T. Kopcheff Director	-0-	N/A	N/A	N/A
Kenneth W. Nickerson Director	5,000(3)	N/A	$0.319	9-30-13
Mark A.E. Syropoulo Director	5,000(3)	N/A	$0.319	9-30-13
Neil T. MacLachlan Director	-0-	N/A	N/A	N/A

(1) This column represents the potential realizable value of each grant of options, based on the assumption that the market price of shares of Common Stock underlying the options will appreciate in value from the date of the grant to the end of the option term at the annual rate of five percent.
(2) This column represents the potential realizable value of each grant of options, based on the assumption that the market price of shares of Common Stock underlying the options will appreciate in value from the date of the grant to the end of the option term at the annual rate of ten percent.
(3) Of this grant, all were nonqualified stock options.

AGGREGATED OPTION EXERCISES FOR FISCAL YEAR ENDED JUNE 30, 2004
AND YEAR END OPTION VALUES

Name	Shares Acquired on Exercise(#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at June 30, 2004 (#)
			Exercisable/Unexercisable
Timothy L. Hoops President and Chief Executive and Financial Officer and Director	0	N/A	228,754/0
Barry D. Lasker former President, Chief Executive and Financial Officer and Director	0	N/A	320,000/0
Ira Pasternack, Former Vice President - Exploration	0	N/A	120,000/0
Robert J. Pett Chairman of the Board and Director	0	N/A	113,795/0

John T. Kopcheff Director	0	N/A	167,589/0
Kenneth W. Nickerson Director	0	N/A	65,081/0
Mark A.E. Syropoulo Director	0	N/A	170,000/0
Neil T. MacLachlan Director	0	N/A	35,000/0

(1) For all unexercised options held as of June 30, 2004, the aggregate dollar value is the excess of the market value of the stock underlying those options over the exercise price of those unexercised options. The price used to calculate these figures is the closing price as of June 30, 2004 as reported on the OTC Bulletin Board, which was $0.65 per share.

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EQUITY COMPENSATION PLAN INFORMATION
AS OF FISCAL YEAR END JUNE 30, 2004

	Number of Securities to be Issued Upon Exercise of Outstanding Option, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Numb Rem for Co (Exc Refle
	A	B	
Equity compensation plan approved by shareholders	1,540,667	$1.38	

DIRECTORS' REMUNERATION

Any director who serves on the Compensation Committee automatically receives 5,000 options on the last trading day in September pursuant to the Company's Stock Option Plan. Accordingly, on September 30, 2003, both Messrs. Nickerson and Syropoulo, as members of the Compensation Committee, received fully vested ten year options to purchase 5,000 shares of Common Stock at an exercise price of $0.319 per share, the closing price on the date of grant.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as far as is known to the Board of Directors or the management of the Company, the only persons owning on September 28, 2004 more than five percent of the outstanding shares of the Company's Common Stock. For purposes of this disclosure, the amount of the Company's Common Stock beneficially owned by each person or entity is the aggregate number of shares of the Common Stock outstanding on such date plus an amount equal to the aggregate amount of Common Stock which could be issued upon the exercise of stock options and a convertible note within 60 days of such date.

	Number of Shares of Common Stock Beneficially Owned		
	Voting and Investment Power		
Name and Address	Direct	Indirect	Total Shares
Victoria International Petroleum N.L. 2 The Esplanade, 36th Flr. Perth 6000 Western Australia	2,006,517(1)	---	2,006,517
Victoria Petroleum N.L. 2 The Esplanade, 36th Flr. Perth 6000 Western Australia	---	2,006,517 (1)	2,006,517
Timothy L. Hoops 1726 Cole Blvd., Suite 210 Lakewood, CO 80401	256,664(2)	2,006,517 (3)	2,263,181
Robert J. Pett 2 The Esplanade, 36th Flr. Perth 6000 Western Australia	123,795(4)	2,006,517 (5)	2,130,312
John T. Kopcheff 2 The Esplanade, 36th Flr. Perth 6000 Western Australia	181,589(6)	2,006,517 (7)	2,188,106
Golden Prospect Plc 1st Floor 143-149 Great Portland St. London W2N 5FB England	949,000	2,507,500(8)	3,456,500
Samson Exploration N.L. 2 The Esplanade, 36th Flr. Perth 6000 Western Australia	2,507,500(9)	---	2,507,500

Nieuport Pty Ltd PO Box 332 Greenwood 6924 Western Australia	1,005,000	---	1,005,000
The Equitable Life Assurance Society City Place House 55 Basinghall St. London EC2V 5DR England	840,000	---	840,000

(1) Victoria International Petroleum N.L. ("VIP"), the record holder of the shares, is a wholly owned subsidiary of Victoria Petroleum N.L. ("VP"), which is therefore deemed to be another beneficial owner of the shares.
(2) Includes vested options to purchase up to 228,754 shares.
(3) Mr. Hoops is a director of VIP and of VP. As a result, all shares held by VIP directly and VP indirectly are listed as indirectly held by Mr. Hoops.
(4) Includes vested options to purchase up to 113,795 shares.
(5) Mr. Pett is the Chairman and a director of VIP and a director of VP. As a result, all shares held by VIP directly and VP indirectly are listed as indirectly held by Mr. Pett.

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(6) Includes vested options to purchase up to 167,589 shares.
(7) Mr. Kopcheff is a director of VIP and VP. As a result, all shares held by VIP directly and VP indirectly are listed as indirectly held by Mr. Kopcheff.
(8) Golden Prospect Plc owns 29.95% of Samson Exploration N.L. and is therefore deemed to be a beneficial owner of the shares held by Samson.
(9) Includes a $200,000 convertible promissory note initially convertible into 500,000 shares.

The following table sets forth the number of shares beneficially owned on September 28, 2004 by the Company's executive officers and directors, and by all of the executive officers and directors as a group. For purposes of this disclosure, the amount of the Company's Common Stock beneficially owned is the aggregate number of shares of the Common Stock outstanding on such date plus an amount equal to the aggregate amount of Common Stock which could be issued upon the exercise of stock options and a convertible note within 60 days of such date.

Name and Address	Position(s) With the Company	Number of Shares of Common Stock Beneficially Owned
Timothy L. Hoops 1726 Cole Blvd., Suite 210 Lakewood, CO 80401	President, Chief Executive and Financial Officer and Director	2,263,181(1)(2)

Robert J. Pett 2 The Esplanade, 36th Flr. Perth 6000 Western Australia	Chairman of the Board and Director	2,130,312(3)(4)	
John T. Kopcheff 2 The Esplanade, 36th Flr. Perth 6000 Western Australia	Director	2,188,106(5)(6)	
Kenneth W. Nickerson	Director	65,081(7)	