



ASX / MEDIA RELEASE

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QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 31 DECEMBER 2010

Highlights

- The drilling of the Harrier Multi-Lateral Pilot in the Eden Creek trend is expected to commence in February 2011.
- Good progress on Metgasco's basin wide CSG exploration program with drilling and testing completed on Thornbill E01, Thornbill E02 and South Casino E11. Further evidence obtained of the extensive CSG resource contained in Metgasco's tenements in the Clarence Moreton basin.
- Completion of the stimulation program on a three metre zone in Kingfisher E01. The well has been placed on pressure build up test and following the completion of this activity will be evaluated for completion as a producer.
- Successfully acquired 140 line km of the 2010 MET10 2D Seismic Survey. Processing and interpretation of seismic over a number of conventional leads is now underway.
- Lodged the Environmental Assessment of the Lions Way Pipeline with NSW Government in December.
- Good progress on LNG feasibility studies with Worley Parsons appointed to assist in evaluation of field development, infrastructure and LNG project options. This initial study is now well advanced.

Review of Exploration and Appraisal Developments

Conventional Exploration and Appraisal Program

Kingfisher E01 – Stimulation program

During the quarter Metgasco continued with further work in evaluating the reservoir quality of the Kingfisher gas field. A stimulation program was conducted on a three metre sandstone interval at 1450 metres in the Gatton formation. The purpose of this stimulation program was to evaluate technical parameters for design of a more detailed stimulation program for a future production well.

The stimulation operation was conducted during November and comprised a two stage stimulation operation with fractures being stimulated in the first stage and proppant introduced in the second stage. The full proppant stage of the operation was unable to be completed due to operational reasons. Since completing the stimulation operation the well has flowed back gas, frac fluids and sand proppant. It has not been possible to date to obtain a stabilised well flow rate, although the well has continued to clean up. Kingfisher E01 has now been placed on a pressure build up. After this has been completed, Metgasco will flow the well to attempt to clean up the well and establish a stabilised rate.

Metgasco then intends to perforate additional upper zones and evaluate the well for completion as a producer.

Stimulation Operations at Kingfisher E01



Kingfisher E01 is the first conventional gas discovery in the Clarence Moreton basin and the largest conventional gas discovery in NSW. A gross gas column of 138 metres was identified in Kingfisher E01. Several zones have been identified as “tight gas” which will require stimulation to enhance productivity. As previously advised, the objective of this

current stimulation program is to examine the response of a single zone in the Kingfisher gas field to provide additional reservoir information for design of a more detailed stimulation program for a future production well. A large amount of data has been generated by the stimulation program and this must now be evaluated.

The Kingfisher gas field is located in PEL 16 and Metgasco's current contingent resource estimate for this field is 80 PJ (P50) to 298 PJ (P10).

Conventional exploration – Progress on 2010 Seismic Program

While heavy rains and unsuitable ground conditions in the Northern Rivers region delayed the 2010 Seismic program between June and September, Metgasco was fortunate not to be exposed to the heavy flooding that Queensland companies experienced during the December quarter. Approximately 140 line km out of the planned 200 line km program was able to be acquired. This activity fulfilled Metgasco's seismic acquisition work commitments in PEL 13 and PEL 426.

The 2D seismic targeted the following:

- Eden Creek Trend
 - Evaluation of the coal seam gas geometry around the Corella P11 area in PEL 16
 - Evaluation of the Wedgetail conventional prospect in PEL 13
- Evaluation of the relationship between Kingfisher and other conventional structures that are considered to be related including
 - The Mackellar prospect approximately 2km to the north in PEL 16; and
 - The Rappville prospects approximately 15km to the south in PEL 13.
- Evaluation of the Coaldale trend in PEL 426

Difficult ground conditions meant that the seismic lines to provide further information on the relationship between Kingfisher and the Mackellar prospect were unable to be obtained. This seismic data will be obtained in the future when ground conditions improve.

The data collected from the 2010 Seismic Program is now becoming available with priority being given to lines collected in the area around Corella P11 ahead of the forthcoming Harrier multi-lateral pilot drilling program. Further data is expected to be available in late January.

Coal Seam Gas (“CSG”) Exploration and Appraisal Program

Harrier Multilateral Pilot Program in Eden Creek fairway to commence

Metgasco advised that it had identified an area around Corella P11 and extending into PEL 13, the Eden Creek fairway, which it considers to have suitable characteristics for field production. Last year Metgasco drilled two core holes in this area, Bowerbird E01 and Bowerbird E02, both of which confirmed the presence of gassy coals to the west of Corella P11 and together have extended the Eden Creek fairway into PEL 13.

The newly acquired seismic data from the MET 2010 program has been processed and interpreted quickly, enabling Metgasco to rapidly progress its plans for a new coal seam gas pilot program. The program will comprise the drilling of up to four multilateral coal seam gas wells.

The Harrier Pilot wells will be located in the Eden Creek trend area near Corella P11 where Metgasco has had its lead pilot production well on continuous gas production for approximately three years.

The following wells are planned to be drilled:

- Harrier P01
- Harrier P02
- Harrier P03
- Corella P18

The Harrier Pilot wells will target the Richmond seam within the Walloon Coal Measures at depths of between 300 to 400 metres. The multi-lateral wells have been designed with two horizontal sections each targeting 1,000 metres of in-seam exposure per lateral resulting in 2,000 metres of in-seam exposure in total. Both horizontal sections will be drilled from a single vertical off take well. The objective of these wells is to further confirm commercial flow rates from this area where Metgasco has established its initial 1P, proven reserve certification. All wells are located in PEL 16 where Metgasco has a 100% interest.

These are the first dual lateral wells that the Company has drilled. The increased in-seam section is designed to provide greater exposure to the reservoir and thereby result in gas production rates above those currently being achieved from Corella P11, which has a single in-seam horizontal section of 680 metres.

Location of Harrier Multi-lateral pilot coal seam gas wells.



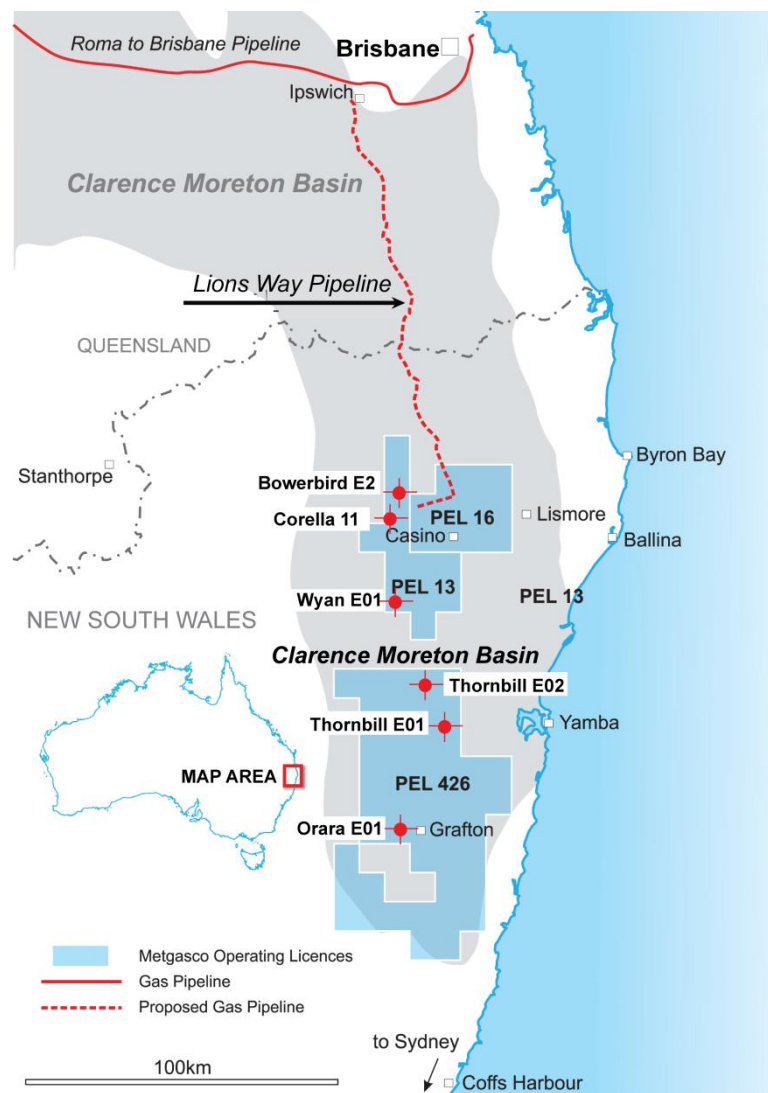
Basin wide exploration activities confirm CSG gas resource over an extensive area.

During the quarter Metgasco drilled and tested three exploration wells:

- Thornbill E01 (PEL 426)
- Thornbill E02 (PEL 426)
- South Casino P11 (PEL 16)

These wells were drilled using techniques developed by Metgasco to account for the “dry” character of the Walloon Coal Measures in the Clarence Moreton basin. All of the wells penetrated the Walloon Coal Measures with an average thickness of coal and carbonaceous shale of 17 metres. Thornbill E02 and South Casino P11 flowed minor amounts of gas, however, Thornbill E01 produced an average flow rate over the test period of 100 mcf/d. There was no associated water production with any of the wells.

All wells were vertical wells drilled to depths of between 500 and 850 metres and logged to evaluate the presence of coal. This drilling program has confirmed the extensive deposition of the Walloon Coal Measures throughout the Clarence Moreton basin with gas bearing coals now identified to the west in the Wyan and Bowerbird wells, to the east at Thornbill E01 and to the south at Orara E01 in addition to the gas reserves established within PEL 16.



Certified Reserves

Gas reserves are unchanged this quarter and are described below.

PEL 16 – Independently certified coal seam gas reserves –Petajoules (PJ)	
Reserve Category	Current Gas Reserves 100% Metgasco
1P (Proven)	2.7
2P (Proven + Probable)	397
3P (Proven + Probable + Possible)	2,239
2C Contingent Resource	1,177

The estimates of gas reserves have been prepared by Mr Tim Hower, and staff under his supervision, of MHA Petroleum Consultants (Denver). Mr Hower is chairman of MHA and has over 25 years of petroleum engineering experience and is a qualified person as defined under the ASX listing rule 5.11. Reserves have been developed within the guidelines of the SPE. MHA has consented to the use of this information.

Review of Commercial Developments

LNG Feasibility Studies

Metgasco has previously advised that it had conducted an internal review of the coal seam and conventional gas supply capabilities of the tenements it operates in New South Wales which concluded that there is an opportunity to prove up to 4.5 Tcf (2P) in coal seam gas reserves and 1.5 Tcf (P50) in conventional gas resources through a focused reserve development work program. This volume of gas would be sufficient to supply up to a 3 million tonne per annum LNG plant over a 20 year contract term.

Metgasco subsequently advised that it is evaluating the commercial, technical and environmental feasibility of a number of export LNG options. In doing so it is working with two potential partners LNG Ltd and FLEX LNG to consider these options.

Metgasco has appointed WorleyParsons to undertake an analysis of pipeline options to Gladstone and to the Port of Brisbane and to evaluate the development of a sub-sea pipeline to an offshore floating LNG facility. In addition, WorleyParsons will be preparing a conceptual field development plan for gas supply to an LNG project. A single 1.5 million ton per annum LNG facility would require approximately 90 PJ/a of gas. A draft report from WorleyParsons has been received and is currently being reviewed by Metgasco. Further information on the considerations on the commercial prospects of participation in an LNG supply project will be provided to shareholders in due course.

Richmond Valley Power Station (RVPS) & Casino Gas Project

The RVPS is a 30 megawatt (MW) power station located approximately 4 km from the town of Casino. The project will produce enough power to supply 30,000 homes in the northern rivers region. Importantly it will deliver gas fired electric power to the north coast region of NSW at significantly lower carbon emissions than coal fired electricity. The installation of a reliable power supply in the Casino area will also augment security of supply in this regional community.

Metgasco is continuing to engage in commercial discussions with potential buyers of the output from the RVPS and is also in discussions with potential EPC contractors for construction of the power station. The final investment decision on this project remains subject to satisfactory progress on commercial negotiations, determination of funding strategy and board approval.

Gas Supply and Lions Way Pipeline Project

In December, Metgasco lodged the Environmental Assessment for the Lions Way Pipeline with the NSW State Government. This document is now subject to an adequacy review by the NSW Department of Planning. Once this has been completed, the Company will make the Environmental Assessment available for public comment.

Gas commercialisation strategy

Metgasco is continuing to investigate gas commercialisation opportunities and is currently in discussions with several prospective customers.

Review of Corporate Developments

New Managing Director

In November, Metgasco advised that it had appointed a new Managing Director, Mr Peter Henderson. Mr Henderson joins the Company as it is commencing its upstream field and infrastructure development program. He has held senior management roles with oil and gas companies covering operations, development, commercial and exploration activities (Santos, Western Mining, Nido Petroleum). His experience covers operations in Australia, Indonesia, China, the Philippines and Vietnam. He commenced his career as a mechanical engineer with Esso Australia in 1977. During his 17 year career with Esso, he filled a variety of technical, operations, commercial and planning roles, including as Operations Technical Manager in Gippsland, Victoria from 1990 to 1994. Mr Henderson will take up the appointment as soon as he is released from his current role at Premier Oil, expected to be in May 2011.

The Company's founding Managing Director, David Johnson, will continue in his role until Peter Henderson joins the Company and will also provide ongoing consulting services to Metgasco subsequently, ensuring his extensive experience in exploration in the Clarence Moreton basin will continue to be available to the Company.

Cash Position

The Company ended the quarter with a cash position of \$13.3 million.

Annual General Meeting

The Company's Annual General Meeting was held on 16 November 2010 and was well attended by shareholders.

Shareholder Base

At 31 December 2010 Metgasco had 252,460,972 shares on issue and 9,077,510 options outstanding. The number of shareholders was 6,000.

Outlook - Planned Forward Work Program Next Quarter

- **Kingfisher E01** – Complete reservoir testing program in stimulated zone. Perforate upper sections and evaluate for completion as a producer.
- **Commence Harrier multi-lateral coal seam gas pilot located in the Eden Creek trend area** – Drilling is expected to commence in February.
- **Finalise processing of 2010 2D Seismic program** for planning of and follow up to conventional drilling activities.
- **Lions Way Pipeline** – Await NSW Department of Planning assessment of adequacy of Environmental Assessment. Respond to queries.
- **Richmond Valley Power Station** – Continued work on commercial arrangements.
- **LNG Feasibility Studies** – Finalise technical feasibility studies and develop forward strategy.

Background on Metgasco

www.metgasco.com.au

Metgasco has a 100% interest in PEL 16, 13 and 426 in the Clarence Moreton Basin in NSW where we operate the largest acreage position in the basin. Metgasco currently has 2P gas reserves of 397 Petajoules and 3P gas reserves of 2,239 Petajoules from less than 10% of our acreage area. We are exploring for gas in coal seams, conventional and shale reservoirs and in 2010 discovered the Kingfisher gas field, the largest conventional discovery in NSW in over a century of exploration in the State. Metgasco is currently progressing its gas commercialisation agenda which includes gas and electricity supply to NSW and gas supply to Queensland. With gas in place resources likely to exceed the domestic markets requirements and sufficient to supply export scale projects, Metgasco is currently investigating LNG project development options.

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