

31 January 2008

QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 31 DECEMBER 2007

Highlights

- **Completed Reserve Expansion drilling program with 17 core holes drilled.**
- **Certified 2P reserves of 195 PJ have been established to date within PEL 16. Further data has been provided to the Company's reserve certifiers, MHA Associates, and additional reserve upgrades are anticipated over the coming quarter.**
- **Drilled six pilot production wells for the Stratheden and South Casino Pilot Production programs. Wells are currently either dewatering or in the process of having pumps installed. The Company is currently drilling ahead at Riflebird-P12.**
- **Commenced dewatering and production testing at the Stratheden and South Casino pilots with encouraging early gas and water flows to date.**
- **Entered into a Memorandum of Understanding with BP Australia to:**
 - **Conduct a feasibility study on supplying over 15 PJ of coal seam gas per year to BP; and**
 - **Evaluate an extension of the Casino to Ipswich Pipeline to the Port of Brisbane.**
- **Continued development of the Richmond Valley Power Station.**
- **Commenced the Environmental Assessment process for the Casino to Ipswich gas transmission pipeline.**

Review of Exploration and Appraisal Developments

During the quarter, the Company commenced pilot production testing in the Stratheden Joint Venture area and at South Casino. The goal of this program is to test the gas production capability of the Walloon coals within the pilot areas. The Company has now drilled six surface to inseam wells and is currently drilling ahead on Riflebird-P12.

Pilot drilling operations have proceeded satisfactorily with Ensign Rig 50 (ADR 100) performing well in surface to in-seam drilling. Drilling activities within the project's primary target, the Richmond seam, have been completed with excellent results. In December, the Company completed drilling 470 metres in-seam within a 24 hour period which is an excellent rate of progress for horizontal drilling within a coal seam. This achievement is an important outcome for this trial production program as it demonstrates that rapid drilling progression can be achieved resulting in reduced drilling time and therefore reduced drilling costs per well for a larger development program. Drilling operations within secondary target seams have proven to be more challenging with variable results, as would be expected from a trial production program of this type.

Dewatering of Corella-P11 commenced in mid December, however operations were required to be suspended for two weeks in January as a result of heavy flooding in the Northern Rivers region and the subsequent clean up required. Surface infrastructure for Corella-P12, Corella-P14 and Riflebird-P11 has been installed over the past month and pumps are currently being installed in Corella-P16. Corella-P13 has been suspended pending fishing operations. Dewatering of wells recommenced in mid January and the Company is observing encouraging early gas flows from completed wells.

Drilling activities were not significantly affected by flooding as the drilling rig was drilling above flood levels.

Drilling activities for the Reserve Expansion Drilling program were completed in the first quarter, however the permeability and stress testing program continued over second quarter. The results from these tests combined with data from the drilling program have been provided to the Company's independent reserve certifier, MHA Petroleum Consultants (Denver) and a further reserve upgrade is expected over the next month. Further testing work will be undertaken this quarter. Once this is completed, this additional data will be provided to MHA with the goal of achieving additional reserve upgrades.

The following reserves have now been certified in accordance with the SPE guidelines for PEL 16:

Gas Reserves	
2P (Proven and Probable)	195
3P (Proven, Probable & Possible)	1,156

STRATHEDEN JOINT VENTURE – PEL 16

Operator - Metgasco

Coal Seam Gas (Metgasco 85%, CS Energy 15%, CS Energy earning 50%)

Metgasco has entered into a farm-in agreement with CS Energy with a goal to establish sufficient coal seam gas reserves to supply 18 PJ of gas per year from the Stratheden Joint Venture area to the Swanbank power station at Ipswich near Brisbane. The Stratheden Joint Venture area is approximately 4 km north of Casino.

During the quarter, CS Energy completed its funding requirement to entitle it to earn a 15% interest in the Stratheden joint venture area. Metgasco as operator has now completed all drilling operations comprising the first stage of the farm-in. Five SIS

wells have been completed and the Company is currently engaged in the dewatering stage of production testing.

CASINO GAS PROJECT – PEL 16
Operator Metgasco
(Metgasco 100%)

Metgasco is currently drilling the second surface to inseam well in this trial production program. Riflebird-P11 is currently dewatering and the Company is currently drilling ahead at Riflebird-P12.

METGASCO / MOLOPO JOINT VENTURE – PEL 13
Operator - Metgasco
Coal Seam Gas (Metgasco earning 75%)
Conventional (Metgasco earning 50%)

During the quarter the Company continued geophysical and geological interpretation work for the joint venture. Seismic continued to be re-processed and interpreted and this information has formed the foundations for selection of areas for the seismic survey work to be undertaken in this tenement in 2008. The Company is currently working on detailed planning for this seismic survey including evaluation of alternative seismic technologies and management of land access. The joint venture has approved the acquisition of 30km of new 2D seismic.

METGASCO / MOLOPO JOINT VENTURE – PEL 426
Operator - Metgasco
Coal Seam Gas and Conventional (Metgasco earning 50%)

During the quarter the Company continued geophysical and geological interpretation work for the joint venture. Seismic continued to be re-processed and interpreted and this information has formed the foundations for selection of areas for the seismic survey work to be undertaken in this tenement in 2008. The Company is currently working on detailed planning for this seismic survey including evaluation of alternative seismic technologies and management of land access. The joint venture has approved the acquisition of 85km of new 2D seismic.

CONVENTIONAL EXPLORATION PROGRAM – PEL 16
Operator - Metgasco
(Metgasco 100%)

Planning is continuing for the drilling of a conventional well once seismic work is completed and approvals are received.

Review of Commercial Developments

BP AUSTRALIA – GAS SUPPLY AND PIPELINE PROJECT

During the quarter, the Company announced that it had entered into a Memorandum with BP Australia to conduct a feasibility study with respect to the supply of in excess of 15 PJ per annum of coal seam gas from Metgasco's Clarence Moreton basin operations to BP. Gas will be supplied to BP's Bulwer Island refinery at the Port of Brisbane. This refinery produces approximately 40% of Queensland's transport fuels and includes an integrated cogeneration facility which requires gas to produce electricity to run the refinery.

In order to deliver gas to BP's facilities at the Port of Brisbane, Metgasco and BP intend to co-operate in conducting a feasibility study for development of a gas transmission pipeline to the Port of Brisbane. This pipeline will be an extension of the planned Casino to Ipswich pipeline.

RICHMOND VALLEY POWER STATION

The Environmental Assessment for the Richmond Valley Power Station has been lodged with the NSW Department of Planning for regulatory review and approval. The Company has received initial comments on the Environmental Assessment and is in the process of responding. The network connection application has been lodged with Country Energy and is progressing.

CS ENERGY – GAS SUPPLY AND PIPELINE PROJECT

Discussions with respect to terms for the supply of gas to CS Energy continued during the quarter.

The Company is in the process of developing a 145km high pressure gas transmission pipeline to supply gas from the Stratheden joint venture area near Casino to CS Energy's Swanbank power station at Ipswich. The Company has commenced the environmental approval process for this project with applications for advice lodged with the New South Wales Department of Planning, the Commonwealth Department of Environment, Water, Heritage and the Arts and the Queensland Department of Infrastructure. The Company had requested a decision from the Commonwealth as to whether the project will be a Controlled Action under the Environmental Protection and Biodiversity Act. In December, the Company was advised that environmental assessment process would be managed as a Controlled Action. Metgasco is awaiting advice on criteria to be addressed before commencing the environmental evaluation.

Review of Corporate Developments

The Company's cash position at the end of the quarter was \$12.6 million.

Planned Forward Work Program Next Quarter

- Stratheden Joint Venture – Continue dewatering and production testing of Corella-P11, Corella-P12, Corella-P14 and Corella-P16. Complete testing program and provide data to reserve certifiers, MHA Petroleum Consultants.
- Casino Gas Project – Finalise drilling program and continue dewatering and production testing of Riflebird-P11 and Riflebird-P12. Complete testing

program and provide data to reserve certifiers, MHA Petroleum Consultants.

- Continue planning and land access work for seismic program.
- Richmond Valley Power Station – continue with Environmental Assessment Process.
- Casino to Ipswich Pipeline – continue with Environmental Assessment process.
- Commence feasibility study for MOU with BP Australia, including assessment of Casino to Port of Brisbane Pipeline.

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