

30 April 2008

## **QUARTERLY ACTIVITIES REPORT**

**QUARTER ENDED 31 MARCH 2008**

### **Highlights**

- **Achieved positive early results from coal seam gas pilot production testing. All pilot wells are currently producing gas while dewatering.**
- **Increased certified 2P reserves by 27% to 247 Petajoules. Further data has been provided to the Company's reserve certifiers, MHA Associates, and an additional reserve upgrade is anticipated over the coming quarter.**
- **Gas shows in deeper sandstone structure during drilling at Riflebird-E14. The Company plans to undertake production testing in three zones of interest over the coming weeks.**
- **Completed re-processing and re-interpretation of pre-existing seismic in PEL 13 and PEL 426 and completed planning and land access process for acquiring 130 km of new 2D seismic in PEL 13, 16 and 426.**
- **Casino to Ipswich pipeline has been declared a major project in New South Wales and all environmental assessment requirements have now been received from the relevant State and Commonwealth approving authorities.**

### **Review of Exploration and Appraisal Developments**

#### Pilot Production Program

During the quarter, the Company finalized drilling operations on pilot production wells in the Stratheden Joint Venture area (Corella program) and at South Casino (Riflebird program). The Company has now drilled and completed six surface to inseam wells. Of the six wells completed, four wells were completed in the Richmond seam and one well each in the Tomki and Gundarimba seams. The commencement of operations on these wells was disrupted by major flooding in the Northern Rivers region in January and site accessibility was hampered by ongoing wet weather during the quarter.

Corella-11 was the first well completed in the pilot program and was completed within the Richmond seam. During the quarter, the Corella-11 well produced at a peak production rate of 168,000 cubic feet per day and has produced approximately 9,000,000 cubic feet of gas during the quarter. This is an excellent early production

rate during the first three months of dewatering and a very positive indication of its future production potential once more water is drawn off the coal seam.

All wells have produced gas immediately to surface after installation of wellhead equipment and commencement of water extraction. The use of beam pumps as the most suitable pumping technology has been confirmed with most wells being able to pump continuously since dewatering commenced.

The Company has a technical alliance with Vectra CBM who operate over 250 SIS coal seam gas wells in the Arkoma basin. Vectra CBM has been closely involved with the pilot drilling and completion program. Initial results from the pilot program indicate variations between how the coal seam gas wells in the Arkoma basin perform and how similar SIS wells into coal seams in the Clarence Moreton basin perform. Wells in the Arkoma typically reach peak production rates very quickly with a slow decline rate. The Company had anticipated that Clarence Moreton basin coals would perform in a similar manner. However, results from the program to date indicate that the Clarence Moreton basin coals are not as dry as the Arkoma basin coals and therefore may require longer periods dewatering.

Substantial Increase in Gas Reserves

The Company achieved a substantial increase in reserves during the quarter with a further 27% increase in 2P reserves announced.

Current independently certified reserves within PEL 16 are as follows:

<b>Gas Reserves</b>	<b>As at Second Quarter ended 31.12.2007</b>	<b>As at Third Quarter ended 31.3.2008</b>	<b>% increase During Quarter</b>
2P (Proven and Probable)	195	247	27%
3P (Proven, Probable & Possible)	1,156	1,389	20%

Further data has been provided to the Company’s reserve certifiers, MHA Petroleum Consultants, and an additional reserve upgrade is anticipated over the coming quarter. The permeability and stress testing program is continuing and once further results are obtained this additional data will also be provided to MHA with the goal of achieving additional reserve upgrades.

Conventional Exploration

During the quarter, Metgasco drilled and cased Riflebird-E14 to a TD of 1,369 metres. This well had a dual target to evaluate the I/J coal sequence at this location and to intersect the Heifer Creek sandstone. A well developed I/J sequence consisting of 27 metres of gross coal was intersected which produced a pronounced gas kick to surface during drilling.

The Heifer Creek sandstone is a fluvial unit located in the lower section of the Koukandowie Formation. This formation, interpreted to be the lateral equivalent of the Hutton Sandstone in the Surat basin was intersected at 768 metres.

This well intersected a gross Heifer Creek sandstone interval of 49 metres. Wireline logs and gas shows during drilling indicated the presence of gas within three zones of interest.

At the time of drilling, equipment was not available on site to enable a production test of this well. Equipment availability has now been confirmed and the Company intends to undertake production flow testing in each of the three target zones over the coming weeks.

### **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, Metgasco as Operator conducted pilot drilling operations on behalf of the joint venture which have been described elsewhere in this report. During the quarter, and at the request of CS Energy, CS Energy and Metgasco mutually agreed to amend the target date for completion of the work program under the First Farmin interest to the 29<sup>th</sup> August 2008, with Final Investment Decision (FID) now expected to be deferred until December 2008.

### **METGASCO / MOLOPO JOINT VENTURE – PEL 13**

**Operator - Metgasco**

**Coal Seam Gas (Metgasco 75%)**

**Conventional (Metgasco earning 50%)**

During the quarter the Company completed its farm-in obligations to the joint venture to entitle it to earn a 75% interest in the coal seam gas rights to PEL 13. The Company is in the process of registering this interest with the NSW DPI.

Metgasco has finalized its geological and geophysical review of the permit area and provided a report to the joint venture which included a revised interpretation of reprocessed and reinterpreted seismic data in the PEL area. Reprocessing, together with further geological analysis has identified new areas of enhanced prospectivity.

This analysis has formed the foundation for the selection of areas for new seismic acquisition. Approximately 30 km of new 2D seismic data is planned to be acquired in the next quarter.

## **METGASCO / MOLOPO JOINT VENTURE – PEL 426**

**Operator - Metgasco**

**Coal Seam Gas and Conventional (Metgasco earning 50%)**

Metgasco has finalized its geological and geophysical review of the permit area and provided a report to the joint venture which included a revised interpretation of reprocessed and reinterpreted seismic data in the PEL area. Reprocessing, together with further geological analysis has identified new areas of enhanced prospectivity.

This analysis has formed the foundation for the selection of areas for new seismic acquisition. Approximately 85 km of new 2D seismic data is planned to be acquired in the next quarter.

## **Review of Commercial Developments**

### **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. This is a straightforward pipeline project, but is subject to regulatory complexity because it requires pipeline license approvals in both New South Wales and Queensland as well as approvals from the Commonwealth Department of Environment, Water, Heritage and the Arts under the Environmental Protection and Biodiversity Act.

This project was awarded Major Project status in New South Wales and during the quarter the Company received the Director General of the NSW Department of Planning's requirements for the Environmental Assessment in NSW. In December, the Company was advised that the project would be considered a "controlled action" under the Environmental Protection and Biodiversity Act and during the quarter, the Company received Environmental Assessment requirements from the Commonwealth. A request for a pipeline survey license has been lodged in Queensland and the environmental requirements of the Queensland Environmental Protection Authority have now been issued to the Company.

The Company has now commenced the environmental assessment process following requirements provided by the relevant agencies and soil, water, flora and fauna studies along the pipeline route are currently underway.

### **BP AUSTRALIA – GAS SUPPLY AND PIPELINE PROJECT**

During the quarter, the Company progressed discussions with BP with respect to the feasibility of Metgasco supplying coal seam gas to BP and delivering gas via a new gas transmission pipeline to the Port of Brisbane

### **RICHMOND VALLEY POWER STATION**

The Company has been advised that the Environmental Assessment for the Richmond Valley Power Station which was lodged with the NSW Department of Planning is considered to be adequate. The public review process for this approval will be undertaken in the coming quarter. The network connection application has been lodged with Country Energy and is progressing.

## Review of Corporate Developments

### Strengthened management team

In February, the Company was pleased to advise that it had made two new appointments to its senior management team. Mr Michael O'Brien joined the Company as General Manager Development and Ms Jackie Geraghty joined the Company as General Counsel. Mr O'Brien was previously responsible for the Coal Seam Gas group within WorleyParsons and was directly responsible for engineering design and construction of a number of coal seam gas projects now in operation in Queensland. Ms Geraghty joined the Company as General Counsel and has over 15 years experience as legal counsel in internal corporate roles and in private commercial practice. She was previously General Counsel and Company Secretary for Cement Australia (a subsidiary of the Rinker Group).

### Announced Share Purchase Plan

During the quarter the Company announced a capital raising by way of a share purchase plan. This share purchase plan allowed eligible shareholders to purchase shares valued at up to \$5,000 at a price of \$0.70 per share which represented a 9.6% discount to the volume weighted average price over the previous five days prior to the announcement of the share purchase plan. This offer has now closed and the Company is currently awaiting all banking transactions to be completed. Shares will be allotted and statements dispatched over the coming week.

### Cash Position

The Company's cash position at the end of the quarter was \$4.7 million.

## Planned Forward Work Program Next Quarter

- Pilot Production Testing – Continue dewatering and production testing of pilot wells.
- Reserves Development Program - Complete testing program and provide data to reserve certifiers, MHA Petroleum Consultants.
- Conventional Exploration Program – Production test of Heifer Creek Sandstone and commence acquisition of new seismic data in PEL 16, PEL 13 and PEL 426.
- Richmond Valley Power Station – complete Environmental Assessment Process.
- Casino to Ipswich Pipeline – progress Environmental Assessment process.

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### For further information contact:

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Chief Financial Officer

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

METGASCO LIMITED

ABN

24 088 196 383

Quarter ended ("current quarter")

31 March 2008

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(7,050)	(16,539)
(b) development	-	-
(c) production	-	-
(d) administration	(701)	(2,003)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	160	838
1.5 Interest and other costs of finance paid	-	(4)
1.6 Income taxes paid	-	-
1.7 Other –R&D tax and GST	-	1,286
<b>Net Operating Cash Flows</b>	<b>(7,591)</b>	<b>(16,422)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	(50)
(b) equity investments	-	-
(c) other fixed assets	(290)	(1,015)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Security deposits paid	(106)	(316)
1.12 Other (provide details if material)	-	4,660
<b>Net investing cash flows</b>	<b>(396)</b>	<b>3,279</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(7,987)</b>	<b>(13,143)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(7,987)	(13,143)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	600
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
<b>Net financing cash flows</b>		-	600
<b>Net increase (decrease) in cash held</b>		(7,987)	(12,543)
1.20	Cash at beginning of quarter/year to date	12,648	17,204
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	4,661	4,661

**Payments to directors of the entity & associates of the directors**  
**Payments to related entities of the entity & associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	195
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

N/A
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**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A
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+ See chapter 19 for defined terms.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(2,000)
4.2 Development	-
<b>Total</b>	<b>(2,000)</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,661	1,409
5.2 Deposits at call	3,000	11,239
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,661</b>	<b>12,648</b>

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+ See chapter 19 for defined terms.

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A			
6.2 Interests in mining tenements acquired or increased	N/A			

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+ See chapter 19 for defined terms.

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest & any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b>	NIL			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	NIL			
7.3 <b>*Ordinary securities</b>	121,787,242	121,787,242		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	NIL			
7.5 <b>*Convertible debt securities</b>	NIL			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	NIL  NIL			
7.7 <b>Options</b> <i>(description and conversion factor)</i>	<i>Number</i> 14,561,869 100,000 250,000 210,000 264,000 296,000 560,000 250,304 164,759 499,526 1,000,000 100,000		<i>Exercise price</i> \$0.30 \$0.30 \$0.32 \$0.30 \$0.35 \$0.40 \$0.50 \$1.10 \$1.00 \$0.90 \$0.82 \$0.90	<i>Expiry date</i> 30/06/2009 20/04/2011 22/05/2011 1/1/2012 1/1/2012 1/1/2012 1/1/2012 30/06/2012 30/06/2012 30/06/2012 21/11/2012 31/12/2012
7.8 Issued during quarter	375,000		\$1.00	21/02/2013
7.9 Exercised during quarter	NIL			

+ See chapter 19 for defined terms.


**Appendix 5B**  
**Mining exploration entity quarterly report**

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7.10	Expired during quarter	NIL			
7.11	<b>Debentures</b> <i>(totals only)</i>	NIL			
7.12	<b>Unsecured notes</b>	NIL			

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  ..... Date: .30/04/08.....  
(Director/Company secretary)

Print name: Glenda McLoughlin

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.