

31st July 2008

QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 30 JUNE 2008

Highlights

- **Further increased the largest certified gas reserves in New South Wales to:**
 - 298 Petajoules (2P category); and
 - 1,538 Petajoules (3P category).
- **Additional reserve upgrades are anticipated** over the coming quarter as the Company finalises the testing and interpretation components of its reserve expansion drilling program. The Company is continuing to work to meet its 2P reserve target of 660 Petajoules in 2P reserves which it continues to view as achievable.
- **Increasing gas production rates achieved** at Corella-11 with a new peak production rate of 180,000 cubic feet per day achieved while dewatering.
- **Conventional gas discovery well, Riflebird-E14, produced gas flows of 257,000 scf/day** on an overnight production test. This well intersected a gross sandstone interval of 49 metres with an estimated net gas pay of 9 - 15 metres. The Company is currently evaluating production enhancement options including fracture stimulation for this discovery.
- **Completed 2008 Clarence Moreton basin 2D seismic program**, with 168 line km of new seismic data acquired in PELs 16, 13 and 426.
- **Progressed the Richmond Valley Power Station Environmental Assessment** work.
- **Progressed Lions Way Pipeline Environmental Assessment** work. The name of this project been changed from the Casino to Ipswich gas pipeline to the Lions Way Pipeline.
- **Raised \$7.6 million** by way of a private placement and Share Purchase Plan.

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Review of Exploration and Appraisal Developments

Substantial Increase in Gas Reserves

The Company achieved another substantial increase in gas reserves during the quarter. Gas reserves in the 2P category in PEL 16 have increased to 298 petajoules (PJ), an increase of 21%, with 264 PJ net to Metgasco. Gas reserves in the 3P category in PEL 16 have increased to 1,538 PJ, an increase of 11% with 1,419 PJ net to Metgasco.

These are the largest certified gas reserves in New South Wales. The large scale of the Company's 3P reserve position demonstrates the potential of the Clarence Moreton basin to be a major contributor to gas supplies on the east coast of Australia.

Current independently certified reserves within PEL 16 are as follows:

Gas Reserves	As at 31.12.2007	As at 31.3.2008	As at 30.7.2008	% increase since Dec 07
2P (Proven and Probable)	195	247	298	53%
3P (Proven, Probable & Possible)	1,156	1,389	1,538	33%

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.

Coal Seam Gas - Pilot SIS Well Production Program

During the quarter, the Company continued to conduct pilot production testing on our six surface to in-seam wells. To date, the first well drilled in the program, the Corella-11 well has been the best producing well over the period, with peak daily production rates of 180,000 scf/day achieved in recent weeks. This is an excellent early production rate for the early stage of pilot well dewatering in a new reservoir. Water production rates have continued at a constant level during the period which has led the Company to the view that further dewatering of the pilot wells will be required before peak production rates are observed.

During the period, the Company tested a number of well settings to evaluate the production performance of pilot wells under varying operating regimes. The six pilot wells have been drilled over a wide area with varied geological settings and varying completion techniques. This is providing critical information to the Company to allow it to optimize well design and well locations before moving to a full development program. Analysis of the well performance to date combined with geological evaluation work has enabled the Company to identify potential fairway areas within the tenement for future production wells.

Conventional Exploration

Appraisal of Mackellar Structure

During the quarter, Metgasco conducted production testing on the conventional shallow gas discovery at Riflebird-E14, drilled on the Mackellar Structure. This well is an exciting discovery as it further confirms the presence of conventional hydrocarbons in the Clarence - Moreton basin and provides significant positive implications for the conventional exploration potential of the basin.

Riflebird-E14 had been drilled in the previous quarter to a depth of 1,369 metres and encountered gas shows within the Heifer Creek sandstone. A total thickness of 49 metres of gross gas pay was recognized within three zones of interest, with an estimated 9–15 metres of net pay interpreted from wireline log analysis. Production testing was not able to be conducted at the time because appropriate equipment could not be mobilized to the location.

The Company has subsequently perforated and conducted production testing on each of the three zones of interest. During an overnight production test Riflebird-E14 produced gas at 257,000 scf/day. The Company is currently evaluating production enhancement options including fracture stimulation for this discovery.

2008 Seismic Acquisition Programme

During the quarter the Company acquired 35 new line km of seismic data in PEL 16 over three structural leads. The focus of the seismic acquisition over the Mackellar structure was to define the lateral closure limits of the high trend. Once this seismic is processed and interpreted, the Company will be able to further quantify the size of the structure and develop an estimate of the potential Gas-in-Place within the gas bearing sands of the Heifer Creek.

Forward Programme

The Company is currently engaged in planning an appraisal drilling programme to evaluate the Mackellar structure. A gas water contact was not observed which has led the Company to the view that the Heifer Creek sandstone may contain gas deeper in the section. A primary objective of a future appraisal drilling program will be to appraise the gas potential of the Heifer Creek sandstone at suitable step out drilling locations updip of the current well. In addition, the Company is planning further drilling to evaluate deeper targets within the Mackellar structure.

Stratheden Joint Venture – Clarence Moreton Basin, NSW

PEL 16 (Blocks 4, 5 & 1)

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 managed operations on the pilot wells on behalf of the joint venture which have been described elsewhere in this report.

Clarence Moreton Basin, NSW – PEL 13

Operator - Metgasco

Coal Seam Gas (Metgasco 75%, Molopo Australia Ltd 25%)

Conventional (Metgasco earning 50%)

The Company completed its farm-in obligations to Molopo Australia Ltd in the previous quarter which entitled it to earn a 75% interest in the coal seam gas rights to PEL 13. A Deed of Assignment to effect this transfer of interest is currently being prepared for execution.

During the quarter, Metgasco completed the Third Farmin Programme relating to its farm-in to the conventional hydrocarbon rights in PEL 13. Under this program, Metgasco is entitled to earn a 50% interest in the conventional hydrocarbon rights by spending \$300,000 to acquire 30 line km of 2D seismic data. A work program comprising 48 line km has now been completed and Metgasco has provided notice of completion of the programme to its farm-in partner, Molopo Australia Ltd, which under the farm-in agreement will trigger the appropriate transfer of interest.

The majority of this new seismic data was acquired over leads and prospects identified through reprocessing and reinterpretation of historic seismic data and incorporating the Company's increasingly detailed analysis of the tectonic history and depositional setting of the basin. Work has commenced on the seismic processing and interpretation which has the aim of identifying suitable drillable targets.

Clarence Moreton Basin, NSW – PEL 426

Operator - Metgasco

Coal Seam Gas and Conventional (Metgasco earning 50%)

During the quarter, Metgasco completed the First Farmin Programme which entitles Metgasco to earn a 50% interest in PEL 426 by spending \$500,000 to acquire 85 line km of 2D seismic data. This work has now been completed and Metgasco has provided notice of completion of the programme to its farm-in partner, Molopo Australia Ltd, which under the farm-in agreement will trigger the appropriate transfer of interest. Work has commenced on the seismic processing and interpretation which has the aim of identifying a suitable drilling target to evaluate the Walloon Coal Measures and Heifer Creek sandstone in PEL 426.

Review of Commercial Developments

CS Energy – Gas Supply and Lions Way Pipeline Project

Discussions with respect to terms for the supply of gas to CS Energy continued during the quarter. A number of meetings were held to review terms for the Gas Sale Agreement with CS Energy.

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 pipeline will provide a major new gas transportation corridor to south-east Queensland. Brisbane is the only capital city on the east coast of Australia supplied by a single gas pipeline. The development of an additional new gas transportation corridor will enhance the security of gas supply to Brisbane.

This pipeline has been renamed The Lions Way Pipeline to honour the members of the Kyogle Lions club who volunteered to build the Lions Road that crosses the mountain ranges that form the border between New South Wales and Queensland. Initial environmental assessment work has now been completed. Initial discussions with landowners likely to be affected by the pipeline are expected to commence this month. A draft Gas Transportation Agreement has been provided to CS Energy for review and is currently under discussion.

BP Australia – Gas supply and Pipeline Project

During the quarter, the Company had further 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 public review process for the approval of the Richmond Valley Power Station will be undertaken in the coming quarter. The network connection application has been lodged with Country Energy and network studies are expected to be completed next quarter.

Review of Corporate Developments

Successful \$7.6 Million Capital Raising

During the quarter the Company completed a successful capital raising by way of a private placement and share purchase plan. The share purchase plan raised approximately \$2.6 million by issuing 3,777,226 shares at \$0.70 per share. In addition, the Company placed a further 6,666,666 shares at \$0.75 per share to institutional shareholders to raise an additional \$5 million.

Cash Position

The Company's cash position at the end of the quarter was \$6.763 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 – Progress the processing and interpretation of the newly acquired seismic data.
- Richmond Valley Power Station – complete Environmental Assessment Process.
- Lions Way Pipeline – progress Environmental Assessment process.

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")

30 June 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(4,240)	(20,779)
(b) development	-	-
(c) production	-	-
(d) administration	(885)	(2,888)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	97	935
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
Net Operating Cash Flows	(5,028)	(21,450)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	(50)
(b) equity investments	-	-
(c) other fixed assets	(491)	(1,506)
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	(23)	(339)
1.12 Other (provide details if material)	-	4,660
Net investing cash flows	(514)	2,765
1.13 Total operating and investing cash flows (carried forward)	(5,542)	(18,685)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,542)	(18,685)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	7,644	8,244
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)	-	-
	Net financing cash flows	7,644	8,244
	Net increase (decrease) in cash held	2,102	(10,441)
1.20	Cash at beginning of quarter/year to date	4,661	17,204
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	6,763	6,763

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	(206)
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	

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

+ 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	(2,500)
4.2 Development	-
Total	(2,500)

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	1,263	1,661
5.2 Deposits at call	5,500	3,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	6,763	4,661

+ 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		

+ 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 Preference +securities	NIL			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	NIL			
7.3 +Ordinary securities	132,231,134	132,231,134		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	6,666,666 3,777,226	6,666,666 3,777,226	\$0.75 \$0.70	\$0.75 \$0.70
7.5 +Convertible debt securities	NIL			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	NIL NIL			
7.7 Options (description and conversion factor)	<i>Number</i> 14,561,869 100,000 250,000 210,000 264,000 296,000 560,000 250,304 164,759 499,526 1,000,000 100,000 375,000		<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 \$1.00	<i>Expiry date</i> 30/06/2009 20/04/2011 22/05/2011 1/01/2012 1/01/2012 1/01/2012 1/01/2012 30/06/2012 30/06/2012 30/06/2012 21/11/2012 31/12/2012 21/02/2013
7.8 Issued during quarter	200,000 65,000 50,000 375,000		\$0.90 \$1.00 \$1.00 \$1.00	4/02/2013 4/02/2013 14/02/2013 21/05/2013

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.9	Exercised during quarter	NIL			
7.10	Expired during quarter	NIL			
7.11	Debentures <i>(totals only)</i>	NIL			
7.12	Unsecured notes	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 ~~/does not~~* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: Date: .31/07/2008.....
 (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.

+ See chapter 19 for defined terms.