

31 July 2009

QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 30 JUNE 2009

Highlights

- **Continued strong gas flows from the Corella-11 pilot production well** with gas production of 200,000 standard cubic feet per day from this well achieved during the quarter with no decline in water production.
- **Drilling commenced on the next generation of CSG pilot production wells.** The vertical offtake wells for two new pilot wells were drilled during the quarter. The Company is highly encouraged by free gas flows achieved from the vertical offtake well at Corella-E17 of 30,000 standard cubic feet per day as this gas has been produced from a 50 metre cumulative net thickness section of coal and indicates promising future performance from a 1,000 metre horizontal intersection.
- **Extended exploration drilling to PEL 13 with the drilling of Wyan-E1.** The Wyan-E1 (PEL 13) vertical well produced gas flows of 175,000 standard cubic feet per day from an off bottom flow test.
- **Conventional exploration program commenced** with Metgasco's first deep conventional well – Kingfisher-E1 is to be drilled next quarter. Original gas in place (OGIP) in the Kingfisher field is interpreted to be 82 Bcf (PMean) and 831 Bcf (P10).
- **Environmental Studies for Lions Way Pipeline completed with no major issues identified.** The Environmental Assessment report is currently being prepared for lodgement with the appropriate regulatory authorities.
- **Mick O'Brien appointed Chief Operating Officer.** Rick Wood has retired as Director, Operations and will remain on the Board of Metgasco as a non-executive Director.
- **Sunoco Royalty Terminated.** Metgasco has exercised its option to purchase and cancel a 5% gross overriding royalty held over PEL 16 by Sunoco of Canada for \$1 million.
- **Successful Rights Offer completed** - 41% oversubscribed and cash reserves replenished. Over 13 million options exercised to raise an additional \$3.9 million. Cash on hand as at 30 June 2009 is \$17 million.

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Review of Exploration and Appraisal Developments

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

Pilot Production Testing – PEL 16

During the quarter, the Company’s lead pilot production well, Corella-P11 continued to achieve gas production of 200,000 standard cubic feet per day with no sign that the gas rate has yet peaked.

This well is a single leg lateral drilled into the Richmond seam. The Richmond seam is approximately 7.5 metres thick at this location and the length of the lateral is 750 metres.

The well was worked over during the quarter to clear a blockage of coal fines in the lateral and has now been returned to service and the pump set to prevent this blockage re-occurring. Water production has remained relatively stable during the quarter at between 50 to 60 barrels per day indicating that dewatering at this well is not complete.

Drilling of Next Generation Pilot Wells Commenced with drilling of Vertical Offtake Wells

The Company has commenced the drilling program for the next generation of pilot production wells with the drilling of the vertical offtake well for two new horizontal wells to be drilled this calendar year (Riflebird-15 and Corella-17). Corella-17 will be completed as a vertical producing well to provide information on the gas production potential of the immediate area prior to drilling the horizontal section.

One of the primary objectives in drilling the vertical offtake well of the pilots in advance of the horizontal drilling was to test the gas saturation and pressure environment at each location. The Company is highly encouraged by free gas flows of 30,000 standard cubic feet per day achieved from the vertical well at Corella-17 as this gas has been produced from a 50 metre cumulative net thickness section of coals and indicates promising performance from a 1,000 metre horizontal intersection. The Corella-17 well is located approximately 2 km south from the Corella-11 pilot well and the thickness of the Richmond seam is expected to be similar to that at Corella-E11. Data obtained to date indicates that the coals at this location are similar to those at Corella-11 and therefore Metgasco is on track to achieve its stated objective of replicating and improving upon the performance of its lead coal seam gas pilot well.

Low Water Production Rates

Metgasco continues to observe low water production rates from all of its wells which differentiates it from the majority of coal seam gas explorers and producers in Australia and marks another distinguishing characteristic of the Clarence Moreton basin. This characteristic of “dry gas” is not uncommon in US and Canadian CBM plays such as the Horseshoe Canyon in Canada and the Arkoma Basin in Oklahoma where “dry gas” plays are highly sought after as operators can avoid the cost imposts and operational complexities associated with the requirement to handle large volumes of water production which is often saline.

Certified Reserves

The Company's gas reserve position is unchanged this quarter and described below.

PEL 16 – Independently certified coal seam gas reserves (Petajoules)

Reserve Category	Gross Reserves (PJ)	Net Reserves to Metgasco (PJ)
1P (Proven) Reserves	2.7	2.3
2P (Proven + Probable) Reserves	298	264
3P (Proven + Probable + Possible) Reserves	1,538	1,419

The estimates of gas reserves have been prepared by 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 evaluation 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.

Conventional Exploration and Appraisal Program

Metgasco has recently contracted Lucas to undertake the drilling of the Kingfisher-E1 well. Drilling of this well is expected to be undertaken this quarter.

The Clarence Moreton Basin ("CMB") is regarded as a relatively underexplored basin from a conventionally hosted oil and gas perspective. In the past 2 years Metgasco has commenced a detailed evaluation program for conventionally reservoired oil and gas. The evaluation program has consisted of seismic reprocessing, new 2D seismic, digitization and analysis of all pre existing well data, pre existing core analysis and surface geological programs.

The first well to be drilled as a consequence of this activity, Riflebird E-14, resulted in the discovery of the Kingfisher field in 2008. Riflebird-E14 was drilled in the Kingfisher field, which is located on a mid basin feature now described as the Mackellar high trend. The well was drilled to a total depth of 1,296 metres which was the depth capacity of the rig available at the time. Results from wireline logging indicated gas shows in three sands of the Heifer Creek and Gatton sandstones.

These sands were tested in May 2008, producing gas to surface at initial rates of 257,000 scf/day on a 16/64" choke following perforation of the zones of interest with an estimated net gas pay in the drilled zone of 9-15 metres. A gas water contact was not observed. Small volumes of heavy condensate were collected from a low pressure separator during the quarter.

The goal of Kingfisher-E1 is to evaluate the production potential of the Gatton (Surat equivalent – Evergreen) and Ripley Road (Surat equivalent – Precipice) sands. The Company estimates that there is an additional 700 metres of gross sand below the total depth of Riflebird-E14 to be addressed. Basin stratigraphy is described below.

AGE	BIOSTRATIGRAPHY	FORMATION	STAGE	
CRET.	EARLY	PK1	Berrisian -	
	LATE	PJ6	Portlandian	
JURASSIC	LATE	KANGAROO CREEK SANDSTONE	Kimmeridgian	
			Oxfordian	
			Callovian	
	MID	WALLOON COAL MEASURES	Bathonian	
			Bajocian	
	EARLY	BUNDAMBA GROUP WOODGAROO SUBGROUP MARBURG SUBGROUP	KOUKANDOWIE FORMATION HEIFER CREEK SANDSTONE MEMBER MA MA CREEK MEMBER	Aalenian
			GATTON SANDSTONE	Toarcian
			CALAMIA MEMBER	Pliensbachian
			RIPLEY ROAD SANDSTONE	Sinemurian
	TRIASSIC	LATE	RACEVIEW FORMATION	Hettangian
Rhaetian				
MID		BASAL BUNDAMBA SST.	Norian	
			Carnian	
			Ladinian	
EARLY	TOOGOO LAWAH GROUP	NYMBOIDA COAL MEASURES / CHILLINGHAM VOLCANICS	Anisian	
		Spathian		
		Smithian		
PALAEO-ZOIC	PT1	COFFS HARBOUR BEDS / NERANLEIGH-FERNVALE BEDS	Dianertian	
			Greibsbachian	

Stratigraphy of the New South Wales sector of the Clarence-Moreton Basin. Figure 4

The Mackellar High trend also includes the Mackellar and Mackellar north structures as shown in the diagram below. In addition the evaluation program has identified a number of other prospects and leads in PEL 16.

Subject to the results from this well, the Company may progress to drill the Mackellar prospect and the Mackellar North lead in the coming 12 months.

Stratheden Joint Venture – Clarence Moreton Basin, NSW PEL 16 (Blocks 1,4,5)

Operator – Metgasco

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

The Stratheden Joint Venture between Metgasco and CS Energy is seeking to identify coal seam gas reserves sufficient to supply 18 Pj of gas per year to the Swanbank Power Station at Ipswich near Brisbane.

The Corella-11 well was worked over during the quarter and results from this have been reported elsewhere in this Quarterly Report. The Corella-E17 well has been drilled as a 100% sole risk well by Metgasco.

Clarence Moreton Basin- PEL 13

Operator - Metgasco

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

During the quarter, the Wyan-E1 well was successfully drilled to a total depth of 702 metres. The purpose of this well was to evaluate the presence and development of the Walloon Coal Measures in the western portion of PEL 13. The Walloon Coal Measures were intersected at the predicted depth. A number of coal seams were present at this location.

Two flow tests of approximately 8 hours each were conducted. The first production test was performed over the interval from 402 to 456 metres containing the Richmond seam. A

continuous production test demonstrated gas flows of approximately 120,000 standard cubic feet per day through a 24/64" choke.

A second production test of a further 8 hours was conducted over the total Walloons section once the well reached total depth. This test demonstrated sustained gas flows in excess of 160,000 standard cubic feet per day throughout the period with a flow rate at the end of the period of approximately 175,000 standard cubic feet per day through a 24/64" choke. The well is currently suspended pending decisions on further testing.

Metgasco finalised an interpretation report on seismic data acquired in PEL 13. The Company is currently assessing this report with a view to identifying conventional and coal seam gas leads and prospects in the permit.

Clarence Moreton Basin – PEL 426

Operator – Metgasco

Coal Seam Gas and Conventional (Metgasco 56.6%, Molopo Australia Ltd 43.4% subject to assignment of interests).

During the quarter Metgasco finalised an interpretation report on seismic data acquired in PEL 426. The Company is currently analysing this report with a view to identifying conventional and coal seam gas leads and prospects in the permit.

Review of Commercial Developments

Gas Supply and Lions Way Pipeline Project

All environmental studies relating to the Lions Way Pipeline project were completed during the quarter, with no significant environmental issues being identified. The Environmental Assessment reports are currently being prepared for lodgement with the relevant regulatory authorities. As a cross-border pipeline project, the Lions Way Pipeline requires a pipeline license in New South Wales and a pipeline license in Queensland. In addition, Metgasco has voluntarily submitted the project for review under the Environmental Protection and Biodiveristy Act. The environmental studies have been completed to address the guidelines and specific issues identified as required by the New South Wales, Queensland and Commonwealth authorities.

A replacement Pipeline Survey Licence was issued to allow for the continuation of route identification and environmental work in Queensland as the licence previously granted had expired. All other approvals including those for work in New South Wales remain in place.

Richmond Valley Power Station

Approval of the Environmental Assessment for the 30 MW Richmond Valley Power Station (RVPS) which was lodged with the New South Wales Department of Planning on 11 August 2008 is progressing. During the quarter discussions have been held with New South Wales officials and progress appears to have been made.

Review of Corporate Developments

Management Changes

Rick Wood has retired as Director Operations from 30 June 2009. Mr Wood has been a key member of the management team and Board since the initial public offer of the Company and has been responsible for building the field operational capability of the Company from inception. Mr Wood has decided to step away from a day to day management role but will be staying with the Company in the capacity of non-executive Director on the Board. In addition, Mr Wood intends to enter into a part-time contracting arrangement with the Company to enable the Operations team to draw on his deep drilling and petroleum engineering experience as required.

Mick O'Brien has been promoted from General Manager Development to Chief Operations Officer. Mr O'Brien has 32 years experience in the petroleum industry and has held senior management positions with Worley Parsons and Santos.

Suncor Royalty Termination

On 16 July 2009 Metgasco exercised its option to purchase and cancel the 5% gross overriding royalty held over PEL 16 by Sunoco Inc of Canada. The cost of this option was \$1 million.

Financial Position

Metgasco remains in a strong financial position with cash reserves of \$17.3 million as at 30 June 2009. During the quarter the Company completed a rights offer to raise \$7.7 million. An additional \$3.9 million of cash was provided to the Company through the conversion of 13,511,869 options which had been awarded in 2004.

Shareholder Base

At the end of the Quarter Metgasco had 185,994,145 shares and 6,944,718 options outstanding. The number of shareholders was 4,145.

Planned Forward Work Program Next Quarter

- Drilling of Kingfisher-E1 conventional well;
- Preparation for the drilling of the new generation coal seam gas pilot wells;
- Preparation for reserve development drilling to further expand the Company's reserve base; and
- Continued progress on approvals for Lions Way Pipeline and Richmond Valley Power Station.