



ASX / MEDIA RELEASE

29 January 2010

QUARTERLY ACTIVITIES REPORT QUARTER ENDED 31 DECEMBER 2009

Highlights

- **Metgasco makes exciting NSW conventional gas discovery - Kingfisher E1.** The well was drilled to TD of 2,090 metres. A total gas bearing interval of 138.3 metres has been identified from wireline logging with an estimated net pay of 30.3 metres.
- **The Kingfisher E1 well flowed at a stabilised rate of 2.97 million scfd for 15 hours through a 1" choke.** The first stage of the reservoir testing program commenced with a 5.3 metre zone in the Ripley Road sandstone. Additional net pay intervals above this zone remain to be evaluated.
- **Commercial significance of Kingfisher E1** – Prior to the commencement of the current testing, Metgasco's initial analysis, announced on 9 December 2009, was that the field had a contingent resource of 77 Bcf (P50) and an upside estimate of 284 Bcf (P90). This is the largest conventional onshore discovery in over a century of exploration in NSW. The discovery of the Kingfisher gas field increases the potential for further sizeable gas finds in the near future. Metgasco has identified a number of further leads and prospects which will be progressed for drilling.
- **Expansion of PEL 16 sale process to include conventional gas assets following strong interest from sale process participants.** Last quarter Metgasco commenced a process to sell down up to 50% of its coal seam gas interests in PEL 16. Following requests from interested parties, the Company has now expanded this process to include the conventional gas assets in PEL 16, which will include the Kingfisher gas field and a number of other leads and prospects. The timetable for this process has consequently been extended to allow participants to review additional information.
- **Drilling commenced on next generation coal seam gas pilot well Corella P18.** This well is designed as a dual lateral well intersecting a vertical off take well. The vertical production leg of this well has been completed and successfully intersected with the first of the multilateral legs.
- **Strong cash position of \$29.7 million after completing share purchase plan (SPP) to accelerate exploration, appraisal and development program** – The SPP was heavily oversubscribed and raised \$25 million. Metgasco is now well funded to progress its coal seam gas and conventional gas exploration and appraisal program.
- **Coal seam gas reserve upgrade pending** – Metgasco has provided further data on its coal seam gas reserves in PEL 16 to independent reserve certifiers, MHA Petroleum Consultants. A reserve upgrade is anticipated to be achieved in the current calendar quarter.

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Review of Exploration and Appraisal Developments

Conventional Gas Exploration and Appraisal Program

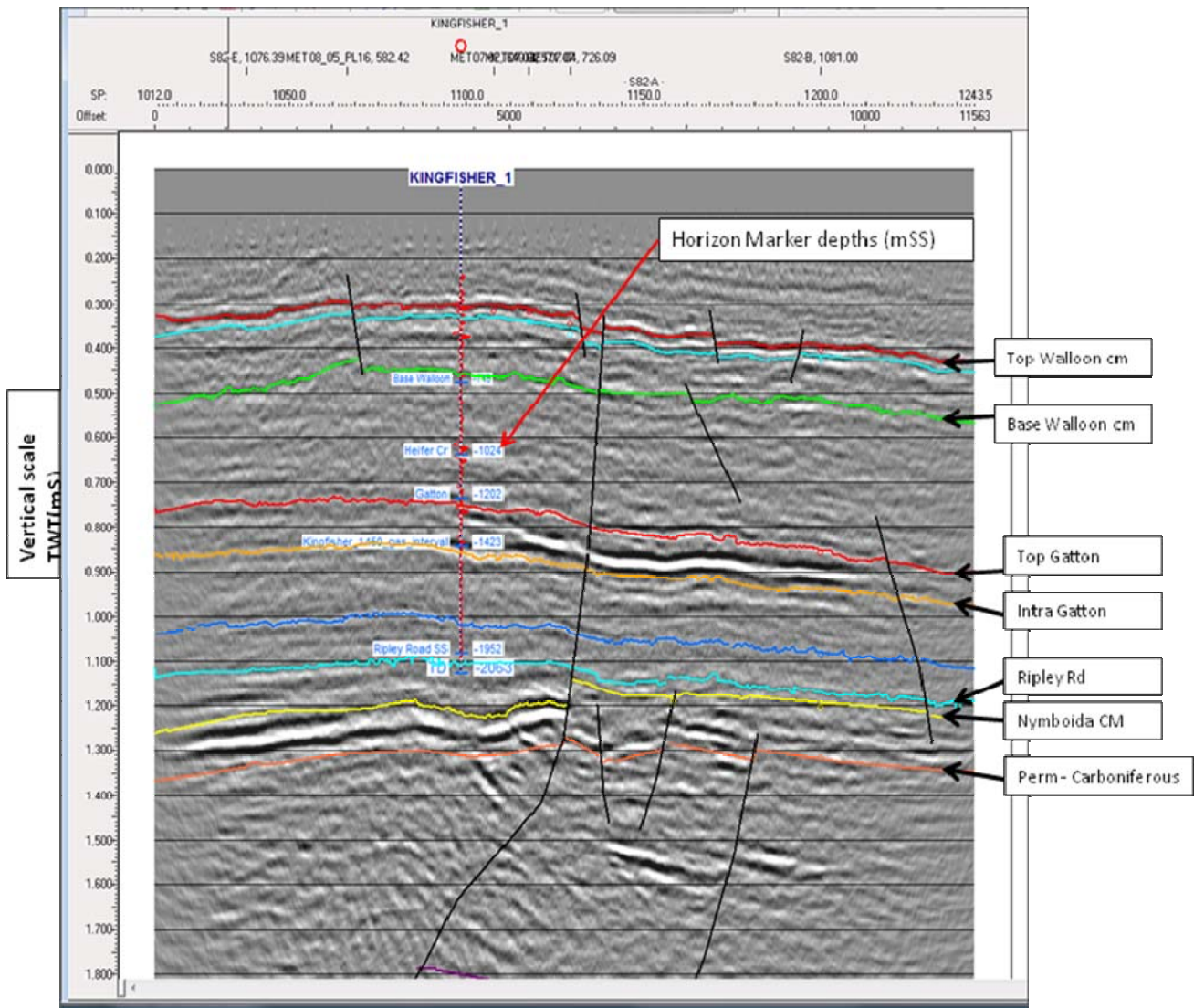
Kingfisher E1 (PEL 16 - Metgasco 100%)

During the quarter, Metgasco advised that it had further confirmed the exciting potential of the Kingfisher gas field with the drilling of Kingfisher E1.

Initial test results of 900,000 scfd

This well spudded on 23 October 2009 and was drilled to 1,274 metres. On 10 November, Metgasco advised that a production test run over the open hole interval 950 – 1,274 metres had flowed gas to surface at a rate of 900,000 scfd during a 4 hour test on a 32/64" choke. This test confirmed the potential of the Heifer Creek and uppermost Gatton sandstones previously identified in the Riflebird E14 discovery well. Following this short production test, the Kingfisher E1 well drilled to a total depth of 2,090 metres, penetrating additional gas bearing sands in the mid and lower Gatton sandstone and the deeper Ripley Road sandstone.

Figure 1 – Kingfisher E1 Seismic



Kingfisher E1 (continued)

Net gas pay of 30.3 metres determined from wireline logging

On the basis of the gas shows observed during drilling and preliminary wireline log interpretation, a total of 138.3 metres of potential gas pay was attributed to the Gatton and Ripley Road reservoirs. Of this total, Metgasco currently interprets 30.3 metres of net gas pay.

Testing of Ripley Road reservoir results in flows of 2.97 million scfd

Following the completion of drilling operations, production testing commenced. Results achieved during the past week from the first zone tested are highly encouraging with stabilised flows of 2.97 million scfd achieved through a 1" choke over a 15 hour flow test. This result was achieved from a 5.3 metre interval between 2,043.7 and 2,050 metres in the Ripley Road sandstone. The well demonstrated rapid pressure build up and results indicate an overpressured reservoir. Testing of this well will continue during the quarter.

Size of resource – 77 Bcf (P50)

As announced on 9 December 2009, Metgasco has now increased its contingent resource estimate on this field to 77 Bcf (P50) and 284 Bcf (P10). Metgasco is currently providing data from the testing program to independent reserve certifiers, MHA Petroleum Consultants, to enable them to develop an updated assessment of the field reserves.

Further upside potential

Gas water contact was not observed and the presence of gas at the lowest accessible zone in the well indicates that there is potential in the future to drill deeper to evaluate further potential reservoirs before economic basement is encountered.

PEL 16 Additional Leads and Prospects

Commercial significance of Kingfisher Gas Field

This initial production rate further confirms the commercial significance of the initial Kingfisher discovery. Planning for further field evaluation and long term development is now underway.

Additional Leads and Prospects

The discovery of the Kingfisher gas field and the emergence of the Clarence Moreton basin as a future source of clean low carbon emission gas strengthens the security of NSW's natural gas supplies. The following table outlines additional conventional leads and prospects in PEL 16.

PEL 16 Conventional Leads and Prospects		
	PMean (Bcf)	P10 (Bcf)
Mackellar	63	688
Mackellar North	146	1,793
Bowerbird	28	295
Cicada	35	352
Fantail	30	315
Monarch	53	528
Triller	36	389
Total	391	4,360

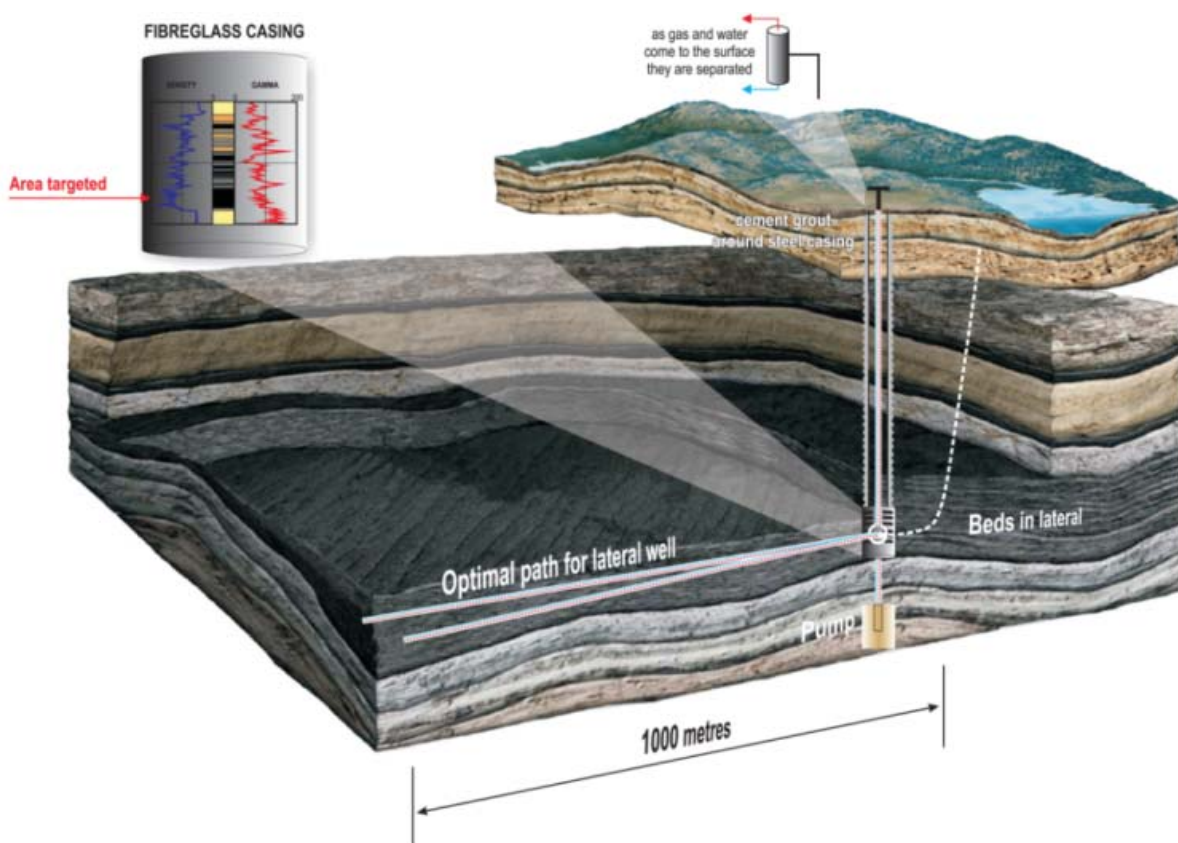
Coal Seam Gas (“CSG”) Exploration and Appraisal Program

Drilling commenced on next generation CSG well – Corella P18 (PEL 16)

Metgasco has continued with the program to achieve improved performance from coal seam gas wells in the Richmond seam through changes to well design.

Drilling of Corella P18, a multilateral pilot at a site close to Corella P17 and Corella P11 (See Figure 2) commenced in December.

Figure 2: Coal Seam Gas Multilateral Pilot Well Design



The design of this well incorporates a vertical well intersecting the multilateral drilled from an adjacent well site approximately 300 metres from the vertical well. Water and gas will be subsequently produced through the vertical well.

The vertical well has been completed and the first leg of the lateral successfully intersected with the vertical leg. Subsequent to the intersection, drilling of the in-seam section continued until a drilling break occurred at 785m (measured depth) which led to the drillpipe becoming stuck in the hole. Work is currently underway to recover the stuck drill string; however in the event that these efforts are unsuccessful it is proposed to sidetrack around the affected area to complete the laterals.

Update on other coal seam gas wells (PEL 16)

Riflebird E15, the first of the wells in the 2009 program, remains suspended awaiting a workover to clear a bridge in the hole so that logging and testing can be completed.

Gas and water production at Corella P17, the second of the wells in this program, has continued as expected for the vertical intersection based upon the performance of the nearby Corella P11. The water production rate is relatively steady with no indication of decline, indicating that dewatering is still continuing.

Regional Exploration

Seismic reprocessing and interpretation has continued during the quarter with the focus of activities being on mapping prospects and leads in all permits and planning for additional core holes in PEL 13 for reserves development purposes. Once the inventory of prospects and leads is finalised, Metgasco will prioritise these opportunities with the view to acquiring additional seismic data over high grade leads.

During the quarter the Company completed a detailed analysis of coal characterisation and developed a more detailed model which enabled more extensive mapping of regional coals. This improved data set has been provided to Metgasco's independent reserve certifiers and an upgrade in certified reserves is expected to be achieved as a result this quarter.

Certified Reserves

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

PEL 16 – Independently certified coal seam gas reserves –Petajoules (PJ)		
Reserve Category	Gross Reserves (PJ)	Net Reserves to Metgasco (PJ)
1P (Proven)	2.7	2.7
2P (Proven + Probable)	298	298
3P (Proven + Probable + Possible)	1,538	1,538

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.

Review of Commercial Developments

Gas Supply and Lions Way Pipeline Project

All environmental studies relating to the Lions Way Pipeline project have been completed. The Environmental Assessment reports are currently being prepared for lodgement with the relevant regulatory authorities.

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 further discussions have been held with New South Wales officials in order to progress issuance of the necessary approvals.

Gas commercialisation strategy

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

Review of Corporate Developments

Update on PEL 16 Sale Process

Last quarter Metgasco commenced a process to sell down up to 50% of its coal seam gas interests in PEL 16. With proven gas reserves demonstrated and a large 2P reserve position of 298 PJ established, the Company considers that this is an appropriate time to encourage further investment from a compatible joint venture party in field development.

Following requests from interested parties, the Company has now expanded this process to include the conventional assets in PEL 16, which will include the Kingfisher gas field and a number of other leads and prospects. The timetable for this process has consequently been extended to allow participants to review additional information.

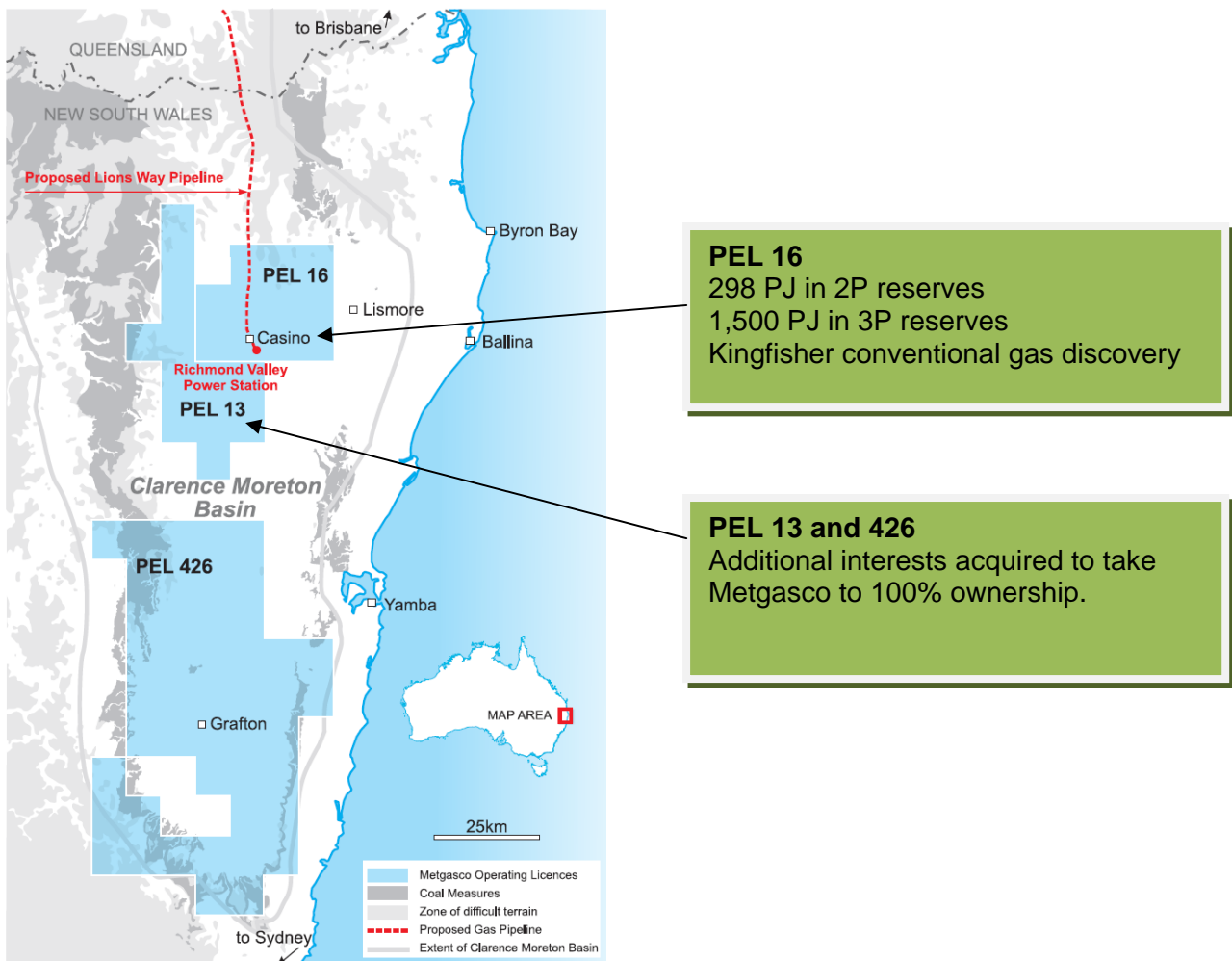
Acquisition of interests in PEL 13 and PEL 426

During the quarter Metgasco completed the acquisition of the remaining interests that it did not already own in two Clarence Moreton basin permits from Molopo Australia Limited ("Molopo"). As a result of this transaction Metgasco has secured 100% ownership of the exploration permits PEL 13 and PEL 426. Shareholder approval for this transaction was received at the Company's Annual General Meeting and all regulatory approvals have now been finalised.

PEL 13 and PEL 426 cover approximately 4,900 km² and are prospective for both coal seam gas and conventional hydrocarbons. The terms of the transaction were as follows:

- Cash payment of \$3 million;
- Issue of \$4 million worth of Metgasco shares in two tranches; and
- 2.5% royalty for 50% of conventional gas produced and sold from PEL 13. Metgasco has an option to buyout this royalty on defined terms.

Metgasco has recently completed detailed mapping of the Walloon Coal Measures in these blocks and has identified a number of potential coal seam gas sweetspots. Metgasco is currently finalising planning to conduct an accelerated exploration strategy to evaluate these areas and commence booking reserves.



Strong Financial Position after Successful Share Purchase Plan (SPP)

In December, Metgasco closed a highly successful SPP which raised \$25 million. After completing a number of asset acquisitions during the quarter, the Company remains in a strong financial position with cash reserves of \$29.7 million as at 30 December 2009.

As the SPP was heavily oversubscribed a scale back to applications needed to be applied. The Company would like to thank all of those shareholders who supported the SPP. Proceeds from the SPP will be applied to accelerating the Company's exploration, appraisal and development opportunities.

Director Appointment

Mr Steven Koroknay has joined the Board of Metgasco as a non-executive director. Mr Koroknay has more than 30 years experience in the oil and gas industry in technical, operational and senior management roles. In addition to his extensive operational experience in bringing petroleum projects into development at Esso Australia Limited, Bridge Oil and Anzon Australia, Mr Koroknay has been involved with emerging coal seam gas plays in Australia through Eastern Corporation and Transfield. Mr Koroknay also founded Anzon Energy and Anzon Australia.

Mr Koroknay is a graduate in Civil Engineering from Sydney University. He was formerly a Councillor of the Australian Petroleum Production and Exploration Association and Chairman of the Advisory Board for the School of Petroleum Engineering at the University of New South Wales. Mr Koroknay is a Fellow of the Australian Institution of Company Directors and the Institution of Engineers Australia.

Shareholder Base

At the end of the quarter Metgasco had 248,956,674 shares on issue and 10,595,830 options outstanding. The number of shareholders was 6,226.

Outlook - Planned Forward Work Program Next Quarter

- **Further Production Testing of Kingfisher E1** – the Company is currently developing the test program for additional zones of indicated net pay. The Company expects to progress this testing program over the March quarter;
- **Complete drilling Corella P18** - Metgasco's next generation coal seam gas pilot production well. This well is a multilateral completion into the Richmond coal seam and is being drilled in the environs of Metgasco's lead pilot coal seam gas well, Corella P11;
- **Planning for reserve development drilling in PEL 13** which will allow delineation of reserves in this permit area.
- **Reserve Upgrade** – The Company has provided additional data to reserve certifiers and is expecting to receive a reserve upgrade during the March quarter.