



ASX / MEDIA RELEASE

30 July 2010

## QUARTERLY ACTIVITIES REPORT QUARTER ENDED 30 JULY 2010

### Highlights

- Conventional/tight gas resource at Kingfisher field now confirmed through Kingfisher E1 reservoir testing program.
- Development Approval for Richmond Valley Power Station received from NSW Government. With approvals secured, Metgasco is currently working to finalise commercial arrangements.
- Gas production rates at coal seam gas pilot well, Corella P11, continue to increase with a new peak rate of 225,000 scf/d recorded and no sign of production decline.
- Metgasco has now identified an area around Corella P11 and extending into PEL 13, the Eden Creek fairway, which it considers to have suitable characteristics for field production. Planning for pilot drilling in this area is currently underway and the pre-drill mini sosie seismic acquisition has commenced.
- The 2010 2D seismic program, which was scheduled to commence in June/July, was delayed due to wet weather and is expected to commence this quarter. All planning requirements have been completed. This seismic program will acquire approximately 210 line km of new 2D seismic over conventional targets and the Eden Creek fairway.
- New Chairman, Mr Nicholas Heath and new Non-Executive Director, Mr Leonard Gill appointed. Dr Peter Power retired as Chairman.
- Cash reserves of \$20 million.

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# Review of Exploration and Appraisal Developments

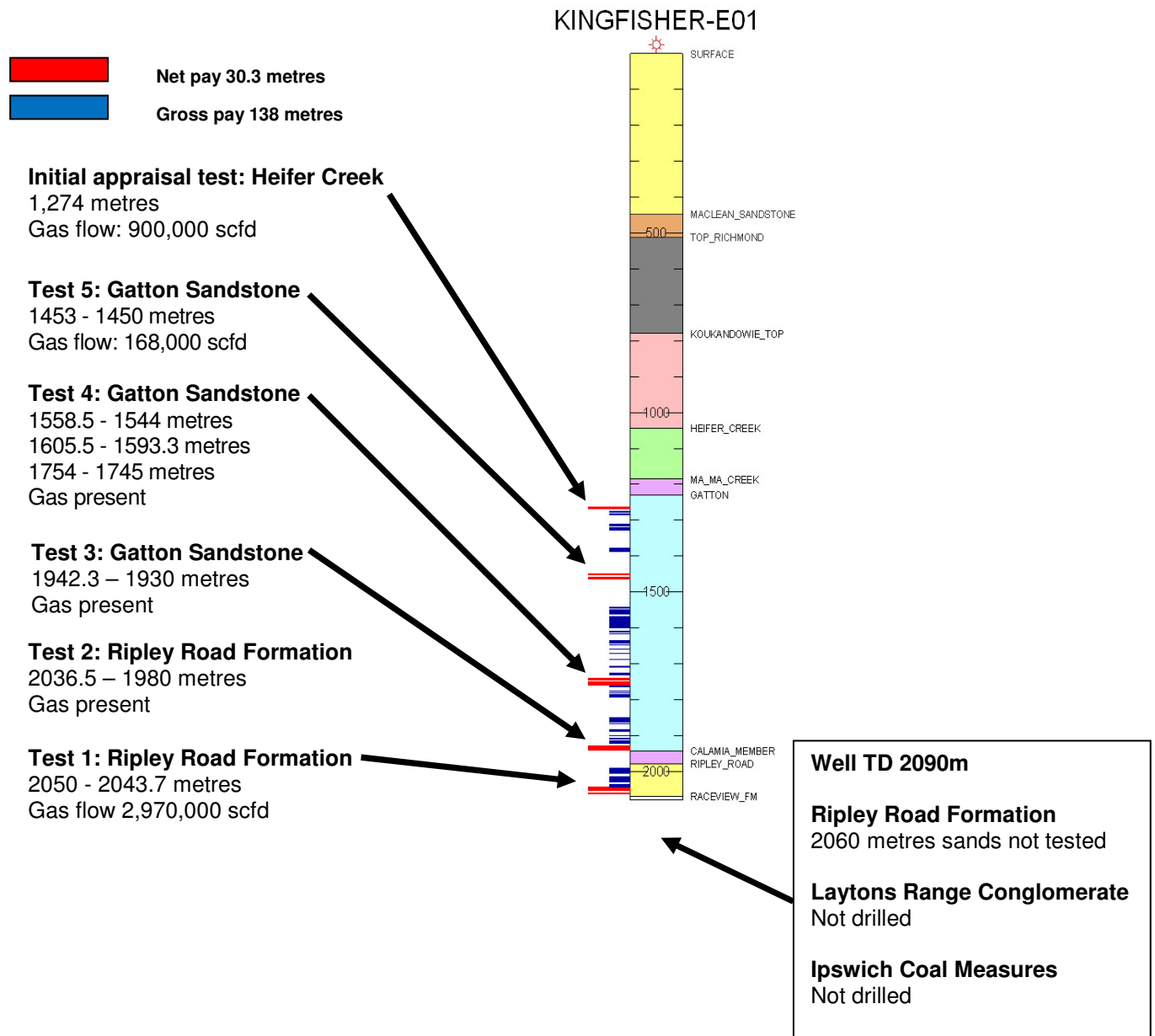
## Conventional Exploration and Appraisal Program

### Kingfisher E1

Kingfisher E1 is the first appraisal well of the Kingfisher field located in PEL 16 in the Clarence Moreton basin in northern New South Wales. The well was drilled in November 2009 and Metgasco's current contingent resource estimate for this field is 77 Bcf (P50) and 284 Bcf (P10).

Owing to the number of gas occurrences over a vertical extent of 810 metres from 1255 – 2065 metres Metgasco has spent the last six months undertaking an extensive reservoir testing program. The objective of the program was to examine reservoir characteristics such as permeability, gas composition and micro analysis of drill cuttings of different zones. A total of 22 zones between 2040 - 1450 metres have now been pressure tested and sampled while micro analysis of 28 zones between 1255 - 2065 metres has now been completed. A summary of results has been advised previously and highlights are shown in Figure 1 below:

Figure 1 : Kingfisher E1 Test Section



The overall results show that a large gas column of 138 metres is present in the Kingfisher gas field. Pressure data suggest that the column extends below the total depth of the Kingfisher E1 field and will be investigated in future drilling. The column consists of multiple stacked sand reservoirs with gas bearing sands of varying permeability and porosity. While a significant number of sands demonstrate tight gas properties, there are also a number of zones displaying more conventional characteristics. Owing to the number of zones encountered it was not possible to test each zone. Subsequent microanalysis of sample cuttings has identified various zones with attractive characteristics which were not flow tested owing to access issues. Metgasco considers the results from this well to be highly encouraging.

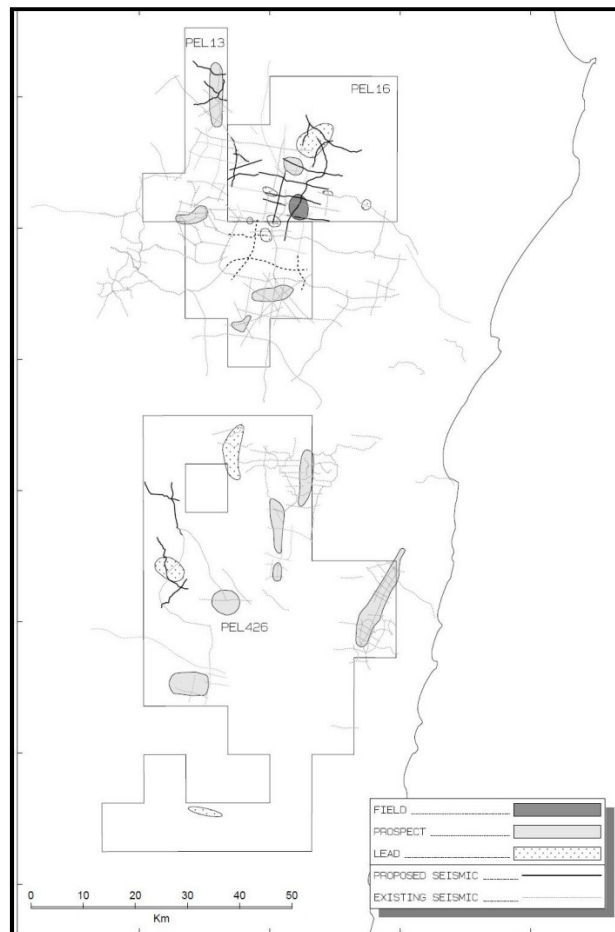
Metgasco is now focussing its efforts on further defining the extent of the structure and evaluating appropriate well completion techniques. Fracture stimulation of a single zone is planned to be undertaken to provide additional reservoir information for design of a more detailed fracture stimulation program for a future production well.

### Conventional exploration

The 2010 seismic program which was scheduled to commence last quarter was deferred due to heavy rains and unsuitable ground conditions. This program is expected to commence this quarter when suitable conditions are available.

The seismic program will provide further information on the subsurface geometry of the Kingfisher structure and in particular, the relationship between Kingfisher and the Mackellar prospect approximately 2km to the north and the Rappville prospect some 15km to the south. The identification of a possible link between these prospects and the Kingfisher structure may significantly increase the resource potential of the field (see Figure 2).

**Figure 2: 2010 Seismic Program**

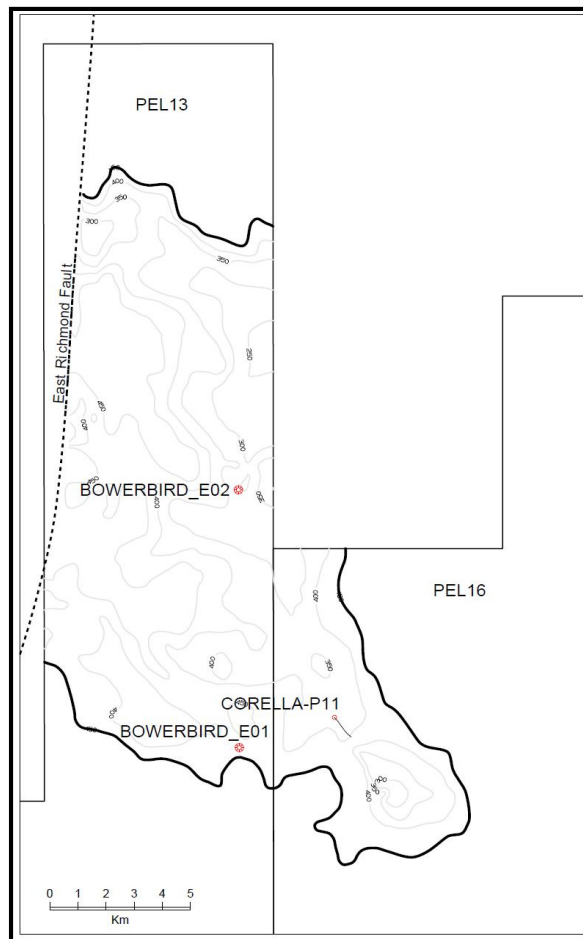


# Coal Seam Gas (“CSG”) Exploration and Appraisal Program

## Eden Creek coal seam gas pilot

The Bowerbird E2 well (“BE02”), drilled last quarter, has confirmed the north western extension of Eden Creek fairway from Corella P11 (“CP11”). Located approximately 9km north east of CP11, the BE02 core well intersected 42 metres of gassy coal and gas bearing carbonaceous shale with approximately 17 metres of coal core samples taken for analysis. Test data show comparable gas contents for the Eden Creek core wells such as CE4 and suitable permeability for a number of horizons. The fairway now has an identified length of approximately 16km. Geological information indicates the possibility that the fairway may extend beyond BE02 for a further 12 km to give a fairway length of some 28km (See Figure 3). Internal Gas In Place (“GIP”) estimates for this area are **2.68Tcf**, although further core drilling and production testing will be required to confirm these estimates.

Figure 3: Eden Creek Fairway



Metgasco is currently in an advanced stage of planning for the Eden Creek coal seam gas pilot. This pilot will comprise three pilot wells with each well being a dual lateral completion. The pilot will commence with the completion of CP-18 which was previously halted owing to stuck drill pipe. The objective of the pilot is to provide further information on Richmond seam reservoir productivity and production drilling methods. The pilot will not address the identified deeper I/J/K sequence where separate drill and complete methods are being designed for testing at a later stage.

## Coal seam gas production

Flow rates from the the pilot production well CP11 are continuing to increase on normal continuous operation. The current daily rate exceeds 206,000 scf/d with peak rates up to 225,000 scf/d. This well has now been on production test for over 800 days and with cumulative production now reaching 116,000,000 scf. Considerable work has now been undertaken to investigate the variations in performance between CP11 and other pilot production wells. The review has identified that the primary reasons for difference in performance relate to reservoir conditions and drilling methods, which will be addressed in further test production programs.

## Coal seam gas exploration

Metgasco is currently planning a follow up core well, Bowerbird E1 in the Eden Creek area in PEL 13. The well will provide further data between CP11 and BE02 and is intended to further assist in fairway identification and field development planning.

Further exploration wells are also planned for PEL 426

## Certified Reserves

Gas reserves are unchanged this quarter and are described below.

PEL 16 – Independently certified coal seam gas reserves –Petajoules (PJ)	
Reserve Category	Reserves 16 February 2010
1P (Proven)	2.7
2P (Proven + Probable)	397
3P (Proven + Probable + Possible)	2,239
2C Contingent Resource	1,177

The estimates of gas reserves have been prepared by Mr 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 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

### Richmond Valley Power Station

During the quarter, the NSW Department of Planning approved the development of the Richmond Valley Power Station (“RVPS”).

The RVPS is a 30 megawatt (MW) power station located approximately 4 km from the town of Casino. The project will produce enough power to supply 30,000 homes in the northern rivers region. Importantly it will deliver gas fired electric power to the north coast region of NSW at significantly lower carbon emissions than coal fired electricity. The installation of a reliable power supply in the Casino area will also augment security of supply in this regional community.

The north coast region of NSW has one of the highest unemployment rates in the state. The Richmond Valley Power Station will create approximately 50 direct jobs during construction and 10 full time jobs during operation.

The power station will consume approximately 2.3 Petajoules (“PJ”) of gas per year. This will be supplied by natural gas from the Casino gas project which will include the Kingfisher conventional gas field. Metgasco has gas reserves of 397 PJ in the Proved and Probable (“2P”) category in PEL 16, which is enough to provide sufficient supply beyond the expected life of the facility. The Richmond Valley power station is expected to monetise approximately 34 PJ over the 15 year life of the project.

Metgasco has acquired the land for this project and has also received approval for the required subdivision from the Richmond Valley Council. Power from the project will be connected to the existing 66kV power line network via the Casino/Lismore interconnector approximately 800 metres from the power station site.

Currently Metgasco is conducting commercial discussions with potential buyers of the output from the RVPS and is also in discussions with potential EPC contractors for construction of the power station. The final investment decision on this project remains subject to satisfactory progress on commercial negotiations and board approval.

### 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.

### Gas commercialisation strategy

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

## Review of Corporate Developments

### Update on farm-in process

Metgasco is involved in continuing discussions with prospective partners regarding strategic investments in its assets. Despite investment uncertainties surrounding the fiscal environment for onshore gas, Metgasco is continuing to engage with several parties in this process.

## Board Changes

During the quarter, Metgasco advised that Mr Nicholas Heath has been appointed as Chairman of the Board of Metgasco. Mr Heath was appointed to the Board of Metgasco in October 2006 and has served as Deputy Chairman for the past year.

Mr Heath has replaced Dr Peter Power who retired from the Board on 1 July 2010. Dr Power joined the Company in August 2002 and was the founding chairman of Metgasco. Dr Power has made a significant contribution to Metgasco from the date of the initial public offering of the Company in December 2004.

In addition, the Board has appointed a new non-executive Director to the board, Mr Leonard (Len) Gill. Mr Gill has over 30 years experience in the Australian energy industry, with a focus on power generation, energy trading and risk management and energy retailing to large customers. He was previously Chief Executive Officer of TXU Australia (now TRUenergy) and led their wholesale energy division for five years, with responsibilities including power generation, gas storage and gas and electricity contracting and trading.

Mr Gill holds a Bachelor of Engineering (Hons) degree and is a member of the Australian Institute of Company Directors. Mr Gill is currently the Chairman of the power generation and retail business, Alinta Energy.

## Cash Position

The Company ended the quarter with a cash position of \$20 million.

## Shareholder Base

At 30 June 2010 Metgasco had 249,006,674 shares on issue and 9,221,510 options outstanding. The number of shareholders was 6,246.

## Outlook - Planned Forward Work Program Next Quarter

- **Kingfisher E1** – Fracture stimulation of a single zone will be undertaken to provide additional reservoir information for design of a more detailed fracture stimulation program.
- **2010 seismic program** – Metgasco expects to commence the 2010 seismic program which will acquire approximately 210 line km of 2D seismic over CSG areas and conventional prospects and leads in PEL 16, PEL 13 and PEL 426 in the next quarter
- **Bowerbird E1** – Coal seam gas exploration core well.
- **Eden Creek coal seam gas pilot** – Metgasco is currently finalising plans for the Eden Creek CSG pilot which will comprise three CSG wells.
- **Thornbill coal seam gas exploration wells** – Planning for two coal seam gas exploration wells to be drilled in PEL 426.
- **Richmond Valley Power Station** – Continued work on commercial arrangements.