



ASX / MEDIA RELEASE

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## QUARTERLY ACTIVITIES REPORT QUARTER ENDED 30 MARCH 2011

### Highlights

- Completed two wells in the Harrier CSG Pilot Program. Both Harrier P01 and Corella P18 have flowed gas and water to surface and both wells have had surface facilities installed to enable dewatering. Both wells have flowed water strongly to the surface without pumping. This is an encouraging sign for the future performance of these wells. Both wells have shown indications of pressure build up. These wells will now be slowly pumped off and production testing will commence to determine stabilised gas flow rates.
- Achieved sustained gas production from Kingfisher E01 with the upper Gatton flowed at 170 mcf/d on a 20/64 choke.
- Results from two core wells, Bowerbird E01 and Bowerbird E02, expected to provide the basis for first reserves being recognised in PEL 13.
- Received LNG Feasibility Study report from Worley Parsons. Data from this report has been incorporated into an economic analysis of alternative LNG project options. Each of the LNG options examined, including the delivery of gas to Gladstone via a dedicated gas pipeline, demonstrated good project economics. Metgasco is currently considering the implications of the study and is engaged with several parties in commercial discussions on this potential development.
- Significant increase in size of the Mackellar North conventional gas lead in PEL 16 from 146 Bcf to 1,312 Bcf (P50 OGIP). The new data obtained from the 2010 seismic program has now been processed and the results included in Metgasco's detailed basin wide model. An update of the conventional prospects and leads portfolio has been completed. Data from the newly acquired seismic provides increasing evidence of linkage between the Kingfisher, Mackellar and Mackellar North structures – all located on the mid basin high trend in PEL 16.
- New Managing Director, Mr Peter Henderson, commenced his role with Metgasco on 5 April 2011.

# Review of Exploration and Appraisal Developments

## Conventional Exploration and Appraisal Program

### Kingfisher E01 (PEL 16)

During the quarter Metgasco completed extensive testing operations at the discovery well Kingfisher E01 in PEL 16. The results of the testing and data acquisition program enables Metgasco to better understand the geological and reservoir characteristics of this newly discovered gas resource.

Following on from earlier tests in the deeper Ripley Road and lower Gatton sandstones, a final extended flow test from the Upper Gatton formation was conducted. This included flowing gas from the previously perforated and stimulated three metre interval at 1450 metres plus and additional intervals in the Upper Gatton.

The well was flowed on an extended production test for over 4 weeks, establishing a stabilised gas rate of 170 mcf/d on a 20/64" choke. The stimulation operation represents the first fracture stimulation carried out in the NSW Clarence Moreton basin and demonstrated that fractures can be successfully propagated in these sands.

Considerable information has now been gathered to assist Metgasco in understanding the geological setting and reservoir characteristics of the Kingfisher gas field and the stress regime that operates in this part of the basin. The testing has confirmed that both the Ripley Road and Gatton sandstones contain a substantial column of gas over a gross interval in excess of 800 metres.

The data collected during the quarter will assist Metgasco in planning completion techniques for commercial development of the tight gas play in the Gatton sandstone.

### Conventional exploration – Revised Prospects and Leads from 2010 Seismic Program

Processing and interpretation of the 140 line kilometers of data acquired as part of the 2010 MET10 seismic survey was completed during the quarter.

This has facilitated a re-assessment of the prospect and lead portfolio and provides a platform for selecting future conventional well sites within the Metgasco operated licences (PEL 13, PEL 16 and PEL 426). Together with the results of the Kingfisher E01 well, this work has enabled a prioritization of potential drilling targets and the recognition of better reservoir quality in the deeper Ripley Road and basal Bundamba sandstones.

The new seismic data has provided further information on expected structural closure on a number of identified structures and original gas in place (OGIP) estimates for a number of structures have been re-assessed. In particular, Metgasco has significantly revised upwards its internally assessed OGIP estimate for the Mackellar North Lead from 146 Bcf to 1,312 Bcf (P50).

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

### **Two wells completed in Harrier Pilot Program**

The Harrier Pilot wells have targeted the Richmond seam within the Walloon Coal Measures at depths of between 300 to 400 metres. The objective of these wells is to further confirm commercial flow rates from this area where Metgasco has established its initial 1P, proven reserve certification.

These are the first multi-lateral wells that the Company has drilled. Multi-lateral wells enable longer in seam lengths to be drilled from a single well. They have been designed to provide greater exposure to the reservoir and thereby result in gas production rates above those currently being achieved from Corella P11, which has a single in-seam horizontal section of 680 metres.

Two pilot wells were drilled during the period, Corella P18 and Harrier P01. The Corella P18 side-track well was completed with a total horizontal exposure of 607 meters. The Harrier P01 well has been completed with a total horizontal exposure 1,070 metres. Surface equipment has been installed on both wells.

Gas desorption commenced immediately at Corella P18 with gas flows to surface. Wellhead pressure has continued to build strongly to 480 psi. Corella P18 has now been placed on pump and dewatering has commenced. Gas flow is currently being restricted to ensure an efficient dewatering process. The dewatering process will be monitored over the coming quarter and testing to establish stabilised gas flow rates will commence once substantial dewatering has been completed.

The Harrier P01 well is currently producing water to surface without pumping. This is indicative of good down hole pressure performance at this location. Metgasco is very encouraged by the performance of Harrier P01 to date as it is performing well above our expectations based upon the performance of nearby Corella P11. The pump has been installed at Harrier P01 and dewatering will continue over the coming quarter.

Metgasco considers the completion and performance so far of these two wells to have been a technical success. As a result, Metgasco has decided to defer drilling Harrier P02 and Harrier P03 to further assess the results from the initial two wells. Lucas Rig 25 has now demobilised from site.

### **Results from Bowerbird E01 and Bowerbird E02**

Bowerbird E01 and E02 were core wells drilled in 2010 to assess the thickness and reservoir properties of coal seams within the Walloon Coal Measures. These wells are located in PEL 13 and within the Eden Creek Fairway, north west of Casino.

Bowerbird E01 intersected 29 metres and Bowerbird E02 intersected 42 metres of gas bearing coal and carbonaceous siltstone. Work has now been completed on the coal recovered in the coring process. This includes measurements of the volume and rate of gas desorption from the coal seams, the gas composition and the level of gas saturation within the coal. Coal thickness and rock properties were also determined from the core and wireline log analysis and the permeability of selected coal intervals was measured by drill stem testing.

This information has been provided to MHA Petroleum Consultants (Denver) who will provide an independent report on the reserves status in the permit. It is expected that this will form the basis for the first certification of reserves in PEL 13, and will add to the reserves already attributed to Metgasco's coal seam resource in PEL 16.

## Certified Reserves

Gas reserves are unchanged this quarter and are described below.

PEL 16 – Independently certified coal seam gas reserves –Petajoules (PJ)	
Reserve Category	Current Gas Reserves 100% Metgasco
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

### LNG Feasibility Studies

During the quarter Metgasco received the final LNG Feasibility Study report from WorleyParsons. This study entailed the development of a conceptual field development plan for gas supply to an LNG project based upon a 1.5 million tonne per annum LNG facility which would require approximately 90 PJ/a of gas. It also developed an analysis of the capital and operating costs for pipeline options to Gladstone and to the Port of Brisbane and also evaluated the development of a sub-sea pipeline to an offshore floating LNG facility.

Data from this report has been incorporated into an economic analysis of alternative LNG project options. Each of the LNG project options examined, including the delivery of gas to Gladstone via a dedicated gas pipeline, demonstrated good project economics. Metgasco is currently considering the implications of the study and is engaged with several parties in commercial discussions on this potential development.

## **Richmond Valley Power Station (RVPS) & Casino Gas Project**

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 emission intensity 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.

Metgasco is continuing to engage in 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, determination of funding strategy and board approval.

## **Gas Supply and Lions Way Pipeline Project**

In December, Metgasco lodged the Environmental Assessment for the Lions Way Pipeline with the NSW State Government. This document is subject to an adequacy review by the NSW Department of Planning. Metgasco is currently responding to follow up questions from the Department of Planning. Once this has been completed, the Company will make the Environmental Assessment available for public comment.

## **Gas commercialisation strategy**

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

## **Review of Corporate Developments**

### **New Managing Director**

In November, Metgasco advised that it had appointed a new Managing Director, Mr Peter Henderson. Mr Henderson joined the Company on 5<sup>th</sup> April 2011.

### **Cash Position**

The Company ended the quarter with a cash position of \$7.7 million.

### **Shareholder Base**

At 31 March 2011 Metgasco had 252,460,972 shares on issue and 9,077,510 options outstanding. The number of shareholders as at 27 April 2011 was 5,766.

## Outlook - Planned Forward Work Program Next Quarter

- **First reserves for PEL13 expected** – Data from Bowerbird 01 and Bowerbird 02 and other data in PEL 13 provided to reserve certifiers. Results expected next quarter.
- **Harrier pilots dewatering** – Monitoring and dewatering to continue during the quarter.
- **Planning for follow up conventional drilling** – New seismic now interpreted and drilling planning underway.
- **Lions Way Pipeline** – Lodge response to queries raised by Department of Planning following adequacy review of Environmental Assessment.
- **Commercial discussions** – Progress commercial discussions with potential farm in partners and gas buyers, including local gas customers.

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### Background on Metgasco

[www.metgasco.com.au](http://www.metgasco.com.au)

Metgasco has a 100% interest in PEL 16, 13 and 426 in the Clarence Moreton Basin in NSW where we operate the largest acreage position in the basin. Metgasco currently has 2P gas reserves of 397 Petajoules and 3P gas reserves of 2,239 Petajoules from less than 10% of our acreage area. We are exploring for conventional and unconventional gas. Metgasco is currently progressing its gas commercialisation agenda which includes gas and electricity supply to NSW and gas supply to Queensland. With gas in place resources likely to exceed the domestic markets requirements and sufficient to supply export scale projects, Metgasco is currently investigating LNG project development options.

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