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METGASCO AND CS ENERGY ANNOUNCE FARM-IN & GAS SALE DEAL

- **CS Energy to farm-in to PEL 16 with an appraisal commitment of \$11 million.**
- **Goal to establish 540 Petajoules in 2P gas reserves within 15 months. This is in addition to Metgasco's current commitment to establish 2P reserves of 100 Petajoules over the next 4 months.**
- **Heads of agreement on gas sale of 18 Petajoules per year to the Swanbank power station in Queensland.**
- **Total value of gas sale agreement over \$1 billion.**

Metgasco (ASX:MEL) is pleased to announce that it has entered into a farm-in agreement with CS Energy worth \$11 million. The goal of the farm-in is to prove 540 petajoules (PJ) of 2P gas reserves to supply 18 PJ of gas per year to CS Energy which represents a gas sale value of over A\$1 billion over the proposed 20 year term.

Through this farm-in agreement, Metgasco plans to increase its 2P gas reserves to 660 PJ over the next 15 months.

In addition, a new gas pipeline between NSW and Queensland will be built and owned by Metgasco to supply gas to the Swanbank Power Station in Queensland.

Under the farm-in agreement, CS Energy will spend \$11 million in two stages to earn an initial 15% interest in the coal seam gas rights to three graticular blocks within PEL 16 near the northern NSW town of Casino. The farm-in area comprises approximately 27% of the surface area of PEL 16. The first stage will entail drilling 10 exploration wells in the farm-in area. The second stage will entail conducting a pilot appraisal program on a number of coal seams which have not been the focus of the Company's activities to date. The goal of the appraisal stage of the farm-in is to establish 2P gas reserves of approximately 540 Petajoules.

Once these reserves are established, which is expected to take 15 months, CS Energy intends to invest a further \$94.5 million to earn an additional 35% interest in the farm-in area by funding development of the field for the purposes of gas supply to Queensland. Metgasco

will continue to be the Operator of the field. Metgasco will immediately commence development work on the proposed gas pipeline to Queensland with a goal to deliver gas by 2010. Metgasco and CS Energy will finalise a gas sale agreement over the next 6 months.

David Johnson, Metgasco Managing Director, said: "We are extremely pleased to welcome CS Energy as our farm-in partner in the Clarence Moreton basin. CS Energy understands the coal seam gas business and has been at the forefront in contracting with coal seam gas companies in Queensland. It is a strong demonstration of CS Energy's confidence in the coal seam gas industry and in the commercial opportunity offered by Metgasco."

"The investment by CS Energy will double the exploration expenditure spent on our field to date and will dramatically fast-track the commercialisation of our Casino operations by underwriting both the development of our gas reserves and the construction of key gas transportation infrastructure," Mr Johnson said.

Mr Johnson said: "Metgasco holds the largest certified gas reserves in NSW and this project will bring a significant percentage of our 3P gas reserves into the 2P category, which is required to enter into gas sale contracts. Currently we have established 22 PJ of certified 2P gas reserves. These reserves are for a single seam in a small area at South Casino. We are about to commence drilling at South Casino to expand our 2P reserves to 100 PJ which will establish sufficient reserves to supply the Richmond Valley Power Station. Our project with CS Energy is in the north of the tenement area and will significantly expand our gas reserves. Within 15 months the Company will have established over 660 PJ of 2P gas reserves. Metgasco will continue to focus on gas sale opportunities from additional gas resources in the Clarence Moreton basin, which contains up to 5,000 PJ of coal seam gas, in addition to conventional gas."

Metgasco's field has the largest independently certified gas reserves in NSW. This commitment will fast track the development of a major new source of gas supply for both Queensland and New South Wales. It will also contribute to regional development and employment in the Northern Rivers region in which Metgasco's project is located. The project is the closest gas supplier to the coastal regions of South East Queensland and North East New South Wales which are the fastest growing energy markets in Australia.

Metgasco has secured Mitchells Rig No 107 to undertake this drilling program which is expected to commence in January 2007.

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