METGASCO Ltd
ACN 088 196 383

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AUSTRALIAN STOCK EXCHANGE
Via Electronic Lodgement

QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 31 DECEMBER 2006

Highlights

- The Reserve Expansion Drilling program has commenced. Three drilling rigs are on site to conduct this drilling program which has a goal to establish 2P gas reserves of over 100 Petajoules (PJ) by April 2007.
- Metgasco and CS Energy have entered into a joint venture agreement whereby CS Energy has farmed-in to part of PEL 16 by funding an $11 Million appraisal program. The goal of this appraisal program is to prove sufficient gas reserves to supply 18 PJ per year to Swanbank near Brisbane. The target volume of 2P gas reserves for this project is 540 PJ. This volume of gas is in addition to that being developed in the Reserve Expansion Drilling program described above. Drilling is expected to commence on this project in January.
- Development work on the Richmond Valley Power Station has continued over the past quarter. Environmental impact studies have been undertaken over the past quarter in response to the NSW Department of Planning's Environmental Assessment Requirements. In October, the Australian Pipeline Trust was selected as the Company's preferred infrastructure partner for the Richmond Valley Power Station
- In December, the Company completed a Share Purchase Plan to raise $4.2 Million. The Company was extremely pleased that over 70% of shareholders participated in the Share Purchase Plan.

This quarter the Company's activities were largely focused on commercial initiatives and in planning and preparation for the Reserve Expansion Drilling program.

Review of Operations

Drilling of MMMC-01 – Farm-in to PEL 13

This well is being completed as part of the Metgasco Farm-in commitment to earn an initial 51% interest in the coal seam gas rights of PEL 13. MMMC-01 was previously drilled to a target depth of 633 metres. Wireline logging has identified gross coal seam thicknesses in excess of 22m in the Walloon Coal Measures. This well will now be completed following the arrival of a core drilling rig in January. Coring operations have now commenced and data from this well will provide desorption and associated test data to complete the initial work under the Farm-in program.

Reserve Expansion Drilling Program

In October, Metgasco announced that it has secured a drilling rig for the forthcoming Reserve Expansion Drilling program. This drilling program will involve completing 2 – 4 core wells in PEL 16. The goal of this drilling program is to obtain sufficient technical data to convert up to 100 PJ of gas reserves which are currently classified as "Possible" or "3P" to the "Probable" or "2P" classification. This reserve classification requires a higher level of certainty of gas deliverability and is required to provide greater certainty of deliverability to gas customers. Drilling on the first two of these wells, Riflebird-E1 and Riflebird-E2 commenced in January.

Following the announcement in December of a farm-in by CS Energy (described in more detail below), Metgasco has expanded this drilling program to up to 10 additional core wells. The goal of this drilling program is to establish approximately 540 PJ in 2P gas reserves. In order to complete this program, Metgasco has engaged two additional rigs to expedite the larger drilling program. Site preparation work for this drilling program has been completed and drilling commenced in January.

Dewatering and performance of pilot horizontal wells

Following an assessment in September of completion techniques for horizontal wells in comparable US coals to the Clarence Moreton coals, the Company decided to install an alternative pumping regime for pilot horizontal wells MSC-09 and MSC-10.

Three pumps, which required refurbishment, were acquired in October. The refurbishment of these pumps was completed in November, with the refurbished pumps installed in MSC-09 in late November and MSC-10 in early December. Dewatering of these wells recommenced in mid December. Production testing is expected to re-commence in the first quarter 2007 once dewatering is completed.

Richmond Valley River Crossing

Metgasco is currently extending its gas gathering lines through the installation of a pipeline across the Richmond River through a co-operative arrangement with the Richmond Valley Council. The Council is in the process of installing a services conduit on behalf of a number of service and utility suppliers. This installation provides a cost effective installation of key field infrastructure. Work on this river crossing was postponed in November due to the river flooding the site. This work recommenced in January and is now almost complete.

Summary of Gas Reserves (Net to Metgasco)

The following provides a summary of gas reserves held by Metgasco. These reserves have been independently certified by MHA Petroleum Consultants (Denver, US).

	FY 2006
1P	-
2P	22 PJ
3P	1,123 PJ

Review of Commercial Developments

CS Energy Farm-In to PEL 16

In December, the Company announced that CS Energy would farm-in to PEL 16 with an appraisal commitment of $11 million. Under the Farm-in Agreement, CS Energy will spend up to $11 million in two stages to earn up to an initial 15% interest in the coal seam gas rights to three graticular blocks within PEL 16 (which comprises eleven graticular blocks in total). The first stage entails drilling 10 core wells in the farm-in area. The second stage entails conducting a pilot appraisal program on six coal seams, five of which have not been the focus of the Company's activities to date. The Farm-in area comprises approximately 27% of the surface area of PEL 16. CS Energy has provided the initial payment of $651,000 to earn 3% of the Farm-in area.

The goal of this farm-in is to prove 540 PJ of 2P gas reserves which are sufficient to supply 18 PJ of gas per year for a term of 20 years to CS Energy. 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

A new gas pipeline between NSW and Queensland will be developed by Metgasco to supply gas to the Swanbank Power Station. The goal of the joint venture is to deliver gas to Queensland by 2010.

Appointment of Australian Pipeline Trust ("APA") as Preferred Infrastructure Partner for Richmond Valley Power Station

The Company is currently developing the Richmond Valley Power Station which is a 30 MW gas fired power station located near Casino. This project has been declared a Major Project by the NSW Government. The project will provide additional security of supply for the town of Casino and generate NSW Greenhouse Gas Abatement Credits.

Over the past quarter, Metgasco invited a number of qualified infrastructure investment companies to provide proposals to the Company to assist with development of the Richmond Valley Power Station. The Australian Pipeline Trust was selected as the preferred infrastructure partner for the project and Metgasco and APA are currently negotiating a Development and Tolling Agreement.

Progress on Richmond Valley Power Station Development Approval Process

The Company is in the process of developing the 30 MW gas fired Richmond Valley Power Station. During the quarter, the Company commenced environmental assessment studies in response to the NSW Department of Planning Environmental Assessment Requirements. Hydrology and Flora and Fauna studies have now been completed, with other studies including Noise and Air Quality impact studies well advanced. The Company anticipates that it will complete all required studies by the end of the first quarter 2007, with a view to undertaking a public consultation process in the second quarter of 2007.

Corporate

Share Purchase Plan Raises $4.2 Million

In November, the Company announced a Share Purchase Plan offer to existing shareholders. This offer allowed existing shareholders to purchase additional shares in Metgasco at a 10% discount. The offer closed in December and the Company was extremely pleased that over 70% of shareholders participated in the offer with the majority of applicants choosing to take up their maximum allowance. The Share Purchase Plan raised $4,266,500 by issuing 13,332,819 shares at $0.32 per share. Proceeds from this issue will be used to fund the Reserve Expansion Drilling Program, contribute towards funding field operations and infrastructure, progress commercialization opportunities and replenish working capital.

Planned Forward Work Program Next Quarter

- Drill and complete coring and testing of MMMC-01 in the PEL 13 Farm-in program.
- Drill and complete 2 – 4 core wells in PEL 16 to meet reserve expansion requirements for RVPS.
- Drill and complete 4 – 8 core wells in CSE Farm-in area to meet appraisal commitment for CSE Farm-in.
- Commence development work on New South Wales to Queensland pipeline, including Draft Gas Transportation Agreement.
- Progress detailed negotiations on terms of Gas Sale Agreement with CS Energy.
- Progress other gas sale opportunities.
- Continue production testing of South Casino development wells.
- Progress detailed negotiations with Australian Pipeline Trust on Richmond Valley Power Station Development and Tolling Agreement.
- Progress environmental studies for the Richmond Valley Power Station.
- Continue with detailed field development planning, engineering design and commercial work for the proposed 30MW power project.

Overview of Project

Metgasco is an Australian energy company developing gas reserves and power supplies for the eastern Australian energy market. Metgasco is developing coal seam methane reserves in the Clarence Moreton Basin in New South Wales and has the largest independently certified gas reserves in New South Wales.

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