

17 October 2007

AUSTRALIAN SECURITIES EXCHANGE
Via Electronic Lodgement

OPERATIONS UPDATE

- **Pilot production drilling to commence this month.**
- **Core drilling program now completed. Testing program has recommenced and will be completed by calendar year end.**
- **Further technical data package to be provided to reserve certifiers over the coming month.**

Pilot Production drilling to commence this month.

As previously advised, Metgasco is about to commence drilling operations for its Phase 2 pilot production program this month.

Metgasco and its joint venture partner CS Energy intend to drill 5 surface to in-seam ("SIS") wells in the Stratheden Joint Venture area in PEL 16. Metgasco intends to drill 3 SIS wells in the South Casino trial production field.

The goals of the Pilot Production programs are:

- To establish productive gas flow rates from SIS wells; and
- To assist in the Company's gas reserve expansion strategy.

All approvals have been received for these programs and earthworks have commenced. Pre-collar drilling at Corella-P16 commenced last week with pre-collar drilling to 150 metres now completed and casing set and cemented. The Company intends to drill in-seam lateral wells of up to 1,000 metres in length into various seams in the Walloon coal measures. The pilot wells of this program will target the Richmond, Tomki, Codrington and Gundarimba seams. Metgasco has identified SIS drilling as the preferred drilling technique for the types of coals present in the Clarence Moreton basin based on analogues with the Arkoma basin in the US. In addition, the Company has redesigned well completion procedures and pumping systems for the wells. The pilot production wells will be drilled and dewatered over the coming quarter.

Metgasco has mobilised an Ensign ADR 100 rig from Canada to undertake this drilling program. The rig arrived in Australia in late September and is currently being assembled and tested prior to being mobilised to Casino next week to commence drilling operations.

Metgasco has entered into a technical services alliance with Vectra CBM LLC for Vectra to provide drilling and well completion advisory services during the forthcoming pilot drilling program. Senior representatives of Vectra will be on-site at Casino during this drilling program.

Exploration Drilling Program Close to Completion

Drilling activity associated with the core exploration drilling program has now been completed. A number of wells are currently suspended pending additional testing. This testing program has recommenced this week and is expected to be completed by the end of this calendar year.

Additional data will be provided to reserve certifiers, MHA Petroleum Consultants (Denver USA) over the coming month.

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