

QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 30 SEPTEMBER 2008

Highlights

- **A Contingent Resource of 36.6 Bcf OGIP (Pmean) and 69.9 Bcf OGIP (P10) identified in the Kingfisher conventional gas field.**
- **Total conventional resource potential of 82 Bcf OGIP (Pmean) and 831 Bcf OGIP (P10) attributed to Kingfisher including unaddressed deeper targets.**
- **The MacKellar structure immediately north of Kingfisher with a prospective resource of 63 Bcf OGIP (Pmean) and 688 Bcf OGIP (P10).**
- **MacKellar North prospective resource of 146 Bcf OGIP (Pmean) and 1,793 Bcf OGIP (P10).**
- **Planning and approvals for conventional appraisal drilling program complete.**
- **Increasing gas production rates achieved from coal seam gas ("CSG") pilot well Corella-11 with a new peak production rate of 200 Mscf/d.**
- **Further reservoir engineering studies for additional CSG reserve upgrades.**
- **Continued processing and interpretation of new 2D seismic data collected on PEL 426 and PEL 13.**
- **Richmond Valley Power Station Pt3A planning assessment progress.**
- **Field environmental studies for the Lions Way pipeline have commenced.**

In addition to the largest CSG gas reserves in New South Wales., Metgasco is now building a significant conventional gas position in the Clarence Moreton Basin. The combination of CSG and conventional gas together with its strategic location in northern New South Wales provides Metgasco with the opportunity to be a key supplier into the east coast gas and power market.

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Review of Exploration and Appraisal Developments

Conventional Exploration program

During the quarter the Company announced a contingent gas resource for the Kingfisher field (RE-14 well) conventional gas discovery of 36.6 Bcf OGIP (Pmean) and 69.9 Bcf OGIP (P10). The discovery is important as it further confirms the presence of conventional hydrocarbons in the Clarence - Moreton Basin and provides significant positive implications for further conventional exploration in the basin. Data collected from the RE-14 well and the completion of processing of the new 2D seismic program has enabled the Company to identify a number of other prospects and leads in PEL 16 which are summarized as follows:

Area	Bcf OGIP (Pmean)	Bcf OGIP (P10)
Kingfisher Field	82	831
Mackellar Prospect	63	688
Mackellar North Lead	146	1,793
Bowerbird Lead	28	295
Cicada Lead	35	352
Fantail Lead	30	315
Monarch Lead	53	528
Triller Lead	36	389

Approvals and planning for the appraisal program to test Kingfisher, Kingfisher deeps, Mackellar and Mackellar North have been finalised. The company is currently in discussions with drilling contractors on rig availability and timing. The size of the program will require external capital and the Company is currently progressing farm out discussions.

CSG Program

Trial Production

A significant milestone was achieved during the quarter when the lead trial production well CP-11 achieved a rate of 200Mscf/d. The well which has been on test since January 2008 has now produced in excess of 30mmcf of gas and 20,000bbl of water. The company considers that further improvement in the gas flow rate can be expected as the dewatering process continues.

The development in the CP-11 flow rate is considered important. The CSG exploration and development process to understand reservoir character and production technology often involves trial and error as new technology is applied in a new area. In the Walloon Coal Measures in the Surat basin this process took between 38 and 56 months before there were trial production wells flowing at the level that CP 11 has now reached. Metgasco has achieved this well rate on comparably lower gross expenditures in the Clarence Moreton Basin and a similar time frame.

The Company considers that there is scope for further improvement in reservoir productivity via well optimisation and also new production methods, but that an important milestone has been set that will facilitate the movement towards commercial production in the Clarence Moreton Basin.

CSG Reserves Development

Metgasco currently has the largest certified CSG gas reserves in New South Wales. The large scale of the Company's 3P reserve position demonstrates the potential of the Clarence Moreton basin to be a major contributor to gas supplies on the east coast of Australia.

Current independently certified CSG reserves within PEL 16 are as follows:

Gas Reserves	Quantity (PJ)
2P (Proven and Probable)	298
3P (Proven, Probable & Possible)	1,538

A complete data set covering all work undertaken in PEL 16 is now being evaluated by the Company's Denver based reservoir engineers and reserve certifiers, MHA Petroleum Consultants. The study is intended to review, integrate and refine knowledge of the CSG potential of PEL 16 and include insufficiently evaluated geographic areas and also new CSG reservoirs such as the I/J sequence for further reserve upgrades. The study, expected to be completed in December will also evaluate further improvements to production methods, operational management and workover practices.

Stratheden Joint Venture – Clarence Moreton Basin, NSW PEL 16 (Blocks 4, 5 & 1)

Operator - Metgasco

Coal Seam Gas (Metgasco 85%, CS Energy 15%, CS Energy earning 50%)

Metgasco has entered into a farm-in agreement with CS Energy with a goal to establish sufficient coal seam gas reserves to supply 18 PJ of gas per year from the Stratheden Joint Venture area to the Swanbank power station at Ipswich near Brisbane. The Stratheden Joint Venture area is approximately 4 km north of Casino.

During the quarter, Metgasco as Operator managed operations on the pilot wells on behalf of the joint venture which have been described elsewhere in this report including that of the recent performance of CP-11 as described earlier.

Clarence Moreton Basin, NSW – PEL 13

Operator - Metgasco

Coal Seam Gas (Metgasco 75%, Molopo Australia Ltd 25%)

Conventional (Metgasco 50%)

Pursuant to the Farm in Agreement with Molopo Australia Ltd, during the quarter the Company completed registration of its Working Interests in PEL 13. The Company continues to process data collected from the recent 2D seismic program to evaluate the deeper conventional prospectivity of the permit and identify prospects and leads and to develop sensible work programs for the Joint Venture.

Clarence Moreton Basin, NSW – PEL 426

Operator - Metgasco

Coal Seam Gas and Conventional (Metgasco 50%)

Pursuant to the Farm in Agreement with Molopo Australia Ltd, during the quarter the Company completed registration of its Working Interest in PEL 426. Extensive processing and evaluation of data collected from the recent 2D seismic program has been undertaken. A number of prospects and leads have been identified and the Joint Venture is currently planning a follow up program.

Review of Commercial Developments

CS Energy – Gas Supply and Lions Way Pipeline Project

The Company is in the process of developing a 145km high pressure gas transmission pipeline to supply gas from near Casino in northern New South Wales that will connect at or near CS Energy's Swanbank power station at Ipswich. This pipeline will provide a major new gas transportation corridor to south-east Queensland. Brisbane is the only capital city on the east coast of Australia supplied by a single gas pipeline. The development of an additional new gas transportation corridor will enhance the security of gas supply to Brisbane.

During the quarter, field crews commenced contact and initiated discussions with landowners likely to be affected by the pipeline. Additional field crews have also commenced flora and fauna, regolith and hydrology studies along the proposed pipeline route. Further discussions with CS Energy on the draft GTA were also undertaken .

Richmond Valley Power Station

The public consultation process for the approval of the Richmond Valley Power Station was completed during the quarter. Submissions received as a result of the public consultation process were forwarded to Metgasco by the Department of Planning for comment and the company is now finalising responses to DOP. Also during the quarter the network studies were completed successfully.

Review of Corporate Developments

Following a period of severe financial market turmoil, the Company has undertaken a review of operations expenditure and has implemented a plan of prudent cost control. Other than a shallow dual target well on PEL 426, the Company has satisfied all Farm In obligations and DPI work commitments on all permits for the balance of the calendar

year. The company will require funding for the PEL 16 conventional exploration program and is currently in discussions with a number of parties.

Cash Position

The Company's cash position at the end of the quarter was \$3.617million.

Planned Forward Work Program Next Quarter

- Conventional PEL 16 Drilling Program – Complete Farm out discussions and commence drilling program of up to 6 wells
- CSG Pilot Production Testing – Continue dewatering and production testing of pilot wells.
- Reserves Development Program - Complete integrated study.
- PEL 426 – Shallow dual target well.
- PEL 13 – Finalise 2D processing and interpretation.
- Richmond Valley Power Station – Complete Environmental Assessment Process.
- Lions Way Pipeline – Progress Environmental Assessment process.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

METGASCO LIMITED

ABN

24 088 196 383

Quarter ended ("current quarter")

30 September 2008

Consolidated statement of cash flows

Cash flows related to operating activities

- 1.1 Receipts from product sales and related debtors
- 1.2 Payments for
 - (a) exploration and evaluation
 - (b) development
 - (c) production
 - (d) administration
- 1.3 Dividends received
- 1.4 Interest and other items of a similar nature received
- 1.5 Interest and other costs of finance paid
- 1.6 Income taxes paid
- 1.7 Other –Govt grant & JV contribution

Net Operating Cash Flows

Cash flows related to investing activities

- 1.8 Payment for purchases of:
 - (a) prospects
 - (b) equity investments
 - (c) other fixed assets
- 1.9 Proceeds from sale of:
 - (a) prospects
 - (b) equity investments
 - (c) other fixed assets
- 1.10 Loans to other entities
- 1.11 Security deposits paid
- 1.12 Other (provide details if material)

Net investing cash flows

- 1.13 Total operating and investing cash flows (carried forward)

Current quarter \$A'000	Year to date (3 months) \$A'000
-	-
(2,473)	(2,473)
-	-
-	-
(1,078)	(1,078)
-	-
100	100
-	-
-	-
518	518
(2,933)	(2,933)
-	-
-	-
(228)	(228)
-	-
-	-
-	-
-	-
-	-
-	-
(228)	(228)
(3,161)	(3,161)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(3,161)	(3,161)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	15	15
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	15	15
	Net increase (decrease) in cash held	(3,146)	(3,146)
1.20	Cash at beginning of quarter/year to date	6,763	6,763
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	3,617	3,617

Payments to directors of the entity & associates of the directors. Payments to related entities of the entity & associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	(365)
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	N/A	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

+ See chapter 19 for defined terms.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(750)
4.2 Development	-
Total	(750)

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,117	1,263
5.2 Deposits at call	2,500	5,500
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	3,617	6,763

+ See chapter 19 for defined terms.

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A			
6.2 Interests in mining tenements acquired or increased	PEL 13 PEL 13 PEL 426	Coal seam methane Conventional gas Conventional and coal seam methane	51% 0% 0%	75% 50% 50%

Issued and quoted securities at end of current quarter

Description includes rate of interest & any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities	NIL			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	NIL			
7.3 *Ordinary securities	132,281,134	132,281,134		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	30,000 20,000	30,000 20,000	\$0.30 \$0.35	\$0.30 \$0.35
7.5 *Convertible debt securities	NIL			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	NIL NIL			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.7	Options (description and conversion factor)	<i>Number</i> 14,561,869 100,000 250,000 180,000 244,000 296,000 560,000 250,304 160,223 494,023 1,000,000 100,000 375,000 200,000 65,000 50,000 375,000 599,861 365,036 614,708 375,000		<i>Exercise price</i> \$0.30 \$0.30 \$0.32 \$0.30 \$0.35 \$0.40 \$0.50 \$1.10 \$1.00 \$0.90 \$0.82 \$0.90 \$1.00 \$0.90 \$1.00 \$1.00 \$1.00 \$1.20 \$1.40 \$1.60 \$1.00	<i>Expiry date</i> 30/06/2009 20/04/2011 22/05/2011 1/01/2012 1/01/2012 1/01/2012 1/01/2012 30/06/2012 30/06/2012 30/06/2012 21/11/2012 31/12/2012 21/02/2013 4/02/2013 4/02/2013 14/02/2013 21/05/2013 01/07/2013 01/07/2013 01/07/2013 21/08/2013
7.8	Issued during quarter	599,861 373,191 626,911 375,000		\$1.20 \$1.40 \$1.60 \$1.00	01/07/2013 01/07/2013 01/07/2013 21/08/2013
7.9	Exercised during quarter	(30,000) (20,000)		\$0.30 \$0.35	01/12/2012 01/12/2012
7.10	Expired during quarter	(5,503) (4,536) (8,155) (12,203)		\$0.90 \$1.00 \$1.40 \$1.60	30/06/2012 30/06/2012 1/07/2013 1/07/2013
7.11	Debentures (totals only)	NIL			
7.12	Unsecured notes	NIL			

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX \(see note 4\)](#).
- 2 This statement does ~~/does not~~* [\(delete one\)](#) give a true and fair view of the matters disclosed.



Sign here: Date: 31/10/2008.....
(Director/Company secretary)

Print name: Glenda McLoughlin

+ See chapter 19 for defined terms.

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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