



ASX / MEDIA RELEASE
30 October 2009

QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 30 SEPTEMBER 2009

Highlights

- **Kingfisher E1 drilling underway.** As 6.00am this morning, the Kingfisher E1 conventional exploration well was drilling ahead at 485 metres. Pre drill estimates of original gas in place (OGIP) are **82 Bcf** (PMean) and **831 Bcf** (P10).
- **Improved production performance at Corella P11 CSG pilot production well.** This well has now produced a cumulative 70 mmcf of gas and achieved a new peak daily rate of 220,000 scfd while exhibiting only a modest decline in water production, suggesting optimal reservoir performance conditions are yet to be achieved.
- **CSG multilateral pilot drilling program to commence this quarter.** Metgasco has selected Lucas Mitchell for the drilling and completion of the next generation multilateral well Corella P18. The drilling of Corella P18 will commence after the drilling of Kingfisher E1 using Lucas Rig 150.
- **Acquisition of outstanding interests in PEL 13 and PEL 426.** Metgasco has acquired further interests in these Clarence Moreton basin exploration permits from Molopo Australia Limited. The acquisition gives Metgasco an undivided 100% working interest in these permits.
- **Commenced Expression of Interest process for PEL 16 coal seam gas ("CSG") assets.** Metgasco has commenced a process to identify potential partners for its coal seam gas interests in PEL 16. With proven gas reserves demonstrated and a large 2P reserve position of 298 PJ established, the Company considers that this is an appropriate time to encourage further investment from a compatible joint venture party in field development.

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Review of Exploration and Appraisal Developments

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

CSG Exploration

Upon the completion of the acquisition of Molopo Australia Limited's (Molopo) Clarence Moreton basin interests, Metgasco will be Operator and beneficial 100% owner in some 5700² km of acreage prospective for CSG in the Walloon Coal Measures.

In the last 18 months, Metgasco has identified a number of areas demonstrating different reservoir performance characteristics to that commonly identified in PEL 16. In particular, the wells Orara E1(which produced gas at 120,000 scfd – PEL 426) and Wyan E1(which produced gas at 175,000 scfd – PEL 13) demonstrated free gas flows and no water after being drilled with air drilling methods.

Basin wide seismic reprocessing and interpretation of the Walloon Coal Measures, together with this recent drilling, has allowed the Company to develop a follow up program to further test these results. In addition, Metgasco has now identified several other prospective areas to appraise. These areas may represent large scale, high potential fairways capable of supporting further development activities.

CSG Pilot Production Testing – PEL 16

Metgasco is now in the advanced stages of matching reservoir architecture with well engineering technology. A series of trial production programs has identified lateral drilling as the suitable technology for commercial extraction of gas from the Richmond seam reservoir in parts of PEL 16 whilst alternative completion techniques are considered to be more suitable the IJK sequence. Work is currently underway in progressing completion techniques for this reservoir.

During the quarter, Corella P11 was worked over and the position of the downhole pump adjusted. This resulted in improved performance of the well with a new peak daily rate of 220,000 scfd reported. This well has now produced a cumulative 70 mmcf gas while exhibiting only a modest decline in water production, suggesting optimal reservoir performance conditions are yet to be achieved.

Next Generation CSG wells about to commence - Multilateral Program

Continued reservoir engineering studies of the Richmond seam by Metgasco have shown that improvements in well performance can be expected through a number of changes to well design including:

- Greater in seam exposure by drilling additional lateral wells.
- The addition of a pilot vertical offtake well to the pilot design to allow for more accurate penetration of the lateral into the seam enabling a straighter lateral to be drilled.
- The use of the pilot vertical as the offtake point for produced water to enable greater pump efficiency.
- Where feasible underbalanced drilling to minimise damage to the master cleat and jointing system present in the reservoir.

The multilateral program commenced in June with the drilling of two pilot vertical offtake wells Riflebird E15 and Corella P17.

Riflebird E15 demonstrated immediate free gas flow to surface upon being drilled. It is currently suspended awaiting a workover to clear a bridge in the hole so that logging can be completed.

During the quarter, Corella P17 was completed for initial production testing. This well has produced gas and water immediately as expected for a vertical intersection based upon a history matching of the performance of the nearby Corella P11. The water rate has not yet shown any signs of decline, indicating that dewatering is continuing.

A decision has now been made to drill and complete the first multilateral known as Corella P18 at a site close to Corella P17 and Corella P11. (See Figure 1 below) This multilateral will commence after the completion of drilling of the Kingfisher E1 well using the Lucas rig 150. Expected drill and complete time is approximately 30 days.

The Company has now developed an improved understanding of reservoir architecture in the region of Corella P11 area to warrant an additional core drilling and testing program. The program to be commenced in 2010 will consist of a number of coreholes to be drilled and tested with the objective of increasing 2P reserves and together with the current multilateral program, provide sufficient data to assist in planning for broadscale development.

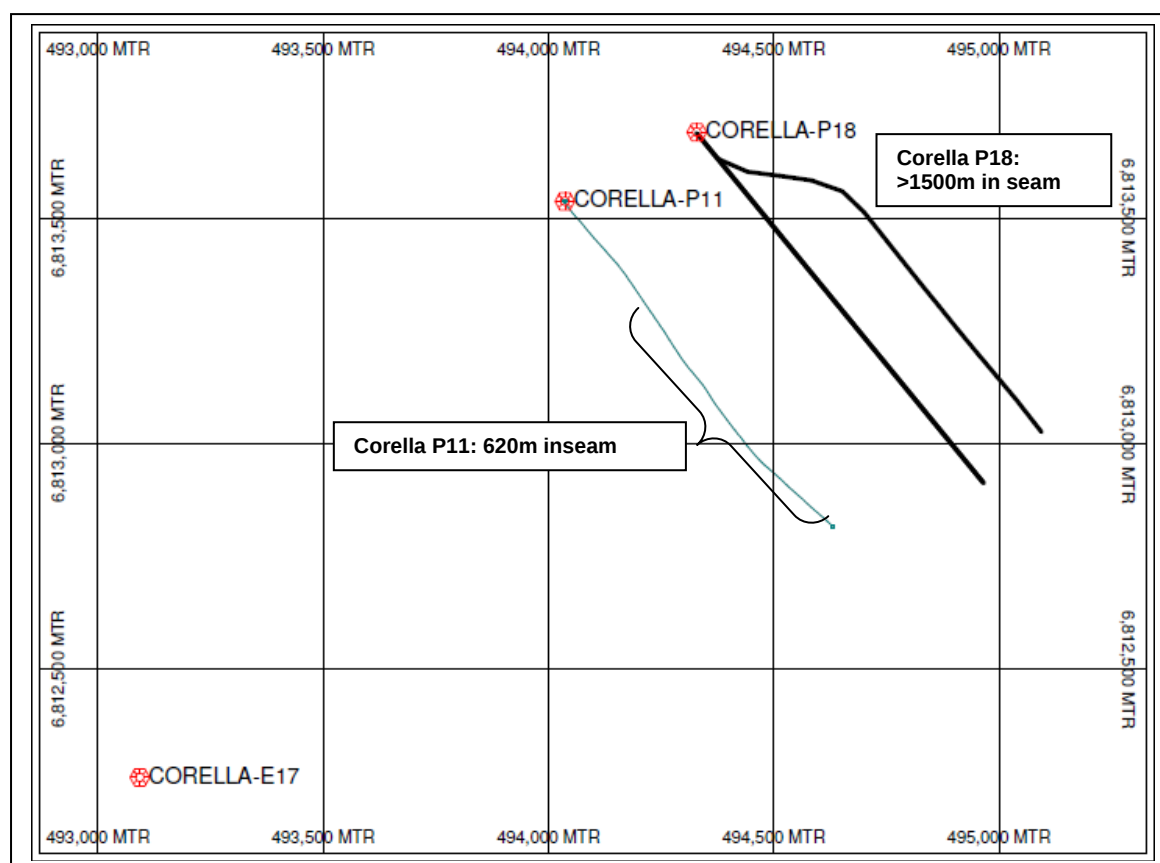


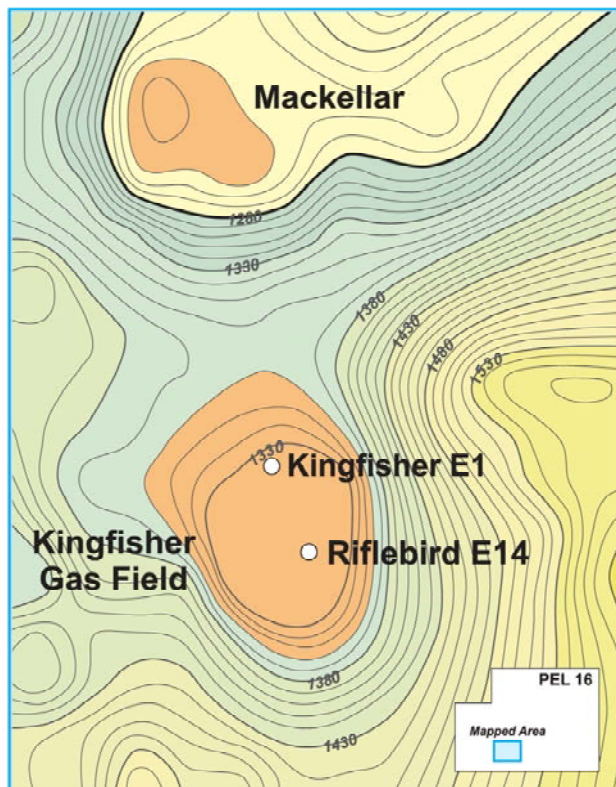
Figure 1: Proposed Corella P18 multilateral

Conventional Exploration and Appraisal Program

Kingfisher E1

Metgasco has commenced drilling the Kingfisher E1 conventional well. As at the date of this report, Lucas rig 150 is drilling ahead at 485 metres. The well will be drilled to TD of approximately 2,100 metres and is expected to take another 15 days. A short duration production test will be run to appraise the gas bearing sands previously encountered in the Heifer Creek and top Gatton in Riflebird E14 prior to drilling ahead to TD. Depending on the nature and extent of any hydrocarbon shows encountered, the well will be cased and cemented for further appraisal testing.

PEL 16 : KINGFISHER E1 WELL



Kingfisher E1

- Step out appraisal well for Heifer Creek Sst and Gatton Sst
- Objectives are:
 - To evaluate the lateral extent of the structure
 - To appraise the 24 metres of net pay encountered above 1,296m
 - To test 700m of additional section below 1,296m including:
 - Gatton Sst(Evergreen Fm)
 - Ripley Rd Sst (Precipice Fm)
- Estimated TD of 2,100m

Background on Kingfisher Gas Field Discovery

- Riflebird E14 (RE 14) drilled in March 2008 using CSG rig ADR 100 to a depth of 1,296m
- Conventional gas reservoirs encountered
 - 24 metres net pay
 - (6 metres Heifer Ck Sst)
 - (18 metres Gatton Sst)
- Low pressure separator installed with liquids recovered

	Pmean (Bcf)	P10 (Bcf)
Kingfisher (contingent resource)	37	70
Kingfisher (OGIP est.)	82	831
Mackellar (OGIP est.)	63	688
Mackellar North (OGIP est.)	146	1,793

Regional Exploration

The Company has now completed reprocessing 1,570 km of 2D seismic over the Clarence Moreton Basin. Additional reprocessing of pre-existing seismic data over the Hogarth Range area in PEL 13 is underway. The reprocessing of basin wide data has enabled basin wide assessments on deeper conventional prospectivity. A detailed review of all conventional Prospects and Leads is also underway. This program will seek to risk and rank all Prospects and Leads to allow for the development of a more structured conventional exploration program.

Certified Reserves

The Company's gas reserve position is unchanged this quarter and described below.

PEL 16 – Independently certified coal seam gas reserves (Petajoules)		
Reserve Category	Gross Reserves (PJ)	Net Reserves to Metgasco (PJ)
1P (Proven) Reserves	2.7	2.3
2P (Proven + Probable) Reserves	298	264
3P (Proven + Probable + Possible) Reserves	1,538	1,419

The estimates of gas reserves have been prepared by 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 evaluation 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

Gas Supply and Lions Way Pipeline Project

All environmental studies relating to the Lions Way Pipeline project have been completed. The Environmental Assessment reports are currently being prepared for lodgement with the relevant regulatory authorities.

Richmond Valley Power Station

Approval of the Environmental Assessment for the 30 MW Richmond Valley Power Station (RVPS) which was lodged with the New South Wales Department of Planning on 11 August 2008 is progressing. During the quarter further discussions have been held with New South Wales officials and progress appears to have been made.

Gas commercialisation strategy

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

Review of Corporate Developments

Acquisition of interests in PEL 13 and PEL 426

During the quarter Metgasco acquired the remaining interests that it did not already own in two Clarence Moreton basin permits from Molopo Australia Limited ("Molopo"). As a result of this transaction Metgasco will secure 100% ownership of the exploration permits PEL 13 and PEL 426. This transaction is subject to shareholder approval at the Company's Annual General Meeting to be held on 26th November 2009.

PEL 13 and PEL 426 cover approximately 4,900 km² and are prospective for both coal seam gas and conventional hydrocarbons. The proposed transaction is subject to regulatory and shareholder approval. Under the terms of the proposed transaction Molopo will receive:

- Cash payment of \$3 million;
- Issue of \$4 million worth of Metgasco shares in two tranches; and
- 2.5% royalty for 50% of conventional gas produced and sold from PEL 13. Metgasco has an option to buyout this royalty on defined terms.

Metgasco has recently completed detailed mapping of the Walloon Coal Measures in these blocks and has identified a number of potential coal seam gas sweetspots. Once this transaction is completed Metgasco intends to conduct an accelerated exploration strategy to evaluate these areas and commence booking reserves.

Acquisition of Stratheden Joint Venture Interests (PEL 16 Blocks 1, 4, 5)

During the quarter, CS Energy advised that further investment in the Stratheden Joint Venture no longer aligned with its investment objectives. Accordingly, Metgasco has exercised its rights under the joint venture agreement with CS Energy to acquire the 15% interest in these blocks. Metgasco has now regained 100% control in the area of its lead production well – Corella P11. The Company intends to undertake further activities on wells in this location aimed at accelerating the dewatering process around Corella P11.

Director Retirement

Rick Wood has retired as Director from the Board from 20 October 2009. Mr Wood has been a key member of the management team and Board since the initial public offer of the Company and has been responsible for building the field operational capability of the Company from inception. Mr Wood has advised that he intends to step down from the Board to focus on other business interests. The Board intends to appoint an additional non-executive Director to fill this vacancy.

Financial Position

Metgasco remains in a strong financial position with cash reserves of \$14.3 million as at 30 September 2009.

Shareholder Base

At the end of the quarter Metgasco had 186,022,407 shares and 9,484,718 options outstanding. The number of shareholders was 5,367.

Annual General Meeting

The Annual General Meeting of Metgasco will be held on 26th November 2009 at 11.00am at Christie Corporate, Mozambique Room, Level 4, 100 Walker St, North Sydney NSW 2060.

Outlook - Planned Forward Work Program Next Quarter

- Complete drilling of Kingfisher E1 conventional well to TD of 2,100 metres. The Target zones to be evaluated are the Heifer Creek ss, Gatton ss and Ripley Road ss. A short duration flow test in the Heifer Creek sandstone will be conducted prior to drilling ahead to TD. The well is planned to be plugged and abandoned following well evaluation and production testing if applicable;
- Commence drilling Corella P18, Metgasco's next generation coal seam gas pilot production well. This well is a dual lateral completion into the Richmond coal seam and will be completed in the environs of Metgasco's lead pilot csg well, Corella P11;
- Preparation for reserve development drilling in PEL 13 to commence delineating reserves in this permit area.