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29 October 2010

QUARTERLY ACTIVITIES REPORT
QUARTER ENDED 30 SEPTEMBER 2010

Highlights

- **Immediate gas production from Thornbill E1 (PEL 426) well**
- **Metgasco confirms extension of Eden Creek coal seam gas fairway into PEL 13**
- **Metgasco commences LNG feasibility studies following internal review indicating potential for export scale gas resources.**
    - Enters Memorandum of Understanding with LNG Ltd to evaluate the feasibility of delivering gas to LNG project at Gladstone and feasibility of an LNG project at the Port of Brisbane
    - Enters Memorandum of Understanding with FLEX LNG to evaluate the feasibility of developing a floating LNG project located offshore
- **Cash reserves of $16.5 million**

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Review of Exploration and Appraisal Developments

Conventional Exploration and Appraisal Program

Kingfisher E1 – Stimulation program next quarter

During the quarter Metgasco continued its technical review of the Kingfisher E1 well. This well is the first conventional gas discovery in the Clarence Moreton basin in NSW and the largest conventional discovery in NSW.

Further analysis of well results, including petrology and reservoir simulation analysis has confirmed that the best producing zones were in the bottom section of the well. Petrology analysis indicates that a high potential zone at the very bottom of the well remained untested as it was not able to be identified from the logs at the time. This zone will be evaluated in due course.

Metgasco is currently working with Halliburton to prepare to stimulate a single zone in Kingfisher E1 in November 2010. Stimulation of this zone will provide additional reservoir information for design of a more detailed stimulation program for a future production well.

Conventional exploration – Progress on 2010 Seismic Program

Heavy rains and unsuitable ground conditions have continued to delay the 2010 Seismic program. However, approximately 50 line km of the planned 210 line km was able to be acquired during a short break in the weather. The program will re-commence as soon as ground conditions allow.

The seismic program will provide further information on the subsurface geometry of the Kingfisher structure and in particular, the relationship between Kingfisher and the Mackellar prospect approximately 2km to the north and the Rappville prospect some 15km to the south. The identification of a possible link between these prospects and the Kingfisher structure may significantly increase the resource potential of the Kingfisher field.

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

Eden Creek fairway extended into PEL 13

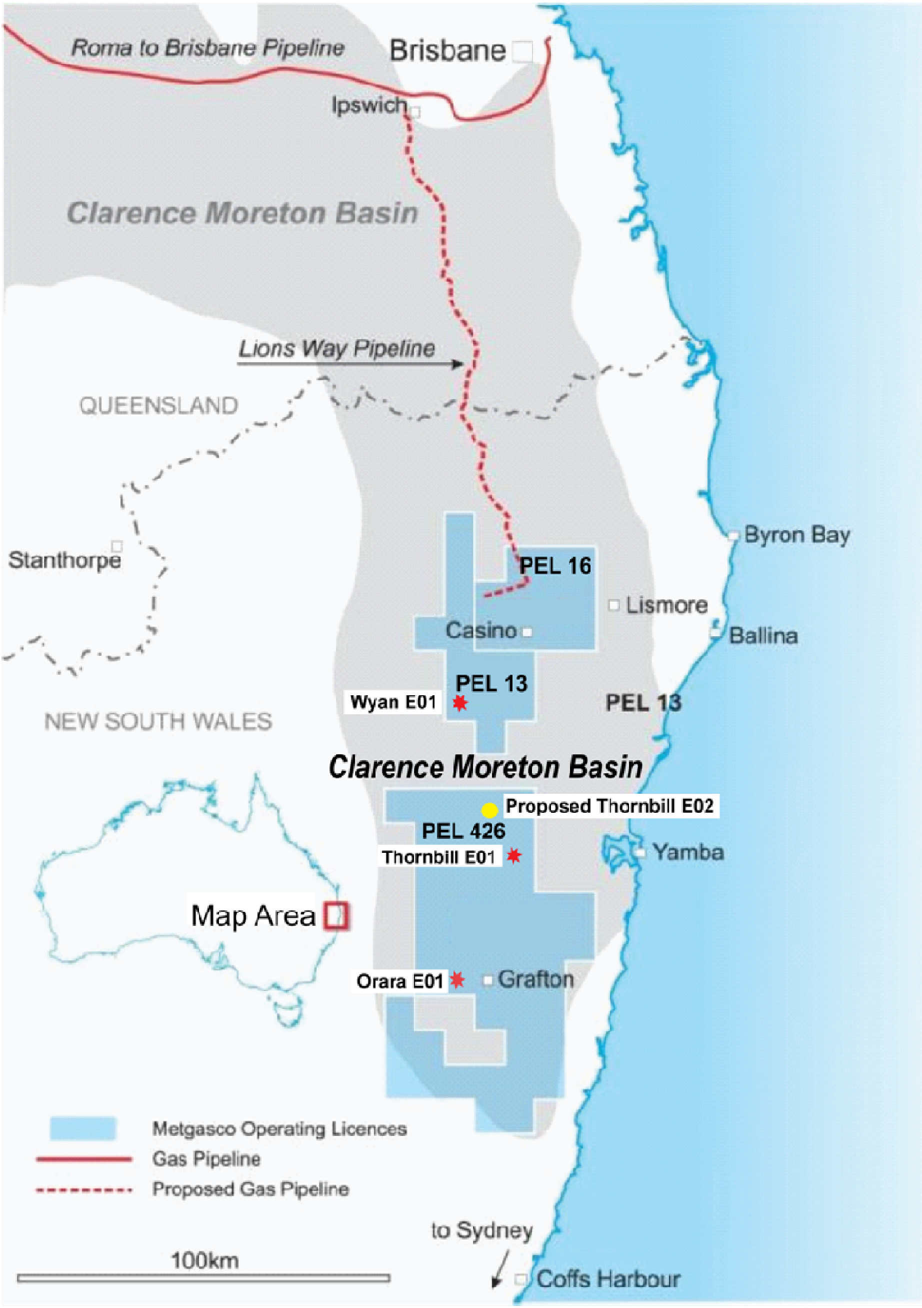
Last quarter Metgasco advised that it had identified an area around Corella P11 and extending into PEL 13, the Eden Creek fairway, which it considers to have suitable characteristics for field production.

During the quarter Metgasco drilled an additional core hole in this area, Bowerbird E01, where 29 metres of gas bearing coal and carbonaceous siltstone were intersected. This well followed up the Bowerbird E2 core hole drilled in the previous quarter. Both Bowerbird core holes have confirmed the presence of gassy coals to the west of Corella P11 and together have extended the Eden Creek fairway into PEL 13. Selected coal cores have been placed into canisters for gas desorption testing to determine the gas content of the coals.

The newly acquired seismic data in the proposed area for the Eden Creek pilots has been processed and interpreted quickly, enabling Metgasco to further firm up it’s planning for the new coal seam gas program. However, heavy rains and poor ground conditions are currently hampering progress on the Eden Creek coal seam gas pilot.

Thornbill E01 well produces gas immediately on drilling (PEL 426)

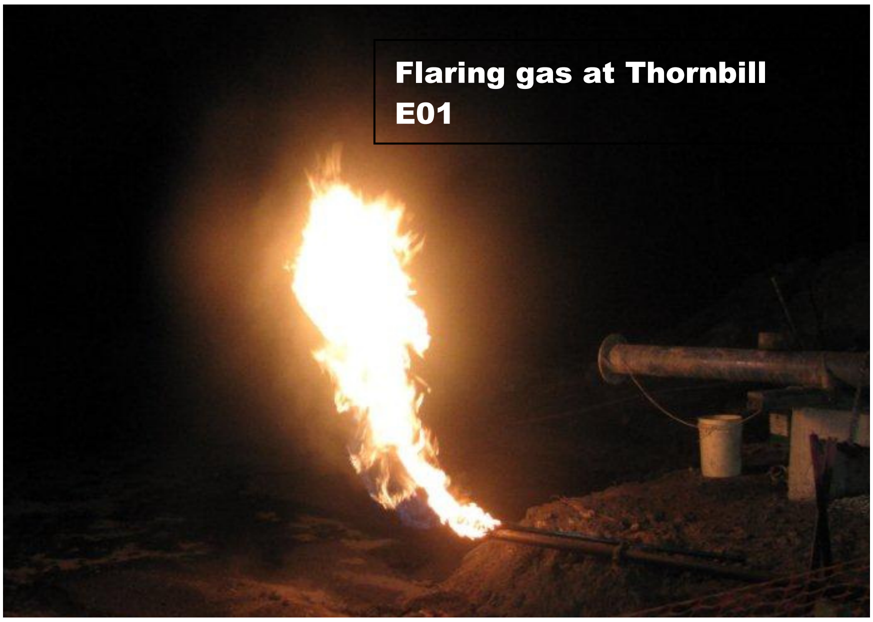
This week Metgasco drilled and tested the Thornbill E01 exploration well. This well is a vertical well drilled to 846 metres to explore and test the Walloon Coal Measures (WCM) in PEL 426. The location of the well is described below:



Thornbill E01 was designed as a simple, low cost vertical test to evaluate the potential gas productivity of the WCM in this area. A 6 hour production test was conducted which resulted in stabilised gas flows and an average flow rate over the test period of 100 mcf/d with no associated water production. No CO_2 was detected during the flow test. Thornbill E01 will now be plugged and abandoned as planned.

This well provides further evidence of the presence of a “dry” coal seam gas play in the Clarence Moreton basin which produces little or no water at the time of drilling. Thornbill E01 follows up similar results achieved from the Orara E01 well drilled by Metgasco, which was drilled 35km to the southwest of Thornbill E01 in January 2009 and the Wyan E01 well which was drilled by Metgasco in May 2009, 45km to the northwest of Thornbill E01. The Wyan E01 well produced gas on test at 175 mcf/d.

Such “dry” coal seam gas plays are rare, with the best known example being the Horseshoe Canyon Coals (HSC) in Alberta, Canada. The HSC is Canada’s largest coal seam gas development. Initial average production rates from HSC wells are 53 – 92 mcf/d. The majority of coal seam gas developments in North America and Australia have been from coals containing water and gas, where the wells must be dewatered prior to gas production. Horseshoe Canyon wells have proven to be highly profitable because gas production is immediate and there are no associated water handling costs.



Thornbill E01 will be followed up by the drilling of Thornbill E02 once ground conditions are suitable to move the rig on site.

Certified Reserves

Gas reserves are unchanged this quarter and are described below.

PEL 16 – Independently certified coal seam gas reserves –Petajoules (PJ)	
Reserve Category	**Current Gas Reserves 100% Metgasco**
1P (Proven)	2.7
2P (Proven + Probable)	397
3P (Proven + Probable + Possible)	2,239
2C Contingent Resource	1,177

The estimates of gas reserves have been prepared by Mr 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 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

LNG Feasibility Studies

During the quarter Metgasco advised that it had conducted an internal review of the coal seam and conventional gas supply capabilities of the tenements it operates in New South Wales which concluded that there is an opportunity to prove up to 4.5 Tcf (2P) in coal seam gas reserves and 1.5 Tcf (P50) in conventional gas resources through a focused reserve development work program. This volume of gas would be sufficient to supply up to a 3 million tonne per annum LNG plant over a 20 year contract term.

Metgasco is currently conducting an evaluation of the commercial, technical and environmental feasibility of a number of export LNG options and is working with two partners, described below, to consider these options.

- **Memorandum of Understanding (MOU) with LNG Ltd**

  Metgasco has entered into a MOU with LNG Ltd to (ASX:LNG) to evaluate the feasibility of delivering gas to Gladstone for supply to LNG Ltd's Fisherman's Landing LNG project. Metgasco and LNG Ltd are also evaluating the option of a potential LNG project at the Port of Brisbane. The Fisherman's Landing project is well advanced with approvals in place. The first stage of the project is for 1.5 mtpa with a land area sufficient for 4 LNG trains totalling 6 mtpa.

- **Memorandum of Understanding (MOU) with FLEX LNG**

  Metgasco has also entered into a MOU with Flex LNG (Oslo Axess:FLNG) to evaluate the feasibility of developing a floating LNG project located offshore from NSW. FLEX LNG currently has signed four ship building contracts with Samsung Heavy Industries in Korea for LNG Producer hulls utilising the SPB LNG containment system. The FLEX LNG producer hull has a liquefaction capacity of 1.7 – 2.0 mtpa.

Metgasco has recently appointed WorleyParsons to undertake an analysis of pipeline options to Gladstone and to the Port of Brisbane and to evaluate the development of a sub-sea pipeline to an offshore floating LNG facility. In addition, WorleyParsons will be preparing a conceptual field development plan for gas supply to the preferred LNG project. A single LNG train at Gladstone and a single FLEX LNG producer would require approximately 90 PJ/a of gas. Metgasco is also in the process of identifying applicable statutory and regulatory approvals required for these projects.

Richmond Valley Power Station (RVPS) & Casino Gas Project

The RVPS is a 30 megawatt (MW) power station located approximately 4 km from the town of Casino. The project will produce enough power to supply 30,000 homes in the northern rivers region. Importantly it will deliver gas fired electric power to the north coast region of NSW at significantly lower carbon emissions than coal fired electricity. The installation of a reliable power supply in the Casino area will also augment security of supply in this regional community.

The north coast region of NSW has one of the highest unemployment rates in the state. The Richmond Valley Power Station will create approximately 50 direct jobs during construction and 10 full time jobs during operation.

The power station will consume approximately 2.3 Petajoules ("PJ") of gas per year. This will be supplied by natural gas from the Casino Gas Project which will include the Kingfisher conventional gas field. Metgasco has gas reserves of 397 PJ in the Proved and Probable ("2P") category in PEL 16, which is enough to provide sufficient supply beyond the expected life of the facility. The Richmond Valley power station is expected to monetise approximately 34 PJ over the 15 year life of the project.

Metgasco has acquired the land for this project and has also received approval for the required subdivision from the Richmond Valley Council. Power from the project will be connected to the existing 66kV power line network via the Casino/Lismore interconnector approximately 800 metres from the power station site.

Currently Metgasco is conducting commercial discussions with potential buyers of the output from the RVPS and is also in discussions with potential EPC contractors for construction of the power station. The final investment decision on this project remains subject to satisfactory progress on commercial negotiations, determination of funding strategy and board approval.

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.

Gas commercialisation strategy

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

Review of Corporate Developments

Cash Position

The Company ended the quarter with a cash position of $16.5 million.

Shareholder Base

At 30 September 2010 Metgasco had 250,803,468 shares on issue and 9,221,510 options outstanding. The number of shareholders was 6,003.

Outlook - Planned Forward Work Program Next Quarter

- **Kingfisher E1** – Stimulation of a single zone is expected to be undertaken in November 2010 to provide additional reservoir information for design of a more detailed fracture stimulation program.

- **2010 seismic program** – Metgasco intends to complete the 2010 seismic program as soon as weather conditions permit. The plan is to acquire approximately 210 line km of 2D seismic over CSG areas and conventional prospects and leads in PEL 16, PEL 13 and PEL 426. Approximately 50 line km have been acquired in PEL 16 and PEL 13.

- **Eden Creek coal seam gas pilot** – Metgasco is currently finalising plans for the Eden Creek CSG pilot.

- **Thornbill coal seam gas exploration wells** – Drilling of Thornbill E02 in PEL 426.

- **Richmond Valley Power Station** – Continued work on commercial arrangements.

- **LNG Feasibility Studies** – Continued work on project evaluation.