



## **ASX / MEDIA RELEASE**

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# **QUARTERLY ACTIVITIES REPORT SECOND QUARTER ENDED 31 DECEMBER 2011**

## **Highlights**

- Metgasco's first gas sale agreement signed with local milk products manufacturing company, Richmond Dairies.
- Reservoir study on conventional cores provides further evidence of improved reservoir quality in the deeper sections of the basin.
- Beneficial reuse options identified for produced water
- Board and Management Changes

## **Review of Exploration and Appraisal Developments**

### **Conventional Exploration and Appraisal Program**

#### **Conventional Gas**

During the quarter, the exploration team continued its evaluation of the conventional potential of the company's acreage. A detailed study of core and cutting samples from wells previously drilled within the basin has been largely completed. This study has provided further evidence of improved reservoir quality in the deeper (Ripley Road and Laytons Range conglomerate) sections of the basin. Metgasco plans to drill this deeper section in its 2012 conventional drilling programme.

In order to clarify the structural relationships in the Kingfisher/Mackellar area, Metgasco intends to acquire additional 2D seismic in the Kingfisher / Mackellar area. All required regulatory approvals and land access agreements have been obtained by the Company to conduct this seismic survey.

The Greater Mackellar Structure has the following unrisksed OGIP estimates:

- 720 Bcf (P90 – Low Case)
- 1,379 Bcf (P50 – Base Case)
- 2,124 Bcf (P10 – Upside Case)

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

### PEL 426 Modelling

Work has continued during the quarter to better define CSG prospectivity in Metgasco’s acreage, including the southern license PEL 426. The focus of this work has been on evaluating the controls on net coal seam thickness. This work has helped focus exploration in PEL 426, the least mature of Metgasco’s three exploration licences with the highest potential for gas productive strata. Two core wells planned for 2012 to further calibrate the model.

### CSG pilot wells

Corella P11, which has confirmed the productive capability of the resource, has been on test for more than three years and has now been shut in to conserve as gas supply to customers in the future. Production testing on this well may be resumed if additional data is required. Modelling of the trial production of Corella P18 and Harrier P01 has been very encouraging and supported the results achieved in Corella P11. It is expected that further production testing will be carried out on both these wells following the drilling of the additional Harrier wells.

### Water Management

Metgasco has continued to review options for beneficial reuse of produced water. Because of the high quality and low volumes of water produced from the wells compared to other CSG operations, a wide range of options is available. As part of this work Metgasco engaged Cardno to prepare an initial scoping of the options. Cardno is an international company with expertise in water resources, ecology, hydrodynamic modelling and environmental engineering. The results of the study are very encouraging with a range of economically attractive options identified. Based on the study, the optimum outcome is likely to involve a combination of the options which include irrigation and upgrading to a high value water stream, amongst others.

## Certified Reserves

The Company recognises the following gas reserves and resources in its tenement areas.

Independently certified gas reserves – Petajoules (PJ) All reserves are 100% owned by Metgasco			
Reserve Category	PEL 13	PEL 16	Total
1P (Proven)		2.7	2.7
2P (Proven + Probable)	31	397	428
3P (Proven + Probable + Possible)	303	2,239	2,542
2C Contingent Resource	1,334	1,177	2,511

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

### First Gas Sale Agreement Signed with local Dairy Manufacturing Company

Metgasco has entered into its first gas sale agreement with local dairy manufacturing company Richmond Dairies Pty Ltd to supply natural gas to their manufacturing process. Gas sales are planned to commence in 2012 (calendar year) and the term of the agreement is for 10 years. Richmond Dairies processes milk from local farms to produce a range of specialty dairy products primarily for sale into export markets. The supply of natural gas from Metgasco will significantly lower the overall energy costs faced by Richmond Dairies and provide a stable energy price environment for the factory over the next decade.

Gas supply infrastructure for Richmond Dairies will be consolidated with gas supply infrastructure to the Richmond Valley Power Station (RVPS). Additional approvals will be required to install gas supply infrastructure to Richmond Dairies facilities. The gas sale agreement is subject to these approvals being received.

Plans and studies to support the different pipeline licence and production lease approvals required are ongoing.

### Gas commercialisation strategy

Metgasco is continuing to engage in discussions with gas buyers on commercialisation opportunities.

## Review of Corporate Developments

### Community and Government Engagement

During the quarter Metgasco gave evidence to the inquiry into the coal seam gas industry by the Upper House of the Parliament of NSW. The committee conducting this inquiry is expected to provide its findings in April 2012.

### Board and Management Changes

After nearly ten years as an Executive Director, Ms Glenda McLoughlin plans to retire from the Metgasco Board and also from her positions as Chief Financial Officer and Company Secretary. It is anticipated that Ms McLoughlin will relinquish those roles at the end of February or early March 2012. The Board of Metgasco draws attention to the outstanding achievements of Ms McLoughlin who has played a key role in the development of the Company. The Board thanks Ms McLoughlin and wishes her well for the future.

The role of Chief Financial Officer and Company Secretary will be assumed by Mr Sean Hooper. Mr Hooper is currently Metgasco's Financial Controller. Mr Hooper is a chartered accountant having worked in Singapore, London and Sydney. He has previous experience

in CFO and Company Secretary roles with ASX and AIM listed companies. Sean was formerly the financial controller and company secretary for Horizon Oil Limited.

Metgasco has appointed Mr Robert Petersen as Business Development Manager. Mr Petersen, who commenced with Metgasco on January 30, has had a long career in marketing, regulatory affairs and management with AGL and more recently with Eastern Star Gas where he was Commercial Manager.

## Cash Position

The Company ended the quarter with a cash position of \$17.8 million.

## Shareholder Base

At 31 December 2011 Metgasco had 338,592,672 shares on issue and 7,901,954 options outstanding.

## Outlook - Planned Forward Work Program Next Quarter

- **2012 drilling / development program:** – Planning and studies to support the 2012 program.
- **New 2D seismic to be acquired over Mackellar North conventional gas structure** – Acquisition of approximately 30 line km of new 2D seismic.
- **Commercial discussions** – Progress commercial discussions

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### Background on Metgasco

[www.metgasco.com.au](http://www.metgasco.com.au)

Metgasco has a 100% interest in PEL 16, 13 and 426 in the Clarence Moreton Basin in NSW where we operate the largest acreage position in the basin. Metgasco currently has 2P gas reserves of 428 Petajoules and 3P gas reserves of 2,542 Petajoules. We are exploring for conventional and unconventional gas. Metgasco is currently progressing its gas commercialisation agenda which includes gas and electricity supply to NSW and gas supply to Queensland. With gas in place resources likely to exceed the domestic markets requirements and sufficient to supply export scale projects, Metgasco is currently investigating LNG project development options.

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