



## **ASX / MEDIA RELEASE**

**ASX Code: MEL**

31 January 2013

# **QUARTERLY ACTIVITIES REPORT**

## **QUARTER ENDED 31 December 2012**

The December 2012 quarter was eventful and positive for Metgasco, with the completion of a successful fundraising and the re-commencement of field activity.

The highlights of the quarter were:

- completion of 32 line kilometres of 2D seismic;
- completion of civil works in preparation for the drilling of the Thornbill E04 well;
- continued progress with plans for the West Casino Gas Project; and
- the placement of new shares via a Share Purchase Plan (SPP), raising \$10 million to fund the company's ongoing work programme.

With large uncontracted 2P coal seam gas (CSG) reserves on the East Coast of Australia, substantial conventional gas potential, a successful placement and SPP, and a NSW Government that is supportive of CSG development to address looming demand/supply imbalances and create new jobs, Metgasco is well positioned to execute its growth strategy.

## **Review of exploration and development activities**

### **Conventional exploration and appraisal programme**

The rain delayed Phase 2 of the MET10 seismic survey was undertaken in November 2012; Terrex Seismic acquired 4 lines of 2D data, extending over 32 kilometres. This data provides additional seismic coverage of the Kingfisher – Mackellar Trend in PEL 16 and PEL 13. It was designed to improve Metgasco's understanding of the relationship between Kingfisher E01 and the greater Mackellar Structure, and to help confirm the location for the proposed Rosella E1 deep conventional gas exploration well. Processing of the data is now underway by Velseis Processing in Brisbane. Initial interpretation indicates that the key objectives of the survey were met and data quality is good.

In total, the MET10 survey acquired 151 line kilometres of seismic data over two phases of acquisition across the three licences operated by Metgasco – PELs 13, 16 and 426. This data provides new structural and stratigraphic information that will assist in basin assessment and the development of well locations to test both CSG and conventional targets in future years.

Following approval by the regulator to drill the Thornbill E04 (TE04) well in PEL 426, work commenced in December 2012 on the TE04 site, southeast of Grafton. This well forms part of the exploration programme required to fulfil Metgasco's licence commitments and was

designed to investigate the thickness, reservoir characteristics and gas content of coal seams within the Walloon Coal Measures in PEL 426 in the central portion of the Grafton Trough. AJ Lucas drill rig DRS 103 was contracted for the programme.

Following delays associated with approvals, equipment and some degree of protestor action, the well was spudded on 10 January 2013 and was completed, plugged and abandoned by 27 January 2013 after reaching a depth of 749.5 metres. Work to return the site to its predrill condition has now commenced.

The well intersected coals in the Walloon Coal Measures as expected, with analysis of the coal thicknesses and quality now underway to better determine its commercial significance.

## 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.

### 2012/2013 drilling programme

The next wells in Metgasco's drilling programme include another core well, three lateral pilot wells, and a conventional well that will test the Greater Mackellar structure. Given the delays experienced and the importance of the lateral pilot and conventional wells, the third core well originally planned has been deferred.

The timing of the next wells will be driven by weather (impact of rainfall), government approvals and rig availability. Expressions of interest for a rig capable of drilling the lateral and conventional wells have been requested and it is hoped that a rig commitment can be made early next month to allow the drilling programme to be completed by mid-year.

### Water handling

Metgasco submitted its revised exploration phase water management plan in the middle of August 2012 and is shortly expecting to receive government approval. As part of the new plan Metgasco has abandoned and rehabilitated one of the ponds on Richmond Valley Council land.

Testing of the Harrier P01 well will recommence on approval of the water management plan and the corresponding Review of Environmental Factors.

## Review of commercial developments

### Gas commercialisation strategy

Metgasco remains focussed on a two stage development in the Northern Rivers region:

- 1) a local industrial natural gas market; and
- 2) gas sales of 30-90PJ/pa for LNG export and domestic gas supplies.

#### The local market

Metgasco commenced work on the North-West Casino Natural Gas Project with a view to displacing LPG and diesel fuels used by local industry. CNC Project Management and OSD are assisting Metgasco with the regulatory and engineering aspects of the project respectively. Submissions to government for the appropriate petroleum assessment lease and/or petroleum production licences will be made shortly. The submissions will support pipeline distribution to Casino and distribution of compressed natural gas.

#### Long term gas supply

The proposed Lions Way Pipeline remains Metgasco's preferred route to the national pipeline grid.

The alternative major sales route, via a floating LNG facility off the coast, remains an attractive option in terms of approvals, costs and profitability.

The ultimate route choice will be influenced by the nature of the gas offtake agreement(s), with Metgasco working on both pipeline and multiple gas sales options at this stage.

During the quarter Metgasco completed a review of its ground water monitoring requirements and will be shortly announcing its preferred consulting contractor for this work. The ground water monitoring project will use existing ground water data available in combination with a new hydrological model that will be developed for the region to demonstrate that there will be no adverse impacts on aquifers from CSG activity.

## Review of corporate developments

### Community and Government engagement

#### Building on community consultation

Significant efforts have been undertaken to enhance communication with the local community regarding the activities of Metgasco and the coal seam gas industry in general.

Metgasco held the first of its 'Shop Fronts' in December 2012, with the objective of understanding and addressing any concerns of the local community. These forums are an opportunity to further demonstrate that our industry is safe, proven, backed by the NSW Government, and capable of providing significant economic value to Casino and the Northern Rivers region. It is intended that these 'Shop Fronts' will be held regularly throughout 2013, depending on public interest.

By the end of January 2013, many landholders in the Casino region will receive a letter and information on the CSG industry that Metgasco has prepared. The information provides

details of CSG operations and demonstrates that the industry is safe and environmentally acceptable. Metgasco is also proposing a Community Consultative Committee that is hoped to be launched early in 2013.

### Metgasco and the Richmond Valley Council

With the strong amount of environmental interest in the industry, Richmond Valley Council independently undertook a fact finding tour of the Queensland gas fields to search for information about the industry and the role that it could play in rejuvenating local communities.

Following the tour, Richmond Valley Council released a position statement on CSG, with some of the more pertinent findings including the following:

*“The Richmond Valley Council acknowledges that coal seam gas mining activity is happening in its local government area, will continue to happen and that this activity will increase over time and a workable collaboration is necessary.”*

The above comments are reinforced by a statement from Richmond Valley Council General Manager who said recently:

*“We know there's lots of gas and we know there's lots of coal and if it flows at the rates they (Metgasco) would hope... you'll see enormous economic growth, you'll see great development in the Richmond Valley, lots of jobs, lots of opportunity... and infrastructure improvements as well.”*

Metgasco will continue to work in a constructive and professional manner with Richmond Valley Council.

### CSG and the NSW Government

A number of articles in the national media have appeared recently discussing the impending gas shortfall (especially in NSW), the associated increase in the price for domestic gas use and the potential role that CSG can play in providing gas supplies for NSW users. As recently stated by Jennifer Hewett from *The Australian*:

*“Unlike most of the other eastern states, NSW currently imports all of its gas supply... The panic is that NSW will run out of gas supplies within the next few years unless there is quickly a substantially greater development of its own resources in the form of coal seam gas. At the same time, the price of domestic gas will inevitably rise to closer to export levels, certainly in the short term, making the commercial logic for expansion even more compelling.”*

The NSW Government plays a critical role in assisting with the extraction process through implementation of supportive industry policies and streamlining of the regulatory process. The position of the NSW Government is strongly in support of the industry and the important role that CSG plays to grow the NSW economy. To reinforce this position Minister Hartcher recently stated:

*“As Minister for Resources and Energy, it is my job to ensure the proper frameworks are in place so that NSW can keep up with demand for gas domestically. And that means ensuring access to affordable, reliable and sustainable energy to advance economic and social prosperity across the state.”*

## Cash position

The Company ended the quarter with no debt and cash of \$28 million, which included \$10 million raised through the successfully completed SPP.

## Share structure

At 31 December 2012 Metgasco had 445 million shares on issue and 4.3 million options outstanding.

## Outlook – planned work programme for next quarter

With the NSW Government's green light, Metgasco is ready to move ahead with further appraisal, development and commercialisation of its assets over the next quarter:

- continue the core and lateral well programme;
- continue environmental and development studies that are necessary to secure approval of the production licences required for local gas sales;
- facilitate the drilling of the Rosella-1 conventional exploration prospect, planned for the second quarter of the 2013 calendar year;
- further market development, both local and interstate / export LNG;
- explore potential farm-in opportunities; and
- continue promoting the benefits and safety of the industry to the Northern Rivers Region.

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## Background on Metgasco

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

Metgasco Limited (ASX: MEL) has a 100% interest in PELs 16, 13 and 426 and has been offered PEL 130 in the Clarence Moreton Basin in NSW. Metgasco has the largest acreage position in the basin, and excluding its conventional potential has one of the largest remaining uncontracted reserves along the East Coast of Australia – 2P gas reserves of 428PJ and 3P gas reserves of 2,542PJ.

Metgasco is exploring for conventional and unconventional gas. The company is currently progressing its gas commercialisation agenda, which includes local NSW gas and electricity supply 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 also investigating LNG export options.

### For further information contact:

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# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/6/10.

Name of entity

**METGASCO LIMITED**

ABN

24 088 196 383

Quarter ended ("current quarter")

31 December 2012

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(1,976)	(3,581)
(b) development	-	-
(c) production	-	-
(d) administration	(846)	(2,071)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	296	442
1.5 Interest and other costs of finance paid	(6)	(10)
1.6 Income taxes paid		
1.7 Other (R&D rebate)	-	842
<b>Net Operating Cash Flows</b>	<b>(2,532)</b>	<b>(4,378)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(21)	(25)
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)/returned	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(21)</b>	<b>(25)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,553)</b>	<b>(4,403)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,553)	(4,403)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	10,083	19,875
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(22)	(88)
1.18	Dividends paid	-	-
1.19	Other (cost of share placement)	-	-
	<b>Net financing cash flows</b>	<b>10,061</b>	<b>19,787</b>
	<b>Net increase (decrease) in cash held</b>	<b>7,508</b>	<b>15,384</b>
1.20	Cash at beginning of quarter/year to date	20,097	12,221
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>27,605</b>	<b>27,605</b>

**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	171
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
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+ 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

N/A
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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		5,678
4.2	Development		-
4.3	Production		-
4.4	Administration		1,003
<b>Total</b>			<b>6,681</b>

### 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	427	274
5.2	Term deposits	27,178	19,823
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)		<b>27,605</b>	<b>20,097</b>

+ 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			
6.2	Interests in mining tenements acquired or increased			

## 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	<b>Preference securities</b>	NIL		
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions	NIL		
7.3	<b>*Ordinary securities</b>	445,158,802	445,158,802	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	53,434,500	53,434,500	
7.5	<b>*Convertible debt securities</b>	NIL		
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	NIL NIL		

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+ See chapter 19 for defined terms.

7.7	<b>Options</b> <i>(description and conversion factor)</i>	<i>Number</i>	<i>Exercise price</i>	<i>Expiry date</i>
		375,000	\$1.00	21/02/2013
		200,000	\$0.90	04/02/2013
		65,000	\$1.00	04/02/2013
		50,000	\$1.00	14/02/2013
		375,000	\$1.00	21/05/2013
		599,861	\$1.20	01/07/2013
		341,283	\$1.40	01/07/2013
		390,777	\$1.60	01/07/2013
		375,000	\$1.00	21/08/2013
		375,000	\$1.00	21/11/2013
		<u>1,202,222</u>	\$0.50	01/09/2014
		4,349,143		
7.8	Total Issued during quarter	NIL		
7.9	Exercised during quarter	NIL		
7.10	Expired during quarter	1,000,000		
7.11	<b>Debentures</b> <i>(totals only)</i>	NIL		
7.12	<b>Unsecured notes</b>	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\*~~ give a true and fair view of the matters disclosed.

Sign here: [original signed]  
(Company secretary)

Date: 31/01/2013

Print name: Sean Hooper

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+ 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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