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QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 30 June 2013

This recent quarter was, as expected, quiet for Metgasco. Following the difficult decision in March to suspend field activities in response to significant regulatory changes announced by the NSW Government, Metgasco focussed on:

- 1) fully implementing its suspension plans, including staff downsizing and cost reductions;
- 2) community and government contact to highlight the importance of gas to the NSW community and that the CSG industry is a safe and environmentally attractive industry; and
- 3) evaluating new business activities outside the Clarence Moreton Basin.

The bulk of the downsizing and cost reduction program has been achieved and the decommissioning program for the wells is underway. Of the nineteen wells that required decommissioning and sites rehabilitated, twelve wells were decommissioned. The overall program is on budget and schedule.

In terms of the new regulations and approval processes, Metgasco is still waiting for clarity from the NSW Government. The proposed SEPP amendments that might introduce exclusion zones have not been announced, approval of the Petroleum Onshore Amendment bill has been delayed and NSW Government agencies are progressively implementing their new roles and procedures. Looking back, Metgasco's Board has no doubt that its decision to suspend field activity and control costs was necessary and justified.

Metgasco believes that there is a growing understanding and acceptance in the general community and within the NSW Government that:

- a reliable supply of energy is essential to the NSW community;
- natural gas is safe and environmentally attractive;
- a gas supply shortfall is imminent; and
- action needs to be taken to encourage the gas industry to develop in NSW.

Metgasco is keen to recommence exploration and development activities when there are regulatory settings that support investment.

In recent months, Metgasco has evaluated a number of new business opportunities outside of the Clarence Moreton Basin. Many have been found to be unsuitable at the current time, while others are being considered in more detail.

Review of exploration activities

With the suspension of field activities, our Clarence-Moreton Basin exploration effort was focused on the analysis of results from the recent seismic and wells drilled in the previous quarter.

The data recorded during phase two of the MET10 Seismic Survey in November 2012 was designed to improve the understanding of the greater Mackellar structure in PEL 16, provide a seismic tie to the Kingfisher E01 gas discovery well (KE01) and help to identify a suitable location for the proposed Rosella E01 well to the north east of Casino.

The new mapping indicates that KE01 is located towards the southern end of the greater Mackellar structure, a large structural high feature that shallows towards the north. On the basis of the new information it is proposed that the Rosella E01 conventional well be drilled to test the Ripley Road sandstone primary objective at a location some 350m higher than the level intersected in the Kingfisher E01 (KE01) gas discovery, which tested gas at an initial rate of 2.9 MMcf/d for this interval. The well will also test the reservoir properties of a thick sequence of gas bearing strata in the Gatton Sandstone which had lower permeability in KE01 and the deeper Basal Bundamba, Ipswich and Nymboida Coal Measures which were below the total depth reached in KE01.

All environmental submissions required for drilling have been submitted to the relevant NSW departments. Metgasco is waiting for approval.

In PEL 426, assessment of the results of Thornbill E04 confirmed a thickening of the Walloon Coal Measure towards the axis of the Grafton Trough, with 11m of coal and carbonaceous shale intersected over the interval 495 to 700m. By comparison, the Bowerbird E04 (BE04) core well, which is located in PEL 13 to the north west of Casino and 4 kilometres north of the Bowerbird E02 well (BE02) on the Eden Creek Trend, intersected 40m of coal and carbonaceous shale over the interval 198 to 479m. This result was similar to the 43m intersected in BE02. Analysis of the core recovered from BE04 indicated that the coals are gas bearing, consisting almost entirely of methane, and demonstrates a range of gas characteristics consistent with other wells drilled in the area. This information has been forwarded to MHA Petroleum Consultants (Denver) who will provide an independent report, updating the reserve status of PEL 13.

In addition to the exploration activities undertaken in the Clarence-Moreton Basin, several acreage acquisition / farm-in opportunities in other Australian onshore petroleum basins were reviewed and assessed.

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.

The reserves stated above do not represent the impact of the proposed CSG exclusion zones in NSW. At the time of reporting it is still unclear how the exclusion zones will affect Metgasco's reserves. However, it is expected the reduction could be in the order of 15% to 20% for 2P reserves and 20% to 30% for 3P reserves. Revised numbers will be calculated, certified and reported when the impact of the exclusion zones becomes clear. The revised numbers will also reflect the results of Bowerbird E04.

Suspension of field operations, corresponding cost reductions and commencement of a decommissioning program

In March this year, Metgasco announced that it would suspend its Clarence Moreton Basin field activities. The decision to suspend activities was in recognition of the damage being done to the CSG industry by statements and decisions made in the lead up to the imminent federal election and the instability created by the NSW Government's announcement of further regulatory changes. In this environment of uncertainty and further costly delays to our field work, future fund raising and the attraction of quality farm-in partners would be difficult. The company's decision to suspend has since been followed by other energy companies suspending or modifying their CSG operations in NSW. The industry faces a business environment characterised by delays in approvals, uncertainties over policies and the imposition of new regulations at a federal level which do no more than duplicate existing state regulation and review processes.

As part of its suspension decision, Metgasco sought and was successful in gaining approval for reduced work programs in its three exploration licences in order to secure the value of the CSG and conventional gas potential it has established to date. Metgasco then started to implement cost reduction steps consistent with the smaller work programs. Unfortunately, this required the release of 21 of our 27 staff. The loss of the skills and experience developed by these people was most unfortunate, but not avoidable in the circumstances.

Most of the planned cost reductions have been realised, with staff numbers reduced significantly, and a focus now being applied to realising value for surplus stock and equipment.

The well decommissioning and site rehabilitation program commenced in late May and has continued on budget and within schedule. At the end of June, twelve of the nineteen wells remaining had been successfully decommissioned or suspended. The remaining wells are expected to be decommissioned and the sites rehabilitated before the end of September, as planned.

A significant amount of work has also been devoted to the best approach to decommission the water ponds used to support pilot testing activities. Discussions have been held with various government departments. A final plan will be submitted to government shortly for approval, before rehabilitation activities commence.

Review of commercial developments

Gas commercialisation strategy

Little effort was focussed on commercialisation activities in the Clarence Moreton Basin given the suspension of field activities.

Metgasco retains its development approval for the Casino Gas Project / Richmond Valley Power Station. The project is currently on hold. Apart from the NSW CSG regulatory environment, changes in the eastern coast electricity market have questioned the timing for new base load power stations. Metgasco will continue to review options, which include the building of a peak load power station rather than a base load power station.

East coast gas market opportunities

There is a plethora of industry data and reports to show that the eastern coast of Australia, and NSW in particular, face gas shortages over the next 5 years (reference papers at the Australian Domestic Gas Outlook 2013 conference, 10-12 April 2013).

If east coast gas demand is to be satisfied, near and long term gas supplies will need to be secured from new conventional exploration discoveries, development of CSG reserves, and exploration for and development of shale and tight gas potential. This creates an excellent opportunity for Metgasco's CSG reserves and conventional/tight gas potential.

Review of corporate developments

Community and Government engagement

Metgasco has maintained its active engagement program with the local community and the NSW Government. One of the highlights during the period was the first Community Consultation Group meeting, held in Casino.

To provide a better understanding of world wide energy challenges and options, Metgasco is encouraging the distribution and viewing of a DVD named Switch. The DVD covers the range of energy solutions available, highlighting the strengths and weaknesses of each form and provides a useful perspective for energy decisions. Metgasco is also encouraging the community to view the Fracknation documentary to get an understanding of shale gas issues in the USA.

Metgasco also plans a series of two-weekly newspaper advertisements to highlight key features of the CSG industry to Casino and nearby residents.

Metgasco believes it has support from the broader community in which it works. A poll conducted by the Richmond Valley Council, which is based in Casino, found that 70% of the community were somewhat supportive, supportive or very supportive of the following position:

If the Coal Seam Gas industry in the Richmond Valley resulted in increased employment; economic welfare for the region and was appropriately regulated and proven to be environmentally safe, how supportive would you be of Richmond Valley Council working with CSG stakeholders and regulators to ensure the community benefit from this industry?

The same poll found that 42% of the population described themselves as “somewhat knowledgeable” of the coal seam gas industry, with only 23% describing themselves as very knowledgeable or knowledgeable. Metgasco will aim to increase general community understanding.

During the period Metgasco sought to influence the NSW Government to introduce regulations that were “smart” rather than those that penalise the industry for little gain.

Opportunities outside the Clarence Moreton Basin

Given the suspension of field activities in the Clarence Moreton Basin, Metgasco has spent considerable time reviewing exploration and development opportunities in areas outside the Clarence Moreton Basin. These opportunities are being assessed on their individual technical and commercial merits and their ability to complement Metgasco’s Clarence Moreton Basin assets.

Metgasco is aware that it can take considerable time to identify suitable projects and to negotiate acceptable entry terms. While we are keen to broaden our interests beyond the Clarence Moreton Basin, we are also aware of the need to be thorough in our assessments, to ensure that risks as well as potential benefits are understood fully and that participation terms are acceptable. As a consequence, it could take time before new opportunities are presented to shareholders.

Cash position

The Company ended the quarter with a cash balance of \$21 million and no debt.

Shareholder base

At 30 June 2013 Metgasco had 445 million shares on issue and 3.3 million options outstanding.

Outlook – planned forward work program next quarter

Metgasco's focus for the September quarter will be as follows:

- completing its decommissioning activities for wells and water storage ponds;
- divesting inventory and equipment surplus to requirements;
- implementing a proactive community relations program for the Richmond Valley and Clarence River council areas; and
- evaluating exploration and development opportunities outside the Clarence Moreton Basin.

Background on Metgasco

www.metgasco.com.au

Metgasco has a 100% interest in PEL 16, 13 and 426 in the Clarence Moreton Basin in NSW where it operates the largest acreage position in the basin. Metgasco currently has 2P gas reserves of 428 Petajoules and 3P gas reserves of 2,542 Petajoules (subject to review following the NSW Government's 20 February exclusion zones). The Company is exploring for conventional and unconventional gas. Metgasco's has identified natural gas commercialisation opportunities that include local sales in the Northern Rivers Region, domestic sales to eastern coast domestic markets and LNG exports.

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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")

30 June 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Curent quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for:		
(a) exploration and evaluation	(1,915)	(9,143)
(b) development	-	-
(c) production	-	-
(d) administration	(1,102)	(3,936)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	93	769
1.5 Interest and other costs of finance paid	(8)	(22)
1.6 Income taxes paid	3	3
1.7 Other R&D rebate	401	1,243
Net Operating Cash Flows	(2,528)	(11,086)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(83)	(123)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	79	79
1.10 Loans to other entities	-	-
1.11 Security deposits (paid)/returned	89	89
1.12 Other (provide details if material)	-	-
Net investing cash flows	85	45
1.13 Total operating and investing cash flows (carried forward)	(2,443)	(11,041)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(2,443)	(11,041)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	19,875
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(92)	(199)
1.18	Dividends paid	-	-
1.19	Other (cost of share placement)	-	-
	Net financing cash flows	(92)	19,676
	Net increase (decrease) in cash held	(2,535)	8,635
1.20	Cash at beginning of quarter/year to date	23,391	12,221
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	20,856	20,856

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	159
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

N/A

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 (Note A)	4,709
4.2	Development	
4.3	Production	
4.4	Administration	557
Total		5,266

Note A

This expenditure includes the company's well decommissioning program.

Reconciliation of cash

	Current quarter \$A'000	Previous quarter \$A'000
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.		
5.1	1,100	182
5.2	19,756	23,209
5.3	-	-
5.4	-	-
Total: cash at end of quarter (item 1.22)	20,856	23,391

+ 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	NIL			
7.2	NIL			
7.3	445,158,802	445,158,802		
7.4				
7.5	NIL			
7.6	NIL			
	NIL			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.7	Options <i>(description and conversion factor)</i>	<i>Number</i>	<i>Exercise price</i>	<i>Expiry date</i>
		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
		3,284,143		
	Total			
7.8	Issued during quarter	NIL		
7.9	Exercised during quarter	NIL		
7.10	Expired during quarter	375,000		
7.11	Debentures <i>(totals only)</i>	NIL		
7.12	Unsecured notes	NIL		

Compliance statement

- 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).
- This statement does give a true and fair view of the matters disclosed.

Sign here: [original signed] Date: 22/07/2013

Sean Hooper
Company Secretary

Notes

- 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.
- 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.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

- 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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