



4 December 2015

Subject: NSW Government's \$25 million settlement / PEL buy back proposal

Dear Shareholders,

I write to provide further information about the NSW Government's \$25 million settlement / PEL buy back proposal which is to be considered at the 16 December General Meeting. This letter also provides an overview of the direction the company plans to take should shareholders vote to accept the \$25 million proposal.

This letter should be read in conjunction with the Explanatory Memorandum which was included in the Notice of Meeting that has been distributed.

NSW Government's \$25 million settlement / buy back proposal is recommended by your Board.

Your Board's unanimous recommendation that shareholders vote to accept the proposal was a very difficult decision.

We are of the firm view that it is in the best interest of your company to accept the Government's proposal. Simply stated, the NSW Government's \$25 million settlement / buy-back proposal exceeds what we are likely to achieve when the risks associated with ongoing exploration and development in NSW are considered. These include the chances of successful court action and the quantum of likely compensation.

We would like to assure you that we took every opportunity to maximise the return to shareholders as part of negotiating the Government's settlement proposal. The result achieved well exceeds the Government's opening and interim positions, ones that we were not even prepared to take to shareholders for consideration.

Members of the Board have at times been as frustrated and angry over developments in NSW over the last four years as many shareholders remain. Having explored, in good faith, for more than ten years, spent more than \$100 million in exploration activities and having established significant gas resources, it is understandable that shareholders feel angry and disappointed with the treatment that your company has received from the NSW Government. The concept of "fair treatment" and the existence of what we see as sovereign risk have been very much in our minds. The loss of shareholder value for many long term investors is clearly evident.

It is our duty as your Board of Directors, to recommend what we see as being in the best interests of shareholders. In this case, our view is that while strong feelings of anger and disappointment are understandable, they should not form the basis for considering what is in the company's best interests. The Board has carefully considered where the company stands today and compared: 1) the likely outcomes associated with proceeding with the seismic and drilling activities and the court action we had planned; with 2) the NSW Government's settlement / buy-back proposal. The Board believes that acceptance of the settlement / buy-back proposal is in the best interests of the company.

We trust that shareholders understand that the Government's offer is for a strictly limited time, with no opportunity for extension, and will lapse upon rejection by shareholders. There is no certainty that the government is prepared to reopen negotiations or that an improved offer or, even any offer, would result. Taking into account the difficult nature and length of formal and informal negotiations to date, the Board has no basis to believe that continuing to hold out for a higher figure is likely to achieve a better result for the company and its shareholders.

We hope that you will agree with our recommendation and vote in favour of accepting the NSW Government's \$25 million settlement / buy-back proposal.

Metgasco's future

Should shareholders accept the settlement proposal, Metgasco will start 2016 with cash in excess of \$30 million.

We believe that that this is a good time to invest in the oil and gas industry and that with the settlement funding we can grow an exciting and profitable company:

- There is no question that the demand for oil and gas worldwide and in the Asia Pacific Region will continue growing long term. Attachment 1 shows how consumption of oil and gas has grown steadily since 1990 and is forecast to grow significantly for the next twenty years. It also shows the increasing demand in the Asia Pacific Region.
- Oil and gas prices are expected to improve significantly from today's levels, both in Australia and worldwide. Attachment 2 provides a short term forecast for oil prices. Some forecasts beyond the 2020 period show oil prices climbing back to the \$100 to \$130/bbl range.
- We have a number of means to acquire new interests, either through acreage bids, farm-ins to existing operations, or through mergers and acquisitions.
- Our strong cash position compared to juniors coincides with a "once in 20 years" M&A market, with distressed sellers continuing to bring assets to market, exploration potential can be obtained for very low value on the back of producing asset acquisitions, and there are opportunities to assist cash-strapped minors with development funding.

Over the past two years we have reviewed a number of new business opportunities outside of NSW, rejecting many on their technical or economic merits and in some cases found our NSW interests complicated opportunities. We are currently evaluating several opportunities and expect the first half of 2016 to yield a significant number of new opportunities as the low oil price environment continues to have an impact.

We propose to continue a disciplined review of new opportunities, with a focus on developing a range of assets which include production and exploration opportunities that have the potential for near to medium term results and funding requirements that are consistent with cash reserves.

Depending on the opportunities available, the company's growth might be through a series of small but complementary acquisitions or mergers.

Of course, we recognise that other companies might propose M&A activity to take advantage of our cash reserves and, perhaps, our ASX listing. Should this occur it will be our obligation to evaluate these proposals and recommend to shareholders whether they be accepted or rejected.

Capital preservation, cost management and Board/management composition.

The Board is very aware of the loss shareholders have faced over the past few years and the need to place an emphasis on capital preservation and expenditure controls in the future, particularly while we are assessing new business opportunities. There is a need to do so while at the same time not jeopardising the company's ability to pursue new growth opportunities.

Should shareholders accept the \$25 million settlement proposal, the company will incur some costs in the first quarter of 2016 as it decommissions and rehabilitates the remaining two wells in the Northern Rivers, shuts down its field office and terminates the employment of associated staff. We will, of course, be able to avoid the ongoing legal and advisory costs associated with legal action against the NSW Government.

We will also be taking action to reduce costs, including:

- a review of all costs and, in particular, the external services we currently use, with a view to spending only what is required to properly evaluate and secure new business opportunities; and
- a review of salaries to better align employee performance with company objectives.

The Board notes that the current remuneration of Non-Executive Directors is well in line with the practices of similar companies and that Non-Executive Directors remuneration was reduced by 20% in July 2013 and will remain at that level. The Managing Director's and CFO's salary have been frozen since 2012.

The Board currently comprises 3 directors including the Managing Director, who collectively have extensive knowledge and experience across the gas and oil sectors, in Australasia and overseas, and who have the requisite range of commercial, geoscience,

market and engineering skills to identify value accreting opportunities for the company to pursue.

Following the EGM, the Board intends to review Board composition to ensure that it is appropriately sized and has the necessary skills and experience to support the business and improve confidence in the company.

By mid-2016, the Board intends to undertake a further review of the opportunities currently available and newly identified. A partial return of capital will also be considered at that time.

In summary, market conditions are such that your future company can be positioned to successfully pursue petroleum opportunities outside NSW in supportive political, regulatory and market environments. These have the potential to create significant shareholder value.

We ask shareholders to support the Board's recommendation to accept the NSW Government's \$25 million settlement / PEL buy back offer.

We hope that all shareholders will support the new direction for your company, irrespective of which way individual shareholders vote.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'L. F. Gill'.

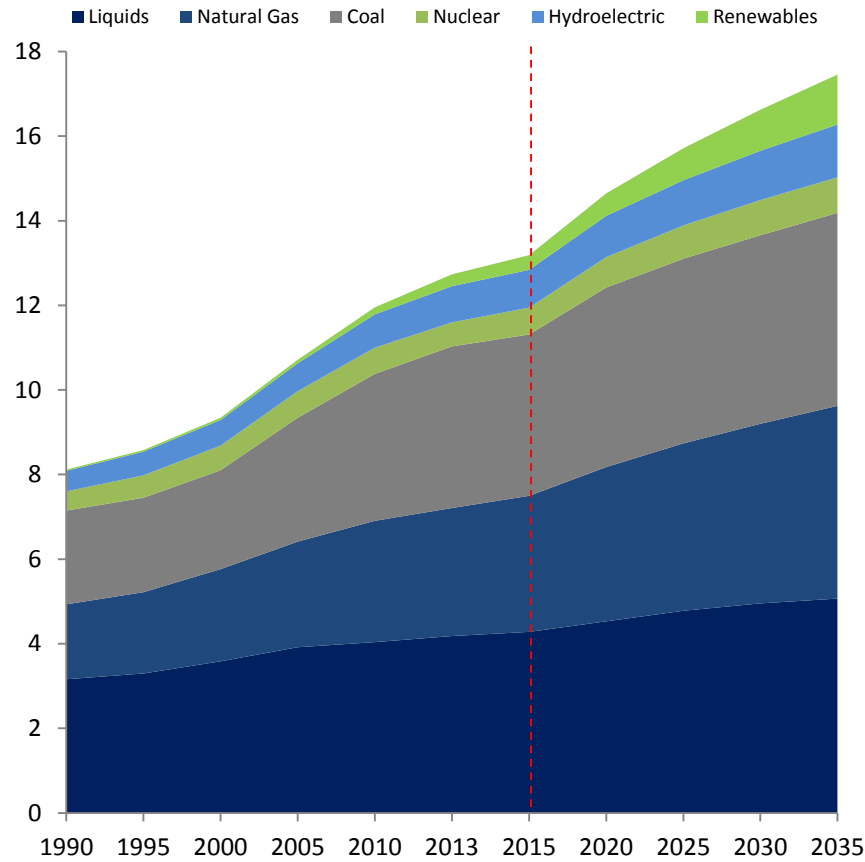
Chairman

Len Gill

Attachment 1: Global Energy Demand

Energy Consumption by Fuel^(1,2,3)

Billion tonnes oil equivalent



(1) Energy consumption comprises commercially traded fuels, including modern renewables used to generate electricity.

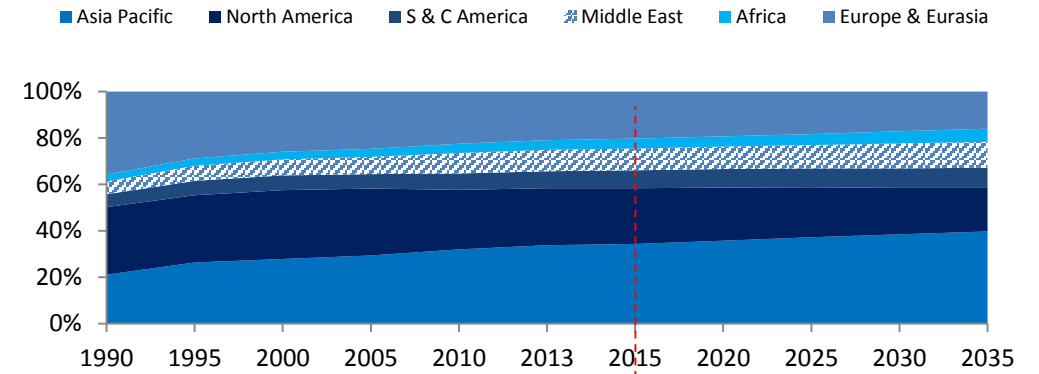
(2) Liquids includes oil, biofuels, gas-to-liquids and coal-to-liquids

(3) Renewables includes wind power, solar electricity and other renewables.

Source: BP Statistical Review of World Energy June 2015

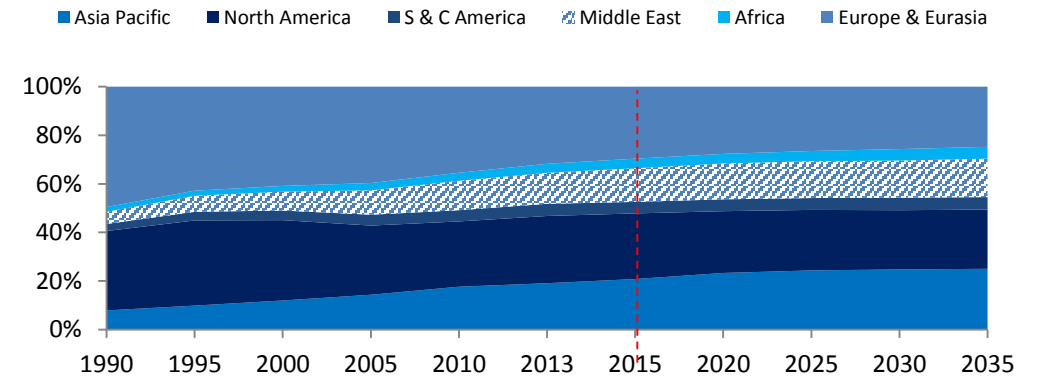
Liquids Consumption by Region^(1,2,3)

Percentage



Natural Gas Consumption by Region^(1,2,3)

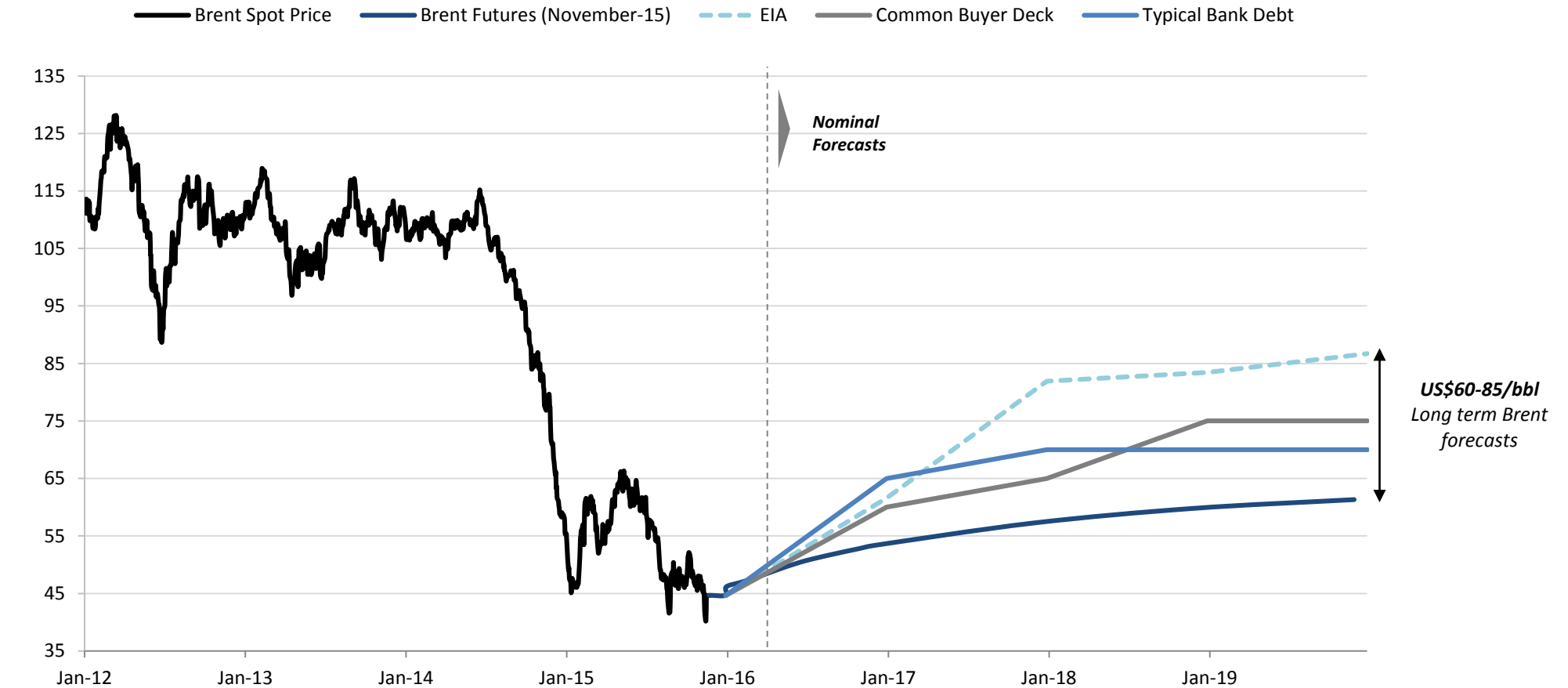
Percentage



Attachment 2: Oil Prices

Brent Historical and Long Term Forecasts

US\$/bbl



Source: EIA (Aug 2015, Oct2015), Brent Crude Oil Futures based on December Pricing, (Forecast Prices nominal US\$), Internal Estimates