

Chairman's Address

Metgasco GM

16 December, 2015

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ASX Listing Rule 5.11 Disclosure

Reserves have been certified by Mr Tim Hower of MHA Petroleum Consultants (Denver) who is a qualified person as defined under the ASX Listing Rule 5.11. Reserves have been developed within the guidelines of the SPE. Mr Hower has consented to the use of the reserve figures in this presentation. Conversion of reserves from PJ to Bcf at 1.04 PJ/1.00 Bcf.

The Transaction

- Metgasco receives \$25M in 30 days;
- Government buys back Metgasco's permits;
- Metgasco settles legal action for unlawful suspension.

Factors impacting Metgasco value

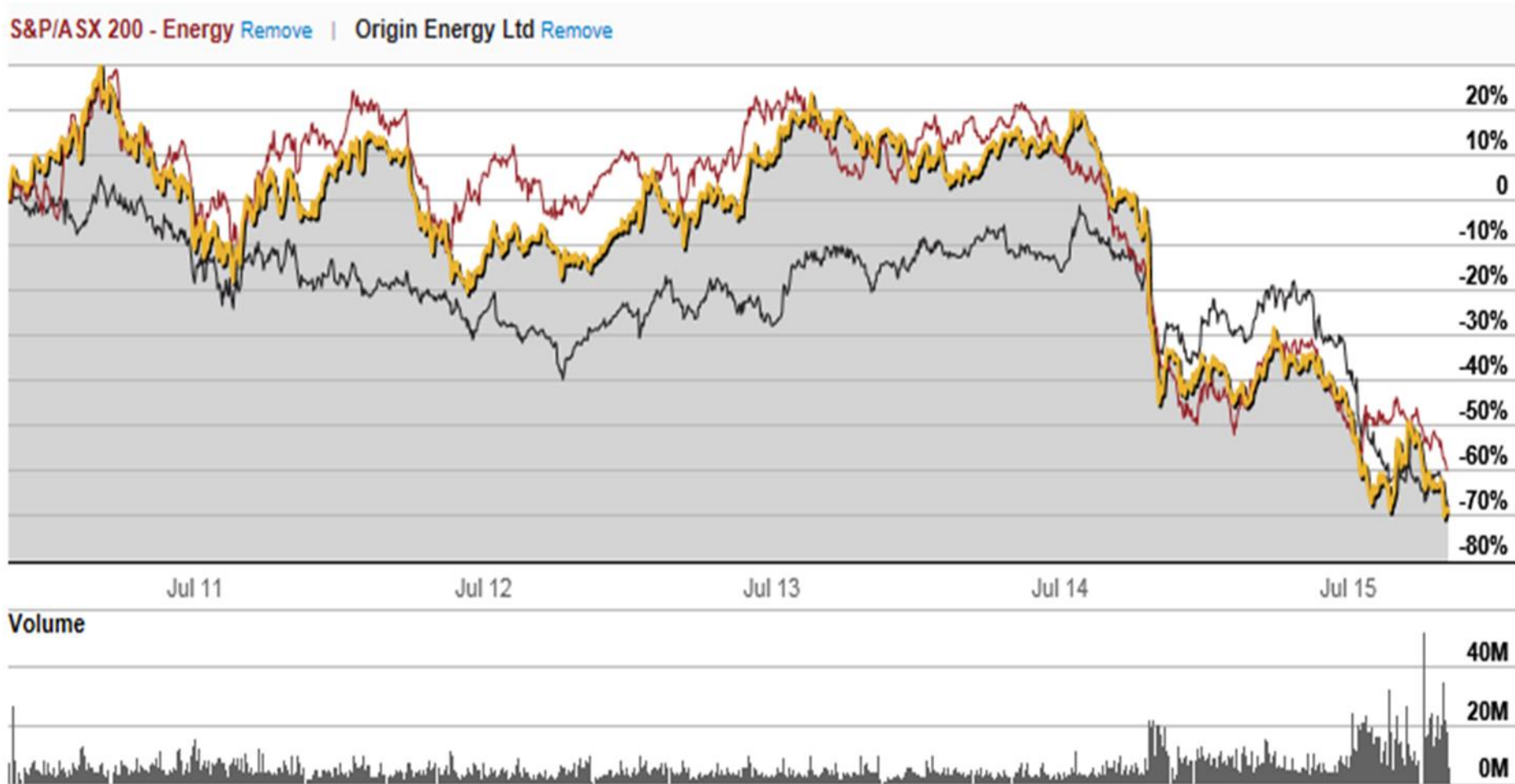
➤ Global

- × Prices down;
- × Capital availability reduced;
- × More favorable opportunities elsewhere.

➤ National and State

- × Reduced East Coast demand;
- × Adverse changes to NSW regulations;
- × Reduced investor confidence in NSW;
- × Reduced community confidence.

Origin Energy, Santos and Australian Energy Index



\$25 million settlement / buy back proposal

- Metgasco receives \$25 million for:
 - ✓ Cancellation of exploration licences;
 - ✓ Withdrawal of renewal applications;
 - ✓ Withdrawal from court action.

- Board recommends acceptance.
 - ✓ Key factors:
 - Gas resources and their likely future value;
 - Potential proceeds from eventual court action;
 - Market value;
 - No approaches from other companies;
 - Recent industry sales prices much less than 5 years ago.

If Transaction rejected ...

- Offer will lapse;
- Rigorous application of policies and regulations;
- Government to vigorously defend its legal position;
- Likely need for highly dilutive capital raising.

Future strategy

- Cost control;
- Board composition changes;
- Capital management:
 - ✓ on market buyback (max 10% of capital);
 - ✓ unmarketable parcels;
 - ✓ Details in January 2016.

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SLIDES 1 and 2

As I stated earlier, today is an important day for our company as shareholders must determine whether the company accepts a government offer of \$25M for its Northern Rivers gas permits and settlement of its legal disputes.

It must be recognized that today is a very disappointing day for all those who have believed in a vision of gas production in the Northern Rivers region and in particular for our long term shareholders. The Board and all shareholders have the right to be very disappointed and upset at the changes in attitude towards development of the state's gas resources, particularly in the Northern Rivers, across the political spectrum, and particularly by government. We have experienced several years of lawful but unfavorable and unnecessary regulatory changes as well as having our approval to drill the Rosella well unlawfully suspended. These have impacted on the value of the company and shareholders investments.

In addition, the value of Metgasco's gas resources has been substantially impacted by the dramatic downturn in the oil and gas sector and I shall cover this later.

Shareholders have a right and responsibility to consider the resolutions put forward today through the prism of the impact on their individual interests.

The responsibility of the Board is different. The Board must act and make recommendations in the best interests of the company, and consider the interests of all shareholders.

Under our system of corporate governance, key matters such as whether to dispose of the main undertaking, are resolved by putting the issue to shareholders for vote. Today is such an occasion.

I wish to make it clear that in explaining the factors that have underpinned our recommendation, we are not defenders of the NSW government's position or policies. Our obligation has been to robustly negotiate and to carefully consider what has been communicated to us by the NSW Government and determine whether to recommend or reject their buyback offer.

SLIDE 3

As we have outlined in our shareholder communications, the Board's major focus has been on the value of the Transaction in comparison to the alternative strategies available to the company. In particular, attention was given to:

- the gas resources identified and their likely value in the future;
- the potential proceeds that might arise from Metgasco's court action to recover costs from the Rosella Suspension; and
- Metgasco's share trading history and recent market capitalisation.

The Board's decision to recommend acceptance or rejection of the Transaction proposal has been based on whether the value of the Transaction proposal is likely to exceed the value of pursuing our previous strategy (pursuing our exploration licence activities and court action for damages).

SLIDE 4

The value of Metgasco's resources has been impacted by several factors, most of which have affected all petroleum projects. These include :

Global factors

1. Fall in LNG and oil prices due to excess supply;
2. Significant reduction in available capital; and
3. More favourable opportunities elsewhere which are further advanced and closer to existing infrastructure.

National and State Factors

1. The number of LNG projects at Gladstone has reduced to 3 from the previously anticipated 4. This has reduced demand from previous forecasts and increased the supply available for the Australian east coast;
2. Adverse changes to the NSW regulatory regime, resulting in higher costs and longer development schedules delivering reduced and delayed returns on investment;
3. Reduced investor confidence in political support in NSW; and
4. Reduced community confidence in resource development.

We have explained the impact of these on a notional Metgasco project development in our Explanatory Memorandum.

SLIDE 5

Global factors have severely reduced the market value of petroleum companies. The impact on companies without production has been especially severe. We also note that recent industry sales are at a fraction of the prices of 5 years ago.

Value of court action

The Board has also considered the potential value of its court action to recover damages from the Government's unlawful suspension of the Rosella well. We are unable to provide specific legal advice regarding its damages action without prejudicing the Company's interest in the case. However, the Board advises the following:

- the Government has denied liability for damages and has stated it intends to vigorously fight the matter;
- there is no guarantee of success;
- the matter could take some years and considerable expense to resolve, with the potential for an appeal if the government loses; and
- even if litigation is eventually successful there is the chance that the court would award damages that are small in comparison to our claim.

SLIDE 6

The Board considers that acceptance of the \$25M settlement proposed is a superior alternative to the likely sum of damages from the court action and the value of any project to develop its gas resources, taking into account the risks, noting that any project will require substantial funding to proceed.

Our market capitalisation has been below \$25M for some time and no-one is showing any interest in making an offer to the company. Acceptance of the government's offer implies an increase in Metgasco's market capitalisation of 57%, based on the 30 day VWAP prior to the date of announcement of the Transaction.

The NSW Government's offer is available for acceptance or rejection by shareholders. It is not a compulsory acquisition. If the Transaction proposal is rejected the government advises that its offer will lapse, that it will vigorously defend its position in court and that it will rigorously apply the policies and regulatory measures set out in the legislation and the NSW Gas Plan.

SLIDE 7

Therefore the choices for Metgasco's shareholders are to:

1. accept the Transaction as proposed; or to
2. Pursue our exploration licence activities and court action for damages.

We are aware that some shareholders consider Metgasco should be entitled to compensation for unfavourable but lawful regulatory changes and actions made by the government. While it may seem unfair, this is not a general legal principle.

For example, shareholders may recall that the government introduced regulatory changes in 2013 including a requirement that coal seam gas wells not be within 2 kilometre of a town. One NSW gas company took a \$343M write-down as a result of gas reserves being sterilised following these changes. No compensation was payable.

We are also aware that some shareholders hope that rejection of the government's offer will lead to a re-opening of negotiations, and that an improved outcome for shareholders will result. The government's position, restated as recently as last week, gives no basis to support this.

For existing shareholders to benefit from a no-vote, the government would need to abandon its current position, re-open negotiations AND make a superior offer BEFORE an otherwise highly dilutive capital raising is needed.

I have spoken to some shareholders who recognise these risks and are willing to take this gamble with their holdings. The Board, considering the interests of all shareholders, cannot recommend such a bet.

Metgasco's Future Strategy

I would now like to turn to the Board's plans for Metgasco's future.

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

We believe this is a very good time to capture opportunities in the oil and gas industry which can deliver significant value to shareholders. Peter Henderson has covered this in more detail during his presentation.

SLIDE 8

Capital management, cost control and Board composition.

The Board is very aware of the need for management of capital and tight expenditure control, particularly while we assess new business opportunities.

We will 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 evaluate and secure new business opportunities; and
- reduction in the base costs of key personnel, with the short term and long term incentives focused on performance and delivery of shareholder value.

As advised last week, the Board intends to review Board composition in the near term to ensure that it has the necessary skills and experience to support and improve confidence in the company.

As part of the matters to be considered by this review, provided that Greg Short is elected and the government's buy back offer is accepted, I advise that I will step down as Chairman following today's meetings and will retire as a director before the end of February. This allows sufficient time to secure an appropriate replacement. I am in my sixth year on the Metgasco Board and, if the change in focus of the company's activity is supported today, I believe it is the appropriate time for me to facilitate Board renewal.

Conditional on his election and support for the government's buyback offer, Greg Short will be Chairman following today's meetings.

Last week we foreshadowed that a partial capital return would be considered by mid-2016.

The Board advises that it has further considered the issue of capital. We advise that, in the first quarter of calendar 2016, the company will undertake an on market buyback of shares to a maximum of 10 percent of the company's capital and a clean-up of unmarketable share parcels. This will provide an opportunity for those who wish to exit the register to do so, while the share price is supported by the company. Further details on these registry management initiatives will be provided during January.

By mid-2016, the Board intends to undertake a review of the opportunities then available and expected. This will be a key factor in assessing whether further changes to strategy, cost structure, management skills and Board composition are appropriate. The management of the company's capital will also be reviewed at that time.

In closing, market conditions are such that your 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 invite shareholders to support the Board's recommendation to accept the NSW Government's \$25 million buy back offer.

Irrespective of which way individual shareholders vote, if shareholders as a whole vote to accept the offer, we invite all shareholders to support the new direction for your company.

Thank you for listening.