



ASX / MEDIA RELEASE

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STAGED FINANCIAL INVESTMENT INTO BYRON ENERGY

Metgasco Limited is pleased to advise that the Company has reached binding Heads of Agreement with Byron Energy Limited (**Byron**) (ASX:BYE) in relation to the provision of secured development funding and the acquisition of staged investment rights.

Highlights:

- Metgasco is entering into an indirect exposure over Byron's South Marsh Island 71 (**SM 70/71**) development project in the Gulf of Mexico (subject of a significant recent discovery) via a senior secured loan to Byron, for the purposes of development funding of the SM71 project through to production (**Funding Facility**). The maximum net financial exposure for Metgasco is approx. A\$7.8m;
- Pursuant to the transaction, Metgasco acquires farm-in rights (but not obligations) for a 10% working interest in Byron's Bivouac Peak Littoral Louisiana project¹, in consideration for Metgasco funding a disproportionate share of the costs of the first well and reimbursing part of Byron's past costs. Metgasco's net financial exposure (in the event of exercise) is expected to be approx. A\$1.3m including estimated past costs of approx. US\$64,000;
- Metgasco's Funding Facility contains convertibility rights in favour of Metgasco, in relation to the loan facility. Metgasco has no present intention to exercise conversion and the facility is otherwise subject to amortization over term;
- In consideration for Metgasco providing the Funding Facility, Byron will issue 10 million unlisted options to Metgasco with an exercise price of A\$0.25 per share and a term of three years; and
- The Heads of Agreement provides a framework agreement to pursue future farm-in and co-investment opportunities in relation to Byron's current (and future) Gulf of Mexico exploration portfolio.

In summary, this Agreement will deploy approx. 27% of Metgasco's financial resources into a transaction that the Board is confident will deliver attractive risk-adjusted returns for shareholders with strong underlying security. Metgasco has undertaken substantial internal due diligence and is pleased to be engaging with Byron's well regarded team. Completion is subject to limited customary formalities and Byron shareholder approval.

The transaction also provides Metgasco's shareholders substantial optionality over conventional oil and gas activities in a proven energy province, with experienced operators, against the backdrop of improving oil prices and margins.

Consistent with the Company's *Strategic Review and Outlook* announced on 1 June 2016, the Funding Facility is expected to generate robust free cash flow to Metgasco and, taking into account current investment earnings and the business' cost profile, the Board will consider an initial dividend (or distribution) to shareholders in the second half of 2016.

¹ See BYE ASX Announcement 23rd December 2015, slides 33 & 34

Business Outlook:

Metgasco continues to evaluate and consider opportunities that may be consistent with its threshold objectives², namely:

- The generation of reliable income streams from either direct or indirect exposure to operating production cash-flows;
- Strong *risk-adjusted* investment return expectations;
- Accepting project or exploration risk only in the context of a balanced portfolio of other income producing assets and
- An aggregate exposure profile capable of delivering strong total shareholder returns including *both* capital growth and distributions.

It is the Board's view that the generation of earnings, and the payment of ongoing distributions to shareholders, is of importance in delivering a balanced return profile to the Company's members.

The Board is reviewing all options open to the business, including capital management, in order to maximise total shareholder returns and the per-share value of Metgasco's securities.

The Transaction in Detail:

Under the Heads of Agreement, Metgasco will subscribe for a three year Convertible Note (**Convertible Note** or **Funding Facility**) of up to A\$8 million (**Face Value**) under the following terms:

- i. Security: the Convertible Note will be secured by a General Deed of Security and Priority, a Negative Pledge from Byron and a registered interest over Byron's share of SM 70/71 leases;
- ii. Use of Funds: Development of production assets at SM 70/71, associated purposes and general working capital;
- iii. Drawdown: The Funding Facility to be drawn down within six months of establishment (undrawn funds at six months are deducted from the available facility limit);
- iv. Interest only for first twelve months from establishment on drawn funds then amortising in eight equal instalments over balance of term;
- v. Facility Fee of 2.5% of Face Value (A\$200,000), payable on first drawdown under the Facility;
- vi. Line Fee of 2% , payable quarterly in advance, for the first six months of the Funding Facility on the Face Value and then, thereafter, on the drawn (outstanding) balance under the Convertible Note;
- vii. Coupon on drawn funds of 12% pa payable quarterly in arrears;
- viii. Convertible at Metgasco's election after eighteen months from initial drawdown with one week's notice at a 10% discount to the then prevailing 30 day volume weighted average price (**VWAP**) of Byron's shares;
- ix. Repayable early by Byron with one month's notice at any time after eighteen months from initial drawdown at 105% of outstanding (along with any accrued interest and line fee); and
- x. Metgasco to be granted the right to nominate one director to the board of Byron in the case of certain specified material adverse credit events.

² See MEL ASX announcement June 1st, 2016 (page 2)

10 Million Byron Options to be issued to Metgasco:

On closing, Byron will issue 10 million non-transferable unlisted options (**Options**) to Metgasco with an exercise price of A\$0.25 per share and a three years expiry.

Priority Right for Metgasco in Future Equity Raisings:

Byron will grant Metgasco a priority right (with a one week notice period) for up to 10% participation in any issuances of ordinary or preferred equity, or options, by the Company during the term of the Funding Facility.

Option for Metgasco to Acquire a 10% Working Interest in Bivouac Peak:

Byron will grant Metgasco the right (but Metgasco does not incur an obligation) to farm-in to Byron's Bivouac Peak prospect for a 10% working interest (out of Byron's 45% working interest, assuming Otto Energy Limited (**Otto**) (ASX:OEL) exercises its existing option to acquire a 45% working interest out of Byron's existing 90% working interest). If Metgasco exercises its option, it will pay for 13.33% of the cost of drilling the first well and reimburse 10% of Byron's past costs (currently estimated at \$US64,000). Should Metgasco exercise its option, Byron and Metgasco will enter into a farm-out agreement containing customary terms for a transaction of this type.

Opportunity for Metgasco to Participate in Future Byron Projects:

Byron will grant Metgasco the opportunity to farm into future Byron projects, should Byron decide to farm-out a project, during the term of the Funding Facility (3 years) as a preferred and priority partner, subject to Byron's existing obligations to Otto under the Participation Agreement between Byron and Otto, as announced to the ASX on 11 December 2015.

Funding and Financial position:

Metgasco will fund the transaction from available cash resources. Upon full drawdown of the Funding Facility, the Company expects to hold cash and liquid investments (excluding accrued coupons and interest) of approx. A\$20.9m.

Contact and further information:

The Board will be further updating shareholders this month on the progress of its strategy and invites all interested shareholders to make contact at any time.

ENDS

Background on Metgasco

www.metgasco.com.au

Until end 2015, Metgasco had a 100% interest in PEL 16, 13 and 426 in the Clarence Moreton Basin in NSW where it operated the largest acreage position in the basin, exploring for conventional and unconventional gas. It had 2C gas resources of 4,428 Petajoules. At end 2015, Metgasco agreed to withdraw from NSW operations and court action against NSW Government in return for \$25 million. It is now seeking new business opportunities in the oil and gas sector and has set itself a target of securing the first phase of its new business activities by mid-2016.

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