



ASX / MEDIA RELEASE

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## QUARTERLY ACTIVITIES REPORT QUARTER ENDED 30 June 2014

The last quarter was disappointing for Metgasco. After making all the preparations and receiving all the Government approvals necessary to drill the Rosella gas exploration well during the quarter, the NSW Government suspended Metgasco's approval to drill the well.

The suspension decision was made without any consultation with Metgasco, and was based on the charge that Metgasco had not complied with the Government's community consultation guidelines. The suspension notice was made despite repeated assurances from NSW Government Ministers in the days and weeks before the notice that Metgasco had the NSW Government's full support for the well.

With drilling activity ready to begin, given the NSW Government's actions Metgasco was forced to cancel its drilling program and work with contractors to minimise cancellation costs.

Metgasco rejects the Government's accusation about consultation and believes the decision was flawed for three reasons:

- 1) the NSW Government had no lawful right to suspend the activity;
- 2) the NSW Government did not observe the correct procedure and give Metgasco the chance to respond to the Government's concerns; and
- 3) Metgasco had complied with the NSW Government's community consultation guidelines.

Metgasco challenged the NSW Government to reconsider its decision and was given the opportunity to present its case, which it did on 6 June. The Office of Coal Seam Gas (OCSG) confirmed its suspension decision on 26 June.

Metgasco continues to believe the suspension is flawed for the reasons stated above and that the 26 June OCSG response does not justify the suspension decision. Metgasco considers that the OCSG has been changing the rules and the reasons for the suspension as time moves on, and that it is confusing and conflating "consultation" with "persuasion". In order to protect shareholder interests, Metgasco had no choice but to commence legal action, which it did on 7 July, lodging a summons in the NSW Supreme Court.

The Court process for submission of evidence is underway and should be complete by the end of August. The case is scheduled to be heard in the Supreme Court in October this year.

Metgasco believes that the outcome of the court appeal is very important for NSW. Genuine and effective community consultation does not and cannot require that everybody in the community agrees with the proposed activity, particularly if the community is taken to include people living in a very wide region and activist protesters, many of whom have travelled from other states. If this is a 'new standard' to be adopted, new mines, dams, motorways, railways and airports will struggle to be built in NSW.

Metgasco has expressed its desire to work constructively with the NSW Government to resolve the current impasse out of court, but needs to have assurances that its lawful rights will be respected and supported.

While it seeks to resolve the suspension impasse, Metgasco has taken further action to reduce overhead costs and to conserve cash.

## Review of exploration activities

Exploration activity continued over the quarter, albeit at subdued levels.

A regional seismic mapping exercise of the basin was undertaken to identify new conventional and tight gas targets and better define the current leads and prospects within the basin. The work consolidated seismic mapping to include further detail at shallower levels and integrated well data from other operators in the adjacent acreage, including recent released open file data.

The new work and data has provided new insights into the regional understanding of the basin, and is refining Metgasco's ability to recognise and predict the source rock distribution in the basin and the location of potential gas-prone areas.

## Certified Reserves

The Company recognises the following gas reserves and resources in its tenement areas:

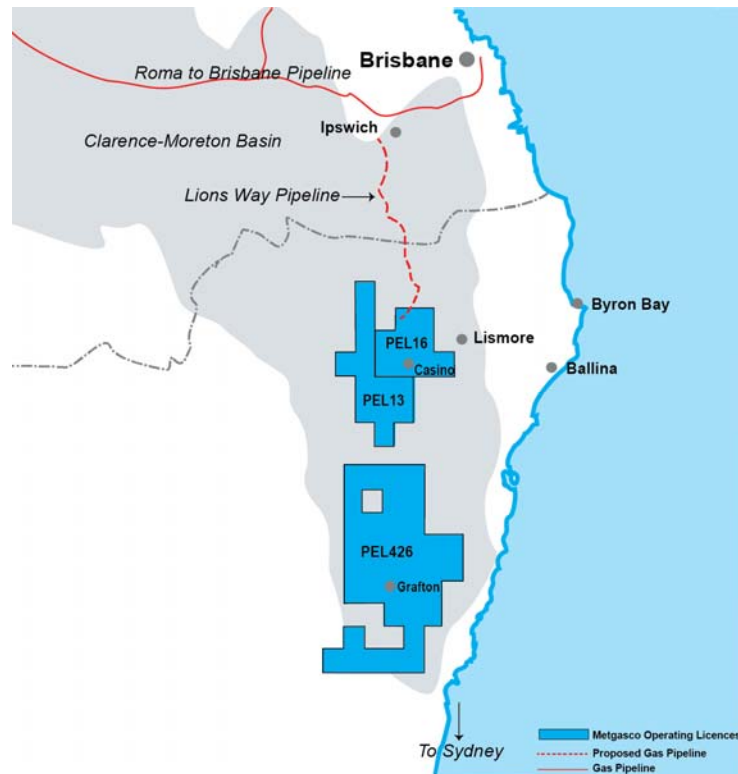
<b>Independently certified gas reserves – Petajoules (PJ)</b>			
<b>All reserves are 100% owned by Metgasco</b>			
<b>Reserve Category</b>	<b>PEL 13</b>	<b>PEL 16</b>	<b>Total</b>
1P (Proven)		2.7	2.7
2P (Proven + Probable)	31	307	338
3P (Proven + Probable + Possible)	437	1,618	2,055
2C Contingent Resource	1,199	1,174	2,373

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.

## Permits Listing

Metgasco advises that as at 30 June 2014 it had a 100% interest in the following permits: PEL 13, PEL 16, and PEL 426

The permits are located in the Clarence Moreton Basin of NSW as shown below.



There have been no changes in the beneficial interest since the last quarterly activities report. No tenements were acquired or disposed of during the quarter.

The Company has no beneficial interest at the end of the quarter in any farm-in or farm-out agreements.

The Company has neither farmed into any new permits nor farmed-out any of its permits during the quarter.

## Decommissioning program

During the period Metgasco finalised the decommissioning of the Kingfisher E01 conventional well and is now rehabilitating the well site before seeking return of the associated Government held bond.

## Cash position

The Company ended the quarter with a cash balance of \$11.5 million and no debt.

## Shareholder base

At 30 June Metgasco had 449 million shares on issue and 1.2 million options outstanding.

## Outlook –planned forward work program next quarter

Metgasco's focus for the September 2014 quarter will be to have the Rosella E01 drilling suspension removed by the NSW Government. The Company is keen to restart exploration activities and to drill the Rosella conventional well but will be unable to do so until the suspension order is lifted. Lifting of the suspension is unlikely to occur in the September quarter given that Court hearings are not scheduled to begin before October. The company will also be seeking an assurance from the NSW Government that lawful activity in the Northern Rivers will be supported and protected.

Depending on the outcome of current legal processes, Metgasco may choose to make a claim for damages against the NSW Government as a result of the drilling suspension.

Metgasco is open to attractive opportunities outside NSW which might complement the value of the gas assets it has established in its Clarence Moreton Basin exploration acreage.

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## Background on Metgasco

[www.metgasco.com.au](http://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 338 Petajoules and 3P gas reserves of 2,055 Petajoules (based on Metgasco's current understanding of the impact of the NSW Government's exclusion zones). The Company is exploring for conventional and unconventional gas. Metgasco 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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