



10 November 2015

Subject: Meeting of Shareholders – Settlement / Buy-back offer

Dear Shareholder,

Please find attached the Notice of Meeting for the shareholder meeting we have scheduled for 16 December, 2015.

The purpose of the meeting is to allow shareholders to accept or reject your company's Board of Directors' recommendation, which is to accept the NSW Government's offer to buy-back your company's three NSW exploration licences and settle all litigation in return for the sum of \$25 million. The Notice of Meeting includes an explanatory memorandum that explains why this recommendation has been made.

A group of shareholders, who together control more than 5% of Metgasco's issued shares, do not accept the Board's recommendation and under Section 249P of the Corporations Act have asked that we distribute their views to shareholders. We are doing so by including their letter to shareholders along with the Notice of Meeting.

We wish to advise that three of Metgasco's top shareholders, who together control more than 18% of the issued shares, have advised that they support the Board's recommendation.

Yours faithfully,

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

Len Gill
Chairman



NOTICE OF GENERAL MEETING

to be held at 12 pm on
16 December 2015 at
Christie Corporate
Level 4, 100 Walker Street
North Sydney NSW 2060

Registered Office:
Metgasco Ltd
ACN 088 196 383
Level 11, 2 Elizabeth Plaza
North Sydney NSW 2060

Notice is hereby given that a General Meeting (“the Meeting”) of Metgasco Limited (“the Company”) will be held at 12 pm on 16 December 2015 at Christie Corporate, Level 4, 100 Walker Street, North Sydney NSW 2060.

Shareholders are also advised that the Annual General Meeting scheduled for 11 am on 30 November 2015 at Christie Corporate, Level 4, 100 Walker Street, North Sydney NSW 2060 has been deferred to 11 am on 16 December 2015 at Christie Corporate, Level 4, 100 Walker Street, North Sydney NSW 2060.

ORDINARY BUSINESS**Resolution 1 Disposal of main undertaking**

To consider and, if thought fit, pass the following **ordinary resolution**:

“That for the purposes of ASX Listing Rule 11.2 and for all other purposes, the Shareholders approve the disposal of the main undertaking of the Company to the State of New South Wales (State) on the terms set out in the Deed of Settlement dated 30 October 2015 as summarised in Clause 2.4 of the attached explanatory memorandum.”

The explanatory notes provide details to support the resolution.

Recommendation

The Board considers that this Resolution is in the interests of the Shareholders and therefore unanimously recommends that you vote in favour of the Resolution.

BY ORDER OF THE BOARD



Company Secretary

VOTING REQUIREMENTS AND EXCLUSIONS

Resolution 1 is an ordinary resolution and accordingly requires the approval of more than 50% of the votes cast by Shareholders.

In accordance with the Corporations Act 2001 and the ASX Listing Rules, the Company makes the following statement:

The Company will disregard any votes cast on:

Resolution 1 – Disposal of main undertaking

by:

- a) any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if Resolution 1 is passed; or
- b) an associate of such a person.

However, the Company need not disregard a vote if:

- a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; and
- b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

METGASCO LIMITED (ACN 088 196 383)

(“Metgasco” or Company”)

EXPLANATORY MEMORANDUM

1 INTRODUCTION

This Explanatory Memorandum is an explanation of, and contains information about, the Resolution proposed to be considered at the Meeting of Shareholders to be held on 16 December at 12pm at Christie Corporate, Level 4, 100 Walker Street, North Sydney. Its purpose is to assist Shareholders in determining how they wish to vote on the Resolution.

Shareholders must read this Explanatory Memorandum in full because individual sections do not give a comprehensive review of the Resolution. The Explanatory Memorandum must be read in conjunction with the Notice of Meeting and forms a part of the Notice of Meeting.

If you are in doubt about what to do in relation to the Resolution contemplated in this Explanatory Memorandum, you should consult your financial or other professional advisors.

2 BUSINESS OF THE MEETING – SUMMARY

2.1 *Resolution – Disposal of main undertaking*

For the purposes of ASX Listing Rules 11.2 and all other purposes, the Resolution requires the approval of the Shareholders for the disposal of the main undertaking of the Company to the State of New South Wales (**State**) on the terms set out in the Deed of Settlement (**Transaction**) as summarised in Clause 2.4 of this memorandum.

2.2 *Background*

In May 2014, Metgasco’s approval to drill the Rosella conventional/tight gas well was suspended without notice by the NSW Government (Office of Coal Seam Gas) (**Government**). The suspension resulted in losses to Metgasco and its shareholders.

Metgasco sought to have the Government lift this suspension, arguing that it was unlawful, but was unsuccessful. As a consequence in July 2014 Metgasco initiated a judicial review of the validity of this decision in the Supreme Court of NSW.

On 24 April, 2015, the NSW Supreme Court found in Metgasco’s favour and lifted the drilling suspension on Metgasco’s Rosella exploration well (**Rosella Suspension**). One month later the Government advised that it would not appeal the decision.

Metgasco then proceeded to restart its field operations, seismic acquisition and the drilling of the Rosella exploration well, and prepared to initiate court action to recover damages from the Rosella Suspension. Metgasco informed the Government that it would prefer to settle the damages claim out of court.

In June 2015 the Government informed Metgasco that it wished to negotiate a settlement out of court and to discuss the future of the gas industry in the Northern Rivers. Metgasco accepted the offer and agreed to negotiation terms that required both confidentiality and a suspension of its exploration and court plans.

Metgasco appointed a specialist commercial / negotiation advisor, Pipionem Partners, and government and legal advisors to assist with the negotiation. The Government appointed a specialist investment advisor to provide it with input on the value of Metgasco's petroleum interests in its three exploration licences.

At the end of August 2015, after exchanging a wide range of views and arguing positions in detail, an informal proposal was made by Government. The Board considered the proposal to be well below the level that could be considered seriously. As such, Metgasco withdrew from the process, advising that it would restart field operations and court proceedings, which it did, announcing these actions to the public. Metgasco also wrote to Government, stating its entitlement to a production lease associated with PPLA 9, that it required an immediate grant of the lease and that it was considering other actions, including a judicial review, if the grant was not made promptly.

Following further discussions in September and October, the NSW Government made a final settlement offer. Metgasco understands that the Government's position was approved by the NSW Cabinet and that as part of the Government's process, Metgasco's position had been presented to Cabinet.

The key terms of the Government's settlement / buy-back proposal (**Transaction**) are summarised in Section 2.4 of this memorandum. The main features are that the Government has offered Metgasco \$25 million in return for Metgasco agreeing to the cancellation of its three exploration licences and to withdraw from future legal action.

After detailed review and consideration of the alternatives, Metgasco's Board of Directors believed that the offer should be accepted in the best interest of the Company.

There is a regulatory requirement for approval of Shareholders under ASX Listing Rule 11.2 in case of disposal of a company's main undertaking. As a result, the Board signed the Deed of Settlement to put the agreed terms into effect, subject to shareholder approval.

2.3 Reasons for the Board's unanimous recommendation of the Transaction

Metgasco's Board of Directors unanimously recommends that Shareholders vote to accept the Transaction proposal.

In making this recommendation, the Board's major focus has been on the value of the Transaction compared to the alternative strategies available to the Company. In particular, attention was given to:

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

The NSW Government's offer is available for acceptance or rejection by Metgasco's shareholders. It is not a compulsory acquisition. If the Transaction proposal is rejected the Metgasco Board expects that the Company's rights under its exploration licences will be respected and that the NSW Government will ensure that law and order is upheld and that Metgasco can proceed with its lawful activities.

The Board recognises that the company has invested heavily in the three licence areas over a ten year period and has rights under its exploration licences, including the entitlement to have a production lease (PPLA 9) awarded, and that many shareholders have remained loyal and committed to the company and its prospects over the period. Despite this

recognition, these factors do not necessarily determine the value of the company and whether it should retain and pursue its interests in the three licences or accept the Transaction proposal.

In the Board's view, the decision to accept or reject the Transaction, should be based on whether the value of the Transaction is likely to exceed the value of retaining the Company's previous strategy (pursuing its exploration licence activities and court action for damages).

The choice for Metgasco's shareholders is to:

1. accept the Transaction as proposed; or
2. to reject the Transaction and proceed with field activities to pursue the definition and development of gas resources in the three exploration licences and, in parallel, pursue court action for damages associated with the Rosella Suspension and for award of a production lease associated with PPLA 9.

The reasons for the Board recommending the proposal are as follows:

2.3.1 Settlement figure higher than alternative value

The settlement figure is considered by the Board to be higher than the Company is likely to achieve if it retains the licences and pursues court action for damages. Acceptance of the offer also provides certainty and the basis on which to plan an effective business.

Value of field development.

The Company has the right to continue with its exploration and development plans. Based on past reserve estimates and studies, it is possible to develop scenarios that involve large sized developments and with appropriate cost, schedule and gas price assumptions yield profitability outcomes in line with expectations the Board and investors might have had some years ago. In other words, the model scenarios can yield present value profits well in excess of the proposed settlement figure of \$25 million. However, the potential for these higher returns needs to be balanced against the risks involved and the likelihood of successful achievement.

Specific risks that need to be considered include:

- **Schedule performance:**
Experience over the last four years in terms of timely approvals for exploration and development activities has been disappointing and frustrating. While the new NSW Gas Plan is being put in place, there is no guarantee that timely approvals will be any easier to achieve in the future. Delays in approvals for exploration activities and development approvals increase project costs, delay revenue and reduce the present value of future income streams, making a large impact on profitability.
- **Regulatory stability:**
There have been multiple gas plans, reviews, new legislation and changes in responsibility amongst different departments within the NSW Government over the last four years. While the new NSW Gas Plan is being put in place at present, confidence in the stability and workability of the new system is not yet high.

To provide an example of the above, the new NSW Gas Plan has introduced new minimum standards that must be met before licences are awarded or renewed. PEL 13 and PEL 16 are due for renewal in May 2018 and November 2017 respectively. Metgasco would normally expect these licences to be renewed almost automatically

given its track record of performance and compliance but at present cannot be confident of renewal.

In addition to the above, Metgasco is aware that National members of parliament in the Northern Rivers region have decided to support a gas free area and the NSW Labor opposition party is vowing to make the area gas free if it wins office, cancelling the licences without compensation.

- **Community Support:**

While Metgasco has enjoyed strong community support over the bulk of its ten year operations in the Casino area, with over 300 voluntary access agreements, there is a strong and vocal anti-gas lobby in the area which has been increasingly effective in influencing local councils. While gaining land access has not been a problem, it is some years since it has been necessary to negotiate new agreements and there is reason to expect some landholders will be wary of involvement given the intimidating tactics of the anti-gas lobby.

We must also expect a reasonable degree of on-site protest, irrespective of whether the protestors are of local or distant origin. In fact, the response from anti-gas activists to the settlement proposal suggests that field activities will be subject to the similar unlawful protest tactics that Metgasco experienced with its Rosella conventional gas well. This adds costs and schedule delays to our activities and discourages landholders from participating.

- **Cost trends:**

Exploration, development and operating costs are clearly having a material impact on project profitability. These costs are likely to increase.

- **Gas prices:**

Oil and gas prices are currently low. While forecasts might show an increase in prices to levels considered to be reasonable in previous project evaluations, proceeding with expenditure on major new projects, as distinct from acquiring existing reserves, in a low price environment makes it necessary to apply a risk factor to project economics.

- **Funding:**

The uncertainties associated with the NSW operating environment over the last four years and the factors above have made investors concerned about NSW investment, making additional financing more difficult and, even if it can be obtained, more expensive. This is at a time when general investment support for the industry is weak due to low oil prices. The effect is that even assuming financial support could be obtained, the potential of the three licences needs to be evaluated with a higher cost of capital, hence reducing profitability.

In addition to the above, to proceed with the Company's exploration and development program through 2016 and beyond would require a substantial capital raising. Even if successful in this difficult environment, the capital raising would dilute the interests of shareholders significantly.

Value of court action

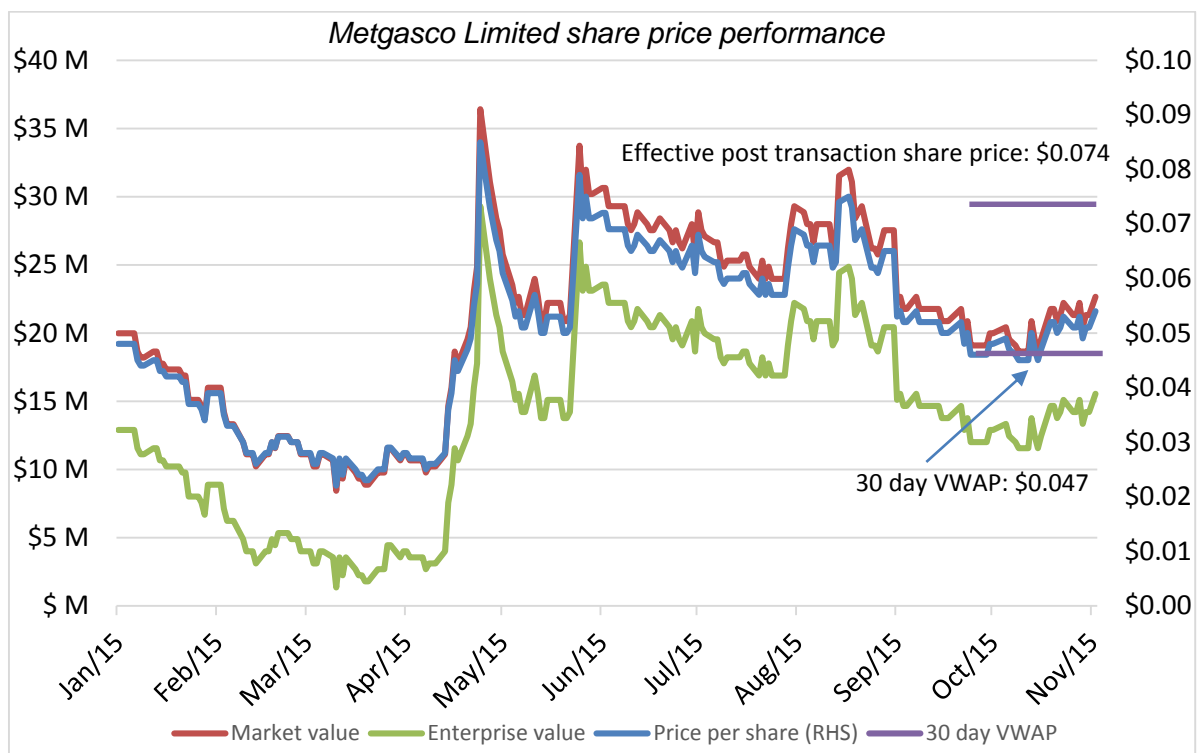
The Board has considered the potential value of its court action to recover damages from the Government's unlawful suspension in 2014. Metgasco is unable to provide specific legal advice regarding its damages action without prejudicing its interests in the case. However, the Board advises Shareholders of the following:

- the Government has denied liability for damages and stated its intention to fight the matter in court;
- there is no guarantee of success with the damages claim in court;
- it could take some years and considerable expense to resolve the matter in court; and
- even if successful there is the chance that the court would award damages that are small in comparison to the claim that Metgasco will make.

On balance, the Board considers that the likely sum of project value and damages from the court action is lower than the \$25 million settlement proposed.

2.3.2 Metgasco's share trading history

Metgasco's most recent trading history (share price, market capitalisation and enterprise value {market capitalisation less cash held}) is shown in the following figure.



The Transaction (\$25 million settlement plus return of securities) will increase Metgasco's cash to approximately \$32 million or, if reflected fully, a share price of \$0.073. This is well above recent trading history, with the Company's 30 day Volume Weighted Average Price (VWAP) before the 2 November 2105 announcement of the Transaction being \$0.047. If the share price increases to fully reflect the \$25 million cash, the Transaction will increase Metgasco's market capitalisation by about 55 % above the capitalisation represented by the 30 day VWAP. The \$25 million cash payment is 82% above the Company's enterprise value as represented by the 30 day VWAP price.

Despite the clear need for additional gas on the eastern coast of Australia, no companies have approached Metgasco to acquire all or part of its exploration licence and gas resource rights either through corporate activities or farm-in deals, indicating that there is little appetite for this NSW opportunity at recent trading levels (ie; market capitalisation in the order of \$22 million).

2.3.3 Potential for a higher offer

Metgasco's Board considered rejecting the Government's offer and proceeding with the Company's exploration and court activities in the hope of receiving a higher offer from Government. The Board decided that there was no basis to believe that a higher offer would be forthcoming in the near to medium term.

2.3.4 Conclusion

When the factors above are considered and the potential project returns and court outcomes are risked accordingly, Metgasco's Board considers that acceptance of the \$25 million offer is in the best interests of the Company.

2.4 *Key terms of the Deed of Settlement*

- (a) **Cancellation of Licences:** Subject to the passing of Resolution 1, the Company will seek cancellation and/or withdrawal of the following substantial assets of the Company:
- (i) petroleum titles granted to the Company by the State for exploration in the Northern Rivers region:
 - (A) PEL 13;
 - (B) PEL 16; and
 - (C) PEL 426.(together, the **Licences**)
 - (ii) pending applications for:
 - (A) grant of Petroleum Production Licence (PPLA 9); and
 - (B) renewal of PEL 426.
- (b) **Decommissioning and Rehabilitation:** Metgasco will be responsible for the decommissioning of the two remaining CSG wells and rehabilitation of the associated lands.
- (c) **Consideration:** Subject to the passing of the Resolution, and satisfaction of clause 2.4 (a), the Company will receive \$25,000,000 within 28 days of Metgasco forwarding the relevant documentation to Government, which will occur immediately following a shareholder vote to approve the settlement / buy-back proposal. The Government will also refund or release \$400,000 of securities it now holds on behalf of Metgasco and on completion of decommissioning and rehabilitation activities will refund or release the balance of securities it currently holds (\$240,000).
- (d) **Suspension of operations and court action:** Prior to the Shareholder Meeting, Metgasco will cease field activities and suspend NSW Supreme Court action.

(e) **Conditions precedent for entering into Deed of Settlement:** The Deed of Settlement is subject to approval of the Resolution by the Shareholders.

(f) **Key representations and warranties:**

The Company and the directors will discontinue and release the State from any pending claims or proceedings in relation to the Licences.

(g) **Indemnities:** The Company and the directors must indemnify the State against all claims by the Company and its related entities in relation to the Licences.

2.5 Indicative timetable for completing the Transaction

It is anticipated that the Explanatory Memorandum and Notice of Meeting will be issued by 15 November, meeting ASIC requirements for the proposed 16 December members meeting.

If shareholders vote to accept the Transaction, the Deed requires NSW Government to pay the \$25 million and \$400,000 of securities within 28 days.

The balance of the securities, approximately \$240,000, will be paid to Metgasco's account promptly on completion of remaining decommissioning and rehabilitation activities, which is expected in 1Q 2016.

2.6 Financial effect of the Transaction on the Company

- Approval of the Transaction will result in Metgasco increasing its cash reserves from approximately \$7 million to over \$32 million and a small amount of work to complete decommissioning and rehabilitation activities, work that should be completed in the first quarter of 2016.

Metgasco Limited		
Unaudited pro forma balance sheet as at 31 October 2015		
	Pre transaction	Post transaction
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	6,894,378	32,294,378
Inventory	167,132	-
Trade & other receivables- Current	42,335	42,335
TOTAL CURRENT ASSETS	7,103,845	32,336,713
NON CURRENT ASSETS		
Exploration and evaluation expenditure	-	-
Plant and equipment	338,744	338,744
Trade & other receivables - Non-current	646,000	246,000
TOTAL NON CURRENT ASSETS	984,744	584,744
TOTAL ASSETS	8,088,588	32,921,457
CURRENT LIABILITIES		
Trade and other payables	381,870	381,870
Provisions	200,000	200,000
TOTAL CURRENT LIABILITIES	581,870	581,870
NON CURRENT LIABILITIES		
Provisions	72,673	72,673
TOTAL NON CURRENT LIABILITIES	72,673	72,673
TOTAL LIABILITIES	654,543	654,543
NET ASSETS	7,434,045	32,266,913
EQUITY		
Contributed equity	123,990,967	123,990,967
Share option reserve	389,423	389,423
Accumulated losses	- 116,946,345	- 92,113,477
TOTAL EQUITY	7,434,045	32,266,913

- Metgasco proposes to invest its cash in oil and gas activities. The Board believes that there is strong demand for oil and gas worldwide and that this demand will remain and grow for the foreseeable future. The currently depressed oil market provides an ideal opportunity to acquire new oil and gas assets. Metgasco has been reviewing opportunities for the last 2 years and is confident of securing assets, particularly when unencumbered by uncertainties relating to its NSW assets.

Metgasco will seek opportunities that are both technically sound and in regulatory and business environments that facilitate exploration and development. A high priority will be placed on assets with production of near term development potential, but it will also seek to seed exploration prospects that balance the risk profile of the Company.

- Shareholders should be aware that ASX Listing Rule 11.2 provides that where a company proposes to make a significant change in the nature or scale of its activities which involves the disposal of its main undertaking, it must first obtain the approval of its shareholders. Shareholders should be aware that following the proposed disposal of the Company's main undertaking, ASX may require the Company to seek shareholder approval pursuant to ASX Listing Rule 11.1.2 and/or re-comply with Chapters 1 and 2 of the Listing Rules pursuant to ASX Listing Rule 11.1.3 with respect of any future transaction the Company may enter into.

A disposal by a listed entity of its main undertaking can also raise issues under Listing Rule 12.1 and 12.2, which oblige a listed entity to satisfy ASX on an ongoing basis that the level of its operations is sufficient, and its financial condition adequate, to warrant its continued listing and continued quotation of its securities.

ASX Guidance Note 12 states, the disposal by a listed entity of its main undertaking may be a precursor to the entity embarking on a new business venture, either immediately or once a suitable business has been identified and acquired. In the latter case, notwithstanding Listing Rule 12.3, ASX will, in the absence of any other reason to suspend the quotation of the entity's securities, generally continue the quotation of its securities for up to six months to allow it time to identify, and make an announcement of its intention to acquire, a suitable new business.

If an entity is not able to make an announcement of its intention to acquire a new business, within six months of completing the disposal of its main undertaking, ASX will generally exercise its discretion under Listing Rule 12.3 to suspend the quotation of its securities at the end of that six month period. The suspension will continue until the entity makes an announcement acceptable to ASX about its future activities.

If the Company does propose to enter into a new transaction, it will consult the ASX.

Under listing rule 11.1.1, if the ASX requires, the entity must give ASX information regarding the change and its effect on future potential earnings, and any information that the ASX asks for.

Under listing rule 11.1.2, if ASX requires, the entity must get the approval of holders of its ordinary securities and must comply with any requirements of the ASX in relation to the notice of meeting. The notice of meeting must include a voting exclusion statement.

Under listing rule 11.1.3, if ASX requires, the entity must meet the requirements in chapters 1 and 2 as if the entity were applying for admission to the official list.

- The comments below represent the view of EY based on the information set out in this Explanatory Memorandum and analysis performed by EY as at 2 November 2015:

“The fixed settlement sum of \$25 million to be received from the NSW Government will be assessable to Metgasco Limited (“Metgasco”) for tax purposes in the year ending 30 June 2016 in accordance with the Income Tax Assessment Act 1997. There will however be no income tax payable by Metgasco as Metgasco satisfies the continuity of ownership test contained in Division 166 of the Income Tax Assessment Act 1997 and has sufficient carried forward tax losses available to be able to fully offset the tax payable on the settlement sum.”

2.7 Plans for the Company if the Transaction does not go ahead

If Shareholders vote to reject the Transaction, Metgasco will return to its previous strategy, which is:

- to proceed with seismic acquisition southwest of Lismore to better define the Greater Mackellar structure (to be tested by the Rosella well) and to drill the Rosella well;
- to recommence court action for the misfeasance damages claim associated with the Rosella suspension; and
- to commence court action to have production lease approved in accordance with PPLA 9.

Metgasco will rely on the NSW Government enforcing the law so that its field activities can proceed and on timely approvals of future exploration activities and renewal of its licences.

2.8 Directors’ interests and recommendation

Metgasco’s Directors do not have a material interest in the outcome of the Resolution, other than as a result of their interest arising solely in the capacity of Shareholders.

No Director will receive any payment or benefit of any kind as a consequence of the disposal of the main undertaking other than in their capacity as a Shareholder of the Company.

Metgasco’s Board of Directors has reviewed the Transaction thoroughly and recommends that Shareholders vote to accept the Transaction proposal.

3 DEFINITIONS

Company	Metgasco Limited (ACN 088 196 383)
EY	Ernst & Young
Meeting	The extraordinary general meeting of the Company to be held on 16 December 2015
Licences	As set out in paragraph 2.4(a)(i)
Notice of Meeting	The notice accompanying the present Explanatory Memorandum
Resolution	The resolution proposed to be tabled at the Meeting seeking approval for disposal of the substantial assets of the Company.
Shareholders	The shareholders on the register of the Company as at 7pm on the 14 th of December 2015
State	State of New South Wales
Transaction	As set out in paragraph 2.4

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on the member's behalf. If the member is entitled to cast two or more votes at the meeting, the member may appoint not more than two proxies to attend and vote on the member's behalf.
2. If a member appoints two proxies, each proxy should be appointed to represent a specified proportion or number of the member's votes. In the absence of such a specification, each proxy will be entitled to exercise half the votes.
3. A proxy need not be a member of the Company.
4. To appoint a proxy (or two proxies), a proxy form must be signed by the member or the member's attorney duly authorised in writing. If the member is a corporation, the proxy form must be signed either under the corporation's common seal (if any) or under the hand of its attorney or officer duly authorised.
5. To be effective, a proxy form (and, if it is signed by an attorney, the authority under which it is signed or a certified copy of the authority) must be received by the Company not later than 48 hours prior to the meeting. Proxy forms and authorities may be sent to the Company by post, personal delivery or fax:

Computershare Investor Services Pty Limited

Street address: Level 4, 60 Carrington Street, Sydney NSW 2000

Mailing address: GPO Box 242, Melbourne VIC 3001

Fax: (within Australia) 1800 783 447

(outside Australia) +61 3 9473 2555

Web: www.investorvote.com.au and follow the instructions provided.

Provided that members who forward their proxy forms by fax are required to make available the original executed form of the proxy for production, if called upon to do so at the Meeting.

For custodians – who are subscribers of Intermediary Online, please submit your votes electronically via www.intermediaryonline.com

6. A corporate shareholder entitled to attend and vote at the Meeting may appoint a body corporate representative to attend and vote for the shareholder. Also, as noted previously, a body corporate may be appointed as a proxy.

Metgasco Limited will accept the original appointment, a certified copy of the appointment or a certificate from the company giving notice of the appointment as satisfactory evidence of the appointment.

You can lodge your body corporate representative appointment document before the general meeting or present the document at the registration desk at the meeting.

7. For the purposes of the General Meeting, persons on the register of members as at 7.00pm on 14 December 2015 will be treated as members. This means that if you are not the registered holder of a relevant share at that time you will not be entitled to vote in respect of that share.

LETTER TO FELLOW METGASCO SHAREHOLDERS

Dear Fellow Shareholders

TAKE ACTION -VOTE NO

TO THE NSW GOVERNMENT'S LOW BALL OFFER OF \$25 MILLION TO ACQUIRE METGASCO'S STRATEGIC GAS ASSETS

On the 2nd of November the Metgasco Board advised shareholders to accept an offer by the NSW Government to acquire all of our Company's licenses for the sum of \$25 million

THIS OFFER IS WHOLLY INADEQUATE

Metgasco (the "Company") has invested over \$116 million in New South Wales ("NSW") in exploring and discovering critical energy resources for the State. Over the past 10 years Metgasco has met all of the investment funding that the NSW Government required as a condition of its Petroleum Exploration Licences ("PELs") and complied with the law.

As shareholders, we have supported this Australian company and its efforts throughout the high risk exploration stage of finding gas. **Now with demonstrated gas resources and with rights to drill for gas, the NSW Government is proposing to acquire our assets at a fraction of the value of their worth.**

The political motivation behind the offer is evidenced by the history of the NSW Government's interference with Metgasco's commercial activities. Since the NSW Government was elected in March 2011, Metgasco shareholders have endured:

- a series of unpredictable and contradictory regulatory rulings from the NSW Government;
- refusal to issue our production licence despite all approvals being obtained and deposit and bond moneys paid to the NSW Government as requested;
- the NSW Government failing to follow procedural fairness when dealing with the Company;
- unlawful cancellation of approval to drill our conventional exploration well, which may well be the only non-CSG gas in the State of NSW; and
- an attempt to smear the Company with an unsupported referral to ICAC.

The actions of the NSW Government have hindered the normal commercial development of our Company, damaged its future prospects, destroyed its equity market valuation, spuriously harmed the reputation of those associated with the Company and caused substantial financial and emotional distress to shareholders.

The NSW Government wants to acquire Metgasco's PELs to suit its political agenda, but at a price that does not reflect the cost and risk of the exploratory work to date and greatly understates what is understood by us to be the true market value of Metgasco's PELs. Without its PELs, Metgasco will have no commercial purpose and the value of our shares will, at best, be the cash backing per share reflected by the compensation figure paid by the NSW Government.

If the NSW Government believes there is a public benefit in **acquiring our strategic gas assets at a time when NSW energy consumers are facing imminent gas shortages** it should provide us with **fair and just compensation**.

Fellow shareholders, we believe that, in the fullness of time, the gas which has been discovered by Metgasco will be developed. For this reason the current shareholders, who have taken all of the financial and commercial risks to discover these strategic energy resources, must be fairly compensated by the NSW Government by:

- Paying the Company **in full** all money invested by Metgasco in the NSW PEL's plus the cost of capital foregone;
- Granting Metgasco a first right of refusal in perpetuity to repurchase these PELs at the same price that Metgasco is forced to sell them to the NSW Government; and
- In the event that Metgasco is unable to or elects not to take up these PEL rights in the future, that all registered shareholders as at the date the PELs are acquired by the NSW Government be granted an override royalty of 10% of gross revenue from gas and petroleum sales from these PEL's in perpetuity.

By effectively expropriating Metgasco's assets, the NSW Government intends to deprive shareholders of the future value of their investment. When these gas assets are developed the shareholders who invested their own risk capital in this enterprise should benefit.

Small business, such as Metgasco, is the back bone of this country. Our investment in Metgasco has supported that small business over many years. We might be small shareholders in a small company but Australia was built on the efforts of small companies and individuals. **We did not invest expecting to encounter sovereign risk as experienced in Gabon. We invested in New South Wales where we believed the Rule of Law had some weight and the sanctity of investment and contract rights were honoured.**

VOTE NO

TO THE NSW GOVERNMENT'S INADEQUATE OFFER FOR METGASCO'S STRATEGIC GAS ASSETS

If you would like further information on your fellow shareholders views on this matter contact:

no.low.settlement@gmail.com