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QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 31 MARCH 2016

During the quarter, Metgasco shut down its NSW's operations as planned, continued its cost reduction program and optimised returns on its cash while it sought new business opportunities in the oil and gas sector.

The highlights of the quarter's activity are outlined below.

Close down of NSW Northern Rivers operation.

The Company's program to shut down its Northern River's operation was implemented effectively:

- The remaining two CSG wells were decommissioned and the land rehabilitated at costs lower than budgeted. Paperwork has been submitted to the NSW Government showing that landholders accept the rehabilitation work and the NSW Government has inspected the sites. Metgasco awaits the NSW Government releasing the \$236k bonds associated with the operations.
- The land Metgasco had purchased for a power station project has been sold, with the proceeds (approximately \$250k) expected to be received in May, 2016. Some of the equipment and materials held for future drilling has been sold, with the remainder moved to a Brisbane site until the sale process concludes.
- The Casino office and storage facility have been closed.
- Employment of Northern Rivers staff has been terminated.

Cost and Capital Management.

Consistent with the disclosure in the Company's Quarterly Activities Report for the Quarter ended 31 December 2015, the Company is paying particular attention to costs and capital management whilst it continues to seek new business opportunities.

In response to changed circumstances (i.e. cancellation of permits and lower petroleum prices), Metgasco has used the opportunity to significantly reduce its usual overhead costs. In addition to the cost savings previously announced, Metgasco will be moving to lower cost offices in late April at the expiry of its current office lease and is pursuing all cost reduction opportunities reasonably available.

The cash received from the NSW Government settlement has been deployed in liquid investments which have an appropriate balance of yield and risk.

Two particular capital management and efficiency steps were initiated during the quarter:

1. An On-Market Share Buy-Back Facility (**Share Buy-Back**), announced on 17 December 2015, was commenced on 4 February 2016. As of 4 April 2016, the Share Buy-Back has been suspended indefinitely, having fulfilled its purposes. Under the Share Buy-Back, 38,033,721 shares were purchased and cancelled at an average price of \$0.59146 per share and a total cost of \$2,249,528.52. This average price per share compares with the Company's effective cash backing of \$0.070 per share. The Share Buy-Back facilitated the exit of shareholders who did not wish to retain their shares, as well as increasing the effective cash backing for ongoing shareholders.
2. An Unmarketable Parcel Share Sale Facility (**UMP Facility**) was announced on 18 February 2016. Holders of these parcels had until 31 March 2016 to decide whether to take action to retain their shares or allow Metgasco to acquire them at \$0.06 per share (being the Minimum Sale Price calculated in accordance with Metgasco's Constitution). The results of the UMP Facility were:
 - a) 1,137 shareholders holding 3,337,430 have had their shares purchased and cancelled by the Company;
 - b) 333 shareholders holding 923,153 shares elected either to retain their shares or to top up their holdings to greater than a total of \$500; and
 - c) as at 8 April 2016, Metgasco had 2,927 shareholders holding 401,108,520 shares, as a consequence of the shares purchased and cancelled under the UMP Facility, a reduction of 1,142 from the number of shareholders before the cancellation of shares under the Share Sale Facility and UMP Facility, reducing ongoing administration costs.

Cash position

The Company ended the quarter with a cash balance of \$18.052 million with no debt, and liquid investments in bonds and funds of \$10.850 million.

The following is a reconciliation of the Company's cash position from 31 December 2015 to 31 March 2016:

	\$A'000	
Cash 31 December 2015	<u>31,587</u>	
Share Buy-Back	(1,917)	On-market purchase of 32,033,721 shares
Investment in bonds and funds	(10,850)	
Closing down of Northern Rivers program	(309)	Decommissioning of two wells, termination of remaining staff. Land sale proceeds and Government bonds not yet received
Net interest received and other income	176	
Overhead and administrative	(635)	Includes staff termination costs and one-off costs necessary to transfer / outsource responsibilities
Cash 31 March 2016	<u>18,052</u>	
"Equivalent" Cash 31 March 2016	<u>30,819</u>	Includes share buy-back and bond and fund investments (above).

The Company expects to receive the proceeds from the Casino land sale, the return of Government securities of about \$480k and from its bond and fund investment in the June quarter, so that, should the Company make no investments in the next quarter in new oil and gas projects, its equivalent cash backing on 30 June 2016 should be \$0.072 per share. This compares with the equivalent cash reported on 31 December, 2015, of \$0.071 per share.

New Business

Depressed conditions in the oil and gas sector continued during the quarter. Brent oil prices increased from a 12 year low, below US\$30/bbl, to a little above \$40/bbl before falling again below \$40/bbl.

The Company spent the bulk of its resources during the quarter seeking and reviewing new investment opportunities in the oil and gas sector. Despite identifying a number of attractive opportunities, the negotiation of acceptable entry terms has not yet been successful. The Company will continue to seek attractive new business opportunities within the oil and gas sector with the aim of securing the first opportunity within the first half of the year, as per the challenge it set itself at the start of the year. With the close down of the Northern Rivers acreage effectively complete, the focus of the management team and the Board is solely on new business development.

Board changes

A number of Board changes were made during the quarter. As planned, Mr Len Gill retired from the Board and Mr Greg Short retired from the Board and position of Chairman on 8 February 2016 and two new Board appointments were made on 8 February 2016. Mr Alex Lang and Mr Terry White were appointed as independent non-executive directors and Mr Lang was elected Chairman also with effect from that date.

Shareholder base

At 31 March 2016, Metgasco had 410,445,950 million shares on issue and no options outstanding. Since then, a further 6,000,000 shares have been acquired under the Share Buy-Back and 3,337,430 shares have been cancelled under the UMP Facility, leaving 401,108,520 shares on issue as at 8 April, 2016.

Certified Reserves / Resources

The company has no certified reserves or resources at present.

Permits Listing

The Company has neither farmed into any new permits nor farmed-out any of its permits during the quarter. It has no permits at present.

Outlook – work program for next quarter

The prime focus for the Company in the next quarter is to identify and secure new business opportunities in the oil and gas sector.

ENDS

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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