



ASX / MEDIA RELEASE

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BIVOUAC PEAK FARM-IN AND CAPITAL RETURN

METGASCO MAKES FIRST MOVE INTO HIGH-IMPACT DRILLING OPPORTUNITY

**CONCLUSION OF PRODUCTION FINANCING DEAL WITH BYRON
UNDERWRITES ATTRACTIVE NEAR-TERM CASH FLOWS**

**CAPITAL RETURN OF 2.5c PER SHARE IS EXPECTED TO BE A FIRST STEP
TOWARD FUTURE DISTRIBUTIONS / DIVIDENDS**

Overview:

The Board of Metgasco Limited (“**the Company**”) is pleased to provide Shareholders with the following business update.

- **Metgasco has given notice to Byron Energy Limited (ASX:BYE) of its decision to farm-in to the Bivouac Peak onshore Louisiana project** on terms previously negotiated (see Metgasco’s ASX announcement dated 9 June 2016 “*Staged Financial Investment into Byron Energy*”). Metgasco’s initial well costs pursuant to its farm-in are not expected to exceed US\$1.33m. Having completed substantial due diligence including technical review of data with Byron at their Lafayette operations hub, Metgasco believes the Bivouac Peak prospect represents a very attractive risk/return opportunity for the Company’s shareholders.
- **Metgasco’s Production Financing Agreement with Byron Energy Limited (“Byron”) is now on foot** with the first Line Fees under the facility already received by the Company.
- **Metgasco continues to pursue transformative Transaction, Acquisition and Partnership opportunities** and is pleased with the quality of projects and partners with which it is engaged. Potential transaction opportunities remain focused on assets capable of generating reliable income streams via exposure to operating production and with a preference for opportunities within Australia.
- **Capital Return:** After substantial cost reductions, analysis of the strong cash flows generated by the production financing arrangement with Byron and a comprehensive review of the Company’s current activities and forward business opportunities, **Metgasco’s Board has determined that it is in the best interests of shareholders to accelerate near term returns by recommending a capital return of 2.5c per share.** A Notice of Meeting is being drafted with the intention of calling a General Meeting of Metgasco Shareholders to approve the capital return in early September. Relevant taxation advice is being obtained and an Australian Taxation Office Class Ruling will be applied for in connection with the capital return.

Business position:

Metgasco ended the June 2016 Quarter with cash of A\$17,742,000 and investments in investment grade bonds and managed credit funds of A\$10,927,000. Since the date of the June 2016 Quarterly Activities Report, the Company has continued to accrue financial earnings and has also finalised its production funding agreement with Byron in relation to its South Marsh Island 70/71 project (see Metgasco's ASX announcement dated 22 July 2016 "*Execution of Convertible Note and General Security Deeds*"). Byron's maiden quarterly Line Fee payment under the terms of the Facility of A\$40,000 has been received by Metgasco.

Bivouac Peak Farm-In:

Bivouac Peak comprises an onshore/marshland lease, acquired from private landowners, over approximately 2,500 contiguous acres (9.7 square kilometres) along the southern Louisiana Gulf Coast inboard of Byron's existing shallow water projects in the Federal Outer Continental Shelf (OCS) leasing areas.

Metgasco holds an option to earn a 10% working interest (7.45% net revenue interest) in the Bivouac Peak project, which has substantial prospective resources, as disclosed in Byron's ASX announcement dated 25 July 2016 (see also Appendix 1 to this announcement and Byron's Investor Presentation titled "*Corporate Update July 2016 – US Gulf of Mexico Operations*" issued in their ASX announcement dated 26 July 2016, slides 15-17).

Having completed substantive due diligence including technical review of data with Byron at their Lafayette operations hub, Metgasco believes the Bivouac Peak project represents a very attractive risk/return opportunity for the Company's shareholders with the potential, in the event of drilling success, to deliver transformative production earnings to the Company at present energy prices. Metgasco has therefore given Byron notice of its intention to farm into Bivouac Peak.

Byron Production Funding Facility and Financial Investments:

As advised, Metgasco's production financing facility has now been finalised with Byron and the maiden Line Fee payable pursuant to that facility has been received. Metgasco's financial assets remain invested in high yielding cash, listed investment grade bonds and managed credit funds. Financial performance of Metgasco's portfolio has been pleasing with the Company's bond and credit investments benefiting from the Australian Reserve Bank's cut in official interest rates, and from falling interest rate expectations generally.

New Business and Strategic Outlook:

As advised in Metgasco's June 2016 Quarterly Activities Report, the Company has reviewed a number of opportunities in the Oil & Gas sector and continues to pursue transformative transaction, acquisition and partnership opportunities. The Board is pleased with the quality of the small number of potential projects and partners in relation to which it is presently in advanced discussions.

As outlined in the Company's Corporate Update and Strategic Review (see Metgasco's ASX announcement dated 1 June 2016), the Board remains committed to the following objectives for new business transactions:

- 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 regular distributions.

Potential transaction opportunities are predominately focused within Australia.

The Company will continue to apply the rigorous due diligence processes implemented over the past months to all opportunities it considers and remains committed to only entering into transactions which fit the Company's strategy and stringent risk/reward hurdles. The Company will therefore continue to consider its future capital management options for the benefit of shareholders.

Capital Return of 2.5c/share to Shareholders:

Metgasco's Board is focused on maximising total returns and per-share value for the benefit of shareholders.

After achieving substantial cost reductions, analysing the strong cash flows generated by the production financing arrangement with Byron and completing a comprehensive review of the Company's current activities and forward business opportunities, Metgasco's Board has determined that it is in the best interests of shareholders to accelerate near term returns by recommending a capital return of **2.5c per share**.

This will have the effect of reducing the Company's capital base by approx. **A\$10,000,000**. The Board is confident Metgasco will remain well funded post the capital return to pursue its strategic objectives and grow shareholder wealth.

A Notice of Meeting is being drafted with the intention of calling a general meeting of shareholders to approve the capital return. Allowing for the required statutory approvals and notice periods it is expected that such meeting will be held in early September. Relevant taxation advice is being obtained and an Australian Taxation Office Class Ruling will be applied for shortly in connection with the capital return.

Contact and further information:

Metgasco invites all interested shareholders to make contact at any time.

ENDS

About Metgasco:

www.metgasco.com.au

Metgasco is presently pursuing new opportunities in the Oil & Gas sector. It holds an interest, via a secured production development funding facility, options and participation rights, in U.S Gulf of Mexico company Byron Energy Limited (ASX:BYE). Metgasco also holds a portfolio of cash, fixed income and managed credit assets. Until the end of 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. Metgasco agreed to withdraw from NSW operations and court action against NSW Government in return for a financial settlement approved by shareholders in December 2015.

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Bivouac Peak Farm-In:

Metgasco has given notice of its intention to participate in ongoing maturation of the Bivouac Peak prospect and lease. Documentation is expected to be completed and signed next week, pending finalisation of a Participation Agreement between Metgasco and Byron. Metgasco will be responsible for its share of sunk costs (est. ~US\$65,000) and pre-drill costs at its participating working interest share of 10%. Metgasco will earn assignment of the 10% working interest (7.45% NRI) in the leases/well when Metgasco (a) elects to drill when the Initial Test Well (**ITW**) is formally proposed, and (b) by either reaching earning depth or reaching its funding cap on the drilling costs (US\$1.333m). If Metgasco chooses not to participate in the ITW when proposed, Metgasco will forfeit all rights to the leases. Metgasco's share of any future well completion costs, subsequent drilling, or development costs will be at its then earned participating interest of 10%.

Metgasco will pay a 13.33% share of the initial well costs to reach earning depth or up to a cap of US\$1.333m, whichever occurs first, at which time its costs going forward will revert back to their participating interest of 10%. Metgasco's share of any future well completion costs, subsequent drilling, or development costs will be at its then earned participating interest of 10%.

Map of the Bivouac Peak prospect area, Louisiana, and surrounding fields (source: Byron Energy Limited):

