

NSW Gas Supply

Australia Domestic Gas Outlook 2015

March 2015

NSW gas supply is important

- Gas supply is important to NSW:
 - more than one million households and 33,000 businesses in NSW rely on gas
- Gas supply shortages are imminent and prices are forecast to climb
- Relying on reservation policies for gas from other Australian states is not realistic nor in NSW's interests
- NSW has plenty of gas resources and the potential to supply its own needs
- The best way to lower prices is to encourage competition and increase supply
- NSW should be encouraging its own gas industry:
 - Stable and sensible policies
 - Prompt approvals
 - Clear government support
 - provide confidence to the general community
 - remove the perception of sovereign risk
- Leadership is required from both major political parties to secure energy and jobs

Metgasco can contribute to NSW's energy needs

- Operated in Casino area for 10 years:
 - More than 50 wells drilled, mainly CSG
 - 400 km of seismic acquisition
 - 300 voluntary land access agreements

- Large gas resource potential – significant to NSW

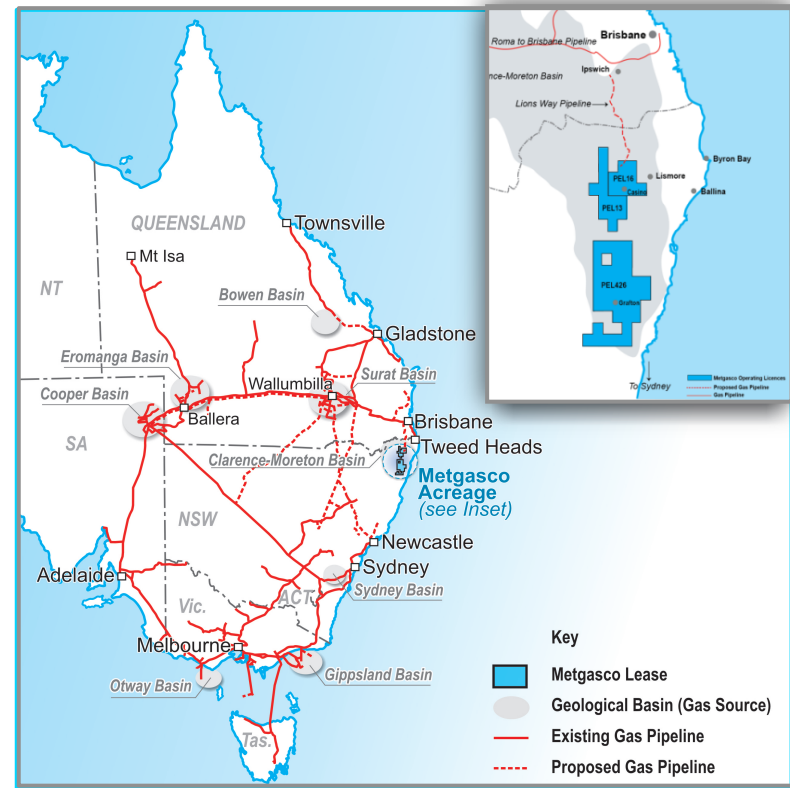
- CSG reserves/ resources*:
 - ~ 4000 PJ 2C resources
 - * 2P and 3P reserves reclassified as resources in 2H 2014 due to concerns about schedule for commercialisation
- Conventional gas potential identified
- Reserve growth potential across all PEL's and additional seams
 - target reserve potential > 5,000 Bcf

Capital Structure

ASX code	MEL
Share price (at 23 March 2015)	\$0.020
Market Capitalisation (million)	\$9
Shares on Issue (million)	444
Options on Issue (million)	0
Cash at 31 December 2014 (million)	\$9
Debt	Nil

Major Shareholders

ERM 12.9%

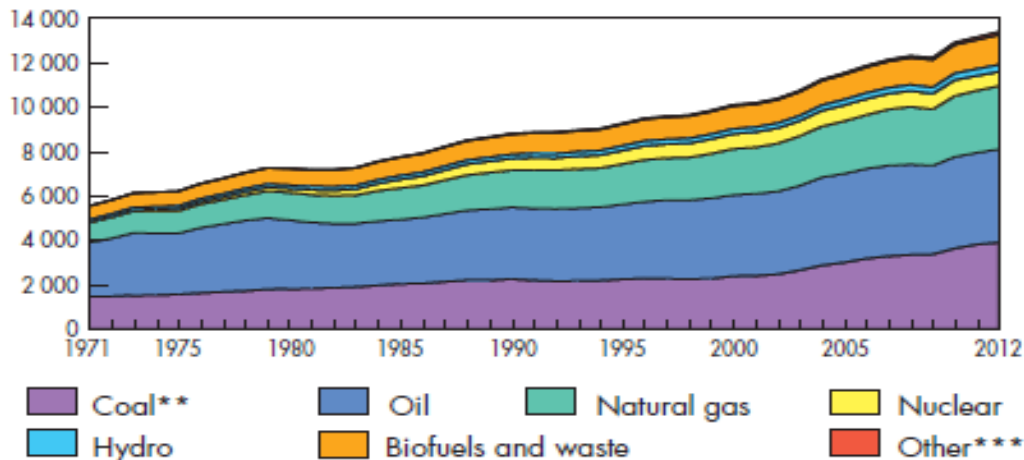


Gas industry should not be controversial

- Benefits of industry demonstrably outweigh costs
- Natural gas used in millions of Australian homes every day – clean, non-toxic
- More than 3,000 conventional wells and 6,000 CSG wells in Queensland
- One third of eastern coast gas already supplied by CSG wells
- USA: more than 1,000,000 oil and gas wells currently flowing
- Independent refinery health studies show no health concerns

World

World* total primary energy supply from 1971 to 2012
by fuel (Mtoe)



2014 Key World Energy Statistics
The International Energy Agency

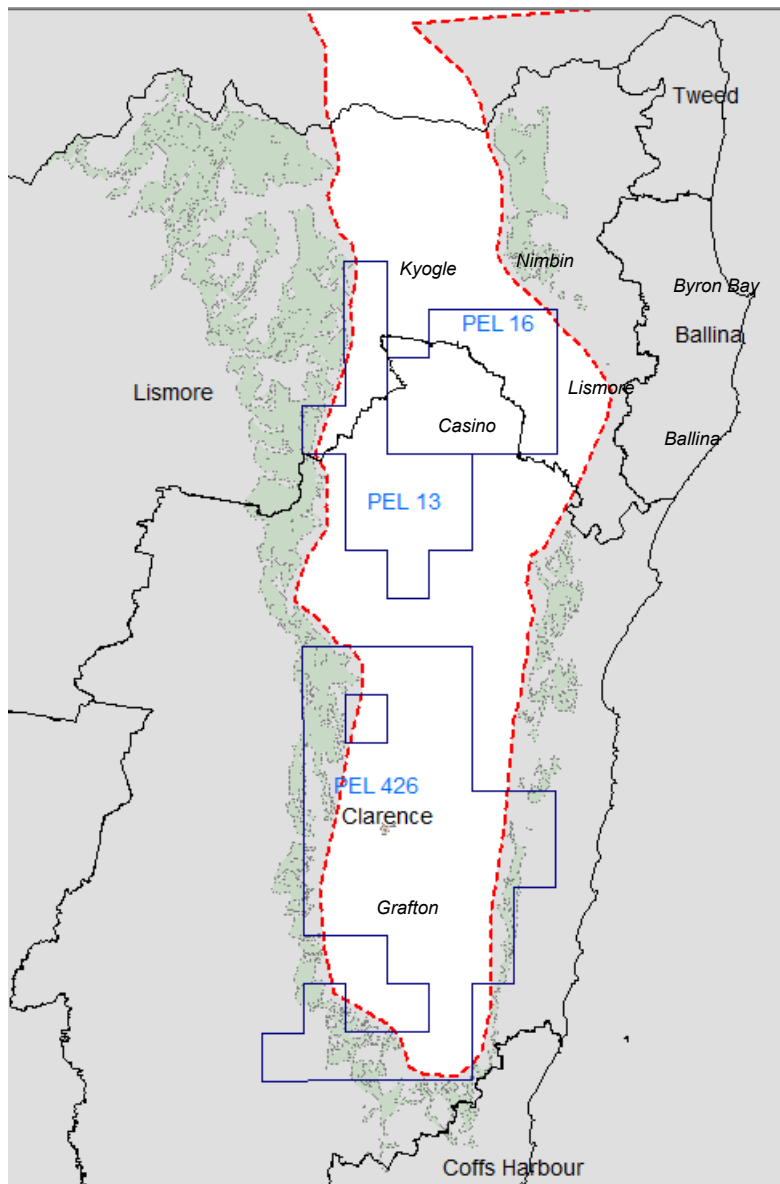
Four years of industry frustration

Metgasco's NSW experience over the last four years

- An effective moratorium from March 2011 to September 2012
- February 2013:
 - 2 km exclusion zone announced
 - New responsibilities within government
- NSW Government unilaterally changed the rules and removed the 5 year royalty holiday that was an inducement to explore
- Arbitrarily changed its water pond standards
- 5 year delay in awarding a production licence
- Government suspended Metgasco's approval to drill a conventional gas exploration well only days before rig was due to arrive, with large cost implications to Metgasco.
- Late 2014 – yet another NSW Gas Plan, with many features yet to be defined.
- 2015 NSW state election – a race to the bottom by the political parties?

NSW: The state of sovereign risk?

Exploration licences and local communities



- Metgasco - the only active explorer in the region over the last four years – most of our activity has been between Casino and Kyogle
- 270,000 people live in broader Northern Rivers Region, 23,000 in Casino area (Richmond Valley Council LGA)
- Characteristics of the various local government areas are quite different
- Metgasco has enjoyed solid community support where we operate, around Casino
- Strongest opposition comes from Nimbin area and coastal towns (which are outside the Clarence Moreton Basin and have very limited or no gas potential).

Rosella well – protest action

- Protests experienced with early 2013 drilling
 - Police supported operation
- Protestors started assembling outside Rosella well site from January 2014
- Repeated acts of intimidation, property damage and trespass through May:
 - Gates padlocked and welded shut on 5 occasions, preventing landowner access
 - Structures and barricades built on entrances
 - Roads vandalised
- Protest camp approved – numbers increased to 300 level, with peak daily protest numbers in the order of a 1000, with claims of potential for larger numbers
- Protestors drawn from areas well beyond Bentley and Northern Rivers – a national program, not just a local Bentley program
- Reports of the need for 700 police

Repeated assurances from senior government officials and police that they would support drilling

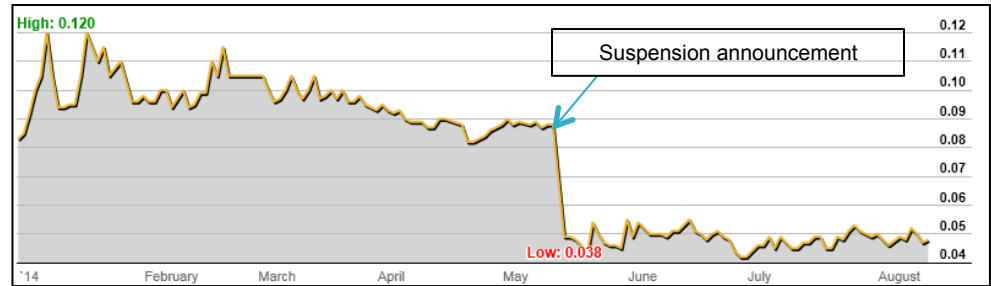


Suspension of Rosella drilling approval

- 14 May; Rosella drilling approval suspended, only days before drilling rig due to arrive
- Justification: failure to comply with community consultation guideline – "genuine and effective".
- No warning whatsoever – a complete surprise

Impact on Metgasco:

- Losses associated with the need to terminate drilling and related contracts
- Share price fell 40% on the day the suspension was announced



- Metgasco challenged position (15 May and 6 June):
 - Government did not have lawful right under Petroleum Onshore Act to suspend our activity;
 - Government did not follow correct suspension process, even if it had the right to do so; and
 - Suspension decision fundamentally flawed.
- 26 June: OCSG rejected submission and maintained suspension.
- Metgasco has had no choice other than to commence court action to have the suspension removed and is considering a damages claim. Supreme Court case heard 21 and 22 October
- Metgasco would prefer to settle out of court.

NSW energy debate has been hijacked by the Greens

- Debate on the basis of science and engineering almost non-existent
- Debate and decisions based on misinformation, undisciplined use of social media and intimidation
- NSW Government has a role in setting the tone of the debate
- Faced with Gasland, concern from traditional farming community and shock-jock intimidation, Government's words have repeatedly re-inforced community concerns over industry:
 - "We won't let happen in NSW what happened in Queensland"
 - "We will put in place the toughest regulations"
 - "CSG companies are like children and need boundaries"
 - "It is also Labor's fault, it created the mess, there was no regulation, no protection, etc"
 - "We will decide where the gas industry operates, not the gas companies"
- Industry must play its role in securing community support, but Government must be careful in its language
 - If it does not choose to be an industry advocate, it should at least be factual and balanced.
- Political leaders need to recognize that the tone they set influences the behavior and performance on government department and staff

Requirements for a successful NSW gas industry

- Policies that encourage companies to risk shareholder funds on exploration and development
- Regulations that manage risk, not regulations for regulation's sake:
 - Based on science and engineering principles
 - The smartest, not the toughest regulations
- Stable policies and regulations
- Simple regulatory approval processes
 - One government department to deal with
- Timely approval processes
- Government leadership to:
 - set the tone for debate; and
 - assure the community that the gas industry is both safe and necessary
- Government must respect for rights of gas companies and observe agreements.
- Government must uphold the law

Metgasco's future

- Metgasco has significant NSW gas resources
- NSW gas shortages are forecast
- With the right government support, Metgasco can add value to NSW
- Metgasco's immediate NSW activity influenced by outcome of Supreme Court action
- Pursuing interests outside of NSW.

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