

Unlocking our potential...





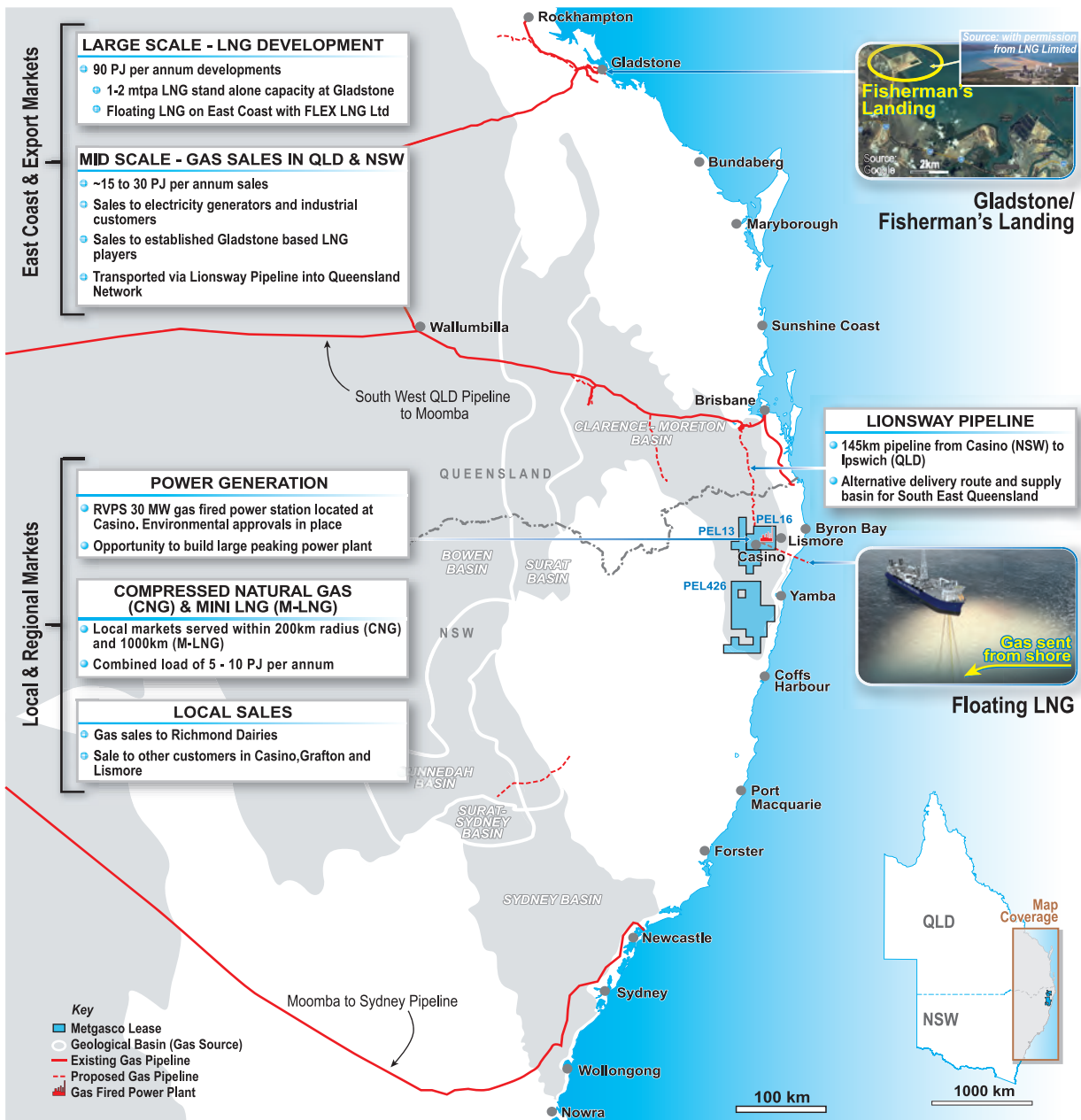
With the largest uncontracted gas reserves on the East Coast and the green light from the NSW Government to move forward, Metgasco is well placed to unlock our potential and become a significant supplier of gas to local and overseas markets.

COMPANY PROFILE

Metgasco Limited (ASX:MEL) is an ASX listed company with a significant 100% owned interest in oil and gas exploration licences in the Clarence Moreton basin in New South Wales. Metgasco has made large coal seam gas and conventional gas discoveries in its licences.

Our licences cover over 1 million acres and contain a significant gas resource. Gas reserves of approximately 2500 Petajoules have already been certified.

With the recent issuing by the NSW Government of the first production lease in over 4 years and the renewal of PEL 13 and 16, Metgasco is well positioned with numerous commercial opportunities to supply gas and provide power to the local community.



2012 HIGHLIGHTS

GREEN LIGHT FROM NSW GOVERNMENT

- First production lease issued by O'Farrell Government
- Renewal of PEL 13 and 16

SIGNIFICANT RESERVES WITH HIGH UPSIDE POTENTIAL

- Largest uncontracted gas reserves on the East Coast
- Large scale CSG resource play with estimated original gas in place (OGIP) of 24 TCF

STRONG CASH POSITION

- \$12.2m Cash at Bank (as at 30 June 2012)
- \$10.2m placement (Sept 2012) and share purchase plan to follow

UPSIDE FROM CONVENTIONAL

Numerous conventional prospects and leads identified, e.g. the Greater Mackellar structure has potential for 1.3 TCF OGIP

IMPORTANT SAFETY MILESTONE REACHED

1000 Lost Time Injury Free days achieved in August 2012

LOCAL COMMERCIAL OPPORTUNITIES

Signed first gas sales agreement with local business Richmond Dairies

NEW MANAGEMENT TEAM

Employment of key management staff brings great experience and valuable skills



CHAIRMAN'S LETTER

Now is the time for the wider community to take comfort from the environmental regulations in place, which have now been extensively reviewed and updated and allow the NSW coal seam gas industry to provide much needed additional gas supply.



AMAZING TRUTH PROVES IT'S TIME WE GOT FRACKING TO REDUCE CARBON EMISSIONS

David Victor, an energy expert at the University of California, San Diego, estimates the shift from coal to natural gas has reduced US emissions by 400 to 500 megatonnes of CO₂ a year. To put that number in perspective, it is about twice the total effect of the Kyoto Protocol on carbon emissions in the rest of the world, including the European Union.

Source: The Weekend Australian, 15-16 September 2012.

Demand for new supplies of gas, and coal seam gas in particular, continues to grow. While the rate of energy demand growth in eastern Australia has slowed because of the current economic slowdown, the facts are that NSW will be running short of natural gas supply options in the near term. Interstate supply contracts are winding down, Queensland gas is being drawn into export markets and gas demand continues to grow across all sectors of the Australian economy to reduce our carbon footprint.

Our company's challenge is to demonstrate that we have the ability to successfully supply that growing demand for natural gas from our discovered resources in the Clarence Moreton basin.

With the determined efforts of the Metgasco staff in Sydney and Casino, the past year has seen further progress towards the commercialisation of our coal seam gas reserves, although progress has fallen well short of our expectations. Shareholders will no doubt be aware of the vocal opposition of some in the community to coal seam gas in NSW - opposition that has also been mounted in other states. This is despite the reality that the coal seam gas industry is already providing over 30% of Australia's east coast natural gas supplies and has operated safely here for almost 20 years and even longer overseas.

In their efforts to deal with pressure from industry opponents, last year the NSW government put in place processes to address the claimed environmental and land-holder issues and thereby provided a pathway forward.

Over the past eighteen months Metgasco has been very active in meeting with government and community groups in an effort to influence the form of updated regulation and to ensure it represents a reasonable balance between what the industry can afford and what some in the community have been demanding. Company representatives appeared before committees of inquiry and we made extensive formal submissions to government, all of which consumed valuable time and resources. We have represented that our industry is environmentally safe, that it is understood and based on established science and engineering practices, that it provides environmental benefits in terms of green house gases and that it is heavily regulated already. We have also made it clear that there is an important leadership role for government. The community needs to see that the industry operates responsibly, adequate regulation is in place, that the authorities are properly scrutinising the industry and that development of the industry is something that the government believes is vital to the state's interests.

Numerous scientific investigations have been conducted in recent years to address the alleged environmental concerns expressed about coal seam gas exploration and development. In particular, these studies have looked at industry practices related to drilling, fracturing and water management. The outcome of all this investigation is that there is no reason why the industry cannot operate in an environmentally sound manner. Of course, precautions must be taken and operating practices must meet safety and environmental standards. Now is the time for the wider community to take comfort from the environmental regulations in place, which have now been extensively reviewed and updated and allow the NSW coal seam gas industry to provide much needed additional gas supply.

Signs are now emerging that the wider community is becoming aware of the economic stress that our country faces in an environment of reduced global activity, higher local taxes and the potential for higher unemployment, particularly in export competing industries. With its new policies, the NSW Government has made a serious effort to deal with all of the concerns raised by opponents of the coal seam gas industry. The industry should now be allowed to re-commence appraisal of the state's gas resources and begin the development of economic projects to supply local and export energy markets. Such development progress should make a material improvement to the lives of many Australians, particularly those in northern NSW where Metgasco operates.

As part of their process to review and update regulations covering coal seam gas, the government also deferred the issuing of any new exploration permits and production leases. Regrettably, their new processes took a very long time to introduce and the coal seam gas industry in NSW was unable to begin any significant new work. As a consequence, not only have these regulatory consultation processes added considerably to Metgasco's workload, but they have also led to cost inefficiencies and delays to our operations.

During the past year, while new exploration and development activity was on hold awaiting government progress with their updated policies, Metgasco took the opportunity to remediate a number of old drilling sites and to return each of these sites to the relevant local landowners. This work has been conducted safely despite the unusually wet season which has made movement of heavy equipment very difficult when traversing soft ground.

We have also been planning for the next phase of exploration and appraisal with new core wells and pilot production wells.

During the year we had ongoing discussions with a number of potential natural gas customers from quite different segments of the market. For example, we have canvassed supply of gas into Queensland in support of the current LNG projects as well as continuing to look at stand-alone LNG export opportunities.

One of our major shareholders, LNG Limited, is developing an LNG project at Gladstone. Another major shareholder, ERM, is a successful power generator and has taken up exploration interests in our region. We have also followed up with several companies interested in building a market for compressed natural gas. Our marketing efforts continue to indicate strong interest for new gas supplies in a number of local and export markets.

In early September 2012, after sixteen months of deliberation, the NSW government came out in support of the industry and announced the introduction of their revised coal seam gas industry policies. With the regulatory pathway cleared, Metgasco was able to contemplate restoration of the working capital consumed by delayed operations. In mid-September, Metgasco raised \$10 million at \$0.20 per share in a private placement and also launched a Share Purchase Plan which would enable eligible shareholders to acquire up to \$15,000 of Metgasco shares at \$0.20 per share. With capital restored, Metgasco is able to re-commence exploration in our permits within the revised regulatory framework and to initiate the appraisal and development needed to commercialise our discovered coal seam gas reserves.

After nearly ten years as an Executive Director, last February Ms Glenda McLoughlin retired from the Board and also from her positions as Chief Financial Officer and Company Secretary. On behalf of the Board, I would like to acknowledge the great contribution that Glenda made to the establishment and progress of the Company.

On behalf of the Board, I would like to thank Peter Henderson and all Metgasco's employees, particularly in Casino, for their personal efforts during those times of frustrating business uncertainty and considerable regulatory delay. They have kept Metgasco on the front foot.

Finally I would like to thank shareholders for their patience and support during a frustrating year. I trust they take some comfort that with the release of government policies, the raising of capital and a team of dedicated staff in place, Metgasco is well positioned for the year ahead.

NICHOLAS HEATH
Chairman

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Our 2012/2013 program will continue the program we planned for 2011/2012, with a focus on CSG productivity and local gas sales, acreage evaluation, pursuit of broader commercial opportunities, including joint venture partners, and testing of our exciting conventional prospect, the Greater Mackellar structure.



With the release of a range of new regulations and policy initiatives, Northern Rivers farmers and the broader community can take further confidence that our industry is safe and can co-exist with agriculture and other land uses.

2011/2012 was a year of consolidation. The NSW State Government set out to review its petroleum regulations and negotiate new regulations and approval/review processes, delaying the renewal of exploration licences and approval of new production leases. As a result, our field activities were delayed. We used this time to participate actively in the development of the NSW Government's new regulations, to prepare for field operations, to continue technical studies and to build a strong technical and operations team.

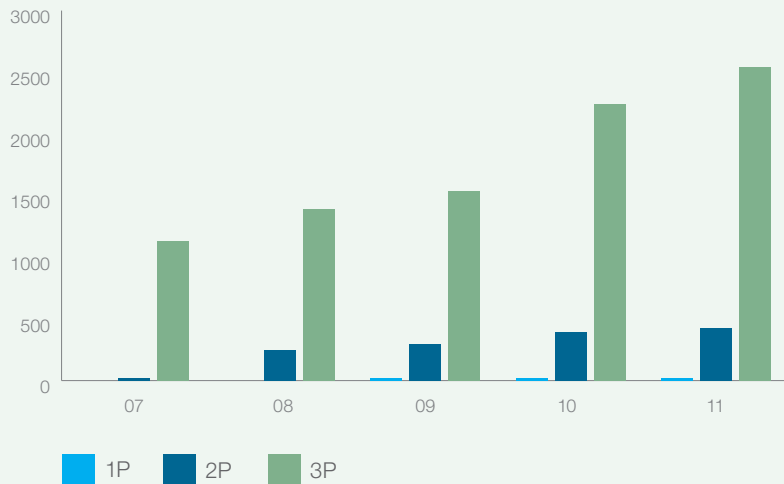
We remain in a strong position, with large, certified coal seam gas (CSG) reserves and conventional gas potential, close to markets. Market and industry developments in 2011/2012 have increased the value of our reserves. There is strong domestic and international demand for our gas and NSW's contracted gas supplies expire in the 2014 to 2017 period. There is wide acceptance in the business community and within government that domestic gas prices will rise significantly.

The NSW State Government has just announced a series of new policies that aim to provide the general public and landholders with the confidence that our industry is safe, and has recently renewed our exploration licences and approved our first production lease. In doing so, it has given the CSG industry and Metgasco the green light to proceed. Our objective is to take Metgasco from the current exploration phase to a development/commercial operation at a sensible pace.

Strong CSG reserves and conventional gas potential

Metgasco has an excellent reserve and resource base. Our upside potential for CSG is estimated at 24,000 PJ (gas-in-place). We have 428 PJ of certified 2P reserves, a 2,542 PJ of 3P reserves and a further 2,511 PJ of contingent resources, and have only explored a small portion of our three exploration leases. Furthermore, the reserves and resources are currently confined to the Walloon Coal Measures. We have yet to evaluate the potential for gas in the Nymboida and Ipswich coal seams.

CERTIFIED RESERVES (PJ) – As at 14 July 2011



Reserves have been certified by Mr Tim Hower of MHA Petroleum Consultants (Denver) who is a qualified person as defined under the ASX Listing Rule 5.11. Reserves have been developed within the guidelines of the SPE. Mr Hower has consented to the use of the reserve figures in this presentation.

We added additional certified reserves in July last year, with the first certified reserves in PEL 13. There is potential to add significant reserves at relatively low cost through additional drilling. The drilling program we plan has the potential to add more certified reserves, but our primary focus in the next twelve months is to build on the Corella P11, Corella P18 and Harrier P01 production results and demonstrate our confidence in the productivity of the coal, rather than build reserves. We already have a very strong reserve base, and after additional pilot wells, our drilling program is more likely to focus on building a stronger 2P position than adding 3P reserves, providing a stronger base for large, near term gas sales commitments.

We also have very exciting conventional gas potential. The 2009 Kingfisher discovery identified 138m of gas charged sands in the Gatton Formation and Ripley Road sandstone. Our mapping suggests

that the Kingfisher discovery could be part of a much larger structure, which we call the Greater Mackellar structure, estimated to contain more than 1 TCF of gas in place. The characteristics of the Gatton Formation, in which the bulk of the gas sands were found, compare favourably with those of gas fields in North America that have been developed economically. However, it is the deeper Ripley Road Sandstone and lower intervals that were not penetrated by the Kingfisher exploration well that provide the primary excitement from the proposed updip test, Rosella E01. Better quality reservoir in the Ripley Road and deeper targets is possible based on favourable comparisons to the corresponding formations in the Surat Basin (Queensland extension of the Clarence Moreton Basin). Our conventional gas prospects have the potential to be as significant as our certified CSG reserves.



“The effects of these newly created local jobs and the significant expenditure will flow through to all parts of the Northern Rivers community.”

Mr Peter Henderson said.

Source: Media statement 26 May 2012



“The northern NSW dairy industry is already facing difficulty competing with other regions and disparity in energy costs is an unnecessary burden. With access to energy at prices consistent with Victorian processors, Richmond believes its business can remain economically viable and help preserve a vital industry that has operated on the north coast for over 100 years,” said Mr. Sharpe.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS (CONT'D)

Strong east coast Australian gas demand, with NSW badly in need of gas.

There is strong demand for gas on the eastern coast of Australia, driven by export LNG projects, growth in domestic demand and decline in production from additional supply sources. NSW, in particular, badly needs gas resources. The value of east coast gas resources is becoming increasingly clear.

Three of the four planned Queensland export LNG projects reached financial closure and the fourth is expect to achieve financial closure within the next 12 to 18 months. Billions of dollars have been committed to these projects and extensive drilling and construction activity

is underway. These export projects will be seeking gas supplies to ensure 100% utilisation of their investment in processing and export facilities and some will be seeking gas to allow second and third processing trains to be built.

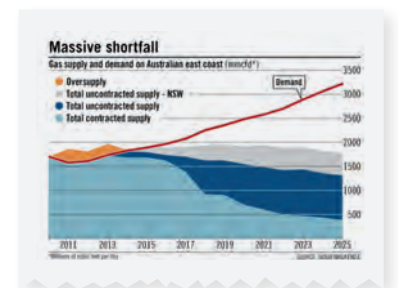
The interest in eastern Australian gas resources is abundantly clear from corporate activity in the last 12 months, with Santos acquiring Eastern Star Gas, Arrow acquiring Bow Energy and more recently, Petrochina buying Molopo's CSG interests. Metgasco is one of the few companies that retains uncommitted gas reserves or resources and has by far the largest uncommitted reserve base.

A takeover of Westside was recently announced, removing yet another of the uncommitted gas resources available.

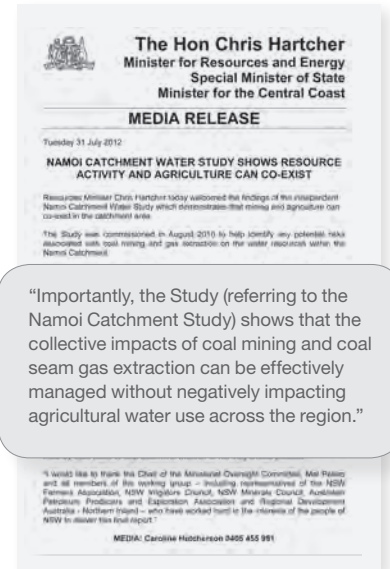
At the same time as eastern Australian and international companies compete for gas, NSW supplies only 5% of its own gas needs (all through CSG activities), relying on gas supplies from South Australia (Cooper Basin) and Victoria. These supplies are declining and NSW's gas supply contracts expire in the 2014 to 2017 period. NSW needs to compete against domestic gas demand from other states and international demand to secure gas supplies or to rapidly develop its own gas supply. The NSW Government has recognised this, as indicated by Minister Hartcher's comment in August 2012:

“The point is that NSW is facing a gas supply crisis... The supply contracts start to run out in 2014 and one-third of the energy in NSW comes from gas.”

**The Hon Chris Hartcher, MP
Minister for Resources and Energy.**



Source: Australian Financial Review
29 March 2012



NSW Government's new regulations and support for the industry

The NSW Government clearly recognises the need for the CSG industry and supports it. However, consistent with its election policy, the NSW Government developed a range of new policies and processes, in consultation with the broader NSW community. While these new policies and processes have been developed, the Government chose to defer renewal of exploration licences in NSW and approval of any new production leases. Furthermore, more rigorous requirements from NSW state authorities for individual field activities had the effect of putting a brake on the industry.

The new policies are essentially complete and were announced in September 2012, along with the renewal of our exploration licences and approval of our first production lease.

The NSW Government's new initiatives include:

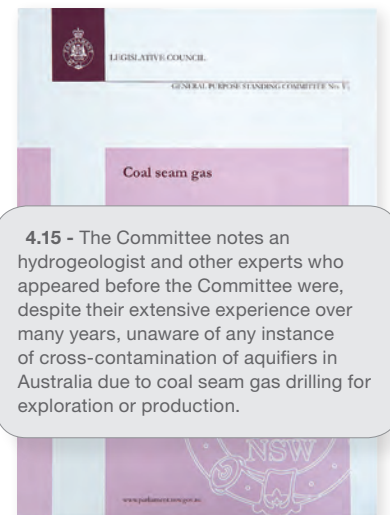
- a Strategic Regional Land Use Policy;
- a Code of Practice;
- an Aquifer Interference Policy;
- development of drilling and fracking standards, under the guidance of the NSW Chief Scientist; and
- the appointment of a Land Commissioner.

Metgasco believes that some of the new requirements are unnecessarily onerous and hopes that they can be refined over time to allow risks to be managed but with more sensible controls. In the meantime, the industry can operate with the new regulations and is keen to move ahead.

2011/2012 activities

Our planned 2011/2012 activities, which focussed primarily on activities to take us from an exploration phase to the production and commercial phase, were frustrated by the time taken for the NSW Government to conduct its policy reviews. In response to the delays, Metgasco took action to improve its position so that it could move ahead efficiently as soon as it had the government's green light. In summary, these actions included:

- exploration studies to better define the stratigraphy of the Clarence Moreton Basin, to better predict CSG distribution and "sweet spots", as well as to demonstrate more confidence in our ability to remove saline water from the coal seams without having an impact on water supplies for other users;
- exploration and development studies of conventional gas potential;
- planning for the next phase of drilling, with purchases of equipment necessary and pre-contract discussions with drilling contractors;



MANAGING DIRECTOR'S REVIEW OF OPERATIONS (CONT'D)

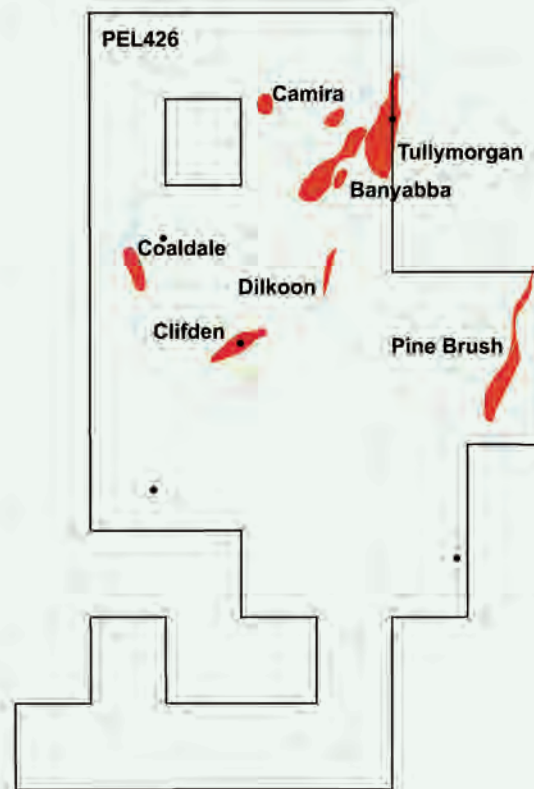
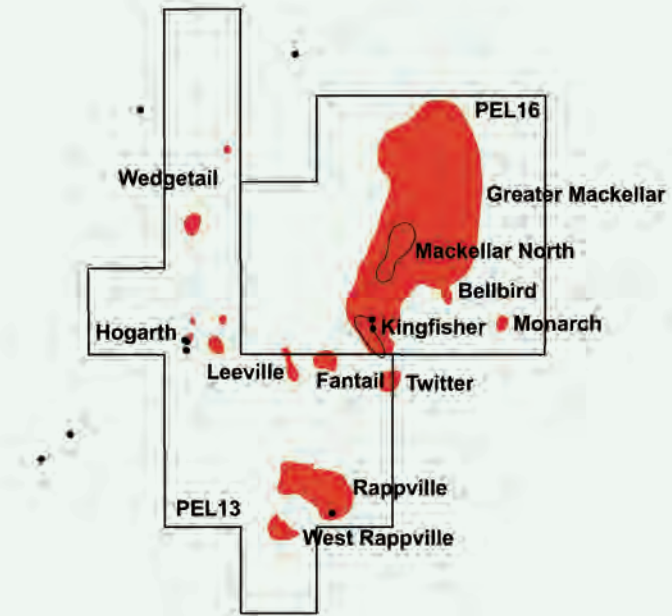
- tidying up of well sites and abandonment / rehabilitation of wells sites no longer required;
- water management studies to identify the most appropriate form of treatment and best use for the water we produce in our CSG operations; and
- pursuit of gas marketing opportunities that varied from the signing of a gas sales agreement with Richmond Dairies through to other potential local gas customers, larger and lower cost power generation opportunities, compressed natural gas and micro-LNG projects, large gas supplies to domestic industries and the existing Queensland LNG export projects, and stand-alone LNG export opportunities.

We continue to put a strong emphasis on safety performance and have now achieved 1000 days without a lost-time-incident.

In addition to the activities above, a number of personnel changes have taken place that will help us to manage the near term investment program. We recruited Richard Shields to manage our external affairs, with primary focus on the Northern Rivers Region and state government. Robert Petersen joined us as Business Development Manager, bringing AGL commercial experience and NSW CSG experience. We also employed a petroleum engineer and a geophysicist and recently were pleased to announce the appointment of Dr Simon Hann as our Drilling and Production Manager. Simon was the GLNG (Santos) Drilling and Completions Manager in Queensland and brings extensive experience in drilling and Australian CSG in particular.

A large part of our 2011/2012 program was occupied with community relations, participating in government audits, contributing to the development of the government's new policies and the NSW Upper House CSG Inquiry. There are some in the community who remain opposed to CSG, and continue to run an active program to prevent the CSG industry from contributing to NSW's energy and employment needs. We retain strong community and business support around Casino. We have endeavoured to respond to repeated false statements

Conventional Prospects and Leads



Areas shown in red represent conventional leads and prospects identified to date



Metgasco has a strong corporate culture and commitment to proactively and positively engage with the communities in which we operate.



Photo: Jo Jo Newby/APN

and misplaced fears with facts and data, using a plethora of independent statements and reports commissioned by government to demonstrate that the industry is environmentally safe. These reports include the recent Queensland Government's review of air quality and health impacts and the NSW Government's Namoi Catchment Study which indicated that coal and CSG activities could be managed effectively without negatively impacting agricultural water. We have continued to explain that the industry is already well regulated and that the new NSW Government's regulations will make it even more so. We ask the community to allow the government's review and approval processes to proceed so that decisions are based on science and fact, not rumour, innuendo and exaggeration.

2012/2013 program

Our 2012/2013 program will continue the program we planned for 2011/2012, with a focus on CSG productivity and local gas sales, acreage evaluation, pursuit of broader commercial opportunities, including joint venture partners, and testing of our exciting conventional prospect, the Greater Mackellar structure.

Field activities should start in the fourth quarter 2012, subject to necessary approvals under the NSW Government regulations. Seismic acquisition has

been delayed due to an unusually heavy and prolonged wet period but weather forecasts suggest that it should also be possible to acquire the data before the end of 2012, allowing the testing of the Greater Mackellar structure to commence towards the middle of 2013.

We believe that the NSW Government's new policies will provide increased assurance to the general community. We will continue to maintain an active communication process, particularly with the Casino and Grafton communities, to ensure that the community remains well informed on the basis of science and facts.

In conclusion, Metgasco has some exciting opportunities, with its certified CSG reserves, conventional gas potential and NSW and Australian markets that badly need gas. The NSW Government acknowledges the need for the industry and with its new regulations and exploration licence renewals has given the industry the green light. We have an enthusiastic staff, with new members bringing important skills and new ideas.

I expect 2012/2013 to be a very busy and exciting year as we demonstrate our CSG potential, better define conventional potential and significantly advance our company from the exploration to the commercial phase.

BOARD OF DIRECTORS



NICHOLAS M. HEATH
NON-EXECUTIVE CHAIRMAN

Formerly: Director of ExxonMobil Australia and Production Manager of Esso's Gippsland operations



PETER J. HENDERSON
MANAGING DIRECTOR AND CEO

Formerly: Operations Technical Manager for Esso Australia and Development Manager for Premier Oil PLC.



STEVEN J. KOROKNAY,
NON-EXECUTIVE DIRECTOR

Formerly: Head Operations and Technical Manager, Bass Strait with Esso Australia. Prior to joining MEL, was the founder of Anzon Energy and Anzon Australia



LEONARD F. GILL
NON-EXECUTIVE DIRECTOR

Formerly: CEO of TXU Australia (now TRUenergy)

KEY MANAGEMENT PERSONNEL



SEAN HOOPER
CFO AND COMPANY SECRETARY

Sean is a Chartered Accountant with more than 25 years of broad financial experience. He is formerly the Financial Controller and Company Secretary of Horizon Oil.



ROBERT PETERSEN
BUSINESS DEVELOPMENT MANAGER

Robert has more than 30 years experience in gas and electricity. He has held senior positions with Eastern Star Gas and AGL.



PETER STANMORE
GM EXPLORATION

Peter has 30 years experience with ExxonMobil, Delhi Petroleum and Santos. At Santos he was the leader of the Onshore Exploration Evaluation team.



RICHARD SHIELDS
EXTERNAL RELATIONS MANAGER

Richard has extensive knowledge and experience in external relations, having worked for more than 20 years in senior government and politically related roles.



DR SIMON HANN
DRILLING AND PRODUCTION MANAGER

Simon was previously the Manager of CSG Drilling and Completion for Santos/GLNG operations. Simon has worked for Shell, Woodside and Geodynamics.

METGASCO

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