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# East Coast Gas Outlook 2013

**21 October 2013**

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**ASX Listing Rule 5.11 Disclosure**
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. Conversion of reserves from PJ to Bcf at 1.04 PJ/1.00 Bcf.

# Overview – East Coast gas supply and Metgasco

- Gas demand will remain strong:
  - NSW
    - more than 1 million gas customers
    - NSW has a supply issue from 2014/2015
    - Potentially 250 years of supply (currently only providing 6% of NSW gas)
    - Northern Rivers area: opportunity to sustain and grow industry through a lower cost, safer and more reliable supply of energy than LPG and diesel
  - Eastern Australian market undersupplied by 2014 (Wood Mackenzie)
    - Large Queensland LNG export projects will triple east coast gas demand
  - Gas prices forecast in the $7/GJ to $12/GJ range by 2020
  - Potential to make a huge difference to greenhouse gases
    - Increased gas sales in the US have reduced greenhouse gases
- Metgasco has significant CSG reserves and exciting conventional / tight potential
- Metgasco has the potential to make a significant contribution to east coast gas supplies

# Metgasco – well positioned to respond to demand for gas

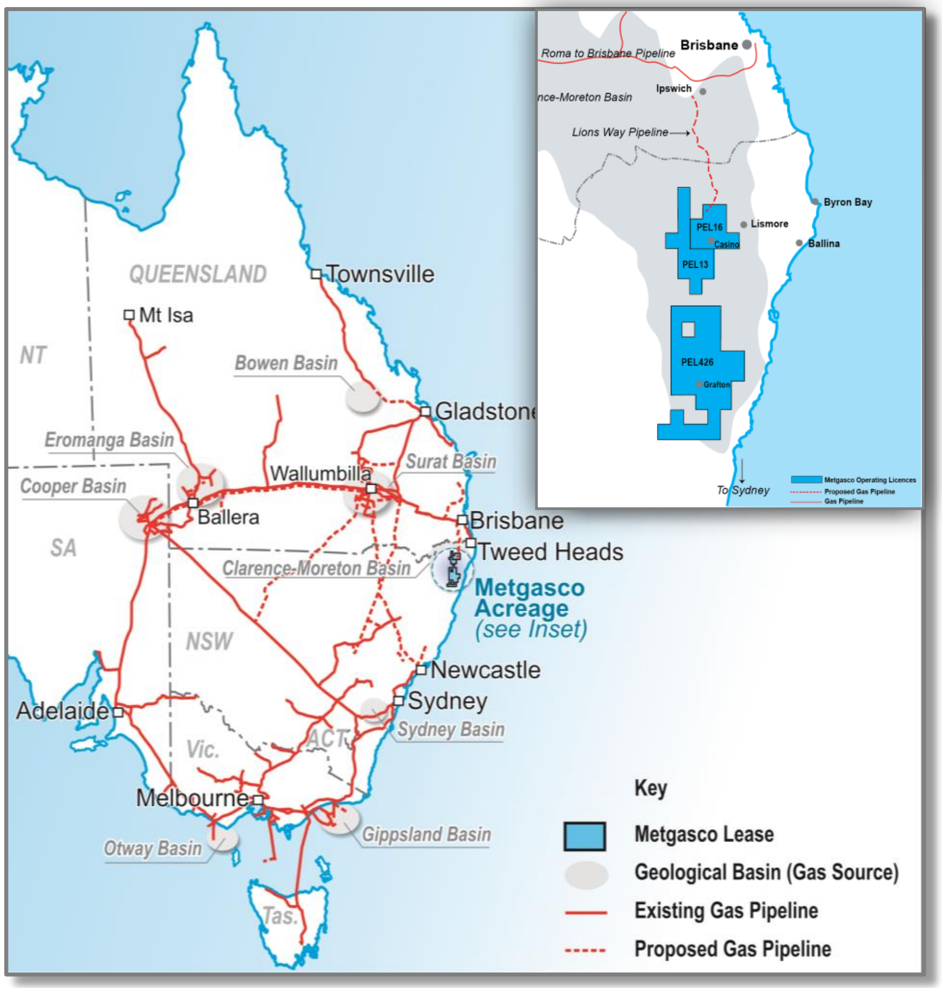
- Metgasco ("MEL") is an ASX listed, onshore conventional and unconventional gas company, with significant 100% owned acreage in the Clarence Moreton Basin in northern NSW
- MEL's pilot wells have demonstrated economic gas production in its large resource base
- Excellent market position, with gas shortages imminent and prices forecast in $7 – 12/GJ range
- Field operations suspended due to unprecedented political and regulatory uncertainty, but recent developments are encouraging

## Capital Structure

| | |
|---|---|
| ASX code | MEL |
| Share price (at 18 October 2013) | $0.13 |
| Market Capitalisation (million) | $58 |
| Shares on Issue (million) | 445 |
| Options on Issue (million) | 1.5 |
| Cash at 30 June 2013 (million) | $21 |
| Debt | Nil |

## Major Shareholders

| | |
|---|---|
| ERM | 12.7% |

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# Industry experienced Board and Management

- MEL’s Board and management bring high quality industry experience
- Board has proven track record of project delivery and senior leadership in the E&P industry
- Management has strong technical background.

**Industry Focused & Experienced Board**

**Nicholas Heath | Non-Executive Chairman**

- Background: Director of ExxonMobil Australia and Production Manager of Esso’s Gippsland operations

**Peter Henderson | Managing Director & CEO**

- Background: Operations Technical Manager for Esso Australia, Development Manager for Premier Oil PLC and COO for Anzon Energy Ltd

**Leonard Gill | Non-Executive Director**

- Background: CEO of TXU Australia (now TRUenergy) – multi state east coast gas portfolio

**Greg Short | Non-Executive Director**

- Background: Geologist for ExxonMobil, Exploration Manager for USA, Chad and Nigeria as well as serving 7 years in Angola as Geoscience Director.

**Management with Strong Technical Background**

- Sean Hooper, **Chief Financial Officer**
- Dr Simon Hann, **Drilling and Production Manager**
- Peter Stanmore, **GM Exploration**

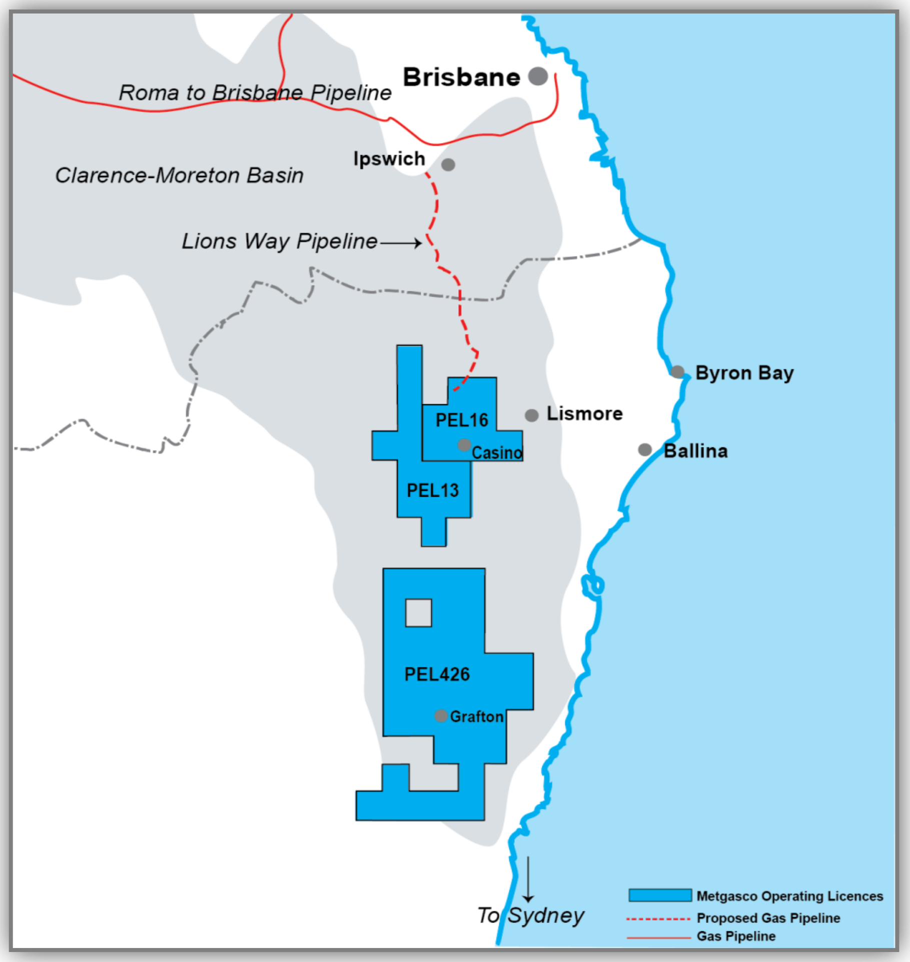
# Large scale reserves and resources

- World scale acreage position in the Clarence-Moreton Basin
  - 4 tenements (PEL 16, 13, 426 & 130)
    - PEL 130 approval under review
  - 1,107,317 acres
  - 100% owned
- Large gas resource potential
  - Current reserves established in 10% of MEL's acreage
  - Reserve growth potential across all PEL's and additional seams – target reserve potential > 5,000 Bcf
- CSG Reserves and Resources as of 31 December 2012

| | Reserves | | | Resources |
|---|---|---|---|---|
| | 1P (PJ) | 2P (PJ) | 3P (PJ) | 2C (PJ) |
| PEL 13 | | 31 | 303 | 1334 |
| PEL 16 | 2.7 | 397 | 2,239 | 1,177 |
| PEL 426 | - | | | |
| **Total** | **2.7** | **428** | **2,542** | **2,511** |

- CSG Reserves and Resources – post exclusion zones

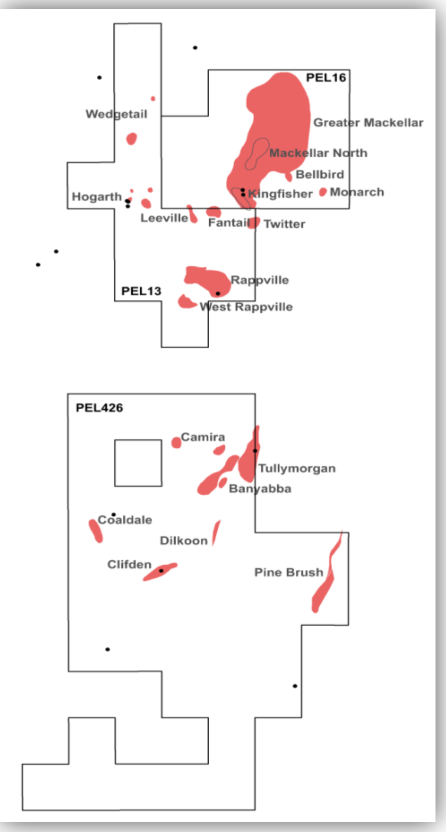
| | Reserves | | | Resources |
|---|---|---|---|---|
| | 1P (PJ) | 2P (PJ) | 3P (PJ) | 2C (PJ) |
| PEL 13 | | 31 | 437 | 1,199 |
| PEL 16 | 2.6 | 307 | 1,618 | 1,174 |
| PEL 426 | - | | | |
| **Total** | **2.6** | **338** | **2,055** | **2,373** |

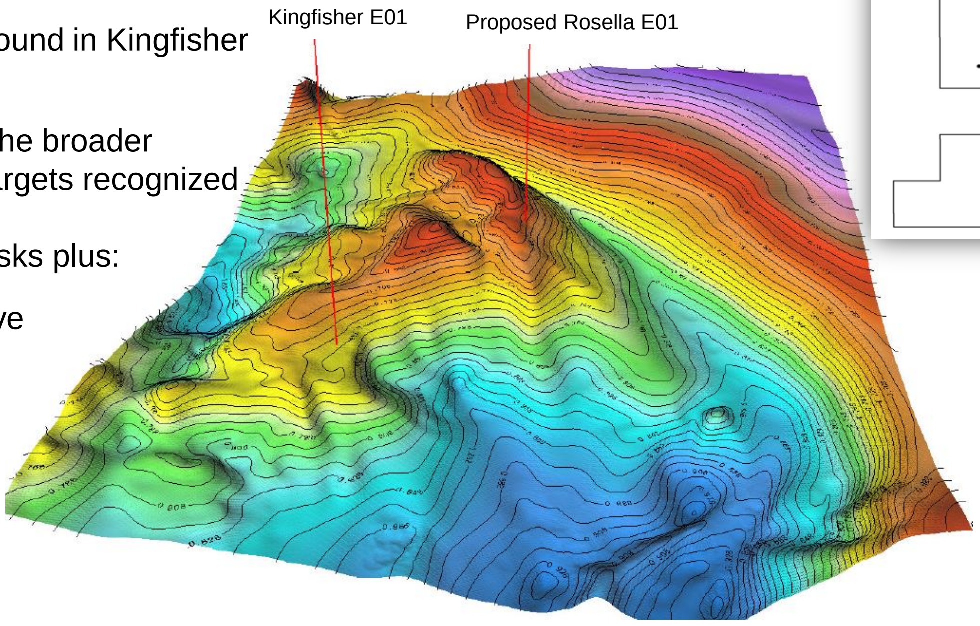



Note:
1. 1P, 2P, 3P & 2C Reserves and Resources certified by MHA Petroleum Consultants (Denver).

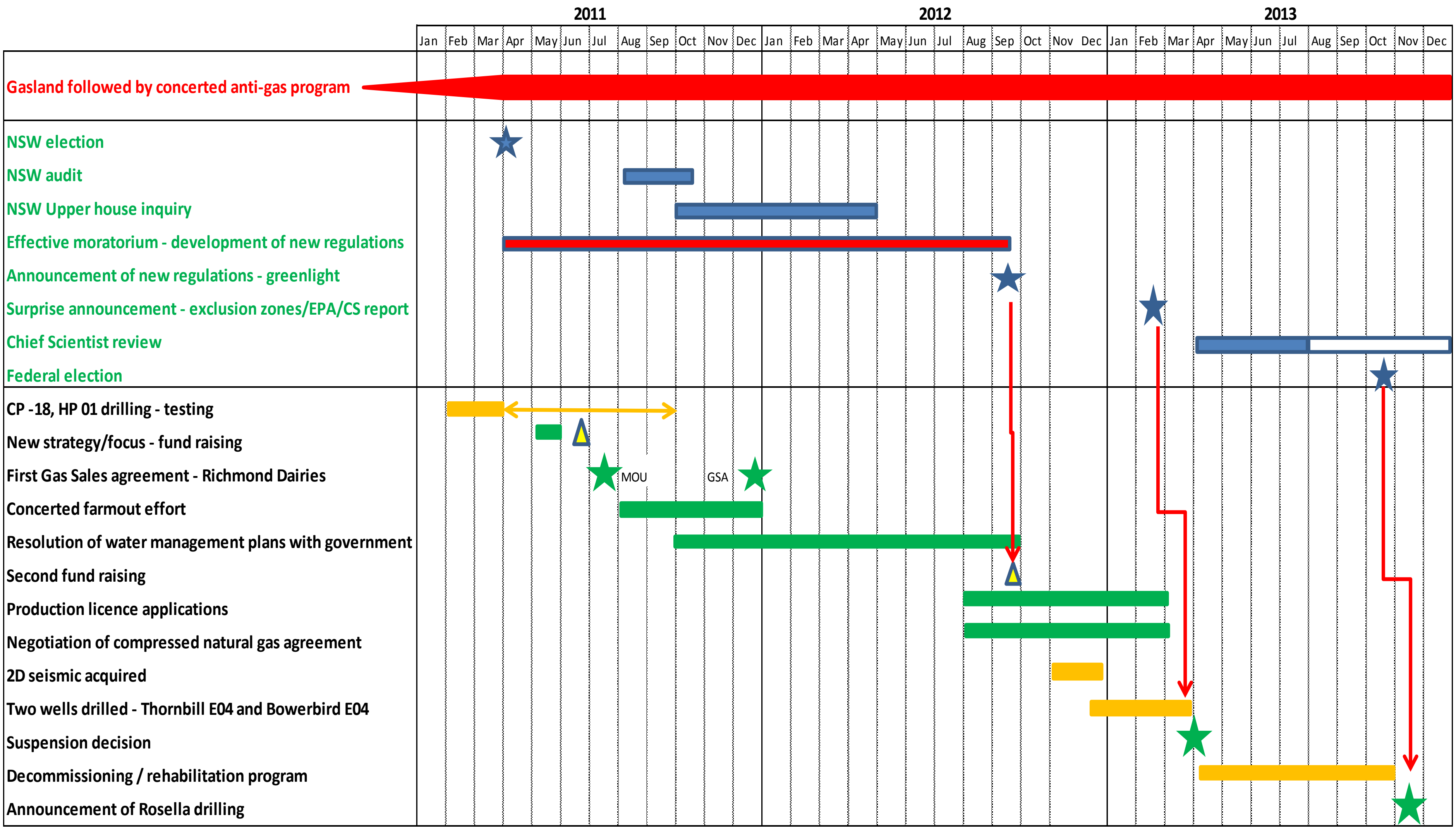
# Conventional / tight gas potential

- Kingfisher E01
  - First major conventional gas discovery in NSW (November 2009)
- Large section of gas charged sands identified
  - 138 metres of gas charged sands in Ripley Road and Gatton formations
  - Up to 500 meters of additional section below TD of Kingfisher E01
- Plan to test the Greater Mackellar structure with the Rosella E01 well:
  - Potential: 2.2 TCF, P10 OGIP
  - Primary target is Ripley Road formation (Precipice) – commercial flow rates?
  - Secondary target – tight gas found in Kingfisher E01 – Gatton formation
  - Confirm tight gas potential in the broader exploration area – follow-up targets recognized
- Rosella E01 – normal exploration risks plus:
  - Seismic coverage not extensive
  - Reservoir quality



# A frustrating and difficult two years

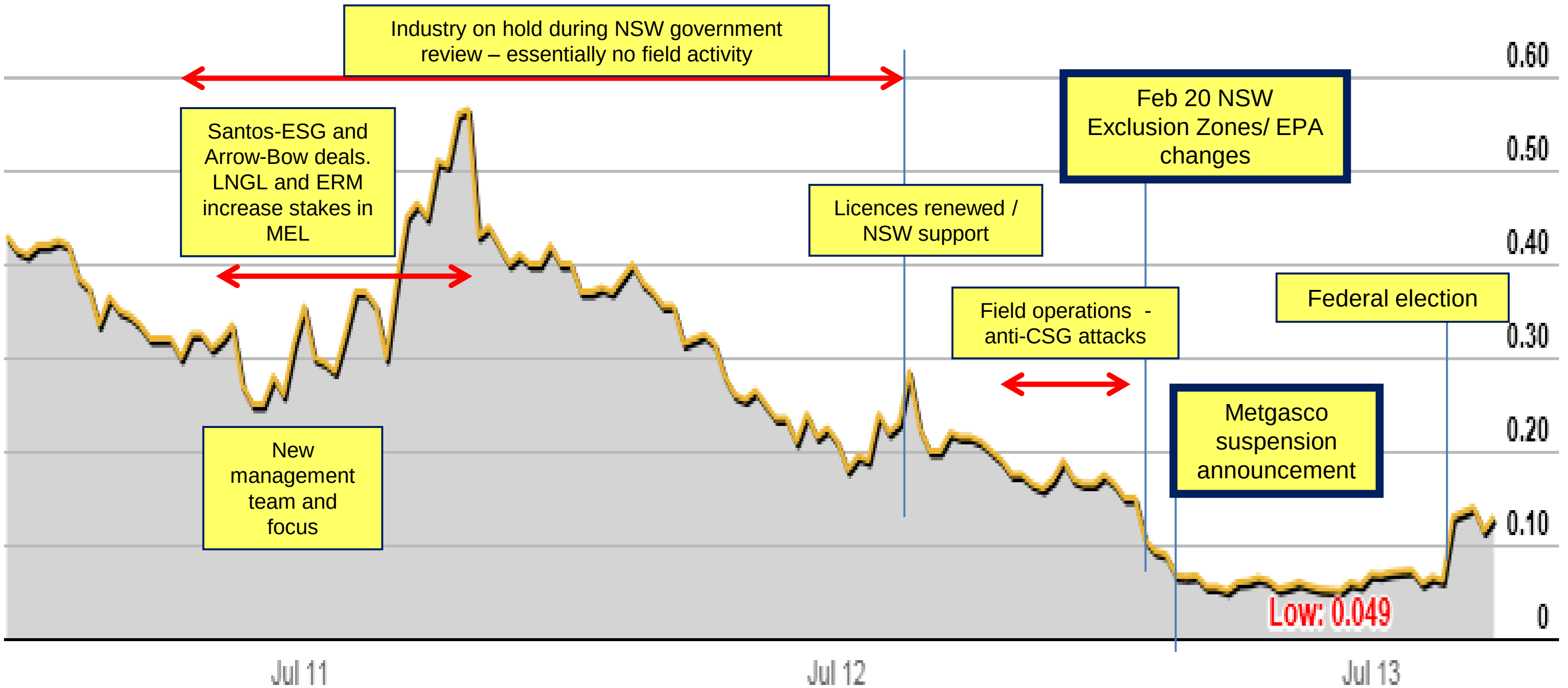


# Protestors caring for safety and the environment




Note sign: KEEP OUR LAND UNCONTAMINATED

# Suspension decision




- NSW Government announcement in February 2013 a complete surprise to the market – damaged industry and investor confidence in NSW gas
- Ability to attract partners or new capital severely impaired
- Regulatory / department changes created confusion / uncertainty which would frustrate and delay any near to mid-term exploration and development approvals
- High operating costs could not be sustained in this environment
- To do other than suspend operations and cut costs would have been irresponsible and seriously weakened company.

- Before suspending, Metgasco sought and achieved approval of reduced work programs to secure exploration licences

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# Was the suspension decision the right one?

Yes:

- All other gas exploration/development companies in NSW took action to reduce, delay or abandon their programs in line with our decision
- We now have title to our exploration licences, the gas remains, the market (demand and pricing) is improving and there is strong evidence of the benefits CSG brings to NSW:
  - We are ready to restart when the political /regulatory and investment climate is right.

What we need to restart CSG activities:

- Confidence that the NSW Government is supporting the industry – explicit public demonstration
- Clarification and stability in regulation – preferably substantial simplification and streamlining – decisions in timely manner
- Evidence that other exploration and development approvals are proceeding at a sensible pace
- Confidence that there are joint venture partners ready to work in NSW and that the investment community will support NSW investment.

# Key Achievements since mid - 2011

- One of the most active CSG companies in NSW; acquired seismic and drilled two exploration wells (in a very subdued NSW industry) – despite local protest action
  - Unfortunately needed to suspend activity in March 2013 due to political and investment climate
  - Unable to drill planned CSG laterals to provide further confidence re commerciality given political and regulatory environment
  - Unable to attract quality farmin partner given low investment confidence following NSW Government decisions
- Significant progress with environmental and planning required for new production / assessment licences
- Signed gas sales agreement with Richmond Dairies
  - Disappointed we have not yet been able to deliver gas given political and regulatory environment
- Gas sales agreement with compressed natural gas supplier negotiated – ready for signing
- Further development/understanding of conventional gas potential
  - Drilling to test conventional potential was delayed due to political and regulatory environment, but recently announced planning to drill Rosella
- Reduced overhead costs by 15%
- Further reduced costs and liabilities by decommissioning wells and ponds no longer required
- Punching above our weight in terms of government lobbying / policy input
- Active community relations program

# Why did we announce a Rosella-1 restart in October?

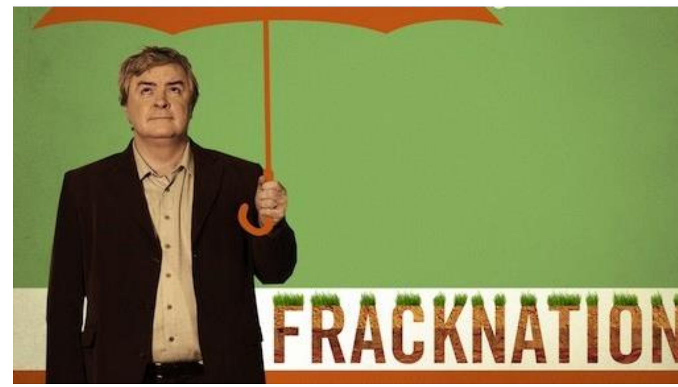
- Rosella-1 will test the Greater Mackellar structure: a conventional / tight gas prospect.  It is not a CSG well.
- Compared to CSG wells, a single conventional well:
  - can be much more decisive and add much more value to Metgasco
  - does  not have the same formation water handling requirements
  - can provide short term results
  - has clearer exploration / development approval processes.
- Value in building on positive government leadership  (Minister Macfarlane's initiatives).

Why the well not been drilled earlier:

- 2011/2012 – exploration licence renewal delayed  (effective moratorium)
- Preferable to have 2D seismic – acquisition program delayed due to unusually wet weather
- Environmental approvals sought but regulatory approval process not yet completed
- Desirable to avoid anti-fossil fuel campaign before federal election

# Community relations

- Presentations at public meetings
- Regular dinner meetings with community leaders
- Open days
- Letters to landholders and general community
- Videos – Switch and Fracknation – available at libraries
- Website
- Regular weekly advertisements
- Community Consultation Group
- Availability – local media


**Local support:**

- 300 voluntary agreements
- Richmond Valley Council (Casino), found that 70% of the community were somewhat supportive, supportive or very supportive of the following position:

  *If the Coal Seam Gas industry in the Richmond valley resulted in increased employment; economic welfare for the region and was appropriately regulated and proven to be environmentally safe, how supportive would you be of Richmond Valley Council working with CSG stakeholders and regulators to ensure the community benefit from this industry?*

# Regulations - “smart”, not “tough” - and timely

- Metgasco strongly supports government regulation, monitoring and enforcement
- Metgasco is promoting “smart” regulations, not tough regulations
- Regulations are meant to manage risk:
  - If risk is low, then regulation level should be small
  - If risk is high, regulation and monitoring should be high
- Unnecessarily tough, slow or wholly redundant regulatory processes just delay and discourage industry
- Exclusion zones are an example of very poor regulation – totally arbitrary, no scientific, engineering or risk basis whatsoever
- Other Australian states are seeking to simplify and streamline their regulations and approval processes
  - why has NSW headed in the opposite direction?

# Metgasco can contribute to NSW's gas supply needs

- CSG
  - Largest uncontracted CSG reserves in eastern Australia
  - Market improving, with broad recognition of significantly higher gas prices
  - Benefits of CSG to Queensland economy and rural areas increasingly obvious

    *Conserve cash, manage an active community relations program until business environment sufficient to encourage partner participation and investment community support. Lobby government for "smart" regulations and timely approvals*

- Conventional / tight gas
  - Potential to demonstrate commerciality and move into production faster than CSG

    *Drill Rosella E01 in 1H 2014 and progress development promptly if successful*

- Challenges
  - Improving local and broader community support
  - Working with government to streamline regulations and approval processes
  - Demonstrating productivity of CSG reserves
  - Commercialising possible tight gas Greater Mackellar field