



## ASX / MEDIA RELEASE

ASX Code: MEL

30 January 2015

# QUARTERLY ACTIVITIES REPORT

## QUARTER ENDED 31 DECEMBER 2014

During the quarter the Company announced that it has entered into a Merger Implementation Deed (“MID”) with Elk Petroleum Limited (“Elk”) (ASX: ELK) for the acquisition of all of the listed and unlisted issued securities in Elk through a Scheme of Arrangement offering MEL shares and equivalent MEL options as consideration (“Merger”). The Merger is subject to Metgasco obtaining sufficient funding to support the development of the Grieve field.

Metgasco also provided Elk Petroleum with a Convertible Loan Facility (Loan) of A\$2.5 million to facilitate the transaction. The loan is secured against Elk and all its assets. The loan, and the Merger itself, can be cancelled if Metgasco is not successful in obtaining sufficient finance on acceptable terms. The Merger is also subject to material adverse conditions, one of which is associated with international oil prices and which has already been triggered by four successive days of oil prices below US\$50/bbl. Metgasco can act upon this condition at its discretion.

The Merger and Loan, which were announced to the market on 22 December 2014, were unanimously approved by Metgasco directors.

The 77% Metgasco / 23% Elk Merger will result in a geographically diversified portfolio of exploration and advanced development assets, with exposure to:

- coal seam and conventional gas in New South Wales (NSW), Australia;
- the oil-producing Rocky Mountain region of the United States of America.

The merged entity will initially focus on bringing Elk’s major asset, the Grieve Enhanced Oil Recovery (“EOR”)<sup>1</sup> Project into production in 2017, in partnership with world class EOR operator Denbury Resources Inc., while retaining exposure to gas resources in NSW.

The new entity is expected to have oil production from the USA in 1Q 2017, and, as a result will have a source of funds for future exploration and development activities in Australia and the USA, following repayment of debt obligations. It is also hoped that the acquisition of EOR skills will have applications in Australia and elsewhere.

## Elk and the Grieve EOR Project

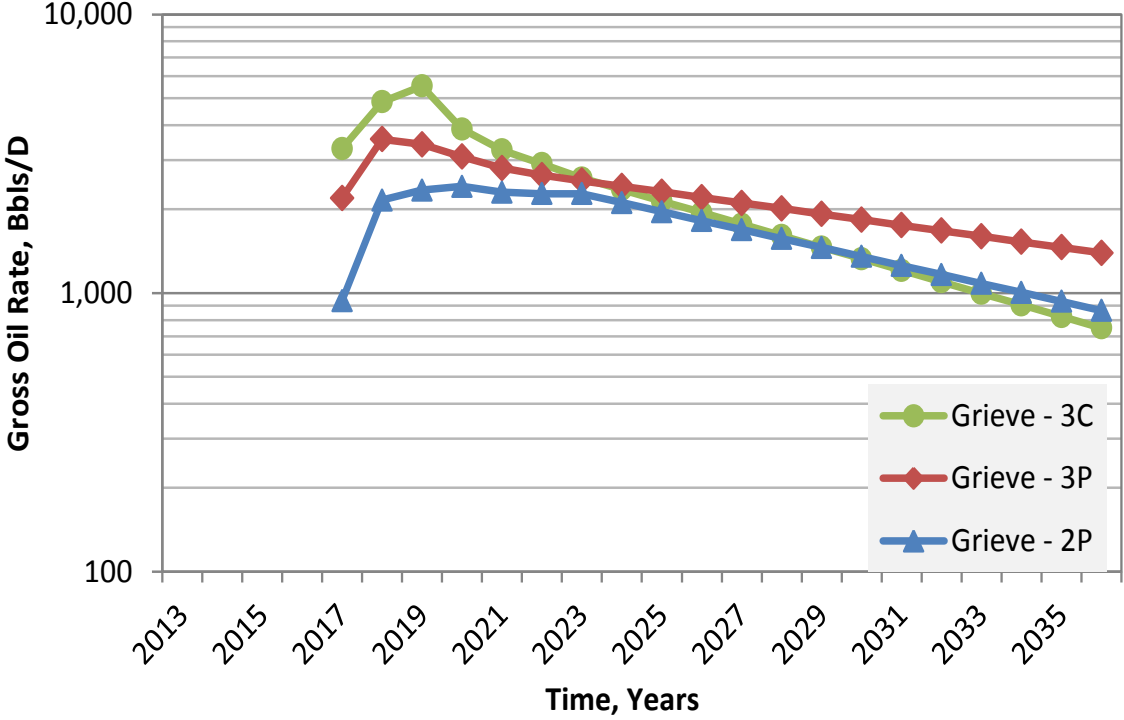
The Grieve oil field was originally developed in the 1960’s to 1980’s and produced about 30 million barrels of oil in its primary oil production phase. Oil recovery from the field is now being increased by the use of an EOR technique which involves injecting carbon dioxide (CO<sub>2</sub>) into the field. The CO<sub>2</sub> mixes with the remaining oil in the field and assists the oil to flow to producing wells, increasing oil recovery. This is a standard and well-established technique in

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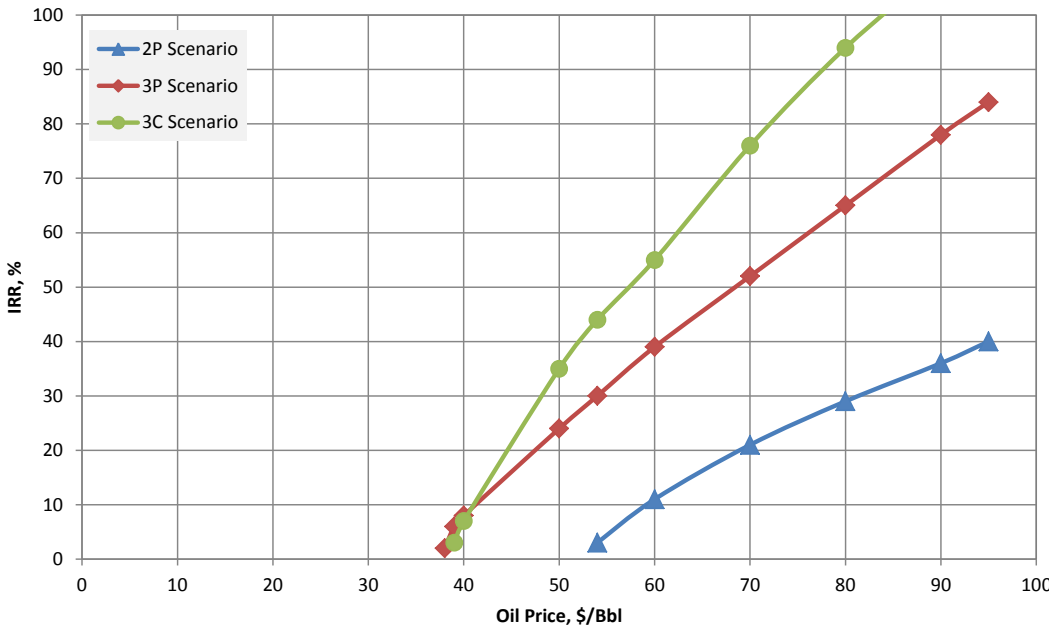
<sup>1</sup> Refer to the following website for EOR information: <http://elkpet.com/what-is-eor/what-is-eor-gas/>

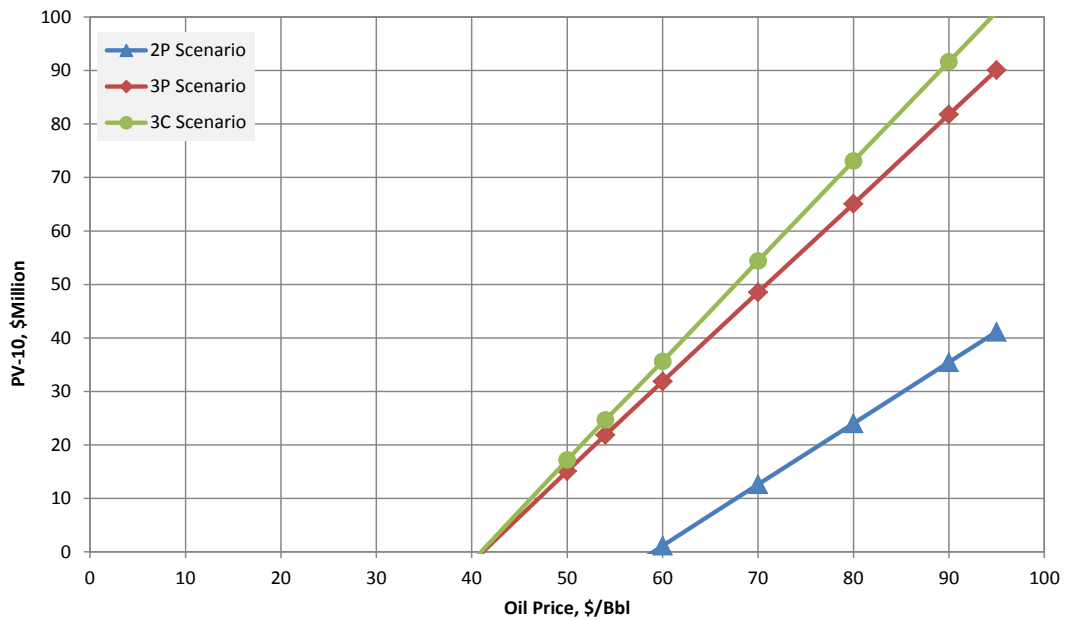
the USA, with over 2% of total oil USA produced in this manner (approximately 1/3 of Australian consumption). Denbury, the operator, is a specialist in this type of EOR operations.

Elk has recently commissioned and made public a report by Texas based consultant, Pressler Petroleum Consultants Inc., which shows 2P reserves for the field of 12 million barrels (Elk's share 3.4 million net barrels) and 3P reserves of 16.2 million barrels (Elk's share 4.7 million net barrels). These figures are lower than originally certified by Ryder Scott Consultants for Elk for the oil recovery project but are consistent with assessments made by Metgasco staff and a review of the project by MHA consultants for Metgasco before final Merger terms were agreed.



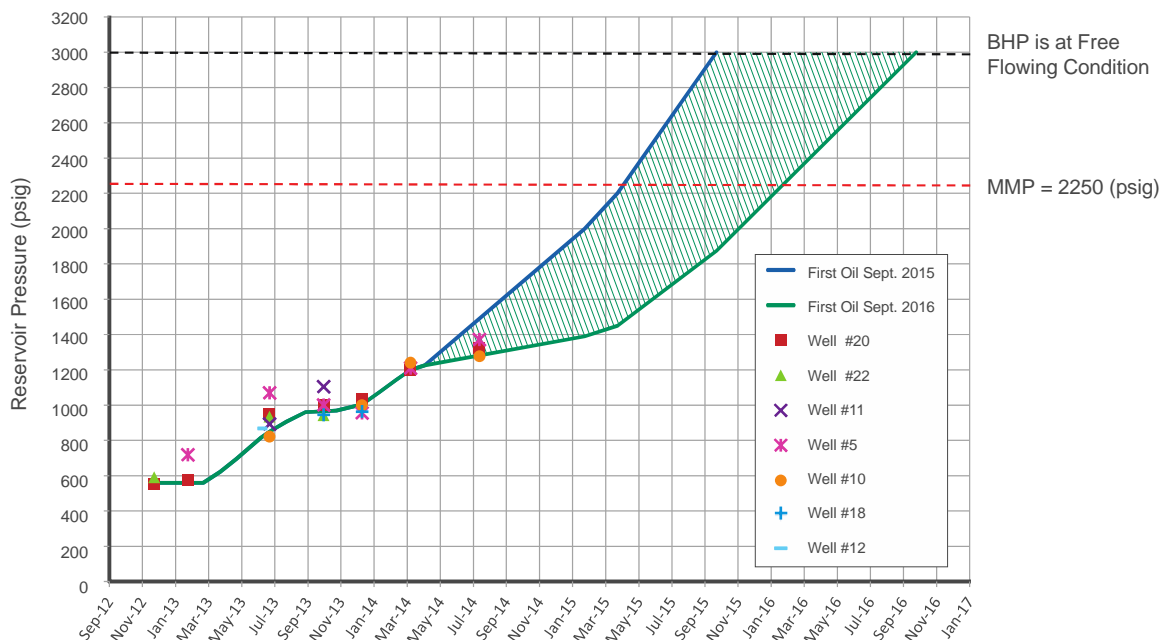
The following economics were calculated by Pressler and were reported to the ASX on 29 January 2015 by Elk Petroleum and demonstrate that the project is robust to a range of crude oil prices. Clearly, project economics would be enhanced with higher oil prices and/or higher production (possibly due to higher CO<sub>2</sub> injection).





PV figures are US\$, pre-tax

Seventy percent of the required project expenditure has already been incurred. Thirty of the thirty-one vertical wells required are in place, the bulk of the processing facilities are either installed or ordered and ready for final delivery to site. The CO<sub>2</sub> supply pipeline is in place and water and CO<sub>2</sub> injection to repressure the oil field before production has been underway for over 12 months. Reservoir pressure is increasing in line with technical expectations and should be ready for oil production to commence at the end of 2016, with facility completion due March 2017. The chart below shows the range of pressure increase outcomes dependent on CO<sub>2</sub> injection. No additional CO<sub>2</sub> injection pre first oil is currently planned, with the result that pressures are expected to follow the green rather than blue line.



The expenditure required for the field before first oil is forecast to be in the order of US\$10m.

In addition to the Grieve project, Elk has initiated a similar EOR project in Nebraska, the Singleton field, as well as some conventional or tight oil opportunities. These are currently being assessed to confirm their merits and determine the priority at which they will be pursued.

People interested in learning more about CO<sub>2</sub> EOR techniques and Denbury's overall operations might wish to review the following websites:

[http://www.netl.doe.gov/file%20library/research/oil-gas/small\\_CO2\\_EOR\\_Primer.pdf](http://www.netl.doe.gov/file%20library/research/oil-gas/small_CO2_EOR_Primer.pdf)

<http://elkpet.com/what-is-eor/what-is-eor-gas/>

Miro Advisors has been appointed by Metgasco to assist with sourcing the funding required to cover the project's expenditure. Discussions have commenced with a number of potential financing parties. The drop in current international oil prices has created additional challenges. However, forecasts for oil prices in 2017, when the Grieve oil production is scheduled to commence, support the project as economic.

## NSW

### Supreme Court Action

Metgasco's appeal against the NSW Government's decision to suspend its Rosella drilling approval was heard by the NSW Supreme Court on 20 and 21 October 2014. Metgasco has no control over or knowledge of when the decision will be handed down by the Court, but hopes that this will occur shortly.

Metgasco was supported by legal firm Gilbert and Tobin, Senior Counsel Bret Walker and Counsel Anna Mitchelmore.

The key elements of Metgasco's position are that:

- the NSW Government did not have the power under the Petroleum Onshore Act to take the action;
- even if it had, the NSW Government did not follow the procedures defined in the Act or afford Metgasco procedural fairness; and
- further, the decision to suspend drilling activity based on Metgasco's community consultation could not have been made rationally.

Metgasco takes all regulatory compliance requirements seriously and believes it satisfied requirements of the Government's consultation guidelines.

### Community Consultation

During the quarter, Metgasco met with NSW Government on a number of occasions to discuss its future community consultation programs and expects to commence its new program in the 1Q 2015.

### PPLA 9

Metgasco continues to seek the formal award of PPLA 9 production licence from the NSW Government. The Development Approval for the Richmond Valley Power Station and Casino Gas Project was awarded in June 2010. Minister Chris Hartcher announced the licence award in September 2012. Metgasco has been offered the production licence and accepted all conditions on two occasions, the last being on 22 November 2012, and paid \$140,000 of grant and security fees for the licence in 2010 and 2011.

Metgasco notes that its initial licence submission was made in 2008. Seven years later, the government is still to issue the formal licence document.

## NSW Government Policy and Investment Climate

During the quarter, the NSW Government announced a new NSW Gas Policy. This is effectively its third policy since coming to office in March 2011. The new policy contains significant uncertainties, and reopens previous policy positions (eg; landholder compensation).

Metgasco also provided:

- input via industry body APPEA to a draft licence renewal policy. The policy intent of the draft is unclear. In our view if implemented in its current form it will add confusion to NSW petroleum activities and further decrease confidence in the stability of NSW petroleum policy and regulations; and
- a submission to the current NSW parliamentary inquiry into gas supplies.

Metgasco notes heightened awareness in the NSW Parliament of potential gas shortages and the desire to put in place a sustainable policy framework to attract investment. Despite our criticism of recent policy decisions, we remain hopeful that this goal can be reached and will continue to provide our views both directly to the Government and through APPEA.

## Exploration activities

During the quarter, the focus was on acreage management to meet with regulatory compliance requirements and minimum work program commitments, and the evaluation of ELK Petroleum acreage.

Metgasco continues to develop geological models for different key prospective regions with the expectation of a recovery of the oil market.

## Certified Reserves / Resources

The Company recognises the following gas resources in its tenement areas:

<b>Independently certified gas reserves and resources – Petajoules (PJ)</b> <b>All reserves and resources are 100% owned by Metgasco</b>			
<b>Reserve Category</b>	<b>PEL 13</b>	<b>PEL 16</b>	<b>Total</b>
1P (Proven)	-	-	-
2P (Proven + Probable)	-	-	-
3P (Proven + Probable + Possible)	-	-	-
2C Contingent Resource	1,636	2,792	4,428

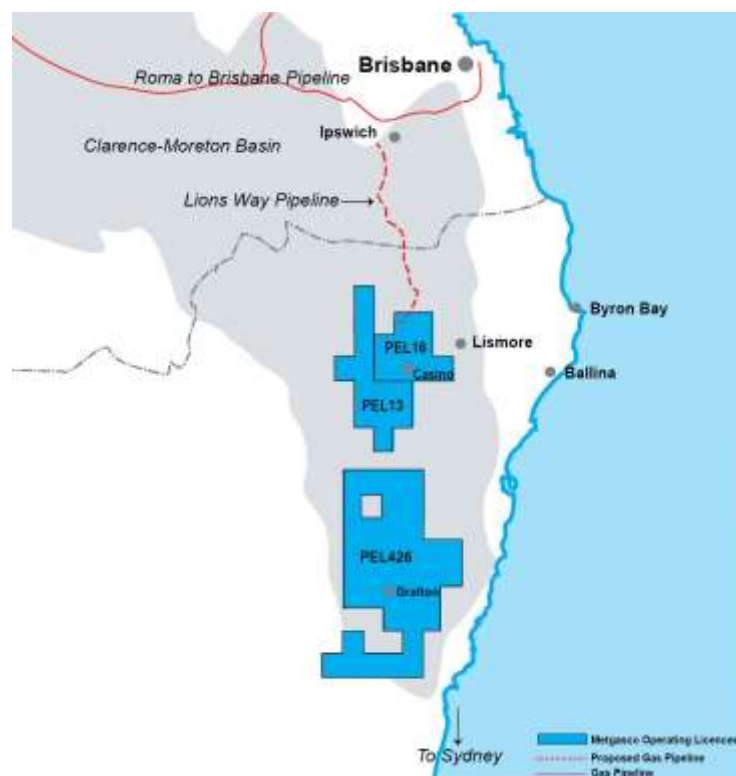
The estimates of gas reserves have been prepared by Mr Tim Hower, and staff under his supervision, of MHA Petroleum Consultants (Denver). Mr Hower is chairman of MHA and has over 25 years of petroleum engineering experience and is a qualified person as defined under the ASX listing rule 5.11. Reserves have been developed within the guidelines of the SPE. MHA has consented to the use of this information.

The reserves above will be adjusted to reflect the Grieve field on completion of the Elk Merger.

## Permits Listing

Metgasco advises that as at 31 December 2014 it had a 100% interest in the following permits: PEL 13, PEL 16, and PEL 426

The permits are located in the Clarence Moreton Basin of NSW as shown below.



There have been no changes in the beneficial interest since the last quarterly activities report.

The Company's request for the PELA 130 licence was cancelled by the Government as part of its new NSW Gas Policy. Metgasco had accepted all conditions some years ago and forwarded a corresponding cheque for the licence award.

No tenements were acquired or disposed of during the quarter.

The Company has neither farmed into any new permits nor farmed-out any of its permits during the quarter other than pursue the Merger with Elk.

## Cash position

The Company ended the quarter with a cash balance of \$9 million and no debt.

## Shareholder base

At 31 December 2014 Metgasco had 444 million shares on issue and no options outstanding.

## Outlook – work program for next quarter

### NSW

The Company wishes to restart exploration activities, including drilling the Rosella conventional well but is unable to do so until the NSW Government's suspension order is lifted. A successful Supreme Court challenge will lift the suspension. There is chance that this matter will be resolved in the March 2015 quarter. When the suspension is lifted, the company will be seeking an assurance from the NSW Government that lawful activity in the Northern Rivers will be supported and protected. It will also need to consider the impact of changes being made under the government's new gas policy.

Metgasco reserves its right to make a claim for damages against the NSW Government as a result of the drilling suspension. The results of the current Supreme Court action will influence Metgasco's response. Metgasco continues to prefer to work with NSW Government in a constructive manner to reach a solution to this matter.

## Elk Merger

Metgasco will also be focused on securing additional funding on acceptable terms by 31 March 2015 to enable the Merger to proceed. The Merger is dependent on this fund raising and the approval of Elk Petroleum shareholders.

ENDS

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## Background on Metgasco

[www.metgasco.com.au](http://www.metgasco.com.au)

Metgasco has a 100% interest in PEL 16, 13 and 426 in the Clarence Moreton Basin in NSW where it operates the largest acreage position in the basin. Metgasco currently has 2C gas resources of 4,428 Petajoules (based on Metgasco's current understanding of the impact of the NSW Government's exclusion zones). The Company is exploring for conventional and unconventional gas. Metgasco has identified natural gas commercialisation opportunities that include local sales in the Northern Rivers Region, domestic sales to eastern coast domestic markets and LNG exports.

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