

9 September, 2013

Metgasco Shareholders

Dear Shareholder,

Subject: Metgasco – Company Performance and Future

Metgasco's Board is aware of the disappointment shareholders feel with share price performance and the frustration many have with the lack of field activity and uncertainty about the company's future. We would like to assure you that we remain focused on and committed to increasing the value of Metgasco through:

- 1) realising value from our existing Clarence Moreton Basin (CMB) CSG and conventional gas potential; and
- 2) evaluating and pursuing opportunities outside of NSW.

Clarence Moreton Basin assets.

In March we announced the suspension of our Clarence Moreton Basin field activity. The decision to suspend activity was driven by proposed new regulations and administration procedures announced by the Premier of NSW, with no prior consultation with industry. The proposed new regulations were arbitrary and without reasonable justification. They were a complete surprise given that the CSG industry had already suffered the effects of an effective 18 month CSG moratorium, which ended in September 2012, while the NSW Government put in place new regulations which were meant to provide the industry with regulatory certainty and a green light to proceed. The proposed new regulations created enormous uncertainty and sent a message to the business and general community which suggested that the NSW Government did not support the operations of the CSG industry.

It was clear to the Board that the regulatory environment in NSW was somewhat unstable and unclear and that it would be imprudent to continue the exploration and development program we had initiated. We therefore sought and gained approval for reduced work programs so that we could retain ownership of our exploration titles and established reserves at minimal expense. Given the uncertain time for which operation would remain suspended, we reduced our staffing significantly so that ongoing costs are significantly lower.

Other CSG companies in NSW followed our action soon after by suspending their activities, withdrawing from NSW altogether or significantly reducing their exploration and development programs. In fact, today there is little CSG activity in NSW and some doubt about whether even the downsized projects of larger companies will proceed in the current environment.

The Board is confident that it made the correct decision regarding suspension of activities in March. It is more than 6 months since the Premier's announcement and there are still no regulations regarding how the proposed exclusions zones will work, government departments are still sorting out new responsibilities, revisions to the Petroleum Onshore Act have yet to be passed through the NSW Upper House and the business and investment community still lacks confidence in the NSW Government's commitment to the CSG industry and NSW's energy security. This is despite wide acceptance of an imminent shortage of gas supply in NSW and demands from many sections of the business community for action to stimulate the gas industry so as to ensure acceptably priced gas supplies are available.

Had Metgasco not suspended its activities we would have faced delays in approvals which would have led to increased costs. We would have needed to raise additional funds which would have been extraordinarily difficult if not practically impossible in the current market.

The current situation is frustrating and disappointing to long term shareholders, those who contributed with new funds in 2011 and 2012 and, of course, to the Board. We are, however, confident that

eventually value can be realised as a result of our investment in the Clarence Moreton Basin exploration licences. We retain title to three exploration licences with more than 400 bcf of 2P reserves, 2,500 bcf of 3P reserves and 2,500 bcf of 3C reserves (these reserves are subject to the possible effects of exclusion zones announced by the NSW Government in February, 2013 but which have yet to be defined). These are the largest uncontracted gas reserves on the eastern coast of Australia. We also have the tight / conventional gas potential identified by the Kingfisher discovery which could be significant to NSW in its own right. We believe that forecasts of gas shortages and higher prices in the next few years are realistic. We also believe that the ongoing communication programs will increase general community confidence in the industry and that the NSW Government will take the lead in setting up a regulatory and business environment in NSW that supports the gas industry. We already have general community support in the Casino community, having operated there for about 10 years and obtained 300 voluntary landholder agreements.

When we see indications that the NSW Government supports the gas industry, that regulations are streamlined so that exploration and development can be performed effectively and that these actions translate into financial market support, we will resume NSW exploration and development operations. In the meantime we will maintain our community relations program in our exploration licence areas and support our industry peak body, APPEA, in promoting the industry in the general community and with government.

We cannot define when the circumstances will be attractive for operations to recommence in NSW. We hope that there will be a steady stream of improvements over the next 12 months that will establish a more satisfactory environment. We recognize and ask shareholders to accept that there is unlikely to be a steady stream of positive announcements about our CMB activities during the period.

Opportunities outside of NSW.

While our CMB activities are suspended, we are reviewing different opportunities to invest the cash reserves that we retain. There could well be energy exploration and development opportunities outside of NSW that are attractive in their own rights and which will complement our existing CMB assets, giving us diversity and investor appeal that we do not have with assets located solely in NSW. We are evaluating opportunities now, conscious that they can take time to investigate, that in many cases investigation will find unacceptable features in the opportunities and that negotiating acceptable commercial terms can be difficult. There is no absolute need to invest elsewhere during 2013 and we will not propose opportunities for the sake of appearing to be active.

If and when an appropriate opportunity is identified we will act on it, bringing to shareholders for approval, as necessary.

To assist with both the CMB assets and potential new opportunities we recently made the decision to restore our Board from three to four members with the addition of Mr Greg Short. Mr Short brings extensive geoscience experience and capability to the Board, attributes which other members do not have. We believe we need this capability now, while we are trying to establish value in the CMB and evaluating business opportunities outside NSW.

We are proud of the gas industry we work in and the reserves we have already identified in the CMB. We are keen to restart our exploration and development programs in the CMB, but only when we believe that the regulatory and business environment in NSW will reward additional investment. In the meantime we ask shareholders to bear with us while we work to establish a better NSW regulatory and business environment and pursue interests outside of NSW that add value to Metgasco.

We hope that this letter provides you with a better understanding of our strategy and potential.

Regards



N. M. Heath
Chairman