

22 May 2014

Chairman's Letter

Dear Shareholders,

You are probably already aware that on 15 May 2014 the Minister for Resources and Energy and Special Minister of State, Mr Anthony Roberts, on advice from the Office of Coal Seam Gas (OCSG), announced the decision to suspend the Company's rights to drill an exploration well at the Rosella site in exploration licence PEL 16, just days before the drilling was due to commence. The suspension, without notice or justification, represents an extraordinary breach of process by the New South Wales OCSG. It is damaging to our reputation, shareholder value and the confidence of investment markets in New South Wales.

According to the media release from the Minister, the suspension of Metgasco's exploration drilling activity was determined "on the grounds that it did not fulfil a condition of its exploration licence, namely to undertake genuine and effective consultation with the community as required". Further, that the basis for the suspension was based on the claim that "fundamental concerns have been expressed by members of the effected community about the way Metgasco has characterised its activities". The suspension notice issued by the OCSG provided little basis to support either of these comments.

At no time prior to suspension has the government or the OCSG expressed any concern over the community consultation program to the Company, nor has the Company's process of community consultation been questioned by regulators. We strongly believe the Company's extensive community consultation program has been thorough and fully compliant with the licence requirements. The program has been significantly more comprehensive than that which was applied to more than 50 of our wells which have been accepted by regulators, and even the two most recent wells which were drilled in early 2013.

In the event of the OCSG believing a suspension notice was justified, the Company should have been asked, as a minimum, to show cause, or be questioned about the nature of what remains a vague complaint before suspension action was taken. Instead there has been no process, no opportunity for explanation or correction; rather a summary denial of natural justice.

The context of these extraordinary events is that Metgasco has drilled more than 50 wells in the area over the past ten years, spending about \$120 million, and complied with all regulatory procedures. The Company had received the specific environmental approval to drill its Rosella well. With the suspension notice and the associated withdrawal of police support, we have had no option but to cancel drilling of this well and to de-mobilise expensive equipment and personnel. The drilling rig had been prepared, ready to mobilise to the well site within days. The suspension will result in a direct loss of up to \$3 million, being the estimated cancellation costs directly attributable to this well.

The suspension notice was issued to Metgasco after business hours on 14 May. The OCSG had not discussed the consultation program with the Company or given us the opportunity to respond to any concerns others in the community might have expressed. It is difficult to understand how a valid conclusion about our consultation program compliance could be made under these circumstances.

Late on 15 May, Metgasco responded to the suspension notice with an extensive submission to the OCSG, demonstrating that the Company had fully complied with licence conditions relating to community consultation. This was done in the expectation that, with a prompt review by OCSG, drilling would soon be able to continue. We disputed the conclusion that we failed to comply with consultation requirements, comparing our program with the government's own guidelines and disputed the process in which the suspension order was made. The OCSG undertook to review our submission and to consider removing the suspension with a response to be provided by Monday 19 May. On Monday 19 May, we were advised that their review was not yet complete and the OCSG was unable to confirm when the review would be complete.

In parallel, we have now made direct representations to the New South Wales Premier, Mr Mike Baird, to express our strongest concern and to seek an immediate review of the decision to suspend our drilling. Apart from disputing the validity of the suspension decision we asked the Premier to consider if it was appropriate for the party that made the decision to review its own decision. We also asked that the review process be conducted in a manner that provides a clear process and the opportunity for Metgasco to review any preliminary findings or observations of the independent review before a final decision is made, in line with the regulatory process that should have occurred.

While we wait on the Premier's response to our request for an independent review, we have asked the OCSG to suspend temporarily its own review and advised that we consider its actions to be unlawful. Metgasco is an ASX-listed company which has invested about \$120 million exploring for natural gas in northern NSW over the last ten years, with a stated objective of supplying natural gas to local industry and eastern Australia. We have established significant coal seam gas reserves and the potential for large conventional and tight reserves. These are gas resources the state badly needs. Our industry is safe and can create new jobs in rural regions, provide an income stream for farmers, royalty payments to government, and benefits to local and regional communities and the state.

The wider impact of the government's decision to summarily suspend exploration projects without due process or justification is to undermine the fundamentals of a robust and confident business environment in NSW.

On 15 May 2014 Minister Roberts announced that an issue relating to Metgasco's ownership structure had been referred to ICAC. Metgasco is a strong supporter of ICAC and endorses the government's policy to ensure that corruption does not prevail in NSW. We make no complaint that someone has made a referral to ICAC, though we are not aware of any valid basis for a referral. We do, however, take exception to the public announcement that an ICAC referral has been made. The announcement has the potential to interfere with ICAC's processes and, from our perspective, has caused severe damage to our reputation before ICAC has even been able to consider the referral and before we have had a chance to respond. It is difficult to see how the public announcement was just treatment of Metgasco.

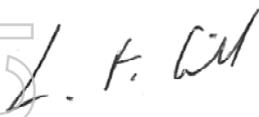
As a direct consequence of the suspension and the Minister's announcement, the Company's share price was virtually halved with shareholders facing losses of around \$18 million.

These extraordinary and unexpected events are being addressed by management and the Board as our highest priority. The Company has retained specialist resources to ensure these issues can be addressed satisfactorily as quickly as possible.

Metgasco remains committed to the gas resources in the Northern Rivers region. It also remains committed to working with government to enable the realisation of the commercial potential of the Northern Rivers gas resource in the medium term.

Shareholders will continue to be advised of material developments.

Yours sincerely,



Len Gill
Chairman
On behalf of the Board

Note: The Rosella well at Bentley is a conventional and tight exploration well, not a coal seam gas well. The Office of Coal Seam Gas has regulatory responsibility for petroleum activities, both conventional, tight and coal seam gas activity in New South Wales.

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