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QUARTERLY ACTIVITIES REPORT

QUARTER ENDED 31 DECEMBER 2015

The highlight of Metgasco's quarter ending 31 December 2015, was a vote taken by shareholders at a General Meeting held on 16 December 2015 to accept a Metgasco Board recommendation to withdraw from its Northern Rivers exploration licences and from all court action against the NSW Government in return for a $25 million payment from the NSW Government.

This acceptance vote by shareholders marks the end of Metgasco's 10 year involvement in the Northern Rivers region of NSW, during which more than fifty wells were drilled and the presence of significant gas resources was established.

Metgasco's licences have now been cancelled, so too has court action against the NSW Government. The $25 million settlement has been paid by Government.

Metgasco plans to decommission the remaining two wells in the Northern Rivers region and shut down all operations within the first few months of 2016.

Metgasco is reviewing new business opportunities in the oil and gas sector and has set itself the task of identifying relevant, value accretive opportunities and securing them within the first six months of 2016.

In the interim, it is taking action to manage costs and capital in the best interests of shareholders as follows:

- a series of cost cuts, starting with a reduction in director's fees and Managing Director remuneration and outsourcing of the CFO and Company Secretary roles;
- deployment of the cash received from the Government settlement in appropriately yielding investments; and
- Implementation in February 2016 of a share buy-back scheme and if appropriate, establishment of an unmarketable parcel share sale facility.

With Brent oil prices currently at a 12 year low, below US$30/Bbl, the Company is confident that it can secure attractive business opportunities within the first half of the year.

Changes to the Board were made, with Len Gill announcing his retirement as Chairman, effective 16 December 2015 and his intention to retire as a non-executive director towards the end of February 2016. Mr Greg Short assumed the role of Chairman. Mr Philip Amery joined the Board effective 23 December, bringing capital markets and finance skills and experience to the Board.

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$25 million Settlement / Buy-back

Following negotiations with the NSW Government which started in July 2014, on 2 November 2015 Metgasco announced that the NSW Government had offered to pay Metgasco $25 million in return for Metgasco agreeing to cancel its two remaining petroleum exploration licences (PEL 13 and PEL 16), withdraw its renewal application for PEL 426, withdraw its production lease application PPLA 9 and withdraw from all court action against the NSW Government. Acceptance of the Government's offer required the approval of Metgasco's shareholders. The Government's offer was conditional on shareholders voting before 1 January 2016.

Metgasco's Board of Directors concluded that, despite the disappointment and frustration Metgasco and its shareholders felt, acceptance of the Government's proposal was in the best interests of the Company and accordingly recommended acceptance to shareholders. The reasons for the recommendation were included with the Notice for the General Meeting held on 16 December.

At the 16 December General Meeting, more than 50% of the shares voted supported the Board's $25 million settlement / buy-back offer. Action was taken immediately to cancel the licences, withdraw the PEL 426 renewal application and production lease application and to terminate court action against Government. In turn, NSW Government transferred $25 million and released $430,000 held by the Government in bonds to Metgasco, as per the ASX announcement of 22 December 2015.

As part of the settlement / buy-back agreement with Government, Metgasco must decommission the two remaining CSG wells in its previous licences and rehabilitate the sites, at which stage the remaining $236k held in bonds by the NSW Government will be released. The decommissioning and rehabilitation process will commence in January 2016 and be completed in the first quarter of 2016. In parallel, Metgasco is winding up its Northern Rivers operation, shutting down its Casino shop-front and workshop and selling remaining equipment and the land it purchased for the Richmond Valley Power Station. The sale of the land and equipment plus return of the Government bond is expected to exceed the cost of the decommissioning / wind down operation.

Certified Reserves / Resources

Independently certified gas reserves and resources – Petajoules (PJ) **All reserves and resources were 100% owned by Metgasco**			
Reserve Category	**PEL 13**	**PEL 16**	**Total**
2C Contingent Resource as at 30 September 2015	1,636	2,792	4,428
Adjustment following the Company's withdrawal from its NSW exploration licences	(1,636)	(2,792)	(4,428)
2C Contingent Resource as at 31 December 2015	-	-	-

Permits Listing

During the quarter, Metgasco's 100% interest in the following permits: PEL 13, PEL 16, and PEL 426 were cancelled.

No tenements were acquired during the quarter.

The Company has neither farmed into any new permits nor farmed-out any of its permits during the quarter.

New Business

As outlined at the 16 December AGM, Metgasco has spent considerable time and resources pursuing new business opportunities in the oil and gas sector and plans to continue this pursuit. As above, the current oil price environment is expected to offer attractive opportunities for cashed-up companies. Metgasco has set itself the goal of having established a new business within the first half of 2016.

Cost and Capital Management.

While the Company seeks new business opportunities it is paying particular attention to corporate governance, costs and capital management.

Operating costs have been reviewed in detail with a view to minimising costs without having a negative effect on Metgasco's ability to pursue new business. Some specific cost reduction measures:

- The Company's CFO and Company Secretary has resigned from the Company. As a cost cutting measure, a decision was subsequently made to make the internal position redundant and to outsource the roles. Philip Mackey has taken on the role of Company Secretary and Mark Langan the role of CFO, both sourced from Company Matters Pty Limited.

- Board members agreed to reduce their fees, effective 1 January 2016 as follows:
  - Chair: $60,000 p.a. inclusive of superannuation; and
  - NEDS: $40,000 p.a. inclusive of superannuation.

- Managing Director, Peter Henderson, has agreed to different remuneration terms while the Company seeks new business. Effective 1 January 2016, Mr Henderson has agreed that his remuneration will become more performance based with his salary (including superannuation) cut to $325,000 per annum, with an end 2016 bonus which will be subject to Metgasco's share price performance.

Other cost reduction measures have been identified and will be implemented as appropriate through the next few months.

The cash received from the NSW Government settlement is being deployed in investments which have an appropriate balance of yield and risk.

At the 16 December 2015 AGM the Company announced its intention to conduct a share buy-back scheme and to purchase unmarketable parcels as a means of capital management and tidying up its register. Details of the share buy-back scheme will be announced shortly. It is expected to start in early February 2016. The purchase of unmarketable parcels will commence sometime after the buy-back scheme has been in operation and will be announced to the market at that time.

Cash position

The Company ended the quarter with a cash balance of $31.6 million ($0.071/share) and no debt.

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Shareholder base

At 31 December 2015 Metgasco had 442 million shares on issue and no options outstanding.

Outlook – work program for next quarter

The prime focus for the Company in the next quarter is to:

- decommission the remaining two wells in the Northern Rivers' area, rehabilitate the sites and reclaim the associated bonds from Government;
- identify and pursue new business opportunities in the oil and gas sector; and
- manage its costs and capital in a manner consistent with its search for new business opportunities and need to maintain and create value for shareholders.

ENDS

Background on Metgasco www.metgasco.com.au

Until end 2015, Metgasco had a 100% interest in PEL 16, 13 and 426 in the Clarence Moreton Basin in NSW where it operated the largest acreage position in the basin, exploring for conventional and unconventional gas. It had 2C gas resources of 4,428 Petajoules. At end 2015, Metgasco agreed to withdraw from NSW operations and court action against NSW Government in return for $25 million. It is now seeking new business opportunities in the oil and gas sector.

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