

Announcement

Merger
with
Elk Petroleum

22 December 2014



- Metgasco to merge with Elk Petroleum (Elk) via a Scheme of Arrangement
- Establishes a strong platform and clear pathway for value creation for shareholders of both companies
 - a geographically diversified portfolio of exploration and advanced development assets and a strong cash position
- Upon completion of the transaction, existing Metgasco security holders and Elk security holders will own 77%¹ and 23%¹, respectively, of the issued ordinary shares of the combined entity (on an undiluted basis)
- Proposed merger has unanimous support of both the Metgasco and Elk Boards
- Metgasco will provide Elk with a short term loan facility of A\$2.5m to assist with Elk's immediate funding requirements, with the right to convert to shares
- Transaction conditional on Metgasco sourcing additional funds on acceptable terms by 31 March 2015

1. Subject to adjustment based on treatment of unlisted Elk securities

Transaction Rationale

- ✓ Enhanced geographical diversification and scale
- ✓ Medium term gas potential in NSW Clarence Moreton Basin, with 2C contingent resources of 4,428 BCF and exciting conventional and tight gas exploration potential
 - Undersupplied eastern Australian market with expectation of large price increases
- ✓ Wyoming oil reserves (Grieve project)
- ✓ Cash flow from the Grieve Enhanced Oil Recovery (EOR) project starting in early, 2017, providing the basis to sustain ongoing operations in the USA and NSW
- ✓ Upside USA oil potential with Singleton field
- ✓ Exposure to a potential recovery in the oil price
- ✓ Estimated combined cash position of combined entity at 31 December of approximately \$9million

The merged group will be better positioned for growth compared to either company on a standalone basis, and is expected to deliver significant benefits to shareholders

Overview of Combined Entity

Strategy	<ul style="list-style-type: none">▪ Position NSW CMB gas assets to benefit from expected improved business and regulatory environment over next 3 years with: 1) gas shortages and higher prices becoming increasingly evident; and 2) time for NSW Government to implement the new NSW Gas Policy▪ Support Grieve EOR project, with oil revenue expected 1Q 2017▪ Pursue other business opportunities, such as Nebraskan Singleton field on individual opportunity merit
Board and Management	<ul style="list-style-type: none">▪ Board of Directors limited to four directors in the medium term<ul style="list-style-type: none">– One managing director and three non-executive directors
Financial Position	<ul style="list-style-type: none">▪ Estimated cash position of approximately A\$9 million (31 December 2014)▪ Assumption of Elk's US\$12 million limited recourse finance facility repayable from Grieve Project oil production
Assets	<ul style="list-style-type: none">▪ NSW CMB exploration licences, with CSG resources and conventional/tight gas potential▪ 35% interest in Wyoming CO2 EOR project▪ Nebraskan Singleton field

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- 1** **Continue to progress Grieve EOR project into production in partnership with world class EOR operator Denbury Resources**
 - \$70m invested to date. Wells and facilities installed or well advanced. Field re-pressurisation, which is the critical path, proceeding as per expectation.
 - first oil expected by March 2017

 - 2** **Secure additional funds by 31 March 2015 to undertake merger**
 - discussions with funding partners currently underway

 - 3** **Secure and optimise NSW CMB assets:**
 - resolve Rosella suspension dispute with NSW Government
 - better understand and allow time for implementation of the new NSW Government Gas Policy
 - commence field operations again when business and regulatory environment are satisfactory

 - 4** **Assess identified opportunities and appropriate timing for pursuit of activities**
 - Rosella
 - Singleton EOR and primary / secondary recovery potential

 - 5** **Optimise new organisation and costs, subject to approval of merger proposal.**
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Indicative timetable

Key Milestones

Target Date

Announcement of Merger

22 December 2014

Financing secured

31 March 2015

First Court hearing to approve Scheme Booklet and convene Scheme Meeting

Late April 2015

Scheme Booklet despatched to Elk shareholders

Late April 2015

Scheme Meeting (Elk)

May 2015

Second Court hearing to approve Scheme

May 2015

Merger implementation

June 2015

Potential for scheme of arrangement / merger implementation to be accelerated from dates shown above

Key Merger Conditions

- Receipt of regulatory and court approvals
- An independent expert opining that the Merger is in the best interest of Elk shareholders
- Elk shareholder approval of the Merger (by at least 75% of votes cast and 50% of shareholders voting)
- Each holder of Elk Unlisted Options, Elk Performance Rights and Elk Retention Rights entering into a separate Cancellation Deeds with Elk
- No material adverse change in respect of Metgasco or Elk, no prescribed occurrences regarding Elk
- Metgasco securing an amount of additional funding on acceptable terms by 31 March 2015. Metgasco has met with several financiers in the USA and Australia who have indicated interest

The Merger Implementation Deed (MID) also includes customary deal protection clauses including mutual break fees and no shop and no talk provisions, as well as termination rights, obligations of the companies in the lead up to implementation and various other standard provisions relevant to the Merger¹

1. The full terms of the MID are appended to the transaction announcement that has been released to the ASX

- Metgasco has agreed to provide Elk with a A\$2.5 million convertible loan facility to assist with the company's immediate funding requirements
- The loan is convertible to ordinary shares in Elk at Metgasco's election based on the Volume Weighted Price (VWAP) for the ordinary shares for the 20 day period up to the conversion date subject to a cap of \$0.047 per Elk share
 - Timeframe governed by the listing rules
- The loan is to be repaid on the within 30 days of the MID being terminated by Metgasco or Elk

Other standard terms typical for a loan of this nature have been agreed and reflected in the loan documentation

Overview of Metgasco



- 100% owned 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

- Large CSG resources and further gas resource potential
 - Certified 2C contingent resources of 4,428 BCF

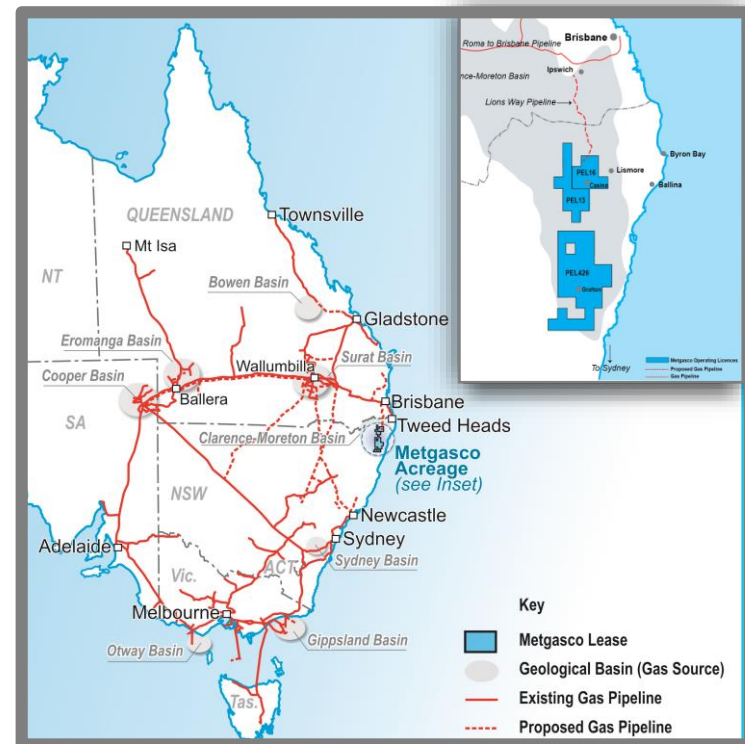
- NSW and eastern Australia face higher gas prices and potential supply shortfall

Capital Structure

ASX code	MEL
Share price (at 19 December, 2014)	\$0.041
Market Capitalisation (million)	\$18
Shares on Issue (million)	444
Options on Issue (million)	1.5
Cash forecast at 31 December 2014 (million)	\$9
Debt	Nil

Major Shareholders

ERM	12.7%
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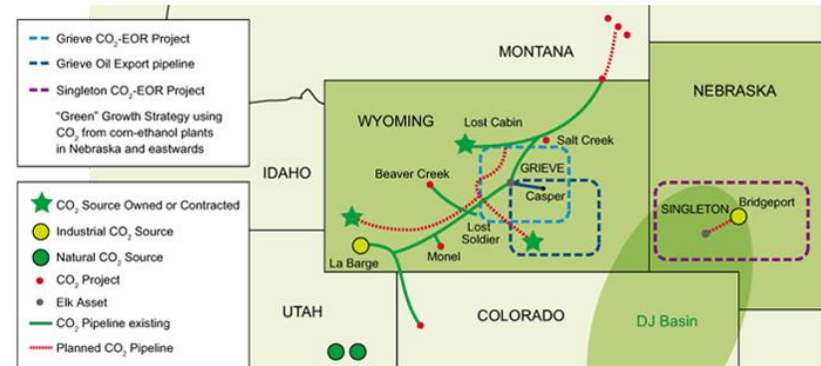


Overview of Elk Petroleum's Assets

The Grieve Project (EOR)

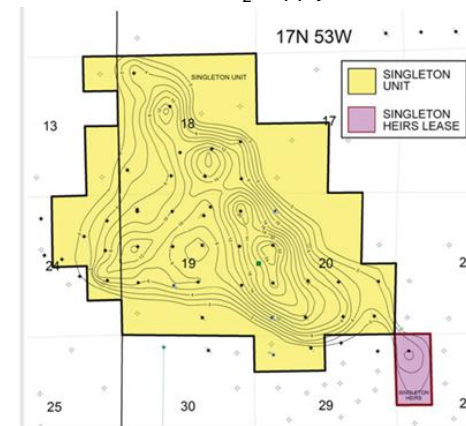
Location	<ul style="list-style-type: none"> Located in the Wind River Basin approximately 50 miles west of Casper in Wyoming, USA
History	<ul style="list-style-type: none"> Discovered in the 1950s the field has produced 30.2MMbbl (44% recovery) with a peak rate of 12,000 BOPD in 1960
Joint Venture (JV)	<ul style="list-style-type: none"> Denbury 65% (operator)
Phase	<ul style="list-style-type: none"> Development phase Over US\$70 million spent by JV to date
Injection to date	<ul style="list-style-type: none"> Over 6MMbbl of water (since May 2013) 12 Bcf of CO₂ (since March 2013) Original reservoir pressure of 3000 psi (currently over ~1,500 psi)
Production	<ul style="list-style-type: none"> Oil production expected to commence early 2017 (expected to peak at 7,000 bopd gross in 2019)
Volumetrics	<ul style="list-style-type: none"> STOOIP remaining estimated at 37.6 MMbbls (13.16 MMbbls net) Ryder Scott 2P reserves of net 6.5 MMbbls (Elk share) <ul style="list-style-type: none"> Project reserves economic at a range of reserve outcomes
CO₂ Contract	<ul style="list-style-type: none"> CO₂ supply sourced from the nearby LaBarge field

Location of Grieve Project



Other Exploration/ Development

- Singleton field potential:
 - CO₂ EOR project in Nebraska
 - Reservoir engineering studies show potential for 2 to 4 mmstb recovery
 - Lease secure and CO₂ supply contracted



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- This presentation should be read in conjunction with other publicly available material. Further information including historical results and a description of the activities of Metgasco is available on our website, www.metgasco.com.au.
- **ASX Listing Rule 5.42 Disclosure**
- Reserves have been certified by Mr Tim Hower of MHA Petroleum Consultants (Denver) who is a qualified petroleum reserves and resources evaluator 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.