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QUARTERLY ACTIVITIES REPORT

PERIOD ENDED 30 JUNE 2019

SUMMARY

Key activities during the quarter ended 30 June 2019 (**Quarter**) comprised:

- On 22 May Metgasco executed a Heads of Agreement with Vintage Energy Ltd (ASX: VEN) (**Vintage**) to farm-out 50% and operatorship of its Cooper-Eromanga Basin asset ATP2021. The Farm-Out Agreement terms provides for Vintage to fund 65% of the first exploration well drilled, reimburse 65% of past licence costs and 100% carry a 2D/3D seismic re-processing project.
- SM74-D14 Drilling operations commenced 15 May 2019 and as at 30 June 2019, was drilling ahead at a depth of 13,780 feet Measured Depth (12,872 feet True Vertical Depth) planning to drill to a depth of 16,747 feet Measured Depth (14,726 feet True Vertical Depth)
- The Company continued to seek new exploration, development and production opportunities and at the end of the Quarter due diligence was significantly advanced on one opportunity and discussions with the owner of the asset continue.
- On ATP2020 a seismic re-processing project was undertaken and the new data is currently being incorporated to better define the Loki well lead. Discussions with interested farm-in partners continue at Quarter end.

Material developments since 30 June 2019 are as follows:

- On 2 July Metgasco successfully executed a Farm-Out Agreement including a Joint Operating Agreement (**JOA**) with Vintage, as per the terms of the Heads of Agreement signed on 22 May, over ATP 2021 in the Cooper Basin;
- On 5 July the SM74 D14 BP1 exploration well was drilled to a total depth of 14,933 Measured Depth (13,591 True Vertical Depth) having logged wet sands in the primary objectives and failed to identify commercial quantities of hydrocarbons. Because the first two primary objectives were wet and due to difficult hole conditions, it was decided not to drill deeper and to plug and abandon the well;
- On 18 July Metgasco finalised exposure to the SM74 drilling program cost exposure by reaching a commercial agreement with Byron Energy Limited (ASX:BYE) (**Byron**) on terms which it considers to be fair and reasonable; and
- On 15 July Metgasco received an unsolicited, conditional takeover offer from Melbana Energy Limited (ASX:MAY) (**Melbana**).

The Quarter's activities (and material developments since 30 June 2019) are outlined below:

Byron Energy Limited shareholding:

At the end of the reporting period, Metgasco owned approximately 6% of BYE and also held 10 million options over Byron ordinary shares with a strike price of \$0.25, exercisable up to 21 July 2019.

Subsequent to the Quarter, pursuant to commercial agreement reached with Byron in relation to SM74 drilling program cost exposures, these options were exercised on 18 July 2019 (see below).

After exercise, Metgasco now owns 50,333,383 BYE shares, representing 7.14% of Byron's issued capital. The market value of these shares, based on Byron's closing price of A\$0.245 as at 29 July 2019, is approximately A\$12.3m, representing an unrealised gain of approximately A\$9million.

South Marsh Island Block 74:

Metgasco farmed into the SM74 prospect in 2018 by agreeing to fund 40% of drilling costs to earn a 30% interest. On 1 April 2019 Metgasco remitted to SM74 operator, Byron, USD\$4,393,590, being its share of budgeted drilling costs for the SM74 deviated well, representing 40% of the well AFE (USD \$11,419,400). The drilling rig arrival at SM74 was delayed due to operational delays with the preceding operator's well.

The SM74 D-14 exploration drilling operations commenced 15 May and drilling continued through the 1st primary reservoir target to a depth of 14,423 feet measured depth (**MD**) where the drilling assembly became stuck in the hole. An open-hole cement plug was set to facilitate side-track drilling around the stuck drilling assembly.

The well was drilled to a total depth of 14,933 feet MD and, through the use of real-time gamma and resistivity logging tools, the well bore was deemed uncommercial and the decision was taken to plug and abandon.

The well was in the process of being plugged and abandoned when Tropical Storm Barry resulted in an evacuation of rig personnel delaying operations for several days.

On 18 July Metgasco finalised its exposure to SM74 drilling program costs, after negotiation, by reaching commercial agreement with Byron on terms which it considers to be fair and reasonable as follows:

- Metgasco will pay Byron AUD \$1.75 million to settle its exposure to the additional costs, on a capped basis (i.e., no liability to further cost overruns), with payment by 30 September 2019; and
- Metgasco agreed with Byron to exercise the 10 million options it holds over BYE shares in accordance with its previously advised intention (see announcement 31 May 2019 (*Metgasco: Update on Funding Position*)). The exercise of these options was completed in accordance with the option terms (see above).

Byron faced significant challenges during the drilling of the SM74 deep prospect. The concerted efforts of Byron's staff, external advisors, vendors and providers allowed the bypass well to be safely and efficiently drilled to a depth sufficient to test the prospect.

The Board of Metgasco is certain that the commercial agreement reached with Byron delivered a more attractive outcome to Metgasco's shareholders than any practicable alternative open to the Company.

Metgasco remains a 30% owner of the SM74 Licence having met its farm-in drilling commitment.

Bivouac Peak Licences:

Due to the unsuccessful outcome of the 2018 exploration well Weiss Adler #1 the Bivouac Peak state leases were relinquished during the December 2018 quarter and the private leases were relinquished.

Cooper /Eromanga Basin Exploration Blocks:

ATP2021 Farm-Out Agreement:

The Farm-Out Agreement has been executed as per the terms in the binding Heads of Agreement signed on 22 May 2019 and provides for Vintage to earn a 50% interest (and operatorship) in Metgasco's Cooper-Eromanga Basin licence ATP2021. The Farm-Out Agreement terms provide for Vintage to:

- Fund 65% of the first exploration well drilled, up to a maximum gross cost of \$5.3 million (with Vintage's share being up to \$3.445 million);
- Reimbursement of 65% of past licence exploration costs (\$527,800) or carry Metgasco for the first \$527,800 of exploration costs; and
- Fund up to \$70,000 of 2D/3D seismic re-processing currently scheduled to better identify expected shallow oil targets on the block (see ASX announcement "Technical Activities update" 25 February 2019).

The Farm-Out Agreement is binding, and the transfer of the 50% interest in ATP2021 is conditional on ministerial approval and license registration, which is anticipated imminently.

Vintage and Metgasco are finalising the licence budget for FY19/20 and has initiated drilling planning on the Vali exploration prospect with a best endeavours plan to drill in Q4 of CY 2019.

The joint venture partnership entered into with Vintage provides the following key benefits to Metgasco shareholders:

- Vintage's team is well regarded by the Metgasco Board and has significant Cooper Basin technical and operational experience;
- The signing of the Farm-Out Agreement secures additional project funding to deliver drilling of one exploration well in Q4 2019; and
- Metgasco and Vintage have agreed to consider other potential areas of mutual interest.

ATP2021 (Figure 1 below) is a 370km² permit located on the Queensland side of the Cooper-Eromanga Basin and is highly prospective with drill ready prospects identified by 3D seismic. Within 20km of the permit boundary are oil and gas fields with associated pipelines and facilities that have produced over 600BCF of gas and 11MMbbl of oil.

During and subsequent to the Quarter Metgasco was approached by other parties expressing interest in further farming in to APT2021. Discussions are ongoing.

Figure 1 Location of ATP2021 and surrounding oil and gas fields and pipelines



Metgasco expects to update shareholders on the development timetable of ATP2021 in Q3 CY 2019 on approval of the FY19/20 licence budget. Metgasco plans to drill at least one well in Q4 CY 2019. The previously planned seismic re-processing to determine oil prospective resources was deferred to Q3 CY2019 due to being unable to access the original seismic tapes from the DNMRE or the previous licence operator.

ATP2020:

The seismic re-processing program was delayed in the Quarter due to the Company being unable to access original tapes from the DNMRE or the previous licence operator.

The seismic re-processing work was completed late in the Quarter and the seismic quality has improved the definition of the Loki lead. During the Quarter farm-out discussions in relation to ATP2020 continued and are ongoing with multiple interested and qualified parties.

Subject to the outcome of this work a decision will be made on whether to continue holding the licence.

PRL237:

During the Quarter an OCM was held with licence operator Senex and JV partner Cooper Energy.

It was agreed at the OCM meeting to defer any exploration activities on the PRL to FY 2021.

Corporate Activities:

Subsequent to the Quarter, on 15 July, Metgasco received an unsolicited, conditional takeover offer from Melbana offering 4 shares in Melbana for each share of Metgasco.

Metgasco thanked Melbana for its interest and recommends shareholders take no action pending a formal response and recommendation by the Company.

Efforts have been made to engage with Melbana's Independent Board Committee, assess the value of Melbana's assets and thus consider the attractiveness or otherwise of Melbana's potential bid. These efforts are ongoing.

Metgasco are taking the opportunity to confer with all key stakeholders as well as engage with other interested parties in order to ensure shareholders of the Company are fully informed and a comprehensive response and recommendation can be made in a timely fashion.

Metgasco actively reviewed two value accretive corporate transactions to enhance and expand the company's asset portfolio during the Quarter. All opportunities under review are in accordance with the corporate strategy announced in July 2018. At the end of the Quarter due diligence was significantly advanced on one opportunity and discussions with the owner of the asset continue.

The Metgasco Board held 6 meetings during the Quarter, in addition to a number of New Business Subcommittee meetings.

Cash position:

The Company ended the Quarter with a cash balance of A\$1.8 million and with no debt. Subsequent to the Quarter an obligation of A\$1.75m was incurred in relation to the finalisation of SM74 costs with the Operator, Byron, as outlined above.

The following is a reconciliation of the Company's cash position from 1 April 2019 to 30 June 2019:

	\$A'000
Cash at 31 March 2019	423
Net interest and investment income	42
Sale of investments	2,006
Exploration and evaluation expenditure	(325)
Overhead and administrative	<u>(343)</u>
Cash at 30 June 2019	<u>1,803</u>

Shareholders should note that the Company's other financial assets, including Exchange Traded Bonds (yield investments) of approx. A\$1.4 million as well as the Company's shareholding in Byron (approx. A\$11.7 million as at 30 June 2019) and options over Byron, are not included in the Company's cash position disclosure above.

Subsequent to the Quarter, as outlined above, the Company, in accordance with its commercial agreement with Byron to finalise financial exposure to the SM74 drilling program, has exercised its 10 million options over Byron shares at a cost of A\$2.5m.

Metgasco has funded the take up of these shares via its cash reserves and realisation of yield investments.

Metgasco has several options available to it to meet its additional cash needs in the September Quarter, which comprise the A\$1.75m deferred obligation it has negotiated with Byron (due September 30 2019) and forward commitments on ATP2021 (and ATP2020).

Possible options include:

- (i) sale of marketable securities;
- (ii) a further farm-down of one or more of its ATP assets;
- (iii) raising capital; or
- (iv) some combination of the above.

Shareholder base:

At 30 June 2019, Metgasco had 390,601,434 shares on issue and 2,202 shareholders. Its top 20 holders held 231,467,716 shares or 59.26% of the Company's issued capital.

Certified Reserves / Resources:

The Company announced prospective resources in the Cooper/Eromanga Basin on 26 November 2018.

Outlook - work program for next quarter:

The Company expects to agree the FY19/20 budget with Operator Vintage on the ATP2021 permits. Work continues on the analysis of the re-processed seismic data and farming-out the ATP2020 permit.

Metgasco will discuss any future SM74 Licence prospectivity with Licence operator Byron and decide whether to remain as a JV partner in the Licence

Metgasco will continue to make prudent and appropriately sized investments in energy exploration assets, where these represent a compelling risk/return proposition and are in accordance with our 2018 corporate strategy. The Metgasco team will continue to review potential value-adding corporate and asset opportunities in accordance with that strategy.

ENDS

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