

19 September 2014

Asset update

Metgasco Limited (ASX: MEL) announces that in light of the uncertainty arising from the political environment in New South Wales and its impact on the business environment for energy exploration and production companies, the Board of Metgasco has:

- formally assessed the amount of capitalised exploration and evaluation expenditure included as an asset on the Company's balance sheet, and has determined as a matter of prudent judgement that this amount should be impaired to nil; and
- decided to reclassify its gas reserves as resources.

Commenting on the asset impairment and reserves reclassification, Metgasco's Managing Director, Mr Peter Henderson said: "The Board fully considered these accounting matters and considered that the changes are appropriate to properly reflect the state of Metgasco's New South Wales business interests. The Company's current share price indicates that the financial market has already recognised the New South Wales political climate and its effects on Metgasco. Despite the asset impairment and reserves reclassification, Metgasco remains committed to pursuing the significant gas potential in its New South Wales exploration licences."

The decisions taken by the Board reflect the immediate business environment in New South Wales. There is a strong market for gas on the East Coast of Australia with high prices and possible shortages looming. However, the actions of the NSW Government over the last three years have been contradictory and damaging to the energy industry. On one hand, there have been strong statements by Government Ministers that recognise the need for a NSW gas industry and energy supply security. On the other hand, the actions of the Government have consistently hurt the industry, with repeated delays to licence renewals, a range of arbitrary new regulations, and a confusing series of bureaucratic changes.

More recently, in May this year, the Government suspended Metgasco's drilling approval for a conventional and tight gas well, only days before the drill rig was to be mobilised. This action, without warning of any kind, was taken by the Government on the basis that Metgasco had not met its obligations to consult with the community. Metgasco believes this was completely without foundation as Metgasco had conducted its consultation program in accordance with the Government's guidelines. Metgasco also believes the suspension action was not within the Government's rights and that, even if it had been, the proper process was not observed. The suspension caused Metgasco to incur considerable costs and reduced the Company's share price by 40%.

Metgasco has commenced legal action in the NSW Supreme Court to have the situation corrected. It has also entered into direct discussions with the Government to resolve the matter.

Metgasco's depressed share price is a clear indication that the investment community is not confident in the NSW Government's resolve to support gas exploration in the state. Under these circumstances and with court action underway against the NSW Government, Metgasco's Board concluded that there is significant uncertainty as to the timing of development of its gas resources in the Northern Rivers region.

On the basis of the above, as part of its preparation of its annual accounts, Metgasco's Board determined that it was appropriate to reduce the value of previously capitalised exploration and evaluation expenditure

to nil, and reclassify its reserves to resources. This is despite the Company's confidence in NSW needing its gas supply and in the medium term development of the Company's coal seam gas resources.

Although there remains a degree of uncertainty regarding the timing of recommencement of exploration activity in the Company's exploration licence areas, Metgasco remains committed to its plans to evaluate the potential of the conventional and tight gas resource at Rosella and to progress the appraisal and commercialisation of its discovered CSG resources elsewhere in the area.

Metgasco's 2014 financial statements, which will be issued before 30 September this year, will reflect these decisions.

Certified Reserves and Resources

The following table shows the changes to Metgasco's reserves and resources. The Company's certifying agent, MHA Petroleum Consultants, has advised that the change is appropriate and that it will be possible to return to the previous reserve classification when there is more confidence in the NSW Government supporting gas development projects and confidence in the timing of a coal seam gas project.

Reconciliation of Reserve and Resource Movements

Independently certified gas reserves and resources – Petajoules (PJ) All reserves and resources are 100% owned by Metgasco				
Reserve and Resource Category – Petajoules (PJ)				
	1P (Proven)	2P (Proven + Probable)	3P (Proven + Probable + Possible)	2C Contingent Resource
Reserves & resources 1 July 2013	2.7	338	2,055	2,373
Reclassification of reserves to resources	(2.7)	(338)	(2,055)	2,055
Reserves & resources 30 June 2014	-	-	-	4,428

The estimates of gas reserves and resources have been prepared by Mr Tim Hower, and staff under his supervision, of MHA Petroleum Consultants (Denver). Mr Hower is chairman of MHA and has over 25 years of petroleum engineering experience and is a qualified person as defined under the ASX listing rule 5.11. Reserves and resources have been developed within the guidelines of the SPE. MHA has consented to the use of this information.

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