METGASCO LTD
AND THE ENTITY IT CONTROLLED
ACN 088 196 383

CONSOLIDATED FINANCIAL REPORT
HALF YEAR ENDED
31 DECEMBER 2018

CONTENTS

1. REVIEW OF ACTIVITIES

The following is an overview of the Company's activities during the half year ended 31 December 2018.

- Metgasco performed a strategic review and announced an updated corporate strategy in July 2018;
- In July 2018, the Company entered into agreement with Byron Energy Limited to farm-in to the South Marsh Island Area Block 74 ("SM74"). The SM74 prospect addresses gross (unrisked) Prospective Resources of 5.2 million barrels of oil and 13 Bcf of gas. Metgasco is participating to a working interest ("WI") of 30% via funding 40% of the cost of the Initial Test Well;
- The Cooper/Eromanga basin exploration blocks ATP2021 and ATP2020 were awarded in May 2018 and sub-surface technical and commercial evaluation of the permits was carried out through the 2nd half of the year. Farm-out discussions commenced in October 2018. Several companies have reviewed the data room information and discussions are ongoing;
- Metgasco's sub-surface work on ATP2021 has confirmed two 3D seismically defined conventional gas prospects. Prospective resources were announced on 26 November 2018 and are shown in the tables below;

Vali Prospect	Low (P90)	Best (P50)	High (P10)
Net OGIP (Raw) Bcf	**6.6**	**26.3**	**101.2**
Net Recoverable Gas (Raw) Bcf	**4.8**	**19.0**	**72.9**

Odin Prospect	Low (P90)	Best (P50)	High (P10)
Net OGIP (Raw) Bcf	**3.8**	**12.0**	**37.8**
Net Recoverable Gas (Raw) Bcf	**2.7**	**8.7**	**27.2**

- The Weiss Adler et al No-1 well (MEL 10% interest) commenced drilling in August 2018 and was plugged and abandoned in October, having been deemed non-commercial. The exploration drilling program was managed by Byron Energy Ltd;
- In October 2018, a jack-up drilling rig contract was executed by Byron Energy Ltd. The rig is currently scheduled to spud the Initial Test Well in SM74, which will be drilled on the Raptor prospect in early March 2019;
- A further two A$1.0 million principal repayments (along with interest) were received from Byron Energy during the 2nd half of the year in respect of the Company's convertible note debt facility (Byron Facility);
- In August 2018, Mr. Amery was appointed as Executive Chairman following the resignation of Mr. Lang. The Board of Metgasco is appreciative of Mr. Lang's efforts during his time in the Board;
- In September 2018 Metgasco elected to convert $1.0 million of its remaining convertible notes into Byron Energy shares;
- In September 2018, Mr. Ken Aitken was appointed as Executive Director;

- On 27 November 2018 Mr. Aitken resigned from the position of Executive Director and assumed the position of CEO;
- Metgasco's Annual General Meeting was held on 28 November 2018 and all resolutions were approved; and
- Technical and commercial evaluation of new energy sector opportunities progressed.

2. DIRECTORS' REPORT

Your Directors present their report together with the consolidated financial statements of Metgasco Ltd ("Metgasco" or "Company") and its controlled entities (Collectively referred to as "the Group") for the half year ended 31 December 2018.

Directors

The names of persons who were Directors of Metgasco at any time during the half year and up to the date of this report are as follows:

Mr Philip Amery - Non-Executive Director, Chairman (since 7 August 2018)
Mr John Patton - Non-Executive Director
Mr Robbert Willink - Non-Executive Director
Mr Alexander Lang - Executive Chairman (Resigned 7 August 2018)
Mr Ken Aitken – Executive Director (from 4 September 2018. Resigned 27 November 2018)

Principal Activities

Metgasco's principal activity is investment in the exploration, appraisal, development and commercialisation of oil and gas assets. The Group is also seeking additional investment opportunities.

Review of Operations

Information related to the operational performance of the Group is provided on page 3 of this Half Year Report.

Financial Results

The operating loss for the period was $8.589 million which included an unrealised loss from its investment in Byron Energy Limited of $5.495 million, impairment costs following the unsuccessful drilling programme at the Weiss Adler et al No. 1 well and unfavourable fair value movement of $1.166 million in respect of 10 million Byron Energy Limited options.
The Group ended the period with a cash balance of $5.678 million and no debt. The cash balances were held as cash at bank. Other financial assets of the Company are detailed in the Consolidated Statement of Financial Position (Page 8) and the accompanying notes.

Likely Developments

The Company is actively seeking a farm-in partner for the Cooper Basin ATP2021 & ATP2020 permits.

The Company continues to seek new exploration, development and production opportunities within 2019.

Significant Events Subsequent to 31 December 2018

There have been no significant events after the reporting date other than the following:

- An additional A$1.0 million principal repayment (along with interest) of convertible notes from Byron Energy Limited occurred on 22 January 2019, in line with the note schedule.

- In January 2019, Metgasco elected to convert the remaining A$1.0 million of its remaining convertible note in Byron Energy into shares, finalising its secured funding facility loan in Byron Energy Limited.

No other matters or circumstances have arisen since the end of the half year which significantly or may significantly affect the operations of the group, the results of those operations or the state of affairs of the Group in future financial years.

Auditor's Independence Declaration

A copy of the independence declaration by the lead auditor under Section 307C is included on page 6 to this Half Year Report.

Signed in accordance with a resolution of the Directors.

Dated at Sydney on 1 March 2019.

Philip Amery
Chairman

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Auditor’s Independence Declaration

To the Directors of Metgasco Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Metgasco Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

N P Smietana
Partner – Audit & Assurance

Sydney, 1 March 2019

4. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

		Consolidated Entity Half Year	
	Note	**31 December 2018**	**31 December 2017**
		$	**$**
Interest income	4	303,515	602,130
Other income	4	247,154	494,456
Fair value movement derivative asset	7	(1,165,828)	1,069,578
Fair value movement on long term investments	5	(5,495,787)	-
Depreciation		(1,784)	-
Professional fees		(62,501)	(68,920)
Impairment of capitalised exploration costs	8	(1,815,259)	(684,400)
Administration expenses		(598,850)	(581,095)
(Loss) / Profit before income tax expense		**(8,589,340)**	**831,749**
Income tax expense		-	-
Net (Loss) / Profit after tax from continuing operations		**(8,589,340)**	**831,749**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Gain on fair value of listed securities		-	7,579,400
Loss on fair value movement in traded bonds	5	(11,850)	-
Total comprehensive income for the half year		**(8,601,190)**	**8,411,149**
Earnings per share attributable to ordinary equity holders of Metgasco Ltd			
		$	**$**
Basic (loss) / profit per share (cents)	12	(2.192)	0.257
Diluted (loss) / profit per share (cents)	12	(2.192)	0.257

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

5. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Consolidated Entity 31 December 2018 $	30 June 2018 $
Assets			
Current assets			
Cash and cash equivalents		5,677,894	6,777,906
Short term investments	5	2,104,808	2,116,658
Trade and other receivables		105,924	144,620
Secured convertible note	6	2,058,962	3,935,884
Total current assets		**9,947,588**	**12,975,068**
Non-current assets			
Exploration and evaluation expenditure	8	1,312,940	534,987
Plant and equipment		7,303	9,087
Other receivables		24,000	24,000
Secured convertible note	6	-	975,951
Financial derivative asset	7	382,650	1,548,478
Long term investments	5	8,957,648	13,453,435
Total non-current assets		**10,684,541**	**16,545,938**
Total assets		**20,632,129**	**29,521,006**
Liabilities			
Current liabilities			
Trade and other payables		134,066	291,613
Total current liabilities		**134,066**	**291,613**
Non-current liabilities			
Provisions		16,650	14,576
Total non-current liabilities		**16,650**	**14,576**
Total liabilities		**150,716**	**306,189**
Net assets		**20,481,413**	**29,214,817**
Equity			
Contributed equity	10	111,100,469	111,232,683
Financial assets at FVOCI reserve		(73,849)	-
Available for sale reserve		-	10,800,645
Accumulated losses		(90,545,207)	(92,818,511)
Total equity		**20,481,413**	**29,214,817**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

6. CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Consolidated Entity Half Year	
	31 December 2018 $	31 December 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(801,553)	(661,540)
Other income	30,000	95,641
Interest received	385,967	614,511
Net cash (outflow) / inflow from operating activities	**(385,586)**	**48,612**
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditure on exploration, evaluation and decommissioning	(2,593,212)	(572,576)
Purchase of listed investments	-	(4,831,447)
Repayment of convertible note facility	2,000,000	1,000,000
Security bond movement	11,000	-
Net cash (outflow) from investing activities	**(582,212)**	**(4,404,023)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Return of capital	(132,214)	-
Net cash (outflow) from financing activities	**(132,214)**	**-**
NET DECREASE IN CASH AND CASH EQUIVALENTS HELD	**(1,100,012)**	**(4,355,411)**
Net cash at beginning of period	6,777,906	10,197,415
NET CASH AT END OF PERIOD	**5,677,894**	**5,842,004**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

7. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Contributed Equity	*Accumulated Losses*	*Available for Sale Reserve*	*Financial Assets at FVOCI reserve*	*Total Equity*
	$	*$*	*$*	*$*	*$*
At 1 July 2017	**111,562,703**	**(93,839,786)**	**-**	**-**	**17,722,917**
Profit for the period	-	831,749	-	-	831,749
Other Comprehensive Income	-	-	7,579,400	-	7,579,400
Sub-total	-	831,749	7,579,400	-	8,411,149
At 31 December 2017	**111,562,703**	**(93,008,037)**	**7,579,400**	**-**	**26,134,066**
Loss for the period	(330,020)	189,526	3,221,245	-	3,080,751
At 30 June 2018 (reported)	**111,232,683**	**(92,818,511)**	**10,800,645**	**-**	**29,214,817**
Adjustment from adoption of AASB9	-	10,862,644	(10,800,645)	(61,999)	-
Adjusted balance at 1 July 2018	111,232,683	(81,955,867)	-	(61,999)	29,214,817
Loss for the period	-	(8,589,340)	-	-	(8,589,340)
Other Comprehensive Income	-	-	-	(11,850)	(11,850)
Sub-total	-	(8,589,340)	-	(11,850)	(8,601,190)
Share buyback	(132,214)	-	-	-	(132,214)
At 31 December 2018	**111,100,469**	**(90,545,207)**	**-**	**(73,849)**	**20,481,413**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

8. NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2018

Note 1. Summary of Significant Accounting Policies

These condensed interim financial statements of Metgasco Ltd ("Metgasco" or "Company") and its controlled entity (Collectively referred to as "the Group") for the half year reporting period ended 31 December 2018 have been prepared in accordance with AASB134 "Interim Financial Reporting" and the Corporations Act 2001.They are presented in Australian Dollars ($) which is the functional currency of the parent company. The historical cost basis has been used.

These interim financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the annual financial statements. Accordingly, these half year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2018 and any public announcements made by Metgasco during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these half year financial statements as those employed in the Group's annual financial statements for the year ended 30 June 2018 with the exception of the application of AASB9 Financial Instruments and AASB15 Revenue from Contracts with Customers.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement requirements. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets. When adopting AASB 9, the Group has applied transitional relief and elected not to restate prior periods. Rather, differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

The reconciliation of equity for the impact of AASB9 at 1 July 2018 is disclosed in the statement of changes in equity and described below in note b) and c).

The adoption of AASB 9 has mostly impacted the following areas:

- **Classification and measurement of the Group's financial assets**

a) Trade and other receivables are recorded at amortised cost. AASB9 does not have any measurement impact. The new impairment model applies but no adjustment was required at 1 July 2018.

b) Investments in traded bonds were previously recorded at fair value through profit or loss. This financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result, on application of AASB 9, investments in traded bonds will continue to be measured at fair value, however movements in fair value will be recorded through other comprehensive income. On 1 July 2018, the Company transferred $61,999, being the unrealised loss on fair value as at 30 June 2018, from retained earnings to a reserve account.

c) It was decided by management that listed securities, which previously met the definition of available for sale financial assets under AASB 139, will be measured at fair value through profit or loss as allowed under the new accounting standard (AASB 9). On 1 July 2018, the Company transferred $10,800,645, being the unrealised gain on fair value on listed investments as at 30 June 2018, from available for sale reserve to retained earnings.

d) Derivative assets continue to be measured at fair value through profit or loss. AASB9 does not have any impact.

e) Convertible notes were previously recorded at amortised cost. Since 1 July 2018, convertible notes are recorded at fair value through profit or loss. Management has assessed that the impact on the value would be minimal given the notes are convertible at a 10% discount of the market price and have an interest rate of 12%. These terms would be fairly similar if another entity was investing a large amount in the entity or was providing a loan to the entity.

- **Impairment of financial assets**

The Group's debt instruments carried at fair value through other comprehensive income (Debt FVOCI) are subject to AASB 9's new three-stage expected credit loss model. The traded bonds are considered to be low credit risk and therefore the impairment allowance is determined as 12 months expected credit losses. No impairment allowance was recognised for the corporate bonds.

- **New accounting policy – Financial instruments**

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories upon initial recognition:

- financial assets at amortised cost
- financial assets at fair value through profit or loss (FVPL)
- debt instruments at fair value through other comprehensive income (FVOCI)
- equity instruments at fair value through other comprehensive income (FVOCI)

Classifications are determined by both:

- The entity's business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as government bonds that were previously classified as held-to-maturity under AASB 139.

Financial assets at fair value through profit or loss (FVPL)

Financial assets that are held within a business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Debt instruments at fair value through other comprehensive income (Debt FVOCI)

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at FVOCI. Any gains or losses recognised in OCI will be recycled upon derecognition of the asset. This category includes bonds that were previously classified as 'available-for-sale' under AASB 139.

Equity instruments at fair value through other comprehensive income (Equity FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI. Under this category, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend income is taken to profit or loss unless the dividend clearly represents return of capital.

Impairment of financial assets

AASB 9's new impairment model use more forward looking information to recognize expected credit losses - the 'expected credit losses (ECL) model'. The application of the new impairment model depends on whether there has been a significant increase in credit risk.
The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:
• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess credit risk characteristics based on the days past due. The Group allows 1% for amounts that are 30 to 60 days past due, 1.5% for amounts that are between 60 and 90 days past due and writes off fully any amounts that are more than 90 days past due.

All financial assets, except for those at fair value through profit or loss (FVPL) and equity investments at fair value through other comprehensive income (equity FVOCI), are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets at fair value through other comprehensive income

The Group recognises 12 months expected credit losses for financial assets at FVOCI. As most of these instruments have a high credit rating, the likelihood of default is deemed small. However, at each reporting date the Group assesses whether there has been a significant increase in the credit risk of the instrument.
In assessing these risks, the Group relies on readily available information such as the credit ratings issued by the major credit rating agencies for the respective asset. The Group only holds simple financial instruments for which specific credit ratings are usually available. In the unlikely event that there is no or only little information on factors influencing the ratings of the asset available, the Group would aggregate similar instruments into a portfolio to assess on this basis whether there has been a significant increase in credit risk.
In addition, the Group considers other indicators such as adverse changes in business, economic or financial conditions that could affect the borrower's ability to meet its debt obligation or unexpected changes in the borrowers operating results.
Should any of these indicators imply a significant increase in the instrument's credit risk, the Group recognises for this instrument or class of instruments the lifetime expected credit losses.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.
The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.
Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

AASB 15 Revenue from Contracts with Customers

The Group adopted AASB 15 from 1 July 2018 but does not derive any revenue from its exploration activities at this stage, as such has not recognised any operating revenue to date. Eventually when the Group starts generating revenue, revenue will be recognised in accordance with AASB 15. Therefore there is no impact from the transition from AASB118 to AASB 15.
The judgements, estimates and assumptions applied in the interim financial statements including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2018.

The interim Financial Statements have been approved and authorised by the Board of Directors on 1 March 2019.

Note 2. Significant Events and transactions

The Cooper/Eromanga basin exploration blocks ATP2021 and ATP2020 blocks were awarded in May 2018 and sub-surface technical and commercial evaluation of the permits was carried out through the 2nd half of the year. Farm-out discussions commenced in October 2018. Several companies have reviewed the data room information and discussions are ongoing.
Metgasco's sub-surface work on ATP2021 has confirmed two 3D seismically defined conventional gas prospects. Prospective resources were announced on 26 November 2018.
The Weiss Adler et al No-1 well (MEL 10% interest) commenced drilling in August 2018 and was plugged and abandoned in October, having been deemed non-commercial.
In accordance with the terms of the Convertible Note Deed, the Company received the two instalments of A$1.0 million from Byron Energy in July and October 2018 in relation to the loan facility, and an instalment of A$1.0 million was received on 22 January 2019.

The Company continued with its strategy of reviewing a number of opportunities in the Oil & Gas sector and each opportunity has been reviewed for its potential to deliver short term reliable returns, long term growth opportunities and an appropriate risk / reward balance.

Note 3. Segment Information

The operations of the Group were conducted wholly within Australia.

The group has adopted AASB 8 *Operating Segments* from 1 July 2009 whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the executive management team that makes strategic decisions.

The Company is operated under one business segment which is investment in the exploration, appraisal, development and commercialisation of oil and gas assets.

Note 4. Interest Income and Other Income

	31 December 2018 $	31 December 2017 $
Interest income	303,515	602,130
	303,515	**602,130**
Other income	247,154	494,456
	247,154	**494,456**

Note 5. Investments

	31 December 2018 $	30 June 2018 $
Investment in listed securities (non-current)		
Opening balance	13,453,435	-
Acquired during the period	1,000,000	2,652,790
Movement in fair value	(5,495,787)	10,800,645
	8,957,648	**13,453,435**
Investment in traded bonds (current)		
Opening balance	2,116,658	-
Acquired during the period	-	2,178,657
Movement in fair value	(11,850)	(61,999)
	2,104,808	**2,116,658**

The Group adopted AASB 9 from 1 July 2018 and as a result had the following effect:

- Investments in traded bonds were previously recorded at fair value through profit or loss. This financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result, on application of AASB 9, investments in traded bonds will continue to be measured at fair value, however movements in fair value will be recorded through other comprehensive income. On 1 July 2018, the Company transferred $61,999, being the unrealised loss on fair value as at 30 June 2018, from retained earnings to a reserve account.
- It was decided by management that listed securities, which previously met the definition of available for sale financial assets under AASB 139, will be measured at fair value through profit or loss as allowed under the new accounting standard (AASB 9). On 1 July 2018, the Company transferred $10,800,645, being the unrealised gain on fair value on listed investments as at 30 June 2018, from available for sale reserve to retained earnings.

Note 6. Secured Convertible Note

	31 December 2018 $	30 June 2018 $
Current		
Secured convertible note - at amortised cost	-	3,935,884
Secured convertible note - at fair value	2,058,962	-
	2,058,962	**3,935,884**
Non-current		
Secured convertible note - at amortised cost	-	975,951
	-	**975,951**
Total		
Secured convertible note - at amortised cost	-	4,911,835
Secured convertible note - at fair value	2,058,962	-
	2,058,962	**4,911,835**

The secured convertible note advance was provided to Byron Energy Limited (ASX: BYE) on terms as detailed in announcements to the ASX dated 9th June 2016 and 22nd July 2016. The terms include a Facility Fee of 2.5%, a Line Fee of 2% and a coupon of 12% payable quarterly in arrears. The note is convertible by the Company at its election after eighteen months from initial drawdown.

From 1 July 2018, convertible notes are recorded at fair value. Please refer to Note 1) e) for further details.

Note 7. Financial Assets

The derivative asset relates to 10 million options granted by Byron Energy Limited to the Company on 21 July 2016 which are recorded at fair value at grant date based on an independent valuation. They are to be revalued at each reporting period with any change being recorded in the profit and loss. The options are non-transferable unlisted options with an exercise price of $0.25 per share and a three-year expiry. The assumptions used in the valuation are the following:

	At Grant Date	**At Balance Date**
Grant date	21 July 2016	21 July 2016
Expiry date	21 July 2019	21 July 2019
Share price	$0.17	$0.215
Volatility	95%	75%
Option life	3 years	3 years
Dividend yield	0%	0%
Risk free investment rate	1.49%	2.05%
Fair value at grant date	$879,900	-
Fair value at balance date	-	$382,650
Exercise price at date of grant	$0.25	$0.25
Exercisable from	20 Jul 2018	20 Jul 2018
Exercisable to	21 July 2019	21 July 2019
Weighted average remaining contractual life	3.0 years	0.6 years

Note 7. Financial Assets (continued)

	31 December 2018 $	30 June 2018 $
Fair value at the beginning of the half year	1,548,478	1,336,978
(Loss) / Profit on fair value movement of derivative asset	(1,165,828)	211,500
Total	**382,650**	**1,548,478**

Note 8. Exploration and Evaluation Expenditure

	31 December 2018 $	30 June 2018 $
Expenditure for the entities operations		
Movement during the financial period (at cost):		
Opening balance	534,987	121,477
Capitalised exploration expenditure	2,593,212	1,097,910
Impairment	(1,815,259)	(684,400)
Carrying amount at end of half year	**1,312,940**	**534,987**
Carrying amount - Australia	1,122,143	385,568
Carrying amount - USA	190,797	149,419
	1,312,940	**534,987**

Note 9. Contingent Assets and Liabilities

An amount of $24,000 is included in the consolidated statement of financial position under Trade and other receivables, relating to security deposits held by the Queensland Government. This amount is also disclosed as a contingent liability because these amounts may become payable if the Company does not meet certain conditions contained in legal agreements. The detail of the contingent liability is as follows.

<u>Classed as Trade and Other Receivables - Non-current</u>

Security bonds non-current $24,000

Note 10. Contributed Equity

	No of Shares		Value	
Ordinary Shares	**Half Year Ended 31 Dec 2018**	**Year Ended 30 June 2018**	**Half Year Ended 31 Dec 2018**	**Year Ended 30 June 2018**
Opening Balance	392,875,160	398,464,823	111,232,683	111,562,703
Shares cancelled	-	-	-	-
Return of capital /buyback	(2,273,726)	(5,589,663)	(132,214)	(330,020)
Closing Balance	**390,601,434**	**392,875,160**	**111,100,469**	**111,232,683**

Options (not quoted on ASX)	**No of Options Half Year Ended 31 Dec 2018**	**No of Options Year Ended 30 June 2018**
Opening balance	-	-
Exercised by employees	-	-
Options lapsed	-	-
Closing balance	-	-

Note 11. Fair value measurement

Fair value measurement of financial instruments

Financial assets measured at fair value in the statement of financial position are grouped into three (3) levels of fair value hierarchy. The three (3) levels are defined based on the observability of significant inputs to the measurement, as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2**: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3**: unobservable inputs for the asset or liability

The following table shows the levels within the hierarchy of financial assets measured at fair value on a recurring basis at 31 December 2018 and 30 June 2018:

31 December 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Exchange Traded Bonds	2,105	-	-	2,105
Listed Securities	8,958	-	-	8,958
Convertible Note	-	-	2,059	2,059
Derivative asset	-	-	383	383
Total assets	11,063	-	2,442	13,505
Net fair value	11,063	-	2,442	13,505

30 June 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Exchange Traded Bonds	2,117	-	-	2,117
Listed Securities	13,453	-	-	13,453
Derivative asset	-	-	1,548	1,548
Total assets	15,570	-	1,548	17,118
Net fair value	15,570	-	1,548	17,118

Note 12. Earnings Per Share

	31 December 2018	30 June 2018
Reconciliation of earnings used in calculating earnings Per share		
Basic earnings per share		
(Loss)/profit attributable to owners of Metgasco Ltd used to calculate basic	**(8,589,340)**	**1,021,275**
Diluted earnings per share		
(Loss)/profit attributable to owners of Metgasco Ltd used to calculate diluted earnings per share	**(8,589,340)**	**1,021,275**
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**391,848,763**	**398,010,451**
(Loss)/profit per share (cents)	**(2.192)**	**0.257**

There are no options.

Note 13. Interests in Tenements

As at 31 December 2018, the Company held a:

- 10% working interest (7.45% Net Revenue Interest) in the Bivouac Peak project as well as a 30% working interest (24.37% Net Revenue interest) in the SM74 block. Metgasco has been advised by the Operator, Byron Energy Limited., that the data collected from the Weiss-Adler #1 well is being used to further evaluate the prospectivity of the surrounding area and to gain a greater understanding of the adjacent Bivouac Peak Deep Prospect. Following completion of this evaluation work Byron Energy Limited. will review the impact on prospective resources previously assigned to Bivouac Peak;
- 30% working interest (24.37% Net Revenue interest in the SM74 block in the Gulf of Mexico); and
- 100% working interest and operator of Cooper Basin Licenses ATP2021 & ATP2020.

Note 14. Commitments

Metgasco entered into an agreement with Byron Energy on July 2018 to farm-in to the South Marsh Island 74 (“SM74”) project in the Gulf of Mexico. The SM74 prospect addresses gross (unrisked) Prospective Resources of 5.2 million barrels of oil and 13 Bcf of gas. Metgasco is participating in SM74 to a working interest (“WI”) of 30% via funding 40% of the cost of the Initial Test Well (“ITW” or “the well”) to casing point and certain leasehold acquisition costs. The well is expected to be drilled in March 2019, subject to rig availability. ITW drilling costs are estimated at USD $11,419,400, of which Metgasco’s expenditure will be USD $4,567,760.

In relation to our Queensland blocks, ATP2020 and ATP2021, the below table summarises Metgasco's commitments over the next five years

Minimum Exploration & Evaluation Expenditure for QLD Exploration Tenements	
Within one year	3,251,262
Year 2 to Year 4	22,213,663
Over 5 years	-
Total	**25,464,925**

Note 15. Events after the Reporting Date

There have been no significant events after the reporting date other than the following:

Byron Energy Funding Facility Loan

- An additional A$1.0 million principal repayment (along with interest) of convertible notes from Byron Energy Limited occurred on 22 January 2019, in line with the note schedule.

- In January 2019, Metgasco elected to convert the remaining A$1.0 million of its remaining convertible note in Byron Energy into shares, finalising its secured funding facility loan in Byron Energy Ltd.

No other matters or circumstances have arisen since the end of the financial year which significantly or may significantly affect the operations of the group, the results of those operations or the state of affairs of the Group in future financial years.

9. DECLARATION BY DIRECTORS

The Directors of Metgasco Ltd declare that:

1. The financial statements comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity and notes to the consolidated financial statements of the consolidated entity are in accordance with the Corporations Act 2001 and:

    (a) comply with Accounting Standards AASB134 Interim Financial Reporting; and

    (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Philip Amery
Chairman

Sydney, 1 March 2019

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Sydney NSW 2000

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Independent Auditor's Review Report

To the Members of Metgasco Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Metgasco Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of Metgasco Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Metgasco Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

N P Smietana
Partner – Audit & Assurance

Sydney, 1 March 2019

11. CORPORATE DIRECTORY

Directors:	Philip Amery	Chairman
	John Patton	Non-Executive Director
	Robbert Willink	Non-Executive Director

Chief Executive Officer: Ken Aitken

Company Secretary: Philip Mackey

Home Stock Exchange:
Australian Securities Exchange (ASX)
4 Bridge St
Sydney NSW 2000

ASX Symbol: MEL

Registered Office:
Level 12, 680 George Street
Sydney NSW 2000

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Website:	www.metgasco.com.au
Email	info@metgasco.com.au

Share Registry:
Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

Auditors:
Grant Thornton Audit Pty Ltd
Level 17, 383 Kent Street
Sydney NSW 2000

Bankers:
National Australia Bank
Level 17, 500 Oxford St
Bondi Junction NSW 2022

Australian Company Number: ACN 088 196 383

Australian Business Number: ABN 24 088 196 383

Date and Place of Incorporation: 22 June 1999, Sydney, Australia