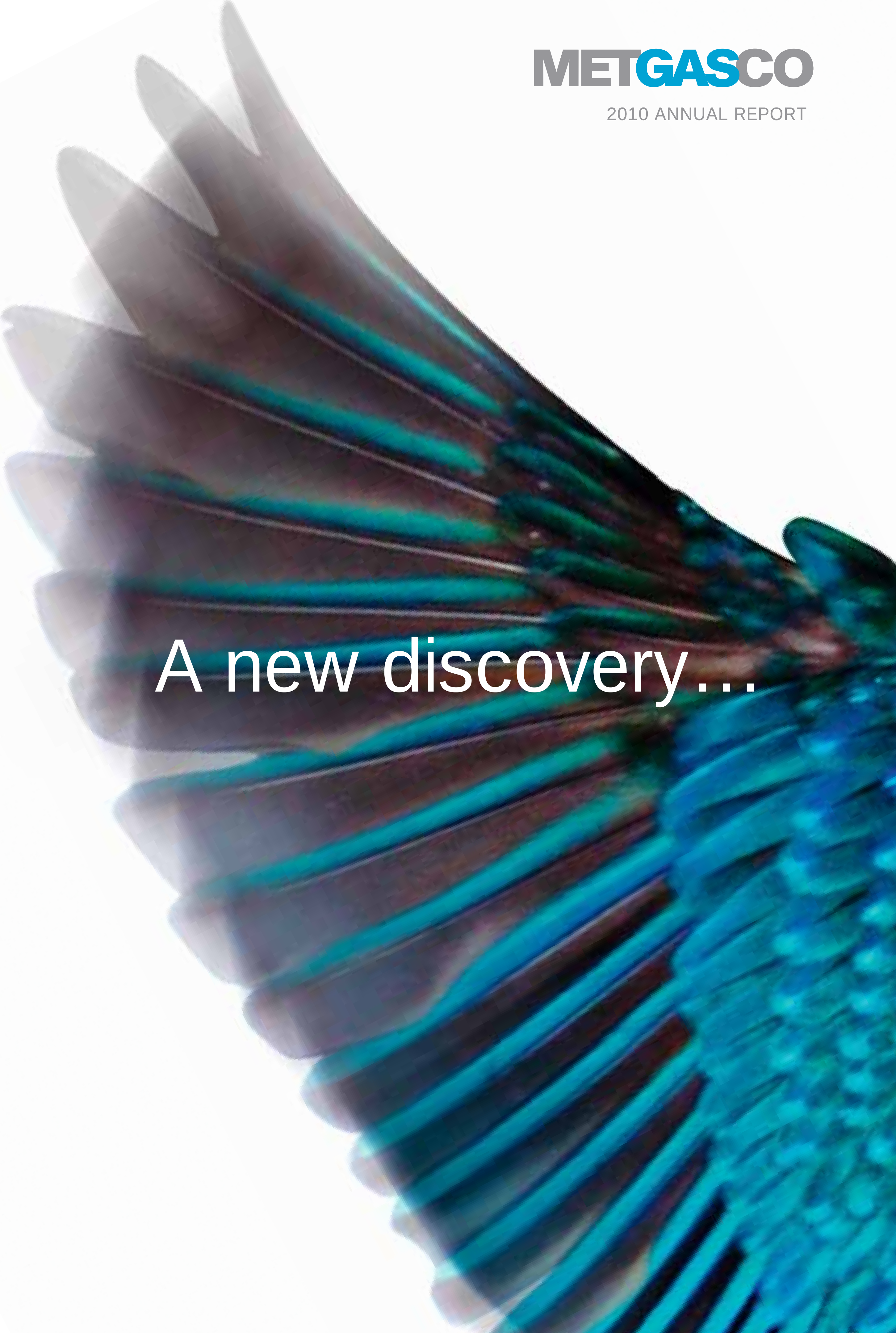
METGASCO

2010 ANNUAL REPORT



A new discovery…

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METGASCO LIMITED ACN 088 196 383

...the reward for focus & persistence.

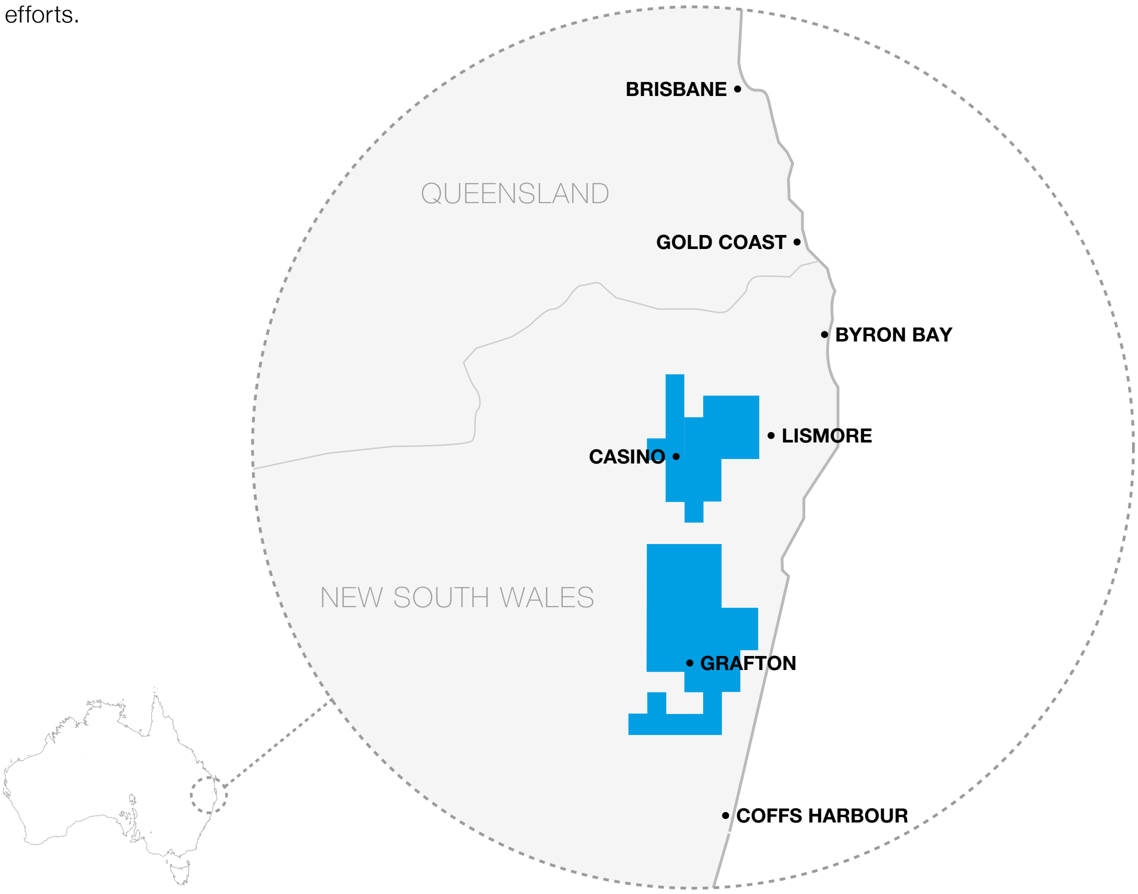
The first conventional well to be drilled by Metgasco - Kingfisher E01 – has resulted in an exciting gas discovery. With a contingent resource estimate of 80 PJ (P50) to 298 PJ (P10), the Kingfisher gas field is the largest onshore gas discovery in over a century of hydrocarbon exploration in New South Wales. This discovery was no accident. It was the result of several years of solid work in collecting, digitising, re-processing and re-interpreting historic seismic and well data. Kingfisher E01 is the first of a number of deep structural traps identified by Metgasco to be tested. We have an exciting portfolio of exploration prospects to be evaluated.

Metgasco is exploring, appraising and developing the vast gas resources of the Clarence Moreton basin in New South Wales. We have rapidly established a strong coal seam gas (CSG) reserve position and have now embarked on an exciting exploration program to test the hydrocarbon reservoirs which lie below the coal seam reservoirs.

Our coal seam gas is held in the Jurassic age Walloon Coal Measures which are being developed successfully in Queensland. Our coals average 29 metres in net coal thickness and are generally fully saturated with gas content of over 95% methane and very little measured carbon dioxide. We have now established a large 2P reserve position of 397 Petajoules in coal seam gas. These reserves have been established in less than 10% of our tenement area.

Metgasco holds the dominant acreage position in the Clarence Moreton basin in New South Wales. Our basin wide holdings provide unrivalled technical insight into the geological history and tectonic development of the basin. This capability informs our coal seam gas and conventional exploration efforts.

To capture value from our exploration activities, Metgasco is now exploring a number of commercialisation options. These include delivering gas to local customers, developing local gas fired power generation, the delivery of gas to customers to south east Queensland and the production of LNG. Both mini-LNG for transport and industrial customers and large scale export LNG projects are on our commercialisation agenda.



2010 ACHIEVEMENTS

Coal Seam Gas + Conventional Gas = A powerful combination

PEL 16 2P GAS RESERVES

↑33% PJ

397 Petajoules

PEL 16 3P GAS RESERVES

↑46% PJ

2,239 Petajoules

KINGFISHER E01 DISCOVERY

THE LARGEST CONVENTIONAL DISCOVERY IN NSW IN OVER A CENTURY OF EXPLORATION.

OVER 20 NEW LEADS AND PROSPECTS TO BE EVALUATED

1.4 Tcf

"The Clarence-Moreton Basin is host to a remarkable gas energy resource. For the benefit of shareholders and the wider community, Metgasco continues to seek the most cost-effective way to unlock its great potential."

The past year has seen Metgasco consolidate its strong position in the Clarence Moreton Basin and to reveal more of the exciting potential that lies ahead of us. We were able to take advantage of our Joint Venture partners' changing strategic focus, allowing us to raise to 100% our interest in all three key exploration permit areas. Coal seam gas (CSG) reserve upgrades and the confirmation of an important conventional gas discovery at Kingfisher E01 have boosted our confidence.

In the December quarter last year we drilled the Kingfisher E01 exploration well in PEL 16 and made the first ever significant conventional gas discovery in the Clarence Moreton Basin in NSW. Subsequent production testing of this well revealed a series of gas sands, some of which are tight and some which look to be good candidates for hydraulic fracturing. We have developed a long list of leads and prospects worthy of follow-up and a new 2D seismic program will provide an improved basis for further conventional gas exploration drilling.

Following the consolidation of our 100% interest across the three permits, an updated reserve analysis was commissioned and this resulted in strong reserve growth in 2P reserves to 397 Petajoules (up 33%) and in 3P reserves to 2,239 Petajoules (up 46%).

In the March quarter, exploration drilling was carried out in PEL 13 to the northwest of Casino at a location called Bowerbird E02. This well confirmed our thinking that the Walloon coals seen in the Casino area extend to Bowerbird E02 which is about 20 km to the northwest, significantly expanding the CSG potential of the area. A second well, Bowerbird E01, has confirmed the potential of the PEL 13 resource to the west.

The drilling of pilot development wells was interrupted in the March quarter when the drill string became stuck while drilling the horizontal well Corella P18. This was, of course, a great disappointment for us. However, in all new CSG provinces, there is a need to adopt techniques specific to that particular geology and we are determined to learn from these trials. Following a technical review, a plan was developed to re-drill the well using a different approach. Lessons learned will be applied to the drilling of further horizontal wells.

On the commercialisation front, we were pleased to receive approval from the NSW government for the development of our 30 MW Richmond Valley Power Station. We have acquired land for the power station and are now in a position to proceed with the project once we have obtained the relevant production permits and have put satisfactory commercial arrangements in place.

Given that the gas supply potential of our project area far exceeds future regional energy demand we have been planning construction of the Lions Way Pipeline to take gas into Queensland where we could access the southeast Queensland power and gas markets. There is also the potential for our gas to supply an LNG export project and we have been looking closely at this possibility, talking with both potential customers and LNG technology providers.

During the past year there have been several changes to the Board of your company. In October last year, Rick Wood retired after a number of years with Metgasco to allow more time to focus on his other interests. We thank Rick who helped greatly with the early establishment of Metgasco's operating capability. Steven Koroknay agreed to join the Board in January, 2010, and brings great technical and management experience from his years in our industry as a successful CEO and MD.

In mid 2010 Peter Power left the Board after deciding to reduce his board activities. To Peter we owe a great deal of thanks for his guidance and leadership of the Board during those early years as the company established itself. At the time of Peter's departure, I was asked to chair the Board and Len Gill agreed to join as a new non-executive director. The Board was very pleased that Len accepted this appointment, given his very relevant knowledge of the power and gas industry from both a commercial and management perspective.

Funding our exploration and development activities continues to be a challenge, particularly during times when the financial markets are volatile. During the year we initiated discussions with third parties to see if there was an attractive opportunity for us to farm out a portion of our interest in return for cash or a substantial work commitment. Those types of discussions continue to take place. In the meantime,

we completed a very successful Share Purchase Plan in late 2009 which raised $25 million, enabling us to continue our active exploration and development planning work. I would like to thank those shareholders who participated in this capital raising for their support.

Metgasco appreciates the considerable support we receive from the community which we operate in, including land owners, local and state regulatory authorities, as well as suppliers and service providers to our Casino operations. We are mindful that any decision to impose new forms of taxation on the CSG industry has the potential to seriously erode the benefits that our activities produce. For that reason we will work closely with governments and our industry colleagues to seek to avoid the imposition of a new tax on resources that is not in the community's and shareholders' long term interests.

Metgasco continues to operate with a very focused team. I would like to acknowledge the strong support given by my fellow Directors. The Management team, led by David Johnson, maintains a strong focus on the corporate strategy and at Casino a dedicated operations team manages ongoing field activities. In particular, the respect shown in the field for safety and environmental protection is commendable. On your behalf, I would like to acknowledge the ongoing efforts of all Metgasco's staff members.

The Clarence Moreton Basin is host to a remarkable gas energy resource. For the benefit of shareholders and the wider community, Metgasco continues to seek the most cost-effective way to unlock its great potential.

N.M. Heath

NICHOLAS HEATH
Chairman

"Metgasco has strategically developed both conventional and coal seam gas opportunities in parallel to best position the Company to enable large scale production."

I am pleased to report to Metgasco shareholders on a very productive 2010 financial year. As you can see from the list below, the Company has continued to grow due to a number of key developments achieved over the past year:

- Kingfisher E01 conventional gas discovery – the largest conventional onshore discovery in over a century of exploration in NSW
- Development approval achieved for the Richmond Valley Power Station from the NSW Government
- Further increase in coal seam gas reserves
- Acquisition of outstanding interests in PEL 13 and PEL 426 to have full ownership and operational control
- Expansion of the coal seam gas exploration program and commencement of planning for coal seam gas production wells
- Completed all environmental studies for the Lions Way Pipeline Project
- Completed heavily oversubscribed share purchase plan to raise $25 million.

The 2010 financial year saw Metgasco build on its already solid foundations, with the Company moving closer to achieving its vision of being a supplier of gas and power to the Australian East Coast power markets.

Demand for cleaner energy sources continues to build momentum. We see a very attractive opportunity for Metgasco to provide a bridge between coal and renewable energy sources for the East Coast. Domestic gas demand in both New South Wales and Queensland, currently around 300 PJ pa, is expected to grow significantly through the increased use of gas-fired generation to provide back-up supplies for government subsidised renewables. Similar domestic demand growth is expected across the entire eastern half of Australia from its current level of around 600 PJ pa. In addition, LNG exports from Queensland are scheduled to commence from around the middle of this decade. These could represent anywhere between one and three times existing eastern Australia gas demand. Metgasco is very well positioned to capitalise on this growing demand for cleaner energy.

The Company's vision of being a supplier of gas and power has been consistent from the time of listing. Metgasco has strategically developed both conventional and coal seam gas opportunities in parallel to best position the Company to enable large scale production. This strategy also enables the Company to progress its commercialisation plans in the shortest possible amount of time.

FIRST SIGNIFICANT CONVENTIONAL GAS DISCOVERY IN OVER A CENTURY OF EXPLORATION IN THE STATE OF NEW SOUTH WALES

In November 2009, Metgasco reported a major gas discovery with its Kingfisher E01 well. This is the largest conventional onshore discovery in over a century of exploration in New South Wales. We believe that this discovery is just the beginning of the conventional gas opportunity for Metgasco.

Kingfisher E01 is the first appraisal well of the Kingfisher field located in PEL 16 in the Clarence-Morton basin. The well was drilled in November 2009 and log data indicates a gross gas column of 138 metres. This well was drilled to a total depth of 2,090 metres and we now consider that further gas bearing zones are likely to be encountered below 2,090 metres. Metgasco's current contingent resource estimate for the Kingfisher gas field is 80 PJ (P50) and 298 PJ (P10).

Metgasco has spent the last six months undertaking an extensive reservoir testing program. The objective of the program was to examine reservoir characteristics such as permeability, gas composition and micro analysis of drill cuttings of different zones. The results from the well are considered to be highly encouraging.

Going forward, Metgasco will be focussing its efforts on further defining the extent of the structure and evaluating appropriate well completion techniques. Fracture stimulation on one of the upper zones is planned to be undertaken to provide additional reservoir information for design of a more detailed fracture stimulation program for a future production well. The Kingfisher field developments augur well for Metgasco's future conventional exploration initiatives.

LARGE PORTFOLIO OF CONVENTIONAL LEADS AND PROSPECTS IDENTIFIED

Last year, I advised shareholders on work we had completed to identify a portfolio of conventional leads and prospects in PEL 16. This year, our exploration team extended this work to review leads and prospects in PEL 13 and 426. We are ready to begin our 2010 seismic program, which has been delayed due to wet weather conditions. Once this program is concluded and subject to processing and seismic interpretation, Metgasco hopes to expand its conventional exploration program by drilling additional high priority structures.

FOCUSED STRATEGY PROVING GROWING RESERVES

In February 2010, Metgasco announced a significant increase in its coal seam gas reserves. Independent reserve certifiers confirmed gas reserves in the 2P category had increased 33% to 397 PJ, and gas reserves in the 3P category increased 46% to 2,239 PJ.

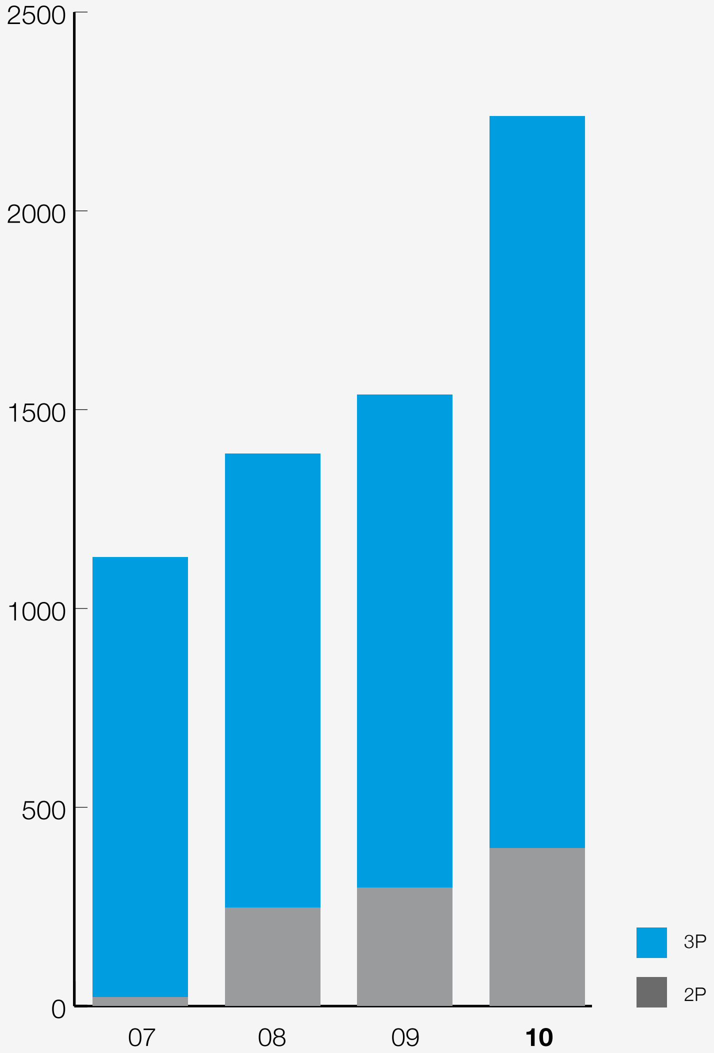
In addition, Metgasco recognised a contingent resource of 1,177 PJ in this license area. Metgasco has now commenced the reserve delineation process in PEL 13.

Metgasco has one of the largest independently certified gas reserve positions in New South Wales. The large scale of the Company's gas reserves demonstrates the significant potential of Metgasco's acreage in the Clarence Moreton basin to provide gas into growing markets.

With only six of the eleven graticular blocks on PEL 16 explored, there is further potential to add reserves with further drilling. Metgasco believes there are several areas within PEL 16 that contain similar coal seam gas resources to the areas where 2P reserves have been booked.

Metgasco is very optimistic about its expansive acreage

CERTIFIED RESERVES IN PEL 16 (PJ) - AS AT 28 DECEMBER 2009



The chart above describes gas reserves established by Metgasco in PEL 16. Work to delineate reserves in PEL 13 commenced this year with the drilling of Bowerbird E01 and Bowerbird E02. However, at the date of this report, reserves in this PEL had not been recognised. Limited work has been undertaken in PEL 426 with respect to reserve delineation. All reserves are 100% owned by Metgasco.

Reserves have been certified by Mr Tim Hower of MHA Petroleum Consultants (Denver) who is a qualified person as defined under the ASX Listing Rule 5.11. Reserves have been developed within the guidelines of the Society of Petroleum Engineers.

of over 4,600 km² in the Clarence Morton basin. This development acreage covers the prime Walloon Coal Measures, the subject of considerable success in the Surat Basin in South East Queensland. We have commenced the reserve delineation process in PEL 13 with the drilling of Bowerbird E01 and Bowerbird E02 core wells, both of which have resulted in good volumes of coal sampled. Isotherm analysis to determine gas content and permeability testing to determine production characteristics is currently underway.

Whilst Metgasco is highly encouraged by drilling results to date, the Company is conscious of the need to undertake cost effective development activities. The Company has, and will continue to, attempt to identify specific areas that may be more productive than others.

RICHMOND VALLEY POWER STATION RECEIVES NEW SOUTH WALES GOVERNMENT DEVELOPMENT APPROVAL

Metgasco was very pleased to announce in June 2010 that the New South Wales Department of Planning had provided development approval for the Company's Richmond Valley Power Station. This was a critical first step for Metgasco in moving from explorer to producer and will allow the Company to generate its first gas sales.

The Richmond Valley Power Station is a 30 megawatt power station located approximately 4 kilometres from the town of Casino. The project will produce enough electricity to power 30,000 homes in the northern rivers region.

This development comes at a time when cleaner energy has been a major focus for society. Very importantly, the Richmond Valley Power Station will deliver gas fired electric

power to the north coast region of NSW at significantly lower carbon emissions than coal fired electricity.

The Richmond Valley Power Station will create approximately 50 direct jobs during construction and 10 full time jobs during operation. Additionally, the installation of a reliable power supply in the Casino area will also enhance security of power supply in this regional community.

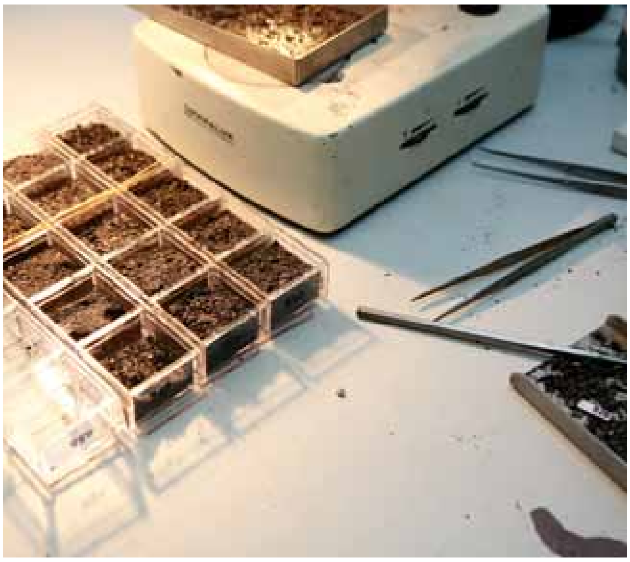
The power station will consume approximately 2.3 PJ of gas per year. This will be supplied by natural gas from Metgasco's Casino gas project that will include the Kingfisher conventional gas field and coal seam gas. Metgasco's current reserves are sufficient to supply the power station for over 150 years, well beyond the expected 15 year life of the facility.

I look forward to providing Metgasco shareholders with further updates as the Company continues to progress its Richmond Valley Power Station.

EAST COAST GAS MARKET – RIGHT ON METGASCO'S DOORSTEP

As Metgasco moves closer to realising its vision of being a provider of gas and power to the East Coast power markets, the Company remains very optimistic about the business opportunities available.

The discovery of large quantities of coal seam gas in the Surat and Bowen basins in South East Queensland has resulted in a transformation of the East Coast gas market over the past five years. While there was the risk of a prolonged oversupply of gas in the region, a number of major coal seam gas producers decided to develop projects to export their gas as LNG. The establishment of these projects will see large volumes of gas exported.



In 2008, total East Coast gas production was approximately 600 PJ. It is estimated that by 2014, with the commencement of three 4.5 mtpa LNG plants at Gladstone an additional 810 PJ per annum of gas production will be required – East Coast gas production will need to more than double over the next six years. Metgasco anticipates that once LNG production out of Gladstone is at full capacity, there will be strong demand for gas from both domestic markets and as third party supply into export LNG projects.

With Metgasco's gas reserves and resources far greater than those required for the Richmond Valley Power Station, the Company continues to review its near term and longer term large scale gas commercialisation opportunities. These options include gas supply to local customers, domestic power stations, Mini-LNG and export scale LNG projects.

Metgasco is currently developing the Lions Way Gas Pipeline to connect to customers in Queensland. This pipeline will allow for supply of gas into South East Queensland via an alternative delivery route and alternative supply basin. The 145km pipeline is planned to start in Casino, NSW and finish in Ipswich, Queensland.

Given that demand for gas in South East Queensland is forecast to increase by 17% per year, the Lions Way Gas Pipeline could provide an attractive commercialisation opportunity for Metgasco. All environmental studies relating to the Lions Way Pipeline project have now been completed, and Environmental Assessment reports are currently being prepared for lodgement with the relevant regulatory authorities.

Internal estimates indicate that there may be sufficient gas resources present within PELs 16, 13 and 426 to supply an LNG plant of up to 3 million tonnes per annum. Metgasco is in its development phase with substantial further work required to convert internal resource estimates to certified reserves sufficient for such a large scale project.

Given the potential to develop a significant gas reserve within its acreage and well developed plans for pipeline infrastructure, Metgasco is positioning itself to take full advantage of its commercialisation opportunities.

PEL 16 SELL-DOWN PROCESS

At the end of 2009 Metgasco commenced a process to identify potential partners for its coal seam gas interests in PEL 16. The Company saw it as an appropriate time to encourage further investment from a compatible joint venture party in field development to expedite the exploration program and move closer to commercialisation.

This sale process was expanded to include the conventional gas assets following strong interest from sale process participants as a result of the Kingfisher E1 well results. In light of this, the timetable for this process was extended to allow participants to review additional information. The Federal Government's proposed Resource Super Profits Tax impacted the process given the significant uncertainty it created for investment in the Australian energy sector.

Despite investment uncertainties surrounding the fiscal environment for onshore gas, Metgasco is continuing to engage with several parties in this process.

HEAVILY OVERSUBSCRIBED CAPITAL RAISING SUCCESSFULLY COMPLETED

Following the acquisition of the outstanding interests in PEL 13 and PEL 426, Metgasco announced the launch of a Share Purchase Plan (SPP) to fund the Company's accelerated exploration, appraisal and development program. The SPP was extremely well received by shareholders, being heavily oversubscribed by 44% and raising $25 million.

BOARD CHANGES

In June Metgasco announced the appointment of Mr Nicholas Heath as Chairman of its Board of Directors. Mr Heath was appointed to the Board of Metgasco in October 2006 and has served as Deputy Chairman for the past year.

He replaced Dr Peter Power who retired from the Board, after being involved with the Company for eight years. Peter was the founding Chairman of Metgasco and made a significant contribution to the Company. I would like to personally thank Peter for his guidance, technical insights and enthusiasm over the time we have worked together, and wish him all the best for the future. I would also like to

thank Rick Wood, another founding Director of Metgasco who departed the Board this year, for his contribution and assistance in establishing the Company.

In addition, we were very pleased to announce the appointment of Mr Steven Koroknay and Mr Leonard (Len) Gill as a Non-Executive Directors to the Board. Steven is well known to many in the Australian oil and gas industry given his extensive experience over 30 years in developing gas projects in Bass Strait and the Cooper Basin. Len has over 30 years of experience in the Australian energy industry which will be invaluable as Metgasco moves forward.

PEOPLE AND SAFETY

Metgasco now employs approximately 30 staff with half of these based permanently in our regional office in Casino in northern New South Wales. Metgasco has a strong commitment to creating employment opportunities for residents of the northern rivers region, an area which has one of the highest levels of unemployment in Australia. Metgasco has introduced induction programs and training incentives for new staff which ensure a rapid increase in work skills and experience within the Company. We have now achieved the outcome that over 75% of our Casino based staff come from the Northern Rivers region.

Metgasco is constantly working to improve our health and safety policies and systems. Our goals are to:

- Promote a culture of zero harm through safety leadership and setting expectations;
- Develop and maintain robust safety systems;
- Focus on hazard identification / hazard reporting and education in risk perception as a means to reduce workplace incidents; and
- Provide a safe and injury free work environment for all stakeholders.

Our goals are backed up by strong commitment from the Board and management in implementing hazard and risk reduction programs.

SUSTAINABILITY, ENVIRONMENT AND THE COMMUNITY

The Northern Rivers region of New South Wales is a diverse area with a strong agricultural base in cattle and cropping farmlands and large scale timber and macadamia plantations. Our operations are located in the town of Casino, but we are fortunate to be close to the towns of Lismore, Kyogle and Grafton.

We are always focussed on ensuring that we operate to high environmental standards and are pleased to report that the company has not had any reportable environmental incidents in the past five years of operations. While many coal seam gas companies

produce significant volumes of water as a by product of their operations, Metgasco is fortunate to be working with gas reservoirs which contain relatively little water. This characteristic reduces our overall operating costs.

Metgasco is proud of the relationships it has built in the Northern Rivers community, where many of our employees and shareholders have lived for generations. We aim to work closely with local landholders to ensure that we are able to continue our business on their properties.

We aim to make a positive contribution to the communities in which we operate and pursue this through various community sponsorships in local festivals, the arts, sport and education. This year we supported the Casino Beef Week Committee by sponsoring the Metgasco Family Day where country singer Amber Lawrence was warmly welcomed. We also continued our sponsorship of the Bentley Art Show, the Starlight Children's Christmas Party and the Northern Rivers Science and Engineering Challenge.

OUTLOOK

Having now received Development Approval for the Richmond Valley Power Station, Metgasco is now putting in place commercial arrangements to move to a final investment decision on this project next year. With $20 million cash at bank as at 30 June 2010 and no debt, Metgasco is in a strong financial position to progress its exploration and commercialisation agenda.

We continue to see strong domestic demand for gas and ongoing interest in the potential for Metgasco to supply gas to export LNG projects. We look forward to demonstrating the full energy supply potential of the Clarence Moreton basin.

DAVID JOHNSON
Managing Director

DIRECTORS' REPORT AND AUDITED FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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Your Directors present their report on Metgasco Limited (Metgasco or the Group) and the entities it controlled for the year ended 30 June 2010.

Principal Activities

The principal activities of the Group during the financial year were gas exploration, appraisal, and development and investment in and development of associated energy infrastructure. There has been no change in the nature of these activities during the year.

Company Information

Metgasco is a company limited by shares, which is incorporated and domiciled in Australia. Metgasco was incorporated on 22 June 1999 and converted to a public company on 28 June 2002. On 23 December 2004 Metgasco became a publicly traded company on the Australian Securities Exchange (ASX).

Review of Operations

During the year, Metgasco continued with the exploration, appraisal, and development of its coal seam gas and conventional gas interests. Metgasco holds interests in three Petroleum Exploration Licenses (PEL) covering over 4,600 km^2 in the Clarence Moreton Basin in northern New South Wales. These interests are PEL 13, PEL 16 and PEL 426. During the year, Metgasco acquired all of the minority interests in these PELs through a series of transactions.

Exploration

The Company has advanced its exploration activities by drilling its first well targeting conventional gas in sandstone reservoirs. This well, Kingfisher E1, made a significant gas discovery with 138 metres of gross pay identified from wireline logs. Kingfisher E1 was drilled in November 2009 and Metgasco's current contingent resource estimate for this field is 80 Petajoules (PJ) (P50) and 298 PJ (P10). This well identified a series of stacked sandstone reservoirs with variable technical characteristics. The deepest interval tested, between 2044 and 2090 metres, demonstrated good production flows of approximately 3 million scfd. Gas composition analysis from this zone indicated that the gas contained approximately 96% Methane. Subsequently a further 4 reservoir tests were conducted and the presence of gas was identified in all zones. An extensive reservoir testing program has now been completed on this well with the conclusion being that a large tight gas reservoir has been identified which has the potential to be brought into production through stimulation techniques such as fracture stimulation. The Company is now preparing for a fracture stimulation on one of these zones and follow up drilling activity.

During the year, Metgasco completed a seismic re interpretation report of over 1,500 line km of 2D seismic data. The key output from this analysis was an update of conventional leads and prospects in Metgasco's tenement areas. Over 20 leads and prospects have been identified. Metgasco is currently about to commence a new 2D seismic survey designed to provide further detail on leads identified as high priority drilling targets.

On the coal seam gas front, the Company was disappointed that its follow up multilateral well, Corella-P18, was unable to be completed as a result of the drill string becoming stuck in the lateral. Metgasco is intent on applying the lessons learned from this experience in designing and executing its next generation of multilateral wells, the Harrier pilot, to be drilled in the coming year. On a positive note, the Company again achieved a significant increase in its reserves with 2P reserves in PEL 16 increasing 33% to 397 PJ and 3P reserves in PEL 16 increasing 46% to 2,239 PJ. Specific reserve development work is yet to be undertaken by Metgasco in PEL 13 or PEL 426.

Reserves

As at 30 June 2010, Metgasco had established a reserve position in PEL 16 net to Metgasco of:

Gas Reserves (Petajoules)	2010	2009
1P (proven)	**2.7**	2.3
2P (proven and probable)	**397**	264
3P (proven, probable and possible)	**2,239**	1,419
2C (contingent resource)	**1,177**	–

Reserves have been certified by Mr Tim Hower of MHA Petroleum Consultants (Denver) who is a qualified person as defined under the ASX Listing Rule 5.11. Reserves have been developed within the guidelines of the SPE.

Infrastructure

On 9 June 2010, Metgasco received Development Approval from the NSW Department of Planning for the construction of the Richmond Valley Power Station. The Richmond Valley Power Station is a 30 megawatt (MW) power station located approximately 4 km from the town of Casino. The power station will consume approximately 2.3 PJ of gas per year. Metgasco has acquired the land for this project and has also received approval for the required subdivision from the Richmond Valley Council. Power from the project will be connected to the existing 66kV power line network via the Casino/Lismore interconnector approximately 800 metres from the power station site. This project is being developed through Metgasco's wholly owned subsidiary, Richmond Valley Power Pty Ltd. The final investment decision on this project remains subject to satisfactory progress on commercial negotiations and board approval.

Metgasco operates a wholly owned subsidiary, Lions Way Pipeline Pty Ltd. Over the past twelve months, Metgasco has completed most of the Environmental Assessment studies required in accordance with the Guidelines received from Federal and State Government authorities for this project.

Corporate

Metgasco was active during the year in securing full ownership of its tenements in the Clarence Moreton Basin. On 16 July 2009, Metgasco exercised its option to purchase and cancel the 5% gross overriding royalty held over PEL 16 by Sunoco Inc of Canada. The cost of this option was $909,091 million. In addition, Metgasco acquired the rights earned by CS Energy, under the Stratheden Joint Venture, to a 15% interest in three (of eleven) graticular blocks in PEL 16. These two transactions resulted in Metgasco securing full title to PEL 16 where all of the Company's gas reserves are currently recognized. On 2 October 2009, Metgasco acquired additional interests in PEL 13 and PEL 426 from Molopo Australia Limited to secure 100% ownership in these two PELs. As part of the consideration for this permit Molopo Australia Limited retains a 2.5% royalty for 50% of conventional gas produced and sold from PEL 13. Metgasco holds an option to buy out this royalty.

On 4 November 2009 the Group announced a share purchase plan (SPP). The SPP involved issuing a maximum 55,555,555 shares to existing shareholders at $0.45 a share. The SPP was significantly oversubscribed and many applications required scaling back. The capital raising was successful in securing $25,000,000 which was used to accelerate the Group's exploration, appraisal and development efforts.

Additional capital was raised from staff exercising options as per the table below.

Group	Options exercised (Number)	Proceeds ($)
Staff	50,000	15,000
Other	Nil	–

Significant Changes in the State of Affairs

Other than the activities referred to in the above Review of Operations and the discussion on Likely Developments, as at the date of this report, no transaction or event of a material and unusual nature has arisen which is likely, in the opinion of the Directors, to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely Developments and Expected Results

Metgasco expects to continue the exploration, evaluation and development of gas reserves and to progress commercialisation of these reserves through the development of associated energy infrastructure projects. The Group will continue to look at opportunities to monetise its gas assets and these opportunities are likely to include conversion of gas to LNG for domestic or export market sales. In the opinion of the Directors, further disclosure of information regarding potential developments in the operations of the Group is likely to prejudice the interests of the Group. Accordingly, this information has not been included in this report.

Operating Result for the Year

The consolidated loss of the Group for the year amounted to $4,545,357.

Dividends

No dividends have been paid or declared since the end of the previous year and no dividends have been recommended by the Directors in respect of the year ended 30 June 2010.

Proceedings on Behalf of the Group

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under Sn 237 of the Corporations Act 2001.

Environmental Regulation and Performance

Exploration and development activities are subject to State and Federal laws, principally the Environmental Protection Act and associated regulations in NSW. Metgasco has a policy of complying with its environmental performance obligations, and during the reporting period, there has been no significant known breach of the Group's licensed environmental conditions.

Directors

The following persons were Directors of Metgasco during the whole of the financial year (except where otherwise noted) and up to the date of this financial report are as follows:

Peter Power	Non-Executive Chairman – resigned 1 July 2010
Nicholas Heath	Non-Executive Director – Chairman from 1 July 2010
Richard Wood	Non-Executive Director – resigned 16 October 2009
Steven Koroknay	Non-Executive Director – appointed 19 January 2010
Leonard (Len) Gill	Non-Executive Director – appointed 16 June 2010
David Johnson	Managing Director
Glenda McLoughlin	Executive Director, Chief Financial Officer and joint Company Secretary

Nicholas (Nick) John Victor Geddes and Glenda McLoughlin were the Company Secretaries during the financial year 2010.

Nicholas Heath – B.Eng (Chem), FIChemE, SPE

Chairman (from 1 July 2010) and Non-Executive Director
Appointed: 4 October 2006

Mr Heath has over 35 years experience in the petroleum industry in technical, operational and commercial roles with the ExxonMobil group of companies. He was previously Director of ExxonMobil Australia Pty Ltd with functional responsibility for Gas & Power Marketing.

Mr Heath worked on the early development and commissioning of Esso's Gippsland basin oil and gas fields offshore Victoria. In 1985, he became Esso's production Manager for the Gippsland operations at a time of peak activity and record oil production. In 1987 following a major acquisition by Esso, Mr Heath became the Managing Director of Delhi Petroleum Pty Ltd with operations in central Australia. After assignments overseas and following the merger of Exxon and Mobil, Mr Heath became a Director of ExxonMobil Australia Pty Ltd. Mr Heath has served as Chairman of the Australian Petroleum and Production Association, which awarded him the Reg Sprigg Gold Medal and honorary life membership.

Special responsibilities: Chairman, Chairman of the Nominations and Remuneration Committee, Member of the Audit and Risk Management Committee.

Other current Directorships: Mr Heath is Chairman of MEO Australia Limited and has held no former directorships of any other listed companies during the last three years.

Previous directorships of listed companies during the last three years: None

David W G Johnson B.AppSc (Geology), MBA, MAusIMM

Managing Director
Appointed: 23 June 1999

Mr Johnson has 20 years experience in the minerals and petroleum sectors. His initial experience was working as a field geologist in exploration for gold in the south west Pacific. Subsequently, he worked in Australia, Africa, New Zealand and South America on a range of commodity types. Between 1992 and 1996 he also worked in corporate finance for resource related projects and companies. Since 1996, Mr Johnson has worked mainly in the area of project generation and development including that of the hydrocarbon potential of the Clarence–Moreton Basin. Mr Johnson has been the Managing Director of Metgasco since the company listed on the ASX in December 2004.

Special responsibilities: Managing Director

Other current directorships: None

Previous directorships of listed companies during the last three years: None

Glenda McLoughlin B.Ec, MBA, FAICD

Chief Financial Officer & Company Secretary
Appointed: 29 April 2002

Ms McLoughlin has over 25 years experience in investment banking, management consulting and industry policy working in Australia and internationally. Previously she was the Head of the Utilities and Infrastructure group of Barclays Capital, the investment banking division of Barclays Bank plc. Prior to this, Ms McLoughlin was a Vice President of international investment bank Morgan Stanley based in Melbourne and Singapore. Ms McLoughlin has completed over $8 billion in advisory assignments and financings and brings specialist skills in corporate financial advice and debt and equity capital raisings. She has been involved in major energy sector transactions and has provided financial advice to corporations and governments in Australia and Asia on energy sector restructurings, acquisitions, divestments and financings. Ms McLoughlin has been an executive director and chief financial officer of Metgasco since the Company listed on the ASX in December 2004.

Special responsibilities: Chief Financial Officer, Company Secretary

Other current directorships: None

Previous directorships of listed companies during the last three years:
Non-Executive Director of Elk Petroleum (retired 2008).

Steven Koroknay – B.Eng (Hons) – Civil Eng (Sydney), FAICD, FIEA

Non-Executive Director
Appointed: 19 January 2010

Mr Koroknay's career encompasses 30 years in the international oil and gas industry commencing with Esso Australia Limited. During 15 years with Esso Australia, he served senior management positions, namely Head Operations and Technical Manager, Bass Strait fields as well as assignments in the United States. Mr Koroknay then spent 10 years at Bridge Oil becoming Executive Director and COO. Mr Koroknay was the founder of Anzon Energy and Anzon Australia. He was formally a councillor of Australian Petroleum Production and Exploration Association (APPEA) and Chairman of the Advisory Board for the School of Petroleum Engineering at University of New South Wales.

Special responsibilities: Chairman of the Audit and Risk Management Committee, Member of the Nomination and Remuneration Committee.

Other current directorships: Non-Executive Director Innaminka Petroleum Limited, Non-Executive Chairman Galilee Energy Limited and Non-Executive Director Cue Energy Resources Limited.

Previous directorships of listed companies during the last three years: Non-Executive Chairman of Anzon Australia Limited (Retired 2008), Non-Executive Director of Anzon Energy Limited (Retired 2008), Non-Executive Director of Eastern Corporation Limited (Retired 2010).

Leonard Gill – B.Eng (Hons), MAICD

Non-Executive Director
Appointed 16 June 2010

Mr. Gill has over 30 years experience in the Australian energy industry, with a focus on power generation, energy trading and risk management and energy retailing to large customers. He was previously Chief Executive Officer of TXU Australia (now TRUenergy) and led their wholesale energy division for five years, with responsibilities including power generation, gas storage and gas and electricity contracting and trading. Mr Gill holds a Bachelor of Engineering (Hons) degree and is a member of the Australian Institute of Company Directors.

Special responsibilities: Member of the Audit and Risk Management Committee, Member of the Nominations and Remuneration Committee

Other current directorships: Non-Executive Chairman of Alinta Energy.

Previous directorships of listed companies during the last three years: None

Nicholas Geddes FCA,

FCIS Company Secretary

Mr Geddes is the principal of Australian Company Secretaries, a company secretarial practice that he formed in 1993. Mr Geddes is the immediate past President of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa the Middle East and Asia.

Qualifications: Chartered Accountant (Fellow of Institute of Chartered Accountants in England & Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).

Dr Peter Power – BSc, PhD

Non-Executive Chairman (Until 1 July 2010)
Appointed: 12 September 2002
Retired: 1 July 2010

Dr Power has almost 50 years experience in hydrocarbon exploration worldwide in senior management positions with major international companies. He was previously Managing Director of Ampolex Limited prior to its acquisition by Mobil.

Dr Power was the foundation Head of Geology at the Western Australian Institute of Technology (now Curtin University). He was a member of the Bureau of Mineral Resources Review in 1984, the Australian Geological Survey Organisation Review in 1993 and member of the Advisory Council for the National Centre for Petroleum Geology and Geophysics from 1985–90. He has served as President of the Australian Geoscience Council and as a councillor and Chairman of the Australian Petroleum Production and Exploration Association, which awarded him both the Lewis G. Weeks and Reg Sprigg Gold medals and honorary life membership.

Special responsibilities: Previously, Chairman and Chairman of the Audit and Risk Management committee. Member of the Nominations and Remuneration Committee.

Other current Directorships: Director of Petsec Limited, Chairman of Elk Petroleum Ltd and Chairman of Austex Oil.

Previous directorships of listed companies during the last three years: None

Richard Wood B.Eng (Mining), FAICD

Non-Executive Director
Appointed: 1 May 2004
Resigned: 16 October 2009

Mr Wood has over 40 years experience in engineering and operations in the upstream oil and gas industries. Mr Wood spent 18 years with Esso Australia Limited including drilling, production and project assignments in the Bass Strait, USA and Japan. He subsequently joined Ampolex Limited. As General Manager Operations for Ampolex he completed a number of major assignments including the planning and development of the Lufung offshore petroleum field in China, the development of the Wandoo offshore petroleum field in Western Australia and acting Joint Venture representative for the development of the Kutubu oil field in Papua New Guinea. Since that time he has acted as a project management consultant for a number of companies including: ExxonMobil Corporation; Hitachi Zosen Corporation in Japan; ROC Oil Pty Ltd; Worley Ltd; and Keppel Energy in Singapore.

Special responsibilities: None

Other current directorships: None

Previous directorships of listed companies during the last three years:
Non-Executive Director of Elk Petroleum (retired 2007).

Indemnification of Directors and Officers

Throughout the reporting period, the Group has maintained Directors' and Officers' insurance for the purpose of covering any loss which Directors and Officers may become legally obligated to pay on account of any claim first made against him/her during the policy period and for a wrongful act committed before or during the period of insurance. The amount paid by way of premium is unable to be disclosed due to confidentiality provisions in the insurance contract.

Meetings of Directors

During the financial year, twelve meetings of Directors were held. Attendances were as follows:

Director	Number of meetings held while a Director	Number of meetings attended while a Director
Peter Power	11	11
Nicholas Heath	11	11
Steven Koroknay	5	5
Leonard Gill	1	1
David Johnson	11	11
Glenda McLoughlin	11	11
Richard Wood	3	3

Audit & Risk Management Committee Meetings

Peter Power was the Chairman of the Audit & Risk Management Committee and Nicholas Heath is a member of this committee. This committee met twice during the year with both members in attendance.

Nominations & Remuneration Committee Meetings

The Nominations and Remuneration Committee is responsible for reviewing the remuneration strategy for Directors and Key Management Personnel ("KMP"). Nicholas Heath was the Chairman of the Nominations and Remuneration Committee and Peter Power was a member of this committee. This committee met once during the reporting period and both members attended the meeting.

Retirement and Election of Directors

All Directors have acted as Directors of the Group for the entire financial year unless otherwise disclosed.

Remuneration Report (Audited)

Policy

The goals of the Group's remuneration policy are to:

- Ensure that reward for performance is competitive and that employees are committed and motivated;
- Align executive compensation with achievement of strategic objectives and the creation of value for shareholders; and
- Comply with relevant legislation and general market remuneration practices.

Metgasco has developed a structured executive remuneration framework based upon advice received from external remuneration consultants.

Non-Executive Directors

Remuneration for Non-Executive Directors is determined at market rates by conducting an annual benchmarking exercise against a pool of comparable companies. Remuneration is determined by the Board with reference to these benchmarks and takes into consideration Directors' time commitments and responsibilities to the Company and the need to obtain appropriately qualified independent Directors.

The structure of remuneration for Non-Executive Directors comprises a Base Fee inclusive of superannuation plus, where applicable Committee Fees for participation as a member of a Board Committee. In addition, Directors are awarded equity incentives as deferred shares or options to acquire a share. This approach attempts to strike a balance between preserving cash and ensuring sustained service to the Company.

Remuneration of the Non-Executive Directors is approved by the Board and set in aggregate within the maximum amount approved by the shareholders. The aggregate pool of remuneration approved to be paid to Non-Executive Directors by Shareholders on 15 November 2006 was $250,000. The amount paid to Non-Executive Directors during the year to 30 June 2010 was $155,294.

Executive Team

The executive team are remunerated through:

- Base pay, superannuation and benefits;
- Short term incentives; and
- Long term incentives.

The combination of these is considered to be the Total Remuneration for each executive team member. All employees are classified into a job band and the mix of remuneration between base pay, short term incentives and long term incentives is applied within the framework of the job band.

Given the stage of development of the Group, performance conditions, which would encompass KPI measures such as revenue, profit or EBITDA are not considered to be appropriate for assessing performance. Instead, an assessment of each individual's performance against individual and team objectives is undertaken.

Base Pay

Base pay is structured as the total cost of employment to the Group and comprises a fixed base pay amount paid in cash, superannuation and certain non-financial benefits in particular cases.

Benefits

Benefits may include car parking or motor vehicle leasing and running expense payments.

Short Term Performance Incentives (STIs)

All employees have the opportunity to be awarded STIs. An Annual Performance Review (APR) of every employee is conducted each year and performance against key individual and team objectives is assessed. Each year the Nominations and Remuneration Committee reviews management's recommendations relating to the performance of each individual against these objectives to determine the level of the STI award. The maximum target STI opportunity is 25% of Base Pay. Short term incentives may be awarded by way of cash, shares or options to acquire a share.

Long Term Incentives (LTIs)

All employees have the opportunity to be awarded LTIs by way of equity incentives as deferred shares or options to acquire a share. Each year the Nominations and Remuneration Committee reviews management's recommendations relating to the performance of each individual and considers an appropriate LTI award. The maximum target LTI opportunity is 50% of base pay. LTIs typically vest in instalments over three years commencing with the year just completed. In order to preserve cash resources, in recent years the Group has combined the STI and LTI award to certain employees.

The use of shares or options as an incentive attempts to strike a balance between preserving cash, offering medium term incentive (in the case of options that vest immediately) and ensuring a degree of staff retention in the case of long term vesting options and deferred shares. There are no KPI based measures presently employed by the Group in the awarding of options or deferred shares, instead a process of annual performance reviews along with benchmarking is followed.

In the case of options, once they are granted, the conditions required to ensure vesting are a service condition and in respect of options granted in the current reporting period, a volume weighted share price condition. This is described more fully on page 20 of this report. Future performance is therefore not a condition affecting the vesting of options granted in past periods.

The Executive and Non-Executive Directors and Key Management Personnel of the Group during the reporting period are as follows:

- Peter Power, Non-Executive Director & Chairman – resigned 1 July 2010
- Nicholas Heath, Non-Executive Director
- Steven Koroknay, Non-Executive Director – appointed 19 January 2010
- Len Gill, Non-Executive Director – appointed 16 June 2010
- Rick Wood, Non-Executive Director – resigned 16 October 2009
- David Johnson, Managing Director
- Glenda McLoughlin, Chief Financial Officer
- Michael O'Brien, Chief Operations Officer
- Peter Stanmore, General Manager Exploration
- Kevin Dixon, General Manager Gas Marketing
- Aidan Stewart, Operations Manager
- Robin Maxam, General Counsel – appointed 1 August 2009

Details of Remuneration (audited)

Details of the nature and amount of each element of remuneration of each Director and Key Management Personnel of the Group for the year ended 30 June 2010 are as follows:

Total value of equity compensation granted in the reporting period:

Directors and Key Executives	Total value of options granted in year $	Total value of shares granted for no consideration $
P. Power	–	–
N. Heath	–	–
S. Koroknay	–	–
L. Gill	–	–
R. Wood	–	–
D. Johnson	134,224	–
G. McLoughlin	134,224	–
M. O'Brien	111,854	–
P. Stanmore	91,272	–
K. Dixon	30,424	1,000
A. Stewart	24,160	–
R. Maxam	24,160	–

Remuneration 2010

	Short Term Employment Benefits			Post Employment Benefits	Long Term Benefits	Share Based Payments			
Name	**Cash Salary & Fees**	**Other benefits**	**Short term incentive**	**Super-anuation**	**Long Service Leave**	**No. of Options granted in period**	**Option expense for year**	**Total**	**% of remun-eration that is option based**
Directors	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**%**
P. Power	62,000	–	–	9,150	–	–	77,139	148,289	52.0
N. Heath	48,125	–	–	2,855	–	–	–	50,980	–
D. Johnson	283,486	(22,094)	–	24,877	990	555,556	120,390	407,649	29.4
G. McLoughlin	283,486	9,978	–	23,896	990	555,556	120,390	438,740	27.4
S. Koroknay*	18,958	–	–	1,706	–	–	–	20,664	–
L. Gill**	–	–	–	–	–	–	–	–	–
R. Wood***	–	–	–	12,500	–	–	17,435	29,935	58.2
Subtotal	696,055	(12,116)	–	74,984	1,980	1,111,112	335,354	1,096, 257	
Key Management Personnel									
K. Dixon^	125,100	27,500	–	49,999	1,569	125,926	40,555	244,723	16.6
A. Stewart	155,918	6,440	20,000	15,309	1,524	100,000	32,025	231,216	13.8
P. Stanmore	192,641	(2,721)	10,000	18,061	1,657	377,778	67,997	287,635	23.6
M. O'Brien	245,194	19,167	20,000	49,989	2,516	462,962	61,491	398,357	15.4
R. Maxam^^	167,600	14,096	–	50,000	409	100,000	8,368	240,473	3.5
Subtotal	886,453	64,482	50,000	183,358	7,675	1,166,666	210,436	1,402,404	
Total	**1,582,508**	**52,366**	**50,000**	**258,342**	**9,655**	**2,277,778**	**545,790**	**2,498,661**	

* S. Koroknay appointed as a Director on 19 January 2010
** L. Gill appointed as a Director on 16 June 2010
*** R. Wood resigned as a Director on 16 October 2009
^ Equity compensation in the form of $1000 in unrestricted shares for no consideration was granted to Kevin Dixon and for ease of presentation has been included in the option expense column.
^^ R. Maxam appointed as General Counsel on 1 August 2009

Short term incentives comprised entirely of a cash bonus granted on 14 September 2009.

Negative amounts under annual leave represent a depletion in the executive's leave entitlement during the year. Remuneration paid to Directors consist of amounts paid at current rates as disclosed in the section, Details of Employment Agreements.

Details of share options granted as remuneration for the reporting period ending 30 June 2010:

Name	**No. Options Granted**	**No. Options Vested**	**Fair Value Per Option At Grant Date**	**Exercise Price**	**Date Granted**	**Expiry Date**	**Date Exercisable**
Directors			**$**	**$**			
P. Power	–	–	–	–	–	–	–
	277,778	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2011
D. Johnson	277,778	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2012
	277,778	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2011
G. McLoughlin	277,778	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2012
Subtotal	**1,111,112**						
Key Management Personnel							
	62,963	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2011
K. Dixon	62,963	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2012
	50,000	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2011
A. Stewart	50,000	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2012
	188,889	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2011
P. Stanmore	188,889	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2012
	231,481	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2011
M. O'Brien	231,481	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2012
	50,000	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2011
R. Maxam	50,000	–	0.24	0.50	01/09/2009	01/09/2014	01/09/2012
Subtotal	**1,166,666**						
Grand Total	**2,277,778**						

The recipients of the above options paid no consideration towards them and none of the above options were able to be exercised during the year. Options granted in the reporting period are subject to the condition that those in receipt of the options remain in employment with the Group through to the date of vesting and additionally, that shares in Metgasco achieve a volume weighted average daily share price of $0.60 or more for 30 consecutive trading days preceding the vesting date. Metgasco does not have a policy for removing the risk aspect of the options granted to Directors or Key Management Personnel.

Incentives granted to executives in reporting period as a percentage of maximum potential incentive

	STI % achieved	STI % forfeited	LTI % achieved	LTI % forfeited	% of total remuneration that is performance based
D. Johnson	0	100	94.7	5.3	29.4
G. McLoughlin	0	100	94.7	5.3	27.4
M. O'Brien	32.6	67.4	91.2	8.8	20.5
P. Stanmore	20.7	79.3	94.8	5.2	27.1
K.Dixon	0	100	48.6	51.4	16.6
R. Maxam	0	100	28.8	71.2	3.5
A. Stewart	51.3	48.7	31.0	69.0	22.5

Remuneration 2009

	Short Term Employment Benefits			Post Employment Benefits	Long Term Benefits	Share Based Payments			
Name	**Cash Salary & Fees**	**Other Benefits**	**Short Term Incentive**	**Super-annuation**	**Long Service Leave**	**No. of Options granted in period**	**Option Value**	**Total**	**% of remun-eration that is option based**
Directors	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**%**
P. Power	53,500	–	–	8,500	–	300,000	47,176	109,176	43.2
N. Heath	–	–	–	50,108	–	–	–	50,108	–
D. Johnson	275,229	776	35,000	27,921	7,800	251,065	98,128	444,854	22.1
G. McLoughlin	275,229	(5,414)	35,000	27,921	7,800	251,065	98,128	438,664	22.4
R. Wood	179,817	–	25,000	18,433	–	176,142	68,711	291,961	23.5
Subtotal	783,775	(4,638)	95,000	132,883	15,600	978,272	312,143	1,334,763	
Key Management Personnel									
K. Dixon	70,008	4,398	–	99,992	1,605	136,698	64,080	240,083	26.7
A.Stewart	151,376	(181)	20,000	15,424	1,560	79,532	29,364	217,543	13.5
P. Stanmore	187,156	110	10,000	17,744	1,118	127,270	54,028	270,156	20.0
M. O'Brien	147,755	21,080	10,000	102,241	1,361	–	63,594	346,031	18.4
J. Geraghty *	109,318	7,534	–	10,315	–	–	25,959	153,126	17.0
Subtotal	665,613	32,941	40,000	245,716	5,644	343,500	237,025	1,226,939	
Grand total	**1,449,388**	**28,303**	**135,000**	**378,599**	**21,244**	**1,321,772**	**549,168**	**2,561,702**	

* J. Geraghty resigned on 24 April 2009.

Details of Employment Agreements

It is the Board's policy that all Executive Directors, Key Management Personnel and employees enter into Employment Agreements.

David Johnson – Managing Director

Mr Johnson provides services under an employment contract whereby the base remuneration for the year ended 30 June 2010, inclusive of superannuation, under the contract is $309,000. Mr Johnson's remuneration level is subject to an annual review which references remuneration levels at a pool of comparable companies. Remuneration is determined by the Board with reference to those benchmarks. Mr Johnson is eligible to receive up to 25% of his base salary by way of short term incentives and up to 50% of his base salary as long term equity incentives.

The Group can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The Managing Director can resign by giving three months notice. The Group can terminate the contract by giving twelve months notice.

Glenda McLoughlin – Chief Financial Officer

Ms McLoughlin provides services under an employment contract whereby the base remuneration for the year ended 30 June 2010 inclusive of superannuation under the contract is $309,000. Ms McLoughlin's remuneration level is subject to an annual review which references remuneration levels at a pool of comparable companies. Remuneration is determined by the Board with reference to those benchmarks. Ms McLoughlin is eligible to receive up to 25% of her base salary by way of short term incentives and up to 50% of her base salary as long term equity incentives.

The Group can terminate the contract on the grounds of serious misconduct, incapacity and non performance. The Chief Financial Officer can resign by giving three months notice. The Group can terminate the contract by giving twelve months notice.

All Key Management Personnel are employed under ongoing employment contracts. Termination can be effected by either party with one month's notice. The payment of short term and long term incentive awards to Key Management Personnel is at the discretion of the board and based upon performance of the Group and performance of the individual.

Options Exercised by Directors & Key Management Personnel during the year

There were no options exercised by Directors or Key Management Personnel during the year.

End of Audited Remuneration Report

Directors' and Officers' Interests and Benefits

At the date of this report, the direct and indirect interests of the Directors in the securities of Metgasco are as follows:

	Options	Ordinary Shares
Peter Power*	200,000	6,029,931
Nicholas Heath	250,000	208,204
Steven Koroknay	–	30,000
Leonard Gill	–	90,000
David Johnson	1,266,775	12,369,930
Glenda McLoughlin	1,266,775	9,997,177
Richard Wood**	500,807	1,981,473

* Holdings at 1 July 2010 which is date of retirement as a Director
** Holdings disclosed for Richard Wood are at his resignation date of 16 October 2009

Note that shares have been resolved to be issued by way of short term and long term incentives to Directors however shares will not be formally issued until approved by shareholders and therefore are not shown in the above table. A table showing share based compensation proposed to be issued to Directors and issued to Key Management Personnel is provided on the following page.

Equity based remuneration following the end of the reporting period and up to the date of this report
The following shares were proposed to be issued to Directors, and require shareholder approval at the Group's annual general meeting. They do not constitute part of the Group's shares outstanding.

	Ordinary shares issued as short term incentive	Ordinary shares issued as long term incentive	Total
Nicholas Heath	–	210,000	210,000
Steven Koroknay	–	90,000	90,000
Len Gill	–	90,000	90,000
David Johnson	105,000	343,334	448,334
Glenda McLoughlin	105,000	343,333	448,333

There are no trading restrictions placed on the short term incentive shares, which have been issued in lieu of a cash bonus. Shares issued or proposed to be issued by way of long term incentive, are subject to a 3 year trading lock and the condition that shares achieve a volume weighted average daily share price of $0.60 or more for 30 consecutive trading days during the 3 year restricted period.

The following shares were issued to Key Management Personnel on 13 August 2010 under the Metgasco Employee Share Equity Plan.

	Ordinary shares issued as short term incentive	Ordinary shares issued as long term incentive	Total
Michael O'Brien	94,444	322,222	416,666
Peter Stanmore	50,067	250,000	300,067
Robin Maxam	83,200	200,000	283,200
Kevin Dixon	27,242	136,189	163,431
Aidan Stewart	20,000	140,000	160,000

There are no trading restrictions placed on the short term incentive shares which have been issued in lieu of a cash bonus. Shares issued or proposed to be issued by way of long term incentive, are subject to a 3 year trading lock and the condition that shares achieve a volume weighted average daily share price of $0.60 or more for 30 consecutive trading days during the 3 year restricted period.

Options Exercised or Lapsing in the Year
The following options were exercised by staff in the year and up to the date of this report:

- 50,000 ordinary shares were issued at $0.30 on the exercise of 50,000 options.

A total of 253,186 unvested options lapsed during the year as a result of resignations.

All shares issued by the Group as a result of the exercising of options are fully paid ordinary shares.

A detailed table showing full particulars of all options outstanding can be seen at note 20 to the Financial Statements.

Other Key Management Personnel disclosures
During the year there were no transactions of any kind with Directors, Key Management Personnel or any related parties or entities other than what has been disclosed in the above remuneration reports. This includes loans, dividends and consulting services. Any shares issued to Directors or senior executives throughout the year were issued through the rights issue or on-market transactions.

Auditors' Independence Declaration

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 30.

Audit Services

During the year, audit and review fees payable to BDO Audit (NSW-VIC) Pty Ltd amounted to $70,174

Non Audit Services

Metgasco may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important. During the current financial year, the auditor, BDO Audit (NSW-VIC) Pty Ltd, did not provide any non-audit services to the Group.

Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability, the Directors of Metgasco support, and have adhered to, the principles of sound corporate governance. The Group's Corporate Governance Statement follows this report.

Significant Events After End of Reporting Period

As at the date of this report there have been no new options issued to Directors or Key Management Personnel following the end of the reporting period. The total amount of options outstanding at the end of the reporting period and at the date of this report is 9,221,510.

On 13 August 2010, the Group, under the Metgasco Employee Share Equity Plan, issued 1,796,794 shares to employees by way of long term and short term incentives. Of these shares, 392,144 were issued without restrictions whilst 1,404,650 were subject to a 3 year trading lock. In addition, 1,286,667 shares are proposed to be issued to Directors subject to shareholder approval. Of this total, 210,000 will be unrestricted whilst 1,076,667 will be subject to a 3 year trading lock. A breakdown of shares issued to Key Management Personnel and shares that are proposed to be issued to Directors, has been disclosed in a table on page 23.

Signed in accordance with a resolution of the Directors made pursuant to Section 298(2) of the *Corporations Act 2001*.

Steven J. Koroknay

Steven Koroknay,
Chairman Audit and Risk Management Committee

22nd September 2010

Metgasco and its Board of Directors are committed to maintaining and promoting good corporate governance practices within the Group for the benefit of stakeholders and the broader community.

Corporate Governance is the framework of rules, relationships, systems and processes within which and by which authority is exercised and controlled in corporations. The Board of Directors of Metgasco is responsible for the corporate governance of the group and has taken into account its size and activities in the development of the framework.

Metgasco provides its Corporate Governance Statement with reference to the Second Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Board of Directors operates in accordance with its Charter and the Group's Constitution. The Board takes responsibility for the performance of the Group and for developing and implementing corporate governance practices.

The Board has established a Board Charter, which describes the role of the Board and the role of management. The Charter sets out the composition, role and responsibilities of the Board. The minimum number of Directors is three and the maximum is nine. Appointments to the Board are based on merit, skills, expertise and experience.

The Board accepts that it is responsible for:

a) Reviewing and approving Metgasco's Strategic Plans and performance objectives and the underlying assumptions and rationale;

b) Reviewing and approving the risk management monitoring systems and systems of internal control;

c) Reviewing and approving the Group's financial objectives and ensuring that the necessary financial and human resources are in place for the Group to meet its objectives;

d) Ensuring that the performance of management is regularly assessed and monitored;

e) Setting the Group's values and standards of conduct and ensuring that these are adhered to;

f) Appointing and approving the terms and conditions of the appointment of the Managing Director and reviewing and providing feedback on the performance of the Managing Director and other officers and senior management;

g) Reviewing the performance of the Board, individual Directors and board committees;

h) Endorsing the terms and conditions of senior executives through the remuneration committee;

i) Monitoring compliance with legal and regulatory obligations and ethical standards including reviewing and ratifying codes of conduct and compliance systems;

j) Approving and monitoring the annual budget and business plan, major operating and capital expenditure, capital management and material variation;

k) Authorising expenditure approval limits for the executive officers of the Group and authorising expenditure in excess of these discretionary limits;

l) Approving all mergers, acquisitions and disposals of projects and businesses;

m) Authorising the issue of securities and instruments of the Group;

n) Ensuring that the Group conducts all its activities in an environmentally responsible and sustainable way by planning and managing all activities to ensure minimum environmental impact;

o) Determining and implementing policies and procedures to ensure that the ASX is promptly and adequately informed of all matters considered to be material, in accordance with the Group's continuous disclosure obligations; and

p) Reviewing and recommending to shareholders the appointment, or if appropriate, the termination of the appointment of the external auditor.

Senior management is responsible for managing the Group and operates under direction and delegation from the Board. The day to day management of the Group is delegated to the Managing Director.

The Board has established two committees:

- Audit and Risk Management Committee; and
- Nominations and Remuneration Committee.

Each Committee has its own charter describing its composition, structure and membership requirements. The committee charters are reviewed on an annual basis.

The timetables for Board and Committee meetings are agreed annually to ensure that the Board and individual Directors dedicate sufficient and appropriate time to reviewing and overseeing Metgasco's business.

All Directors operate under a letter of appointment and are parties to a Deed of Access and Indemnity with the Group.

Directors are appointed by the Board subject to election by shareholders at the next annual general meeting with one-third of the board being subject to re-election at each subsequent annual general meeting. The Chairman is elected by the Board. The performance of Directors is reviewed on an ongoing basis.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.

The Group conducts an annual performance review process of all staff including senior executives. The performance of senior executives is considered against key individual and team objectives. All senior executives have formal position descriptions and each year their key performance measures are established in line with the Group's objectives and their roles and responsibilities. Performance evaluations have been conducted in accordance with the process described for the financial year ended 30 June 2010.

All newly appointed senior executives receive formal letters of appointment describing their terms of appointment, duties, rights and responsibilities.

Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.

The Board charter is available on the Company's website at www.metgasco.com.au.

Principle 2: Structure the Board to add value

Recommendation 2.1: A majority of the Board should be independent Directors. The Board considers that an independent Director is one who:

- Is not a member of management;
- Is not a substantial shareholder of the Group or associated with a substantial shareholder of the Group;
- Within the last three years has not been employed in an executive capacity by the Group or been a Director after ceasing to hold any such employment;
- Within the last three years has not been a principle of a material professional advisor or a material consultant to the Group;
- Is not a material supplier or customer of the Group or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Group;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Directors' ability to act in the best interests of the Group; and
- Is free from any business interest that could, or could reasonably be perceived to, materially interfere with the Directors' ability to act in the best interest of the Group.

The independence of Directors is assessed regularly. Currently the Board is comprised of five Directors, of which three are considered to be independent, Mr Nicholas Heath, Mr Steven Koroknay and Mr Len Gill are considered to be independent Directors.

Recommendation 2.2: The Chair should be an independent Director

The Board maintains an independent Chairman, Mr Nicholas Heath.

Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual

The roles of the Chairman and Managing Director are exercised by different individuals.

Recommendation 2.4: The Board should establish a Nomination Committee

The Board has established a Nomination and Remuneration Committee which is chaired by an independent Director, Mr Nicholas Heath. The Nomination and Remuneration Committee has held one meeting during the reporting period. The Nomination and Remuneration Committee operates under a Charter which describes its role, responsibilities, composition, structure and membership requirements.

The Board comprises Directors with an appropriate range of skills, experience and qualifications. The names and skills, experience and expertise of the Directors and the tenure and independence status of each Director is described in the Director's report. Directors have the right, in connection with their duties and responsibility as Directors, to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required which will not be unreasonably withheld.

The composition of the Board is determined in accordance with the Group's Constitution which requires that the minimum number of Director's is three and the maximum number of Directors is nine. The names of the members of the Nominations and Remuneration Committee and the Audit and Risk Management Committee and their attendance record are provided in the Directors' report.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

The Board undertakes ongoing self assessment and review of its performance and of the performance of the Chairman, individual Directors and Board Committees.

The performance review process conducted in 2010 included the completion of a structured questionnaire and interviews with Directors and the Chairman. These reviews were wide ranging and included each Director's contribution to Board discussions.

Recommendation 2.6: Companies should provide the information indicated in the guide to reporting on Principle 2.

The Charter for the Nomination and Remuneration Committee can be found on the Group's website at www.metgasco.com.au.

Principle 3: Promote ethical and responsible decision-making

Recommendation 3.1: Companies should establish a Code of Conduct and disclose the code or a summary of the code.

The Board has adopted a Code of Conduct which requires that all Metgasco Directors, officers, employees, and contractors must perform their business in accordance with all relevant laws and regulations and in accordance with the Group's policies and procedures.

The Code of Conduct requires that all Directors, officers, employees and contractors are expected to avoid "conflicts of interest" with regard to the Group's interests. Directors and Officers are required to advise the Group Secretary of any perceived conflict of interest. Where related party or conflict of interest matters arise, the Chairman may require the removal of the relevant Director or Officer from any decision made in relation to the perceived conflict of interest or related party matter.

The Board is committed to ensuring a safe workplace. All operations are planned and managed to ensure that employees are working under safe conditions. Directors and employees are required to comply with all legislative requirements relating to workplace safety and to establish effective safety management practices. Employees are encouraged to suggest improvements to workplace safety.

Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.

A copy of the Company's Code of Conduct is available from the Company's website at www.metgasco.com.au.

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by Directors, senior executives and employees and disclose the policy or a summary of that policy.

The Group has adopted a Securities Trading Policy for all Directors, officers, employees and contractors. Directors, officers and other employees are generally free to trade in the Company's securities provided that the person is not in possession of price-sensitive information. Blackout periods apply at the following times: (1) Between two weeks prior to and within 24 hours after the date of announcement to the ASX of the Company's annual or half year result and (2) Between two weeks prior to and within 24 hours after the date of the announcement of the Company's quarterly activities report. Permission to trade during a blackout period may be obtained with the prior approval of the Chairman.

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1: The Board should establish an audit committee

To assist it in carrying out its duties, the Board has established an Audit and Risk Management Committee. The primary function of the Committee is to assist the Board in fulfilling its responsibilities to provide shareholders with timely and reliable financial reports.

Recommendation 4.2: The audit committee should be structured so that it: consists only of Non-Executive Directors; consists of a majority of Independent Directors; is chaired by an independent Director who is not chair of the Board; has at least three members.

The Audit and Risk Management Committee is chaired by Mr Steven Koroknay an independent Director. The Audit and Risk Management Committee met twice during the year to deal with audit and audit review matters and to ensure that the accounting and financial policies and controls, risk management systems and compliance with regulatory and statutory requirements are in place, adequate and effective. The Audit and Risk Management Committee is comprised of three independent Non-Executive Directors.

Recommendation 4.3: The audit committee should have a formal charter.

The Audit and Risk Management Committee operates under a formal charter. The Board appoints independent external auditors under a letter of appointment which includes a scope and plan. Full access to the Group's records, personnel and support are provided. Open communications with the auditors and management are maintained.

Recommendation 4.4: Provide the information indicated in Guide to Reporting on Principle 4.

The charter for the Audit and Risk Management Committee is available on the Company's website at www.metgasco.com.au.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Metgasco communicates with shareholders in accordance with the Corporations Act and the Listing Rules of the ASX. All ASX announcements, media releases and other relevant material are retained on the Metgasco website for a minimum of three years. The Board has adopted a Continuous Disclosure Policy to ensure all investors have equal and timely access to material information concerning the Group, including its financial position, performance, ownership and governance. The policy outlines procedures to ensure that Directors and senior executives of the Group comply with its continuous disclosure obligations. The Board has delegated the function of continuous disclosure to the Company Secretary and Managing Director.

Recommendation 5.2: Companies should provide the information indicated in Guide to reporting on Principle 5.

The Company's Continuous Disclosure Policy is available on the Company's website at www.metgasco.com.au.

Principle 6: Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Board has endorsed a communications strategy which is designed to promote effective communication with shareholders and encourage effective participation at general meetings. The strategy includes the publication of:

- The Annual Report;
- The Half-Yearly Report;
- Quarterly Cash Flow and Activities Reports;
- The Annual General Meeting and other meetings called to obtain approval for Board action as appropriate;
- The Group's website at www.metgasco.com.au; and
- Continuous disclosure of material information.

At the Annual General Meeting, the Chairman encourages questions and comments from shareholders and seeks to ensure the Meeting is managed to give shareholders an opportunity to participate. Shareholders can ask questions about or comment on the operations of the Group and the performance of the Board and management. The external auditor is requested to attend the AGM and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

The Company's Shareholders Communications Policy is available on the Company's website at www.metgasco.com.au.

Principle 7: Recognise and manage risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Board takes a proactive approach to management of the wide range of risks that Metgasco faces. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Group's strategies and activities are aligned with the risks and opportunities identified by the Board. The Risk Management approach is supported by the Risk Management Policy which has been endorsed by the Board on the recommendation of the CEO and the Audit and Risk Management Committee.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

The Group operates within a risk management framework based upon Standards Australia's AS/NZS ISO 31000:2009 (Risk Management). This framework operates to identify, assess, mitigate and report against identified risks. During the period, management has provided several reports to the Board on performance against the risk management framework. In addition to the Risk Management Policy itself, the Group has established a number of other policies and aimed to mitigate or manage risks including:

- Code of Conduct;
- Health, Safety and Environment Policy; and
- Strategic Plan

The external auditor reports findings on relevant risk and control issues to the Audit and Risk Management Committee and to the Board after the half year review and the annual audit.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Chief Executive Officer and Chief Financial Officer have provided the Board with written assurances that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

The Company's Risk Management Policy is available on the Company's website at www.metgasco.com.au.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1: The board should establish a remuneration committee

The Board has established a Nomination and Remuneration Committee, the majority of members being independent and which is chaired by an independent Director. The Board has adopted a formal charter for the Nomination and Remuneration committee which describes its role, responsibilities, composition, structure and membership.

Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Director's remuneration from that of Executive Directors and senior executives.

The structure of Non-Executive Director's remuneration is described in the Remuneration Report of this Annual Report.

Recommendation 8.3: Provide the information indicated in the Guide to reporting on Principle 8.

All equity based executive remuneration is made in accordance with the Group's Employee Share Equity Plan), which has been approved by shareholders. All equity based executive remuneration to executive and non-executive Directors is approved by shareholders. Remuneration policies and the names of members of the Nominations and Remuneration Committee are provided in the Remuneration Report in this Annual Report.

Departures from ASX Corporate Governance Guidelines

Recommendation	Notification of Departure	Explanation of Departure
2.1	The Group did not at all times during the year have a majority of Independent Directors. However, as at the date of this report it does	The Directors have previously advised of the intention to transition to a majority of independent Directors on the Board as the Company matured. During the year, the Board did not have a majority of independent Directors, but as at the date of this Annual Report it does.
4.2	Structure the audit committee so that it consists of: – a majority of Non-Executive directors – an independent chairperson who is not chairperson of the Board	During the year, the Board did not comply with this recommendation, but as at the date of this Annual Report it does.

Tel: +61 2 9286 5555
Fax: +61 2 9286 5599
www.bdo.com.au

Level 19, 2 Market St
Sydney NSW 2000
GPO Box 2551 Sydney NSW 2001
Australia

DECLARATION OF INDEPENDENCE BY IAN FERGUSSON TO THE DIRECTORS OF METGASCO LIMITED

As lead auditor of Metgasco Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Metgasco Limited and the entities it controlled during the period.

Ian Fergusson

Director

BDO Audit (NSW-VIC) Pty Ltd

Sydney, this 22nd day of September 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED 2010 $	2009 $
Revenue from continuing operations	5	**977,834**	610,027
Other Income	5	**5,391**	(23,935)
Less: Expenses			
Finance Costs		**21,386**	22,095
Accounting, Compliance, Legal & Professional		**211,760**	221,818
Investor Relations		**346,707**	244,273
Consulting Fees		**569,753**	214,557
Depreciation	6	**54,684**	28,676
Directors Fees		**155,295**	135,333
Employee Costs	6	**2,633,098**	2,572,836
Exploration Costs Expensed		**–**	561,334
Rent and Occupancy	6	**311,060**	319,747
Travel & Accommodation		**128,307**	168,758
Buyout of Royalty		**909,091**	–
Other Administrative		**187,441**	192,376
Loss before income tax		**(4,545,357)**	(4,095,711)
Income tax expense	7	**–**	–
Loss for the year		**(4,545,357)**	(4,095,711)
Other comprehensive income		**–**	–
Total comprehensive income for the year		**(4,545,357)**	(4,095,711)
Loss attributable to members of Metgasco		**(4,545,357)**	(4,095,711)

		Cents	Cents
Earnings per share (loss) from continuing operations			
Basic loss per share	27	**(2.1)**	(2.9)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	CONSOLIDATED 2010 $	CONSOLIDATED 2009 $
Assets			
Current assets			
Cash and cash equivalents	8	**20,136,492**	17,336,920
Inventory	9	**1,169,395**	1,516,215
Trade and other receivables - Current	10	**729,698**	450,023
Total current assets		**22,035,585**	19,303,158
Non-current assets			
Exploration and evaluation expenditure	11	**47,837,146**	25,653,319
Plant and equipment	12	**4,264,169**	3,685,329
Trade and other receivables - Non -current	13	**681,736**	579,489
Total non-current assets		**52,783,051**	29,918,137
Total assets		**74,818,636**	49,221,295
Liabilities			
Current liabilities			
Trade and other payables	15	**1,520,561**	1,319,051
Provisions	16	**97,010**	186,750
Borrowings	17	**113,632**	103,644
Total current liabilities		**1,731,203**	1,609,445
Non-current liabilities			
Provisions	18	**412,888**	50,016
Borrowings	17	**198,498**	149,588
Total non-current liabilities		**611,386**	199,604
Total liabilities		**2,342,589**	1,809,049
Net assets		**72,476,047**	47,412,246
Equity			
Contributed equity	19	**83,004,589**	54,105,290
Share option reserve	20	**3,795,684**	3,085,825
Retained earnings		**(14,324,226)**	(9,778,869)
Total equity		**72,476,047**	47,412,246

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Contributed Equity $	Retained Earnings $	Share Option Reserve $	Total Equity $
Consolidated				
Balance as at 1 July 2008	**35,047,696**	**(5,683,158)**	**2,196,120**	**31,560,658**
Total comprehensive income for the period	–	(4,095,711)	–	(4,095,711)
Transactions with owners in their capacity as owners				
– Issue of share capital	19,961,421	–	–	19,961,421
– Cost of share issues	(903,827)	–	–	(903,827)
– Share based expense	–	–	889,705	889,705
Balance as at 30 June 2009	**54,105,290**	**(9,778,869)**	**3,085,825**	**47,412,246**
Total comprehensive income for the period	–	(4,545,357)	–	(4,545,357)
Transactions with owners in their capacity as owners				
– Issue of share capital	29,014,999	–	–	29,014,999
– Cost of share issues	(115,700)	–	–	(115,700)
– Share based expense	–	–	709,859	709,859
Balance as at 30 June 2010	**83,004,589**	**(14,324,226)**	**3,795,684**	**72,476,047**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED 2010 $	2009 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		**(4,868,395)**	(3,785,443)
Interest received		**977,834**	302,307
Amounts received for the hiring of equipment		**–**	307,720
Net cash (outflow)/inflow from operating activities	26	**(3,890,561)**	(3,175,416)
Cash flows from investing activities			
Expenditure on exploration and evaluation		**(21,585,079)**	(6,098,411)
Purchase of inventory		**–**	(46,806)
Receipts for exploration activities		**108,691**	1,228,376
R&D grant received		**329,394**	371,796
Net movement in bonds paid		**(60,497)**	(25,000)
Disposal of plant and equipment		**26,631**	–
Purchase of plant and equipment		**(1,062,655)**	(779,365)
Net cash (outflow)/inflow from investing activities		**(22,243,515)**	(5,349,410)
Cash flows from financing activities			
Net proceeds from issue of shares		**28,899,299**	19,057,594
Proceeds from borrowings		**58,898**	58,866
Finance costs paid		**(24,549)**	(24,374)
Net cash (outflow)/inflow from financing activities		**28,933,648**	19,092,086
Net increase in cash and cash equivalents held		**2,799,572**	10,567,260
Net cash and cash equivalents held at beginning of period		**17,336,920**	6,769,660
Cash and equivalents held at the end of the period	8	**20,136,492**	17,336,920

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

Note 1

Corporate Information

The Financial Statements of Metgasco for the year ended 30 June 2010 have been authorised for issue in accordance with a resolution of the Directors on 22nd September 2010 and covers the consolidated entity consisting of Metgasco and its subsidiaries as required by the Corporations Act 2001.

The Financial Statements are presented in Australian currency. Metgasco is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

Separate Financial Statements for Metgasco are no longer presented as a consequence of a change to the Corporations Act 2001. However limited information on Metgasco as an individual entity is included in note 31.

The address of the registered office and principal place of business is:

Level 9, 77 Pacific Highway North Sydney NSW 2060

Note 2

Summary of Significant Accounting Policies

a) Basis of preparation

These Financial Statements are general purpose Financial Statements that have been prepared in accordance with the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The Financial Statements have been prepared on an accrual basis, are based on historical cost and do not take into account changing money values or, except where stated, current valuations of non-current assets. Cost has been based on fair value of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The material accounting policies adopted by the Group in the preparation of the Financial Statements are summarised below.

b) Statement of compliance

The Financial Statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

c) Critical accounting estimates and judgments

The preparation of a financial report requires the Group to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by the Group in the application of accounting standards that have a significant impact on the Financial Statements and estimates with a significant risk of material adjustment in the next year are highlighted in the accounting policies detailed below.

The application of accounting judgments is manifested in the Group's approach to the classification of its drilling and associated expenses. It is at this stage, a matter of judgment as to the commerciality of the project which is the overriding consideration governing the continuing capitalisation of exploration costs.

The Group has exercised its judgment in assessing for the existence of impairment indicators on its exploration assets and is satisfied that none exist. These assets are therefore shown at their full carrying value in Note 11.

d) Principles of consolidation

The consolidated Financial Statements comprise the Financial Statements of Metgasco and its subsidiaries as at 30 June 2010. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

At 30 June 2010, Metgasco controlled 100% of Richmond Valley Power Pty Ltd, Clarence Moreton No.1 Pty Ltd and The Lions Way Pipeline Pty Ltd. The Financial Statements of the subsidiaries have been prepared for the same reporting date as the parent company, using consistent accounting policies. The purchase method of accounting has been used to account for the acquisition of the subsidiary by the Group. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless cost cannot be recovered. The subsidiaries are accounted for in the parent entity at cost.

e) Income tax

Income tax expense is based on the result for the year adjusted for any non-assessable or disallowed items based on the notional income tax rates for each jurisdiction. Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred income tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rate that is expected to apply to the period when the asset is realised or liability is settled. Deferred tax is debited or credited to profit or loss except where it relates to items that are debited or credited directly to equity or other comprehensive income, in which case the deferred tax is adjusted directly against equity or items of other comprehensive income. Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse changes will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law. The Group has not formed a consolidated tax group.

f) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. Leases in which the risks and rewards of ownership are transferred to the lessee are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges are included in current and non-current liabilities in their respective amounts.

Property plant and equipment acquired under finance leases is depreciated over the shorter of the assets useful life or the term of the lease.

g) Business undertakings

The Group intends to conduct oil and gas exploration activities solely and through joint ventures with other parties and through farm-in/farm-out agreements and to develop associated energy infrastructure.

h) Joint ventures

As at the date of the report the Group was not a party to any joint venture arrangements.

i) Revenue and expenses

Interest revenue is recognised as interest accrued using the effective interest method. Expenses are recognised on an accruals basis. Revenue from the hiring of equipment is recognised in the period in which the hirer of that equipment enjoys the use and possession of it. All revenue and expenses are stated at the net amount after adjustment for applicable goods and services tax (GST).

j) Foreign currency translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of transaction. At the end of the reporting period, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date, with the resulting foreign exchange gains or losses being recognised in the profit or loss.

k) Earnings per share

i) Basic earnings (loss) per share is determined by dividing the operating profit/(loss) after income tax by the weighted average number of ordinary shares outstanding during the financial year.

ii) Diluted earnings (loss) per share adjusts the basic earnings used in determining earnings per share by the after tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares noted is adjusted by the weighted average number of shares assumed to have been issued for no consideration. At the date of this report, options over unissued shares are not considered to be dilutive and have not been used to calculate diluted loss per share.

l) Exploration expenditure and petroleum tenement leases

The Group is actively involved in hydrocarbon exploration and evaluation activities in relation to coal seam gas and conventional hydrocarbons on PEL 13, 16 & 426. In accordance with AASB 6, exploration expenditure is carried forward as an asset, provided that the rights to the area of interest are current and one of the following conditions is met:

- Such expenditure is expected to be recouped by
  - Successful development of the area of interest; or
  - By sale of the area of interest.
- Exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the interest are continuing.

Exploration expenditure which fails to meet at least one of the conditions outlined above is written off.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated expenditure applicable to such area of interest is written off to the profit or loss account in the year in which such decision is made. Qualifying research and development tax offsets received from the Australian Taxation Office are offset against the deferred exploration expenditure. Other Government grants which may be received from time to time are also offset against deferred exploration expenditure. Amortisation is not charged on costs carried forward in respect of areas of interest on the basis that the Group is not able to assess with certainty the chances of the recoupment of expenditure through successful development or the rate at which the yet to be determined resources would be depleted.

A regular review is undertaken of each area of interest to determine the appropriateness of carrying forward costs in relation to the area of interest. Charges for depreciation of equipment used in exploration and evaluation activities are included as indirect costs of exploration and evaluation.

m) Inventory
Inventories comprise of casing and other consumable items and are recorded at cost.

n) Receivables
Receivables are recognised at their original invoice value less an allowance for any amounts deemed uncollectible. The terms for all receivables is 30 days. Receivables are assessed for their collectability on an ongoing basis. Debts which are known as uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due. Evidence of impairment includes: financial difficulties of the debtor, default payments or debts more than 60 days overdue.

o) Property, plant and equipment
Each class of property, plant and equipment is carried at historic cost less accumulated depreciation and impairment losses, where applicable. Plant and equipment is measured on the historic cost basis less depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of assets constructed within the Group includes the cost of materials, direct labour, borrowing costs, and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the carrying value of the asset or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred. The carried value of an asset is written down immediately to its recoverable amount if the asset's carried value is greater than its estimated recoverable value. Gains and losses on disposals are determined by comparing proceeds with the carried value. These gains and losses are included in the profit or loss.

p) Depreciation
All fixed assets are depreciated on a straight line basis over their useful lives to the Group. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Plant and equipment is depreciated at rates from 10–40%. The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at reporting date. Depreciation charged on assets which are employed exclusively in the Group's exploration activities is capitalised. This is consistent with the treatment of other exploration related expenses.

q) Impairment of assets
Assets that are not subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The Group has made the assessment that its assets of investment in exploration and the Richmond Valley Power Station project are likely to be recoverable through the successful development of both. The Group has not reached the phase for either which would enable it to reliably test for impairment.

r) Restoration and rehabilitation
Estimates of the cost of restoration and rehabilitation are provided for when areas first become affected as a result of exploration activities. Site restoration costs include: the dismantling and removal of infrastructure, removal of residual materials and remediation of disturbed areas. Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs are determined on the basis that the restoration will be completed within one year of the conclusion of all activities on that site.

s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group, prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

t) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured as the amounts expected to be paid when the liability is settled, plus related on-costs and booked as an accrual. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits and booked as a provision.

– Long service leave

The non-current liability for long service leave is recognised in the provision for employee benefits and estimated as future cash outflows to be made by Metgasco resulting from employees' services provided up to the balance date. Consideration is given to expected future wages and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

– Share-based payments

Share-based compensation benefits are provided to employees via the Metgasco Employee and Officer's Equity Plan. Metgasco has issued options to Directors and employees as part of their remuneration.

- The fair value of options granted under the Employee and Officer's Equity Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.
- The fair value at grant date is determined by using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option life, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution and the fact that the options are not tradable.

– Superannuation

The Group contributes to the personal superannuation funds of employees in accordance with the prevailing Federal legislation. Contributions of superannuation are recognised as expenses when they become payable. The cost of superannuation for employees employed exclusively in exploration and evaluation activities are carried forward in the Statement of Financial Position.

u) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that such an outflow can be reliably measured.

v) Cash and cash equivalents

Cash and cash equivalents include: cash on hand and short, fixed term deposits with banks. Bank overdrafts are shown within short-term borrowings in current liabilities on the Consolidated Statement of Financial Position. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

w) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which is disclosed as operating cash flows.

x) Government grants

Grants from Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with conditions attaching to those grants. Government grants shall be recognised as a credit to carried forward exploration costs whilst the treatment of exploration costs continue to comply with AASB 6. Grants will be recognised only to the extent of the expenditure so far incurred for which the grants are intended to cover. The Group has applied AASB 2007-4, which permits the offsetting of such grants to carried forward assets.

y) Going concern

The Group has prepared these Financial Statements on the basis that it is a going concern. In making this assumption the Group acknowledges that it must rely from time to time on the issuing of shares to existing shareholders and equity markets in general. The success or otherwise of the issuing of additional capital is dependent on the continued successful development of the Group's gas reserves and projects.

z) New accounting standards

Certain new accounting standards and interpretations have been published that are for 30 June 2010 reporting period. The standards and interpretations for the Group and their impact on the Group's Financial Statements are set out below.

AASB 8 Operating Segments effective 1 January 2009AASB 101 (revised) Presentation of Financial Statements effective 1 January 2009.

AASB 3 Business Combinations (amended) effective 1 January 2009

AASB 127 Consolidated and Separate Financial Statements (amended) effective 1 January 2009.

AASB 2008 – 1 Amendments to Australian Accounting Standards – Share Based Payments: Vesting Conditions and Cancellations effective 1 January 2009.

AASB 2008 – 7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate effective 1 January 2009.

A brief description of the new accounting standards and the effect, where applicable, on the Financial Statements or the results of the Group, is as follows.

AASB 8 Operating Segments effective 1 January 2009AASB 101 (revised) Presentation of Financial Statements effective 1 January 2009.

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. These segments were not reported in the Group's last annual report as it was considered at that time that the Group operated in only one segment. The Group currently has no revenue being produced from its exploration tenements nor operating expenses that would normally be associated with a revenue generating operation. As such the Group is early adopting the amendment to AASB 8 Operating Segments effected by AASB 2009-5 so that segment assets do not need to be disclosed if they are not provided to the chief operating decision maker. AASB 101 (amended) This standard alters how changes in equity are reported, in particular, how transactions with owners in their capacity as owners are reported. Also, there are changes in the terminology and layout employed in the primary financial statements. This standard however did not have any effect on recognition, measurement or the level of information disclosed in the financial statements.

AASB 2008 – 1 Amendments to Australian Accounting Standards – Share Based Payments: Vesting Conditions and Cancellations effective 1 January 2009.

This standard clarifies the position that the only vesting conditions for equity instruments are service conditions and performance conditions. No other conditions are considered vesting conditions. Also, the accounting treatment of cancellations is to be the same regardless of whether the entity or another party cancels the instrument.

The following Australian Accounting Standards and Interpretations have been issued or amended and are likely to affect the Group but are as yet, not effective. The Group has not early adopted any of the amended standards or interpretations.

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share Based Payment Transactions [AASB 2]

This standard clarifies the scope of AASB 2 by requiring an entity that receives goods or services in a share based payment arrangement to account for those goods or services regardless of which entity in the group settles the transaction and no matter whether the transaction is settled in shares or cash.

AASB 2009 – 10 Amendments to Australian Accounting Standards – Classification of Rights issues [AASB 132]

This amendment clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non derivative equity instruments.

Note 3

Financial Risk Management

Activities undertaken by Metgasco and its subsidiaries may expose it to a variety of financial risks including: market risk, credit risk and liquidity risk. The Group's risk management policies and objectives are designed to recognise and minimise the potential impacts of these risks, where such impacts may be material. At the present stage, the Group has minimal exposure to market and credit risk.

The carrying amounts of financial instruments by category are as follows.

	CONSOLIDATED	
	2010 $	**2009 $**
Cash & cash equivalents	**20,136,492**	17,336,920
Loans & receivables	**816,736**	756,239
Financial liabilities at amortised cost	**(1,494,876)**	(1,320,226)

Cash and cash equivalents are detailed in note 8 whilst the amount for loans and receivables represents amounts pledged as security for well rehabilitation, rental bonds and corporate credit cards. See note 24 accompanying the Financial Statements.

Of the financial liabilities disclosed above, the sum of $312,130 (2009: $253,232) represents amounts due on finance leases and the maturity analysis can be seen in note 17 to the accounts. The remainder represents trade payables and various accrued amounts that are expected to be settled within 30 to 60 days from balance date as disclosed in note 15 to the accounts.

a) Market risk

i) Foreign exchange risk

Small components of the Group's purchases of well materials are denominated in US dollars. At balance date however the amount of trade payables denominated in USD was nil. Subsequent variations in the USD/AUD exchange rate therefore would have no impact on the future results of the Group. From time to time throughout the reporting period, the Group has made purchases of well casing and other items that are denominated in US dollars. Due to the infrequency of such purchases, no foreign currency hedging is undertaken however any material changes to the value of our commitments to be settled in foreign currency are communicated to senior management and budgeted for.

ii) Interest rate risk and equity securities or other financial securities price risk.

The Group has no exposure to interest rate risk other than reductions/increases in interest earned should the rates decrease/increase respectively. As an indication of possible sensitivity to changes in interest rates a 1% movement in interest rates, assuming a mean cash balance of $21,740,000, would increase/decrease the annual amount of interest received by $217,000. Directors consider that there is no significant credit risk in respect of cash balances as those balances are all held with major Australia banks.

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

b) Credit risk

Credit risk is the risk that the other party to a contract or financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to contracts fail to settle their obligations owing to the Group. The Group is currently in the exploration and appraisal stage of development and has not entered into any sales contracts and is therefore not exposed to counterparty credit risk. The Group is not currently exposed to any counterparty credit risk.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet commitments. The Group ensures that sufficient cash reserves are available to carry out its committed program of works. The Group is reliant upon continued support from shareholders to maintain the liquidity of the Group. The Directors have not presented a detailed maturity analysis because the Group has sufficient cash reserves to meet all short term and long term financial liabilities as disclosed in notes 15 & 17.

Note 4

Segment Information

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.

This has resulted in two reportable segments with those being hydrocarbon exploration and the development of the Richmond Valley Power Station project.

a) Description of segments

Management has determined the operating segments based on reports reviewed by the executive management team for making strategic decisions. The executive management team comprises the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and the General Manager Exploration.

(i) Hydrocarbon exploration and development

This segment comprises the exploration, evaluation and development of principally coal seam gas and also conventional gas, in the Clarence Moreton basin in northern NSW.

(ii) Richmond Valley Power Station

A 30 megawatt gas fired power station located outside the township of Casino is also being developed by the Group.

These segments were not reported in the Group's last annual report as it was considered at that time that the Group operated in only one segment. No segment revenue is disclosed because no discrete information is provided to the executive management team as both activities are still in their exploration and start up phase. Neither activity is generating revenue or operating expense with all costs to date being capitalised.

Total asset amounts provided to the Executive Committee and the Board in internal reports are not broken down by segment. As such the Group is early adopting the amendment to AASB 8 Operating Segments effected by AASB 2009-5 so that segment assets do not need to be disclosed if they are not provided to the chief operating decision maker.

Note 5

Revenue and Other Income

	CONSOLIDATED	
	2010 $	2009 $
Revenue from continuing activities:		
Interest received from financial institutions	**977,834**	302,307
Equipment hiring income	**–**	307,720
Realised foreign exchange gain/(loss)	**5,391**	(23,935)
Total	**983,225**	586,092

Note 6

Expenses

Loss before income tax includes the following specific expenses:

Depreciation expense		
Plant and equipment	**54,684**	28,676
Total depreciation	**54,684**	28,676
Rent and occupancy		
Rent under operating lease – Sydney	**257,150**	267,351
Occupancy costs	**53,910**	52,396
Total rent expense	**311,060**	319,747
Finance cost – external		
Interest expense	**3,283**	90
Bank charges	**18,103**	22,005
Total finance Cost	**21,386**	22,095
Employee expenses		
Superannuation	**153,987**	126,924
Wages and salaries	**1,635,428**	1,465,795
Workers compensation	**51,119**	144,405
Payroll tax	**10,153**	101,308
Share based payments	**709,859**	677,405
Fringe benefits tax	**–**	41,919
Recruitment and consultants	**43,161**	15,080
Miscellaneous other	**29,391**	–
Total employee expenses	**2,633,098**	2,572,836

Depreciation charged on assets employed directly in the Group's exploration activities for the year was $436,176 (2009: $310,636) and is charged to exploration assets. Depreciation charged on assets not in the above category was $54,684 (2009: $28,676) for the year and is charged directly to the profit or loss.

Note 7

Income Tax Expense

	CONSOLIDATED	
	2010 $	2009 $
Loss from continuing activities before tax expense	**(4,545,357)**	(4,095,711)
Prima facie tax benefit on loss from continuing activities at 30% (2007: 30%)	**(1,363,607)**	(1,228,713)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share – based payments	**212,958**	203,222
	(1,150,649)	(1,025,491)
Movements in unrecognised temporary differences	**(22,477)**	(20,533)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	**1,173,126**	1,046,024
Income tax expense	**–**	–
Unrecognised deferred tax assets and liabilities		
On income tax account		
Capital raising costs	**483,016**	353,336
Accruals and provision for employees benefits	**84,263**	61,786
Carry forward tax losses:		
– Operating	**4,011,368**	2,838,242
– Exploration and evaluation expenditure	**14,351,144**	7,695,996
Deferred tax liability – taxable temporary differences	**(14,351,144)**	(7,695,996)
Net unrecognised deferred tax asset	**4,578,647**	3,253,364

The taxation benefits will be obtained only if the assessable income derived is of a nature and an amount sufficient to enable the benefit of deductions to be realised; conditions for deductibility imposed by the law are complied with; and there are no changes in tax legislation which adversely affect the realisation of the benefit of the deductions. For Financial Statement purposes, with respect to the above, the Group has not brought the tax benefit to account.

Note 8

Cash and Cash Equivalents

	CONSOLIDATED	
	2010 $	2009 $
Cash at bank and on hand	**187,208**	3,536,920
Term deposits	**19,949,284**	13,800,000
Total	**20,136,492**	17,336,920

a) Cash at bank and on hand

Amounts held in the Group's cheque account attract variable interest rates commensurate with a business cheque account.

b) Term deposits

Term deposits attract rates of interest ranging from 2.55% to 6.00% (2009: 3.60% to 4.00%). The maturity dates of the various term deposits range from 9 days to 175 days after the end of the reporting period.

Cash and cash equivalents are held by three banks and the carrying amount represents the maximum exposure to credit risk at the end of the reporting period.

Note 9

Inventory

Materials, consumables and equipment	**1,169,395**	1,516,215
Total	**1,169,395**	1,516,215

The cost of inventories recognised as an expense in 2010 and 2009 was nil. Inventory is at cost and there have been no writedowns to the carrying value in the period. Inventory items consist predominantly of materials used in the construction of coal seam and conventional gas wells. Inventory items are periodically assessed for impairment indicators. Such an indicator might be that an item of inventory is no longer able to be used safely or effectively in the manner in which it was intended to be used.

Note 10

Trade, Other Receivables and Prepayments Current

Security bonds-current	**135,000**	176,750
GST receivable	**246,217**	151,020
Prepayments	**348,481**	122,253
Total	**729,698**	450,023

Security bonds are held by the National Australia Bank. No receivables are past due.

Note 11

Exploration and Evaluation Expenditure

	CONSOLIDATED	
	2010 $	**2009 $**
Expenditure for the entitie's operations (sole use)		
Movement during the financial period (at cost):		
Opening balance	**20,840,860**	17,798,566
Capitalised exploration expenditure	**22,621,912**	3,510,681
R & D grant	**(329,394)**	(371,796)
Government grants	**–**	(96,591)
Transfer of joint venture expenditure	**4,703,768**	–
Carrying amount at end of reporting period	**47,837,146**	20,840,860
Expenditure for the entitie's operations (Joint Venture)		
Movement during the financial period (at cost):		
Opening balance	**4,812,459**	4,270,556
Contributions from joint venture partner	**(108,691)**	(735,547)
Capitalised exploration expenditure	**–**	1,277,450
Termination of joint venture	**(4,703,768)**	–
Carrying amount at end of reporting period	**–**	4,812,459
Total carrying amount at year end	**47,837,146**	25,653,319

Salaries and all other expenses of personnel based in Casino are recognised as a cost of exploration and evaluation given those costs are directly related to operational activities. A proportion of employment costs of the Director of Operations, the Managing Director and General Manager of Development are considered to be directly related to exploration activities. The proportion of salary and other expense attributable to exploration is based upon time allocation and the nature of their work activities. The carrying forward of capitalised exploration and evaluation costs is dependent on the successful recoupment of these costs through commercial exploitation, or alternatively, the sale of the Group's area of interest.

Note 12

Plant and Equipment

	CONSOLIDATED	
	2010 $	**2009 $**
Office equipment at cost	**143,549**	124,127
Less accumulated depreciation	**(59,444)**	(39,443)
	84,105	84,684
Computer equipment at cost	**394,037**	277,975
Less accumulated depreciation	**(228,477)**	(126,910)
	165,560	151,065
Motor vehicles at cost	**141,039**	141,039
Less accumulated depreciation	**(96,322)**	(68,072)
	44,717	72,967
Motor vehicles under finance lease at cost	**439,249**	328,849
Less accumulated amortisation	**(163,229)**	(102,714)
	276,020	226,135
Improvements at cost	**201,104**	185,694
Less accumulated depreciation	**(42,665)**	(23,736)
	158,439	161,959
Plant and equipment at cost	**1,076,717**	1,008,140
Less accumulated depreciation	**(524,418)**	(289,119)
	552,299	719,021
Richmond Valley Power Station – development costs	**2,983,029**	2,269498
Total plant and equipment	**4,264,169**	3,685,329

Note 12 (continued)

Plant and Equipment

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out in the following table:

	CONSOLIDATED	
	2010 $	2009 $
Office Equipment		
Carrying amount at beginning of financial year	**84,684**	96,164
Additions	**19,422**	6,852
Depreciation	**(20,001)**	(18,332)
Carrying amount at end of financial year	**84,105**	84,684
Computer Equipment		
Carrying amount at beginning of financial year	**151,065**	110,652
Additions	**116,061**	102,524
Depreciation	**(101,566)**	(62,111)
Carrying amount at end of financial year	**165,560**	151,065
Motor Vehicles		
Carrying amount at beginning of financial year	**72,967**	88,011
Additions	**–**	16,181
Depreciation	**(28,250)**	(31,224)
Carrying amount at end of financial year	**44,717**	72,967
Motor Vehicles under Finance Lease		
Carrying amount at beginning of financial year	**226,135**	175,757
Additions	**137,031**	131,996
Disposals	**(331)**	(22,914)
Depreciation	**(86,815)**	(58,704)
Carrying amount at end of financial year	**276,020**	226,135
Improvements		
Carrying amounts at beginning of year	**161,959**	179,924
Additions	**15,410**	601
Depreciation	**(18,930)**	(18,566)
Carrying amount at end of year	**158,439**	161,959
Plant and Equipment		
Carrying amount at beginning of financial year	**719,021**	491,092
Additions	**68,577**	390,978
Disposals/Transfers	**–**	(12,674)
Depreciation	**(235,299)**	(150,375)
Carrying amount at end of financial year	**552,299**	719,021
Richmond Valley Power Station - development costs		
Carrying amount at beginning of financial year	**2,269,498**	2,049,265
Additions	**713,531**	220,233
Carrying amount at end of financial year	**2,983,029**	2,269,498
Total	**4,264,169**	3,685,329

Note 12 (continued)

Plant and Equipment

The following tables disclose the assets employed exclusively in exploration and development activities. Depreciation is therefore charged to deferred exploration costs.

	CONSOLIDATED	
	2010 $	**2009 $**
Office equipment at cost	**86,117**	70,876
Less accumulated depreciation	**(30,779)**	(19,268)
	55,338	51,608
Computer equipment at cost	**215,034**	187,075
Less accumulated depreciation	**(135,149)**	(78,121)
	79,885	108,954
Motor vehicles at cost	**141,040**	141,039
Less accumulated depreciation	**(96,323)**	(68,072)
	44,717	72,967
Motor vehicles under finance lease at cost	**439,249**	328,849
Less accumulated depreciation	**(163,229)**	(102,714)
	276,020	226,135
Improvements at cost	**184,563**	169,153
Less accumulated depreciation	**(39,097)**	(21,822)
	145,466	147,331
Plant and equipment at cost	**1,076,718**	1,008,140
Less accumulated depreciation	**(524,418)**	(289,119)
	552,300	719,021
Total	**1,153,726**	1,326,016

Note 12 (continued)

Plant and Equipment

Reconciliations of the carrying amounts of each class of asset used exclusively in exploration and evaluation activities at the beginning and end of the current and previous financial year are set out on the following table:

	CONSOLIDATED	
	2010 $	2009 $
Office Equipment		
Carrying amount at beginning of financial year	**51,608**	58,965
Additions	**15,240**	3,122
Depreciation	**(11,510)**	(10,479)
Carrying amount at end of financial year	**55,338**	51,608
Computer Equipment		
Carrying amount at beginning of financial year	**108,954**	76,332
Additions	**27,958**	75,561
Depreciation	**(57,027)**	(42,939)
Carrying amount at end of financial year	**79,885**	108,954
Motor Vehicles		
Carrying amount at beginning of financial year	**72,967**	88,011
Additions	**–**	16,180
Depreciation	**(28,250)**	(31,224)
Carrying amount at end of financial year	**44,717**	72,967
Motor Vehicles under Finance Lease		
Carrying amount at beginning of financial year	**226,135**	175,757
Additions	**137,031**	131,996
Disposals	**(331)**	(22,914)
Depreciation	**(86,815)**	(58,704)
Carrying amount at end of financial year	**276,020**	226,135
Improvements		
Carrying amount at beginning of financial year	**147,331**	164,246
Additions	**15,410**	–
Depreciation	**(17,275)**	(16,915)
Carrying amount at end of financial year	**145,466**	147,331
Plant and Equipment		
Carrying amount at beginning of financial year	**719,021**	491,092
Additions	**68,578**	390,978
Disposals/transfers	**–**	(12,674)
Depreciation	**(235,299)**	(150,375)
Carrying amount at end of financial year	**552,300**	719,021
Total	**1,153,726**	1,326,016

Note 13

Trade and Other Receivables Non-Current

	CONSOLIDATED	
	2010 $	**2009 $**
Security bonds-Non-current	**681,736**	579,489
Total	**681,736**	579,489

Security bonds are comprised of term deposits which are held in favour of the NSW Department of Industry and Investment and the Group's landlord (being rental bond). The term deposits attract market interest rates. Receivables are not due until such time as the Group has satisfied certain conditions such as the rehabilitation of well sites or the satisfactory handing back of leased offices to the Group's landlord. The fair value of this asset approximates it's carrying value.

Note 14

Other Financial Assets

The Statement of Financial Position incorporates the assets, liabilities and results of the subsidiary in accordance with the policy described in note 2d.

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding**			
			2010 %	**2009 %**	**2010 $**	**2009 $**
Richmond Valley Power Pty Ltd	Australia	Ordinary	**100**	100	**100**	100
Clarence Moreton No. 1 Pty Ltd	Australia	Ordinary	**100**	100	**2**	2
The Lions Way Pipeline Pty Ltd	Australia	Ordinary	**100**	100	**2**	2

The proportion of ownership interest is equal to the proportion of voting power held for all the above subsidiaries. The subsidiaries Clarence Moreton No 1 and The Lions Way Pipeline, were registered on 5 January 2009.

Note 15

Trade and Other Payables

Employee benefits	**337,815**	252,057
Trade creditors	**832,745**	391,305
Accrued charges and expenses	**350,001**	675,689
Total	**1,520,561**	1,319,051

Amounts classified above as Employee benefits are all expected to be settled within 12 months of the end of the reporting period.

Note 16

Provisions Current

	CONSOLIDATED	
	2010 $	**2009 $**
Provision for site rehabilitation		
Opening balance	**186,750**	144,500
Amounts transferred to non-current	**(89,740)**	–
Amounts provided	**–**	42,250
Closing balance	**97,010**	186,750

The Group recognises the costs of site rehabilitation for the wells that it drills as each well is spudded. Provisions for well sites expected to be rehabilitated within 12 months are classed as current and are therefore the associated cash flows are not subject to discounting.

Note 17

Borrowings Current and Non-Current

Current		
Finance lease liability	**113,632**	103,644
Non-current		
Finance lease liability	**198,498**	149,588

The Group has borrowings in the form of finance leases. The rate of interest charged across the leases held varies from 7.0% to 11.5%. The fair value of the above financial liabilities approximate their carrying value. Full details of the lease commitments are as follows.

Finance lease commitments		
Within one year	**137,301**	123,400
Later than one year but not later than 5 years	**225,677**	167,417
Later than 5 years	**–**	–
Minimum lease payments	**362,978**	290,817
Future finance charges	**(50,848)**	(37,585)
Recognised as a liability	**312,130**	253,232

Note 18

Provisions Non-Current

Long service leave	**66,719**	50,016
Provision for site rehabilitation		
Opening balance	**–**	–
Amounts provided	**256,429**	–
Transferred from rehabilitation provision – current	**89,740**	–
Closing balance for site rehabilitation	**346,169**	–
Total	**412,888**	50,016

Provision is made for the future estimated cost of well site rehabilitation immediately a well drilled. The estimated costs of well site rehabilitation, where such costs are not expected to be incurred within 12 months of the end of the reporting period, are classed as Non-current and therefore discounted accordingly.

Note 19

Contributed equity

	PARENT ENTITY		PARENT ENTITY	
	2010 Shares	2009 Shares	2010 $	2009 $
(a) Share Capital				
Ordinary Shares – Fully Paid	**249,006,674**	185,994,145	**83,004,589**	54,105,290

	Date	No. of shares	$	Issue Price $
(b) Movements in Ordinary Share Capital				
Balance at 1 July 2008:		132,231,134	35,047,696	
Shares issued in prior period	15/07/2008	20,000	7,000	$0.35
	05/08/2008	30,000	9,000	$0.30
	07/01/2009	1,000,000	300,000	$0.30
	23/03/2009	50,000	15,000	$0.30
	20/03/2009	19,992,000	7,996,800	$0.40
	29/04/2009	19,159,142	7,663,657	$0.40
	26/05/2009	1,950,000	572,936	$0.30
	26/06/2009	1,480,575	435,013	$0.30
	30/06/2009	10,081,294	2,962,015	$0.30
Transaction costs in relation to placements			(903,827)	
Balance at 30 June 2009:		185,994,145	54,105,290	
Shares issued during the period:	31/08/2009	19,565	–	–
	01/09/2009	8,697	–	–
	02/12/2009	7,378,712	4,000,000	$0.5421
	11/12/2009	55,555,555	24,999,999	$0.45
	11/05/2010	50,000	15,000	$0.30
Transaction costs in relation to placements			(115,700)	
Balance at 30 June 2010		**249,006,674**	83,004,589	

Options (not quoted on ASX)	No. of Options 2010	No. of Options 2009
Opening balance	**6,944,718**	19,321,458
Issued to employees	**2,579,978**	1,599,963
Issued to contractors	**–**	750,000
Exercised by employees	**(50,000)**	(14,611,869)
Lapsed	**(253,186)**	(114,834)
Closing balance	**9,221,510**	6,944,718

Ordinary shares have the right to participate in dividends, include a voting entitlement, and include a right to proceeds on the winding up of the Parent Company in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

At the end of the reporting period there were 9,221,510 options over ordinary shares on issue. There were no options granted during the reporting period which had vesting dates within the reporting period. Options issued in the year by the Parent Company with vesting dates after 30 June 2010 totaled 2,540,000. Parent Company options are not quoted on the ASX.

Note 19 (continued)

Contributed equity

Capital risk management

The Group considers its capital to comprise its ordinary shares. In managing its capital, the Group's primary objective is to effectively utilise its capital resources to deliver on its operational objectives and deliver returns to shareholders. The issue of new shares is the Group's sole means of achieving its long term operational and strategic objectives. As the Group is involved in exploration and has no debt apart from finance leases disclosed in note 16 the use of various gearing ratios is not employed.

Note 20

Share-Based Payments

The Metgasco Employees Share Equity Plan ("ESEP") was approved in November 2004. A summary of the rules of the ESEP is set out below.

The allocation of options or shares to each employee, officer or consultant is at the discretion of the Board. Each option or share is to subscribe for one fully paid ordinary share in the Parent Company and will expire five years from its date of issue. An option or share is exercisable at any time from its date of vesting. Options or shares are issued free and the exercise price of options is determined by the Board, subject to a minimum price equal to the market value of the Parent Company's shares at the time the Board resolves to offer those options.

	CONSOLIDATED	
	2010 $	2009 $
Opening balance	**3,085,825**	2,196,120
Cost of options issued under ESEP	**709,859**	889,705
Closing balance of reserve	**3,795,684**	3,085,825

The entire movement in the share option reserve in the current year is attributable to options granted to Group employees and as such has been expensed to the profit or loss. In the previous year an amount of $212,300 was capitalised rather than charged to the profit or loss. This capitalised amount relates to options approved at the 2007 AGM and issued to the US based firm, Vectra CBM LLC, who provided services in respect of the Group's exploration and evaluation activities in 2007. These options are included in the total number of options outstanding as quoted throughout this report.

Details of options outstanding as part of the ESEP and those issued to contractors outside of the ESEP during the financial year is as follows:

Consolidated and parent entity 2010

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable spot price	Balance at beginning of year	Granted during the year	Exercised or lapsed during the year	Balance at end of the year	Fair Value
			$	$	Number	Number	Number	Number	$
20/04/2006	20/04/2006	20/04/2011	0.30	0.41	100,000	–	–	100,000	26,200
22/05/2006	20/05/2006	22/05/2011	0.32	0.32	50,000	–	–	50,000	8,926
22/05/2006	22/05/2007	22/05/2011	0.32	0.32	100,000	–	–	100,000	17,852
22/05/2006	22/05/2008	22/05/2011	0.32	0.32	100,000	–	–	100,000	17,852
03/10/2006	03/10/2006	01/01/2012	0.30	0.255	100,000	–	–	100,000	15,196
03/10/2006	03/10/2006	01/01/2012	0.50	0.255	150,000	–	–	150,000	18,301
27/09/2006	27/09/2009	01/01/2012	0.30	0.245	50,000	–	(50,000)	–	–
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	30,000	–	–	30,000	6,394
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	30,000	–	–	30,000	6,086
29/11/2006	29/11/2007	01/01/2012	0.50	0.35	40,000	–	–	40,000	7,409

Note 20 (continued)

Share-Based Payments (continued)

Consolidated and parent entity 2010 (continued)

Grant Date	Vesting Date	Expiry Date	Exercise Price	spot price	Balance at beginning of year	Granted during the year	Exercised or lapsed during the year	Balance at end of the year	Fair Value
					Number	Number	Number	Number	$
29/11/2006	29/11/2007	01/01/2012	0.40	0.35	50,000	–	–	50,000	10,144
29/11/2006	29/11/2007	01/01/2012	0.35	0.35	30,000	–	–	30,000	6,394
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	184,000	–	–	184,000	39,218
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	216,000	–	–	216,000	43,820
29/11/2006	29/11/2006	01/01/2012	0.50	0.35	370,000	–	–	370,000	68,534
29/11/2006	29/11/2006	01/01/2012	0.30	0.35	30,000	–	–	30,000	6,740
21/11/2007	21/11/2007	21/11/2012	0.82	0.90	500,000	–	–	500,000	286,070
21/11/2007	04/02/2008	21/11/2012	0.82	0.90	500,000	–	–	500,000	286,070
21/11/2007	21/11/2007	30/06/2012	0.90	0.90	236,710	–	–	236,710	126,696
21/11/2007	30/06/2008	30/06/2012	0.90	0.90	75,669	–	–	75,669	40,501
21/11/2007	30/06/2008	30/06/2012	1.00	0.90	150,179	14,580	–	164,759	84,587
21/11/2007	30/06/2009	30/06/2012	1.10	0.90	250,304	–	–	250,304	123,479
21/11/2007	30/06/2007	30/06/2012	0.90	0.90	97,771	17,113	–	114,884	61,578
21/11/2007	30/06/2008	30/06/2012	0.90	0.90	72,263	–	–	72,263	38,678
21/11/2007	14/09/2008	30/06/2012	0.90	0.90	100,000	–	–	100,000	55,919
04/02/2008	04/02/2009	04/02/2013	0.90	0.94	100,000	–	–	100,000	68,256
04/02/2008	04/02/2010	04/02/2013	0.90	0.94	100,000	–	–	100,000	68,256
04/02/2008	04/02/2009	04/02/2013	1.00	0.94	65,000	–	–	65,000	43,384
14/02/2008	14/02/2009	14/02/2013	1.00	0.82	50,000	–	–	50,000	28,638
21/02/2008	21/02/2008	21/02/2013	1.00	0.83	375,000	–	–	375,000	206,603
21/05/2008	21/05/2008	21/05/2013	1.00	1.10	375,000	–	–	375,000	313,844
01/07/2008	01/07/2008	01/07/2013	1.20	1.05	281,201	8,285	–	289,486	184,903
01/07/2008	01/07/2009	01/07/2013	1.20	1.05	310,375	–	–	310,375	198,247
01/07/2008	01/07/2009	01/07/2013	1.20	1.05	241,283	–	–	241,283	162,882
01/07/2008	01/07/2010	01/07/2013	1.40	1.05	100,000	–	–	100,000	60,442
01/07/2008	01/07/2010	01/07/2013	1.60	1.05	483,963	–	(93,186)	390,777	224,325
01/07/2008	01/07/2011	01/07/2013	1.60	1.05	100,000	–	(100,000)	–	–
21/08/2008	21/08/2008	21/08/2013	1.00	0.72	375,000	–	–	375,000	150,014
21/11/2008	21/11/2008	21/11/2013	1.00	0.38	375,000	–	–	375,000	62,286
01/09/2009	01/09/2011	01/09/2014	0.50	0.445		1,272,500	(32,500)	1,240,000	407,886
01/09/2009	01/09/2012	01/09/2014	0.50	0.445		1,267,500	(27,500)	1,240,000	407,886
					6,944,718	**2,579,978**	**(303,186)**	**9,221,510**	
Weighted average exercise price					0.91	0.50		0.79	

The options granted column includes a number of reinstated options which were incorrectly disclosed in the previous year as having lapsed. The weighted average life of options outstanding and the date of this report is 2.85 years

Note 20 (continued)

Share-Based Payments (continued)

Fair value calculation

The fair value at grant date was determined by using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option life, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution and the fact that the options are not tradable. The inputs used for the Black-Scholes option pricing model for options granted during the years ending 30 June 2010 and 30 June 2009 were as follows: The volatility used is derived with reference to the standard deviation in the closing share price over a 5 year period.

Inputs into the Model	2010	2009
Weighted average share value	**$0.445**	$0.89
Risk free rate	**5.63%**	6.61%
Exercise price	**$0.50**	$1.00 – $1.60
Standard deviation/volatility	**58.6%**	70.1% – 75.1%

The weighted average cost of shares prevailing on the date of the exercise of options and subsequent quotation of those shares was 99.5c. No options expired during the year. Directors have elected not to include in the accounts valuations of options issued in the year ended 30 June 2005. After this date such valuations became mandatory.

The reconciliation of options outstanding for the period ending 30 June 2009 is also required to be presented.

Consolidated and parent entity 2009

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable spot price	Balance at beginning of year	Granted during the year	Exercised or lapsed during the year	Balance at the end of the year	Fair Value
			$	$	Number	Number	Number	Number	$
20/10/2004	20/10/2004	30/06/2009	0.30	0.20	12,561,869	–	(12,561,869)	–	–
28/01/2005	28/01/2005	30/06/2009	0.30	0.20	2,000,000	–	(2,000,000)	–	–
20/04/2006	20/04/2006	20/04/2011	0.30	0.41	100,000	–	–	100,000	26,200
22/05/2006	20/05/2006	22/05/2011	0.32	0.32	50,000	–	–	50,000	8,926
22/05/2006	22/05/2007	22/05/2011	0.32	0.32	100,000	–	–	100,000	17,852
22/05/2006	22/05/2008	22/05/2011	0.32	0.32	100,000	–	–	100,000	17,852
03/10/2006	03/10/2006	01/01/2012	0.30	0.255	100,000	–	–	100,000	15,196
03/10/2006	03/10/2006	01/01/2012	0.50	0.255	150,000	–	–	150,000	18,301
27/09/2006	27/09/2009	01/01/2012	0.30	0.245	50,000	–	–	50,000	7,213
27/09/2006	27/09/2009	01/01/2012	0.30	0.245	30,000	–	(30,000)	–	–
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	30,000	–	–	30,000	6,394
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	30,000	–	–	30,000	6,086
29/11/2006	29/11/2007	01/01/2012	0.50	0.35	40,000	–	–	40,000	7,409
29/11/2006	29/11/2007	01/01/2012	0.40	0.35	50,000	–	–	50,000	10,144
29/11/2006	29/11/2007	01/01/2012	0.35	0.35	50,000	–	(20,000)	30,000	6,394
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	184,000	–	–	184,000	39,218
29/11/2006	29/11/2006	01/01/2012	0.40	0.35	216,000	–	–	216,000	43,820
29/11/2006	29/11/2006	01/01/2012	0.50	0.35	370,000	–	–	370,000	68,534
29/11/2006	29/11/2006	01/01/2012	0.30	0.35	30,000	–	–	30,000	6,740
21/11/2007	21/11/2007	21/11/2012	0.82	0.90	500,000	–	–	500,000	286,070
21/11/2007	04/02/2008	21/11/2012	0.82	0.90	500,000	–	–	500,000	286,070
21/11/2007	21/11/2007	30/06/2012	0.90	0.90	236,710	–	–	236,710	126,696
21/11/2007	30/06/2008	30/06/2012	0.90	0.90	75,669	–	–	75,669	40,501
21/11/2007	30/06/2008	30/06/2012	1.00	0.9	164,759	–	(14,580)	150,179	77,102

Note 20 (continued)

Share-Based Payments (continued)

Consolidated and parent entity 2009 (continued)

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable spot price	Balance at beginning of year	Granted during the year	Exercised or lapsed during the year	Balance at the end of the year	Fair Value
			$	$	Number	Number	Number	Number	$
21/11/2007	30/06/2009	30/06/2012	1.10	0.90	250,304	–	–	250,304	123,479
21/11/2007	30/06/2007	30/06/2012	0.90	0.90	114,884	–	(17,113)	97,771	52,331
21/11/2007	30/06/2008	30/06/2012	0.90	0.90	72,263	–	–	72,263	38,678
21/11/2007	14/09/2008	30/06/2012	0.90	0.90	100,000	–	–	100,000	55,919
04/02/2008	04/02/2009	4/02/2013	0.90	0.94	100,000	–	–	100,000	68,256
04/02/2008	04/02/2010	4/02/2013	0.90	0.94	100,000	–	–	100,000	68,256
04/02/2008	04/02/2009	4/02/2013	1.00	0.94	65,000	–	–	65,000	43,384
14/02/2008	14/02/2009	14/02/2013	1.00	0.82	50,000	–	–	50,000	28,638
21/02/2008	21/02/2008	21/02/2013	1.00	0.83	375,000	–	–	375,000	206,603
21/05/2008	21/05/2008	21/05/2013	1.00	1.10	375,000	–	–	375,000	313,844
01/07/2008	01/07/2008	1/07/2013	1.20	1.05	–	289,486	(8,285)	281,201	179,612
01/07/2008	01/07/2009	1/07/2013	1.20	1.05	–	310,375	–	310,375	198,246
01/07/2008	01/07/2009	1/07/2013	1.40	1.05	–	273,191	(31,908)	241,283	145,836
01/07/2008	01/07/2010	1/07/2013	1.40	1.05	–	100,000	–	100,000	60,442
01/07/2008	01/07/2010	1/07/2013	1.60	1.05	–	526,911	(42,948)	483,963	277,819
01/07/2008	01/07/2011	1/07/2013	1.60	1.05	–	100,000	–	100,000	57,405
21/08/2008	21/08/2008	21/08/2013	1.00	0.72	–	375,000	–	375,000	150,015
21/11/2008	21/11/2008	21/11/2013	1.00	0.38	–	375,000	–	375,000	62,287
					19,321,458	**2,349,963**	**(14,726,703)**	**6,944,718**	**3,253,768**
Weighted average exercise price					0.41	1.27		0.91	

Note 21

Key Management Personnel

Key Management Personnel summary of compensation

	CONSOLIDATED	
	2010 $	**2009 $**
Short-term employee benefits	**1,684,874**	1,612,691
Post-employment benefits	**258,342**	378,599
Other long-term benefits	**9,655**	21,244
Share based payments	**545,790**	549,168
Total	**2,498,661**	2,561,702

There were no payments received or receivable by key management personnel of the Group or related parties of the Group other than that which are disclosed in the remuneration section of the Directors' Report. There were no termination benefits paid in the year.

Note 21 (continued)

Key Management Personnel

At the date of these accounts, the direct and indirect interests of the Directors and Key Management Personnel in the securities of Metgasco are as follows:

Shares – 2010

	Opening balance	Granted as compensation	Received on exercise of options	Other changes	Shares disposed	Closing balance
Peter Power	6,006,761	–	–	23,170	–	6,029,931
Nicholas Heath	161,864	–	–	46,340	–	208,204
Steven Koroknay	–	–	–	30,000	–	30,000
Len Gill	–	–	–	–	–	–
David Johnson	12,369,930	–	–	–	–	12,369,930
Glenda McLoughlin	10,116,715	–	–	–	(119,538)	9,997,177
Richard Wood *	1,981,473	–	–	–	–	1,981,473
Kevin Dixon	–	2,174	–	33,333	–	35,507
Michael O'Brien	87,143	–	–	133,336	–	220,479
Aidan Stewart	112,500	–	–	33,333	–	145,833
Peter Stanmore	52,038	–	–	33,332	–	85,370
Robin Maxam	–	–	–	604,569	–	604,569

Options – 2010

	Opening balance	Options granted	Options lapsed or exercised	Closing balance	Vested & exercisable at 30 June 2010
Peter Power	300,000	–	(100,000)	200,000	200,000
David Johnson	711,219	555,556	–	1,266,775	625,641
Glenda McLoughlin	711,219	555,556	–	1,266,775	625,641
Richard Wood	561,029	–	(60,222)	500,807	500,807
Nicholas Heath	250,000	–	–	250,000	250,000
Kevin Dixon	600,288	125,926	–	726,214	547,990
Michael O'Brien	200,000	462,962	–	662,962	200,000
Aidan Stewart	247,785	100,000	–	347,785	209,750
Peter Stanmore	227,270	377,778	–	605,048	227,270
Robin Maxam	–	100,000	–	100,000	–

* Shareholding was current at 16 October 2009 which was date of resignation

Note 21 (continued)

Key Management Personnel (continued)

Shares – 2009

	Opening balance	Shares acquired	Shares disposed	Closing balance
Peter Power	3,023,276	2,983,485	–	6,006,761
David Johnson	10,092,167	4,877,763	(2,600,000)	12,369,930
Glenda McLoughlin	5,886,140	4,980,575	(750,000)	10,116,715
Richard Wood	745,626	1,235,847	–	1,981,473
Nicholas Heath	129,825	32,039	–	161,864
Michael O'Brien	22,143	65,000	–	87,143
Peter Stanmore	–	52,038	–	52,038
Aidan Stewart	100,000	12,500	–	112,500
Jackie Geraghty	40,143	61,269	–	101,412

Options – 2009

	Opening balance	Options granted	Options lapsed or exercised	Closing balance	Vested & exercisable at 30 June 2009
Peter Power	2,480,575	300,000	2,480,575	300,000	–
David Johnson	4,940,729	251,065	4,480,575	711,219	506,984
Glenda McLoughlin	4,940,729	251,065	4,480,575	711,219	506,984
Richard Wood	1,505,031	176,142	1,120,144	561,029	417,308
Nicholas Heath	250,000	–	–	250,000	250,000
Kevin Dixon	463,590	136,698	–	600,288	523,028
Aidan Stewart	168,253	79,532	–	247,785	185,544
Mick O'Brien	200,000	–	–	200,000	100,000
Peter Stanmore	100,000	127,270	–	227,270	133,622
Jackie Geraghty	65,000	–	–	65,000	65,000

All holdings of shares and options disclosed this year and prior year are held either directly or indirectly by Directors or related parties rather than nominally.

Other key remuneration disclosures

During the year there were no transactions of any kind between the Group and Directors, Key Management Personnel or parties related to these groups other that what has been disclosed in the remuneration reports. This includes loans, dividends, and consulting services. Any shares issued to Directors or Key Management Personnel throughout the year were issued through a rights issue, on-market transactions or through the exercise of options.

There were no payments received or receivable by Key Management Personnel of the Group or related parties of the Group other than as disclosed in the Remuneration section of the Directors' Report in this document.

Note 22

Remuneration of Auditors

Total amounts provided for remuneration for assurance services provided to the Group by the auditor are:

	CONSOLIDATED	
	2010 $	**2009 $**
Amounts paid/payable to BDO Audit (NSW-VIC) Pty Ltd for audit or review of the financial report	**70,174**	75,246
Total	**70,174**	75,246

No services of any other kind were provided by the Group's auditors during the course of the year.

Note 23

Related Party Transactions

Directors and Director-related entities share and option holdings at balance date are disclosed in note 20 to the accounts. The transactions and balances with the joint venture partner are disclosed in note 30. There are no further related party transactions to disclose.

Note 24

Contingent Liabilities

Bank guarantees Department of Primary Industry	**680,497**	620,000
Rental bond/corporate credit card	**136,239**	136,239

Should the Group fail to satisfactorily rehabilitate well sites after their abandonment, amounts secured by bank guarantee as well as cash lodged with The Department of Industry and Investment, could be forfeited.

Note 25

Commitments

The Group is committed to a minimum program of works in the coming years involving exploration and evaluation activities in PEL 13, 16 & 426. The minimum expenditure for this is set out below. The Group also has the following operating lease commitments.

Minimum Exploration & Evaluation expenditure for exploration tenements		
– Within one year	**1,350,000**	–
– Later than one year but not later than 5 years	**1,600,000**	–
– Later than 5 years	**–**	–
Total	**2,950,000**	–
Office Rent		
– Within one year	**250,773**	274,952
– Later than one year but not later than 5 years	**386,765**	829,607
– Later than 5 years	**–**	–
Total	**637,538**	1,104,559

The minimum contractual commitment towards remuneration costs of Executive Directors is $154,500.

Note 26

Reconciliation of Loss After Income Tax to Net Cash Outflow from Operating Activities

	CONSOLIDATED	
	2010 $	**2009 $**
Loss from ordinary activities after income tax	**(4,545,357)**	(4,095,711)
Non cash flows in operating loss		
– Depreciation	**54,684**	28,676
– Share Based Payments	**709,859**	677,405
– (Increase) decrease in other receivables	**(184,733)**	365,175
– Increase (decrease) in creditors	**74,986**	(150,961)
Cash flows used in operating activities	**(3,890,561)**	(3,175,416)

Non cash financing and investing activities

Note that part of the increase in fixed assets is attributable to entering in to finance leases. The increase for the current year is $137,031 (2009: $131,996)

Note 27

Earnings Per Share

Reconciliation of earnings used in calculating earnings per share

Basic earnings per share		
Loss from continuing operations attributable to owners of Metgasco used to calculate basic earnings per share	**4,545,357**	4,095,711
Loss attributable to owners of Metgasco used to calculate basic earnings per share	**4,545,357**	4,095,711
Diluted earnings per share		
Loss from continuing operations attributable to owners of Metgasco used to calculate basic earnings per share	**4,545,357**	4,095,711
Loss from continuing operations attributable to owners of Metgasco used to calculates diluted earnings per share	**4,545,357**	4,095,711
Loss attributable to owners of Metgasco used to calculate diluted earnings per share	**4,545,357**	4,095,711
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**220,353,752**	141,959,370
	(2.1)c	(2.88)c

Options, being potential shares are not considered dilutive and have not been used to calculate diluted loss per share.

Note 28

Financing Facilities

The Group does not have any loan facilities in place as at the date of these Financial Statements.

Note 29

Government Grants

There have been no grants of any type received or that are receivable during the year ended 30 June 2010.

Note 30

Joint Ventures

In the early part of the year ending 30 June 2010, Metgasco was party to and operator of a joint venture operation (Stratheden Joint Venture) with CS Energy. The interests of CS Energy in PEL 16 were acquired in full by the Group in November 2009 and the joint venture terminated. The Group is not currently engaged in a joint venture with any party.

	CONSOLIDATED	
	2010 $	**2009 $**
Current Assets		
Cash and cash equivalents	**–**	–
Exploration and Evaluation	**–**	4,812,459
Inventory – raw materials	**–**	–
Other receivables	**–**	210,000
Current liabilities – provisions	**–**	(85,000)
Trade payables	**–**	(20,341)

Note 31

Parent Entity Disclosures

The following provides information related to the parent entity, Metgasco Limited, at 30 June 2010. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	PARENT	
	2010 $	**2009 $**
Current assets	**22,035,585**	19,303,158
Non-current assets	**52,783,155**	29,918,241
Total assets	**74,818,740**	49,221,399
Current liabilities	**1,731,307**	1,609,549
Non-current liabilities	**611,386**	199,604
Total Liabilities	**2,342,693**	1,809,153
Contributed equity	**83,004,589**	54,105,290
Retained earnings/(accumulated losses)	**(14,324,226)**	(9,778,869)
Share option reserve	**3,795,684**	3,085,825
Total equity	**72,476,047**	47,412,246
Profit/(loss) for the year	**(4,545,357)**	(4,095,711)
Other Comprehensive income/(loss) for the year	**–**	–
Total comprehensive income/(loss) for the year	**(4,545,357)**	(4,095,711)

Included in the non-current assets of the parent is an amount receivable from the wholly owned subsidiary, Richmond Valley Power Pty Ltd for $2,983,028. The amount receivable by the parent entity from wholly owned subsidiaries is for funds advanced for the purpose of the development of the Richmond Valley Power Station. The parent expects that the subsidiary will have sufficient cash reserves at the end of the project to repay this loan.

Note 32

Events subsequent to the end of the reporting period

On 13 August 2010, the Group, under the Metgasco Employee Share Equity Plan, issued 1,796,794 shares to employees by way of long term and short term incentives. Of these shares, 392,114 were issued without restrictions whilst 1,404,650 were subject to a 3 year trading lock. In addition, 1,286,667 shares are proposed to be issued to Directors subject to shareholder approval. Of this total, 210,000 will be restricted whilst 1,076,667 will be subject to a 3 year trading lock.

DECLARATION BY DIRECTORS

The Directors of the Company declare that:

1. The Financial Statements, comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:

   i) comply with Accounting Standards and the *Corporations Regulations 2001*; and

   ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.

2. The Company has included in the notes to the Financial Statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. 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.

4. The remuneration disclosures included in pages x to xx of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2010, comply with section 300A of the *Corporations Act 2001*.

5. The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A.

6. 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:

D. Johnson
Director

S. Koroknay
Chairman Audit & Risk Management Committee

Sydney, 22 September 2010

BDO

Tel: +61 2 9286 5555
Fax: +61 2 9286 5599
www.bdo.com.au

Level 19, 2 Market St
Sydney NSW 2000
GPO Box 2551 Sydney NSW 2001
Australia

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF METGASCO LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Metgasco Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2b, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

(a) the financial report of Metgasco Limited is in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2b.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Metgasco Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (NSW-VIC) Pty Ltd

Ian Fergusson

Director

Sydney, this 22nd day of September 2010

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 20th September 2010.

Distribution of Equity Securities

Analysis of numbers of equity security holders by size of holding:

Number of fully paid ordinary shares held	Shareholders
1 – 1000	451
1,001 – 5,000	1551
5,001 – 10,000	1,039
10,001 – 100,000	2,679
100,001 and above	290
Total	6,010

There were 308 holders of less than a marketable parcel of 944 ordinary shares.

20 Largest Shareholders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number Held	Percentage of Issued Shares
Bell Potter Nominees LTD	12,937,745	5.16
Mr David Johnson	12,369,930	4.93
HSBC Custody Nominees (Australia) Limited	10,152,895	4.05
Ms Glenda McLoughlin	9,997,177	3.99
Mr Peter Power	6,029,931	2.40
Magnim Pty Ltd	4,667,426	1.87
Molopo Energy Limited	3,689,356	1.47
Enmore Medical Centre Pty Ltd	3,600,000	1.44
Equity Trustees Limited	3,409,392	1.36
Lit Wick Enterprises Pty Ltd	3,250,000	1.30
Dansar Pty Ltd	2,655,081	1.06
The Australian National University	2,283,333	0.91
Cydac Pty Ltd	2,016,574	0.80
UBS Wealth Management Australia Nominees	1,780,556	0.71
Geotech Investments Pty Limited	1,760,036	0.70
Janfah Investments Pty Ltd	1,422,776	0.57
JP Morgan Nominees Australia Limited	1,359,948	0.54
National Nominees Limited	1,257,831	0.50
Kouto Holdings PTY LTD	1,153,477	0.46
NJM Nominees PTY LTD	1,140,456	0.45
Total of top 20 holders of fully paid ordinary shares	**86,933,920**	**34.66**

Substantial shareholders

As at 21st September 2010 there was one (1) substantial shareholder in the Company. The LNGL Group (comprising CSG Nominees Pty Ltd, Liquefied Natural Gas Limited and other subsidiary companies) has lodged a substantial shareholding notice in relation to a relevant interest in 12,604,412 shares.

Voting Rights

On a show of hands, at a General Meeting of the Group, every member present in person or by proxy shall have one vote and upon a poll each person present in person or by proxy shall have one vote for each ordinary share held. Optionholders have no voting rights.

Interests in Mining Tenements*

The Group's relevant interests in exploration tenements as at 30 June 2010 is as follows.

Tenement	Resource type	30 June 2010	30 June 2009
PEL 13	Coal seam gas	**100%**	75%
PEL 13	Conventional	**100%**	50%
PEL 16	Coal seam gas	**100%**	96%
PEL 16	Conventional	**100%**	100%
PEL 426	Coal seam gas	**100%**	56.6%
PEL 426	Conventional	**100%**	56.6%

* The above tenements are all located in the Clarence-Moreton Basin in Northern NSW.

Financial commitments in relation to the above tenements are recognised in note 25 to these accounts.

GLOSSARY OF TERMS

Adsorption	The attraction exerted by the surface of coal for a liquid on gas with which there is contact
Ash	In coal, the inorganic residue after burning
ASX	Australian Stock Exchange Limited
Basin	A segment of the earth's crust that has down-warped and in which sediments have accumulated
Bcf	Billion cubic feet (10^9 cubic feet)
Bituminous	Coal that contains between 15% and 20% volatile matter
Cleat	A joint or system of joints along coal fractures
CO^2	Carbon Dioxide
Core	A cylindrical piece of rock taken as a sample
CSG	Coal Seam Gas. Also known as coal seam methane (CSM) and coal bed methane (CBM). Natural Gas contained within coals
Clarence–Moreton Basin	A sedimentary basin containing early Triassic and mid to late Jurassic sediments
Daf	Dry ash free
Desorption	The process of the loss of gas previously adsorbed on coal
Fracture	Any break in a rock caused by mechanical stress
Gas-in-Place or GIP	A technical estimate of potential gas volumes contained within a defined area
GJ	Gigajoule (10^9 joules)
Hydrostatic	Pressure exerted by a fluid at rest
Isotherm	A graph derived from measurements taken over a time at a constant temperature
Joule	A unit of energy
Jurassic	A period of geological time approximately195 to 135 million years ago
Km	Kilometre
Km^2	Square kilometre
Mcf	Thousand cubic feet (10^3 cubic feet)
Metgasco or the Group	Metgasco Ltd ACN 088 196 383
Md	Millidarcy (unit measurement of permeability)
MMcf	Million cubic feet (10^5 cubic feet)
MW or Megawatt	One million watts of power
MWh	Megawatt hour
PEL	Petroleum Exploration Licence
Petroleum Act	Petroleum (Onshore) Act 1991 (NSW) and Petroleum (Onshore) Regulations 2002 (NSW)
Permeability	The capacity of a rock (coal) to transmit fluid
PJ	Petajoule (10^{15} joules)
Rank	A classification of coal based on the degree of heating and pressure undergone

GLOSSARY OF TERMS

Reserves	
1P	**(Proven oil/gas reserves)** are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
2P	**Probable Reserves** are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
3P	**Possible Reserves** are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. In this context, when probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
2C	**Contingent Resource** Best estimate of those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
Resource	The volume of gas stored in coal.
Scfd	Standard cubic feet per day.
Seismic	The gathering of data on the subsurface by a particular geophysical method which uses shock waves.
SPE	Society of Petroleum Engineers.
Tcf	Trillion Cubic Feet
Tenement	Title to explore for and/or produce petroleum granted pursuant to the Petroleum Act.
TJ	Terajoule (10^{12} joules)
Walloon Coal Measures	A formation in the Clarence-Moreton Basin which contains coal and is of middle Jurassic Age.

Standard Metric Prefixes	
Kilo	10^3 (thousand)
Mega	10^6 (million)
Giga	10^9 (1000 million)
Tera	10^{12}
Peta	10^{15}

Conventional Conversions	
1 mcf	= 1.1 Gigajoule
1 mmcf	= 1.1 Terajoule
1 bcf	= 1.1 Petajoule

CORPORATE DIRECTORY

Directors
Nicholas Heath (Chairman)
Steven Koroknay
Leonard Gill
David Johnson
Glenda McLoughlin

Principal and Registered Office
Level 9, 77 Pacific Highway
North Sydney NSW 2060

Mailing Address
PO BOX 517
North Sydney NSW 2059

Company Secretaries
Glenda McLoughlin
Nicholas Geddes

Notice of Annual General Meeting
The Annual General Meeting of Metgasco will be held:
On: 16th November 2010
Time: 11.00 am
At: Christie Corporate
Mozambique Room,
Level 4
100 Walker St,
North Sydney NSW 2060

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

ASX Symbol
MEL

Auditor
BDO Audit (NSW-VIC) Pty Ltd
Level 19, 2 Market Street
Sydney NSW 2000

Solicitors
Allens Arthur Robinson
Deutsche Bank Place
Corner Hunter and Phillip Streets
Sydney NSW 2000

Share Registry
Computershare Investor Services Pty Limited
GPO BOX 7115
Sydney NSW 2001

How to contact us:
By mail: PO BOX 517
North Sydney NSW 2059

By telephone: (02) 9923 9100

By Fax: (02) 9923 9199

By Email: info@metgasco.com.au

Website www.metgasco.com.au

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