METGASCO

DIRECTORS' REPORT AND AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2011

TABLE OF CONTENTS

DIRECTORS' REPORT

Your Directors present their report on Metgasco Limited ("Metgasco" or "the Group") and the entities it controlled for the year ended 30 June 2011.

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.

Review of Operations

During the year, Metgasco continued with the exploration, appraisal, and development of its coal seam gas ("CSG") and conventional gas interests. Metgasco holds a 100% interest in three Petroleum Exploration Licenses ("PEL") covering approximately 4,600 km^2 in the Clarence Moreton Basin in northern New South Wales. These interests are PEL 13, PEL 16 and PEL 426.

Exploration and Appraisal

During the year Metgasco extended its exploration and appraisal activities over a wider area of the Clarence Moreton basin. Four CSG exploration wells were drilled in PEL 13 and PEL 426 to evaluate the Walloon Coal Measures over a wider area. An additional vertical CSG well was drilled in PEL 16, South Casino E11, which was designed to intersect the Richmond coal seam using alternative drilling and completion techniques designed to improve productivity. Metgasco drilled two core wells in PEL 13 adjacent to the Company's CSG production area in PEL 16. Both Bowerbird core holes confirmed the presence of gassy coals to the west of Corella P11 and together have extended the Eden Creek fairway into PEL13.

Subsequently, Metgasco drilled the Thornbill E01 and Thornbill E02 wells which both identified the presence of gas charged coals and carbonaceous shales in an area well to the south of Casino. The Thornbill E01 well tested the Walloon Coal Measures in the area of the Banyabba surface anticline approximately 50 km south of Casino. This well was drilled to 846 meters and resulted in immediate gas produced to surface at a rate of 100 mcf per day with no associated water production. Approximately 13 metres of coal and carbonaceous shales were identified from logging operations at this well. The Thornbill E02 well tested the Walloon Coal Measures in the area north west of the Tullymorgan anticline approximately 42 kilometres north of Grafton. Approximately 20 metres of coal and carbonaceous shales were identified from logging operations. No water production was observed in either of these wells.

Further CSG pilot production wells were drilled during the year with the completion of the Harrier P01 and the successful side-track and completion of the Corella P18 wells. The Harrier P01 and Corella P18 wells have been placed on drawdown and are currently both producing gas and water continually to surface. During the dewatering stage gas flow has been restricted on both wells to ensure an efficient dewatering process and to improve productivity.

In September 2010, Metgasco completed the 2010 MET10 2D seismic survey which acquired approximately 200 line km of new 2D seismic data over structures identified as high priority. These included the Kingfisher structure, the Mackellar prospect and the Mackellar North lead in PEL 16. Additional 2D seismic data was acquired over the Wedgetail and Rappville leads in PEL 13 and the Coaldale lead in PEL 426. This seismic data has been processed and interpreted with one of the key interpretations being that the Kingfisher, Mackellar and Mackellar North structures now appearing to be sub-elements of a single large structure referred to as the Greater Mackellar structure. The Gas in Place estimate for the Greater Mackellar structure is 1.3 Tcf (PMean). Follow up drilling on this structure will be undertaken in 2012.

Further evaluation of the Kingfisher gas discovery was undertaken during the year. The Kingfisher E01 well is the first conventional discovery in the Clarence Moreton basin and the largest conventional gas discovery in NSW. This well was drilled to a TD of 2090 metres and a gross gas column of 138 metres was identified from wireline logs. Metgasco considers that additional gas bearing zones are likely to be encountered below 2090 metres with a further 500 metre section to be tested in the future.

In November 2010 the Company undertook a trial Nitrogen foam stimulation operation of a single 3 metre interval at 1450 metres in the Gatton sandstone. This stimulation operation was designed to evaluate the response of the reservoir to fracture stimulation to assist in the design of a more detailed fracture stimulation program for a future production well. The stimulation operation was only partially successful as the full proppant stage of the stimulation was unable to be completed due to operational issues. The stimulation operation was successful in increasing gas production; however a stabilised production rate was unable to be achieved. Metgasco subsequently perforated four new intervals in the Gatton sandstone adding 16.5 meters of gas sands to the 3 metre zone which was the subject of the Nitrogen stimulation test. Early production from this well achieved a production rate of 410 mcf/d on a 28/64" choke and has declined to 100 mcf/d since then.

Reserves

As at 30 June 2011, Metgasco had established a reserve position in PEL 16 net to Metgasco of:

Gas Reserves (Petajoules)	as at 30 June 2011
1P (proven)	2.7
2P (proven and probable)	397
3P (proven, probable, possible)	2,239
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.

Commercialisation Strategy and Infrastructure

Metgasco has progressed its commercialisation agenda on a number of fronts during the year. On 14 June 2011 the Company advised that it had entered into a Memorandum of Understanding to supply gas to local manufacturing company, Richmond Dairies. A number of discussions were held with interested parties in regard to development of the Richmond Valley Power Station. Metgasco received Development Approval from the NSW Department of Planning for the construction of this project on 9 June 2010 but is still awaiting the issue of a gas Production License from the NSW Department of Primary Industries which is required to enable the Company to commercialise its gas resources.

In September 2010, Metgasco advised that it had entered into a Memorandum of Understanding with LNG Ltd to evaluate the supply of gas to their Fishermans Landing LNG Project at the Port of Gladstone. At the same time Metgasco advised that it had entered into a Memorandum of Understanding with floating LNG project developer FLEX LNG to evaluate the supply of gas to a floating LNG project off the coast of NSW. Metgasco subsequently appointed WorleyParsons to undertake a study to evaluate the commercial feasibility of three LNG project options. The options evaluated were: (1) a new LNG project at Fisherman's Landing at the Port of Gladstone, (2) a new LNG project at the Port of Brisbane and (3) a floating LNG project located offshore in NSW. The study found that all three options were economically attractive. Metgasco has continued to progress this analysis and is currently in discussions on supplying gas to LNG projects.

The Environmental Assessment of the Lions Way gas pipeline was lodged in December 2010. The NSW Government has requested that further details be provided on a number of issues including the impacts on Endangered Ecological Communities (EEC), cultural heritage and of expected noise impact during construction and proposed open cut water course crossings.

Corporate

In November 2010, Metgasco announced that the Company's founding Managing Director; Mr David Johnson was retiring and would be replaced by Mr Peter Henderson. Mr Henderson commenced as Managing Director and Chief Executive Officer in April 2011.

On 17 June 2011, Metgasco announced that it had raised $6.25 million in new capital through a placement of 23,846,153 ordinary shares to institutional and sophisticated investors at $0.26 per share. On the same date the Company launched a Share Purchase Plan ("SPP") to enable existing shareholders to participate in the capital raising effort.

Significant Changes in the State of Affairs

On 14 July 2011 Metgasco booked its first reserves in PEL 13 and in doing so, achieved a significant reserve upgrade. Reserves in the 2P category increased to 428 PJ and reserves in the 3P category increased to 2,542 PJ. Metgasco also increased its 2C Contingent Resource to 2,511 PJ. All reserves are from Coal Seam Gas. These reserves were independently assessed by Mr Tim Hower of MHA Petroleum Consultants (Denver) and personnel under his supervision. Reserve estimates have been developed within the guidelines of definitions of proved, probable and possible reserves provided by the Society of Petroleum Engineers and the World Petroleum Council. These methods are consistent with ASX Listing Rules. Metgasco does not currently recognise gas resources identified in the Kingfisher gas field as reserves.

On 22 June 2011 Metgasco completed a private placement of 23,846,153 ordinary shares at $0.26 per share raising $6.2 million.

Subsequent to 30 June 2011 Metgasco completed a Share Purchase Plan which closed on 26 July 2011. This SPP raised $15.3 million through the allotment of 58,723,231 ordinary shares at $0.26 per share.

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 gas sales and the development of associated energy infrastructure projects. Metgasco is currently evaluating opportunities to monetise its gas assets and these opportunities include conversion of gas to LNG for domestic or export market sales. In the opinion of 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 $5,067,649 (2010 $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 2011.

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 Section 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. Metgasco relies upon the timely receipt of approvals from Government in order to efficiently execute its work program. The incoming NSW Government is currently reviewing a range of approvals for the coal seam gas industry in NSW.

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:

Nicholas Heath	Non-Executive Director appointed 4 October 2006 – Appointed Chairman from 1 July 2010
Peter Henderson	Managing Director – Appointed 4 April 2011
Glenda McLoughlin	Executive Director, Chief Financial Officer and joint Company Secretary – Appointed 29 April 2002
Steven Koroknay	Non-Executive Director – Appointed 19 January 2010
Leonard (Len) Gill	Non-Executive Director – Appointed 16 June 2010
Peter Power	Non-Executive Chairman – Resigned 1 July 2010
David Johnson	Managing Director – Resigned 1 April 2011

Nicholas (Nick) John Victor Geddes and Glenda McLoughlin were the Company Secretaries during the financial year 2011.

Nick 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).

Nicholas Heath – B.Eng (Chem), FIChemE, SPE
Independent Non-Executive Director & Chairman
Appointed: 1 July 2010

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.

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

<u>Other directorships:</u> Non-Executive Chairman of MEO Australia Limited.

<u>Previous directorships of listed companies during the last three years:</u> None

Peter Henderson – B.Eng (Mech), GAICD, SPE
Managing Director & Chief Executive Officer
Appointed: 4 April 2011

Mr Henderson has over 30 years oil and gas industry experience. Mr Henderson was previously Development Manager for Premium Oil PLC where he managed major offshore project developments in Indonesia and Vietnam. Prior to this role he was Chief Operating Officer of Anzon Energy Limited.

Mr Henderson has held senior management roles with oil and gas companies covering operations, development, commercial and exploration activities (Esso Australia, Santos, Western Mining, Nido Petroleum). He also has experience working with engineering companies (Clough and JBFM Babcock).

<u>Special responsibilities</u>: Managing Director and Chief Executive Officer.

<u>Other directorships:</u> None

<u>Previous directorships of listed companies during the last three years:</u> None

Glenda McLoughlin – B.Ec, MBA, FAICD
Chief Financial Officer & Company Secretary
Appointed: 29 April 2002

Ms McLoughlin has over 30 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 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
Independent 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 directorships: 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), Non-Executive Director Innaminka Petroleum Limited (Retired 2011).

Leonard Gill – B.Eng (Hons), MAICD
Independent 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.

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

Other directorships: None

Previous directorships of listed companies during the last three years: Non-Executive Chairman of Alinta Energy, renamed Redbank Energy March 2011 (Retired 2011).

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 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

David W G Johnson – B.AppSc (Geology), MBA, MAusIMM
Managing Director
Appointed: 23 June 1999
Resigned: 1 April 2011

Mr Johnson has 25 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 directorships: None

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

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 attended while a Director	Number of meetings held while a Director
Nicholas Heath	11	12
Peter Henderson	3	3
Glenda McLoughlin	12	12
Steven Koroknay	11	12
Leonard Gill	12	12
Peter Power	0	0
David Johnson	8	9

Audit & Risk Management Committee Meetings
Steven Koroknay was the Chairman of the Audit & Risk Management Committee and Nicholas Heath and Len Gill are members of this committee. This committee met twice during the year with all members in attendance.

Nomination & Remuneration Committee Meetings
The Nominations and Remuneration Committee is responsible for reviewing the remuneration strategy for Directors and Key Management Personnel. Nicholas Heath was the Chairman of the Nominations and Remuneration Committee and Steven Koroknay and Len Gill are members of this committee. This committee met once during the reporting period and all 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.

Options

Details of unexpired options on issue are contained in Note 20

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:

- 394,000 ordinary shares were issued at an average price of $0.31 on the exercise of 394,000 options.

A total of 655,556 unvested options lapsed during the year as a result of resignations. Full details of options outstanding can be found in note 20 to these accounts.

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.

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. Independent advice is obtained by the Nomination and Remuneration Committee for this purpose. 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. Fees to Non-Executive Directors are approved by the Board and set in aggregate within the maximum amount approval by the shareholders. The maximum amount of fees approved to be paid to Non-Executive Directors by Shareholders on 16 November 2010 was $500,000. Fees paid to Non-Executive Directors during the year to 30 June 2011 were $217,908.

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.

Executive Team

The executive team are remunerated through:

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

Remuneration for the executive team is determined at market rates by conducting an annual benchmarking exercise against a pool of comparable companies. Independent advice is obtained by the Nomination and Remuneration Committee for this purpose. 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. The combination of these is considered to be the Total Remuneration for each executive team member.

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.

<u>Base Pay</u>

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.

<u>Benefits</u>

Benefits may include Income Protection Insurance, car parking or motor vehicle leasing and running expense payments.

<u>Short Term Performance Incentives (STIs)</u>

All employees have the opportunity to be awarded STIs. Each year the Nominations and Remuneration Committee reviews management's recommendations relating to the performance of each individual and award discretionary STIs that is not based on formal objectives. 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.

<u>Long Term Incentives (LTIs)</u>

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 deferred shares or options as a long term incentive attempts to strike a balance between preserving cash, providing employees with a strong incentive to grow the value of the Company 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 long term incentives. Instead a process of annual performance reviews along with benchmarking is followed. All LTIS issued are subject to a three year trading lock and are forfeited if the employee leaves the company. In addition, the vesting of LTIS is subject to the Company's share price achieving a volume weighted average price above the issue price of the deferred shares.

In the case of options, once they are granted, the conditions required to ensure vesting are a service condition and a volume weighted share price condition. This is described more fully on page 16 of this report. Future performance of an individual 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:

- Nicholas Heath, Chairman
- Peter Henderson, Managing Director & CEO – Appointed 4 April 2011
- Glenda McLoughlin, Executive Director, Chief Financial Officer and Company Secretary
- Steven Koroknay, Non-Executive Director
- Len Gill, Non-Executive Director
- 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
- Peter Power, Non-Executive Director & Chairman – Resigned 1 July 2010
- David Johnson, Managing Director – Resigned 1 April 2011

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 2011 are as follows:

Total equity compensation granted in the reporting period

Directors and Key Executives	Total no of shares granted for no consideration Short term incentives	Total no of shares granted for no consideration Long term incentives (1)
Nicholas Heath	-	210,000
Peter Henderson	100,000(2)	100,000(3)
Glenda McLoughlin	105,000	343,333
Steven Koroknay	-	90,000
Len Gill	-	90,000
Michael O'Brien	94,444	322,222
Peter Stanmore	50,067	250,000
Kevin Dixon	27,242	136,189
Aidan Stewart	20,000	140,000
Robin Maxam	83,200	200,000
David Johnson	105,000	343,334

(1) Unless otherwise described, trading lock for 3 years. Share price must reach $0.45.
(2) Subject to Shareholder Approval at the Annual General Meeting to be held on 14 November 2011- 12 month trading lock. Shares awarded at $0.34 cents
(3) Subject to Shareholder Approval at the Annual General Meeting to be held on 14 November 2011 – 3 year trading lock. Shares awarded at $0.34 cents
No options were issued during the year.

Remuneration 2011

	Short Term Employment Benefits				Post Employment Benefits	Long Term Benefits	Share Based Payments				
Name	**Cash salary & fees**	**Other benefits**	**Termination payments**	**Short term incentive**	**Superannuation**	**Long svc leave**	**Net no. of shares granted in period**	**Share Expense for year**	**Option Expense for year**	**Total**	**% Of remuneration that is equity based**
Directors	**$**	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**$**	**$**
P. Henderson *	83,745	4,094	-	-	7,534	-	200,000 (1)	45,333	-	140,706	32.2
N. Heath	86,299	-	-	-	7,767	-	210,000	31,500	-	125,566	25.1
D. Johnson **	256,741	-	336,234	30,000	50,807	-	448,334	5,778	46,486	726,046	7.2
G. McLoughlin	341,602	23,054	-	30,000	33,444	4,338	448,333	98,750	55,907	587,095	26.3
S. Koroknay	58,999	-	-	-	5,310	-	90,000	13,500	-	77,809	17.4
L. Gill	50,030	-	-	-	9,503	-	90,000	13,500	-	73,033	18.5
Subtotal	**877,416**	**27,148**	**336,234**	**60,000**	**114,365**	**4,338**	**1,486,667**	**208,361**	**102,393**	**1,730,255**	**18.0**
Key Management Personnel											
K. Dixon	131,561	18,383	-	-	49,992	1,555	163,431	32,687	12,672	246,850	18.4
A. Stewart	194,074	5,095	-	25,000	19,716	2,877	160,000	30,000	10,063	286,825	14.0
P. Stanmore	249,818	6,902	-	30,000	25,183	1,708	300,067	57,551	38,016	409,178	23.4
M. O'Brien	301,506	3,032	-	30,000	53,502	1,951	416,666	90,833	46,589	527,413	26.1
R. Maxam	219,085	9,636	-	-	50,000	893	283,200	79,040	10,063	368,717	24.2
Subtotal	**1,096,044**	**43,048**	**-**	**85,000**	**198,393**	**8,984**	**1,323,364**	**290,111**	**117,403**	**1,838,983**	**22.4**
Total	**1,973,460**	**70,196**	**336,234**	**145,000**	**312,758**	**13,322**	**2,810,031**	**498,472**	**219,796**	**3,569,238**	**20.1**

* P. Henderson appointed Managing Director on 4 April 2011
** D. Johnson resigned as Managing Director on 1 April 2011
(1) P. Henderson shares remain subject to Shareholder approval at the Annual General Meeting
Short term incentives comprised entirely of cash bonuses granted to executives on 23 August 2010.

Details of shares granted as remuneration for the reporting period ending 30 June 2011

Name	No. of deferred shares granted	Fair value per share grant date	Date granted	Date vesting
Directors				
N. Heath	210,000	0.45	16/11/2010	16/11/2013
S. Koroknay	90,000	0.45	16/11/2010	16/11/2013
L. Gill	90,000	0.45	16/11/2010	16/11/2013
P. Henderson	100,000	0.34	05/04/2011	05/04/2012
	100,000	0.34	05/04/2011	05/04/2014
D. Johnson	105,000	0.45	16/11/2010	16/11/2010
	343,334	0.45	16/11/2010	16/11/2013
G. McLoughlin	105,000	0.45	16/11/2010	16/11/2010
	343,333	0.45	16/11/2010	16/11/2013
Subtotal	**1,486,667**			

Details of shares granted as remuneration for the reporting period ending 30 June 2011 (continued)

Name	No. of deferred shares granted	Fair value per share grant date	Date granted	Date vesting
Key Management Personnel				
K. Dixon	27,242	0.45	13/08/2010	13/08/2010
	136,189	0.45	13/08/2010	13/08/2013
A. Stewart	20,000	0.45	13/08/2010	13/08/2010
	140,000	0.45	13/08/2010	13/08/2013
P. Stanmore	50,067	0.45	13/08/2010	13/08/2010
	250,000	0.45	13/08/2010	13/08/2013
M. O'Brien	94,444	0.45	13/08/2010	13/08/2010
	322,222	0.45	13/08/2010	13/08/2013
R. Maxam	83,200	0.45	13/08/2010	13/08/2010
	200,000	0.45	13/08/2010	13/08/2013
Subtotal	**1,323,364**			
Total	**2,810,031**			

The recipients of the above deferred shares paid no consideration towards them. Deferred shares granted in the reporting period are subject to the condition that those in receipt of the deferred shares remain in employment with the Group through to the date of vesting and VWAP must be greater than $0.45 for 30 days prior to vesting.

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

	STI % achieved	STI % forfeited	LTI % Achieved (1)	LTI % forfeited	% of total remuneration that is performance based
P. Henderson	-	-	-	-	41.6
D. Johnson	87.6	12.4	100.0	-	7.2
G. McLoughlin	90.4	9.6	100.0	-	26.3
M. O'Brien	96.4	3.6	100.0	-	26.1
P. Stanmore	70.1	29.9	107.1	-	23.4
K. Dixon	37.3	62.7	70.0	30.0	18.4
R. Maxam	68.4	31.6	72.1	27.9	24.2
A. Stewart	70.0	30.0	105.9	-	14.0

(1) Available for vesting in future periods

Remuneration 2010

	Short Term Employment Benefits			Post Employ ment Benefits	Long Term Benefits	Share Based Payments			
Name	**Cash Salary & fees**	**Other benefits**	**Short term incentiv e**	**Super-annuation**	**Long Service Leave**	**No. of Options granted in period**	**Option Value**	**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**	**-**

* P. Power resigned as Director on 1 July 2010 and is not considered key management personnel in the 2011 financial year
** 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 $1,000 in unrestricted shares for no consideration was granted to Kevin Dixon and for ease of presentation has been included in the options expense column.
^^ R. Maxam appointed as General Counsel on 1 August 2009.

Details of Employment Agreements

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

Peter Henderson - Managing Director & Chief Executive Officer
Mr Henderson provides services under an employment contract whereby the base remuneration for the year ended 30 June 2011, inclusive of superannuation, under the contract is $400,000. Mr Henderson'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 Henderson 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 by way of long term incentives.

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

In the event that the Company becomes a Target Company in consideration for the Executive refraining from seeking or obtaining alternative employment for the duration of the Takeover offer, the Company shall pay to the Executive an amount equivalent to six months of Total Remuneration Package.

David Johnson - Managing Director
Mr Johnson provides services under an employment contract whereby the base remuneration for the year ended 30 June 2011, inclusive of superannuation, under the contract is $370,000. 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 share options by way of long term incentives.

Mr Johnson's employment contract to the group was terminated during the year. Pursuant to contractual arrangements, 12 months base salary was paid by way of termination benefit.

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 2011 inclusive of superannuation under the contract is $370,000. 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 share options by way of long term 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
During the year the following options were exercised by Directors or Key Management Personnel:

Name	Number	Exercise price	Ordinary shares issued	Value at exercise date
K. Dixon	250,000	$0.3138	250,000	$83,750

End of Audited Remuneration Report

Directors’ and Officers’ Interests and Benefits

As 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
Nicholas Heath	250,000	533,590
Peter Henderson	-	1,145,161 (1)
Glenda McLoughlin	1,266,775	11,042,284 (1)
Steven Koroknay	-	235,386
Leonard Gill	-	295,386
Peter Power *	200,000	6,029,931
David Johnson **	711,219	12,474,930

* Holdings at 1 July 2010 which is date of retirement as a Director

** Holdings at 1 April 2010 which is date of retirement as a Director

(1) Includes shares resolved to be issued but subject to shareholder approval at the annual general meeting.

Note that shares have been resolved to be issued by way of short term and long term incentives to Directors however shares have not been formally issued until approved by shareholders at the Annual General Meeting. These shares have been included for information purposes. A table showing share based compensation proposed to be issued to Directors and issued to Key Management Personnel is shown below.

Equity based remuneration following the end of the reporting period and up to the date of this report

The following shares are proposed to be issued to Directors, subject to shareholder approval at the Group’s Annual General Meeting to be held on 14th November 2011. 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	-	-	-
Peter Henderson	-	645,161	645,161
Glenda McLoughlin	-	596,774	596,774
Steven Koroknay	-	-	-
Leonard Gill	-	-	-

Shares 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 $0.45 or more for 30 consecutive trading days during the 3 year restricted period.

The following shares were issued to Key Management Personnel on 12 September 2011 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	137,097	564,516	701,613
Peter Stanmore	72,677	435,484	508,161
Robin Maxam	120,774	435,484	556,258
Kevin Dixon	39,539	-	39,539
Aidan Stewart	45,161	237,097	282,258

There are no trading restrictions placed on the short term incentive shares which have been issued in lieu of a cash bonus. Shares 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 $0.45 or more for 30 consecutive trading days during the 3 year restricted period.

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 25.

Audit Services

During the year, audit and review fees payable to BDO Audit (NSW-VIC) Pty Ltd amounted to $75,417.

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

On 26 July 2011 Metgasco completed a Share Purchase Plan (“SPP”). This SPP raised $15.3 million through the allotment of 58,723,231 ordinary shares at $0.26 per share.

On 12 September 2011, the Group, under the Metgasco Employee Share Equity Plan, issued 3,816,411 shares to employees by way of long term and short term incentives. Of these shares, 549,432 were issued without restrictions whilst 3,266,979 were subject to a 3 year trading lock and a share price performance target. Of these 1,241,935 shares are proposed to be issued to Directors subject to Shareholder approval.

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

Steven Koroknay
Chairman Audit and Risk Management Committee

21 September 2011

CORPORATE GOVERNANCE STATEMENT

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 Nomination and 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 variations;

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
- Nomination 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 2011.

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 Directors 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 2011 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. Detailed information on the skills, experience and expertise of each Director is provided in the Annual Report.

Principal 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 Company 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 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

The Board has adopted a Diversity Policy which requires that the Company embraces and promotes diversity in the workplace. Metgasco aims to establish a corporate culture which is conducive to the appointment of well qualified persons and which embraces employee diversity which includes: age, gender, ethnicity, physical appearance, values, lifestyle, religion, education and family responsibilities. Metgasco recognises the benefits that diversity brings to maximise corporate goals.

Recommendation 3.3: Companies should disclose in each Annual Report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

As part of its wider process of increasing gender diversity, Metgasco is focussed on increasing the representation of women at all levels of its business. In order to realise this, the Board has established measurable objectives and progress in achieving these objectives, and will consider progress on diversity in assessing executive performance.

Recommendation 3.4: Companies should disclose in the Annual Report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

The proportion of women represented at these levels in Metgasco is as follows:

Women represented on the Board: 20%
Women represented in Senior Executive Positions: 17%
Women represented in the Whole Organisation: 28%

Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.

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

Principal 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; and 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.

Principal 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.

Principal 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.

The Company invites shareholders to join its Subscriber List on its website and emails ASX releases to Subscriber recipients on the release of ASX announcements.

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 ANNUAL GENERAL MEETING 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.

Principal 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.

Principal 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: The remuneration committee should be structured so that it: consists of a majority of independent directors, is chaired by an independent chair, has at least three members.

The Nomination and Remuneration Committee is chaired by an independent director, Mr Nicholas Heath. The Committee comprises three independent directors, Mr Nicholas Heath, Mr Steven Koroknay and Mr Leonard Gill.

Recommendation 8.3: 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 8.4: 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.

Metgasco has no departures from ASX Corporate Governance Guidelines

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DECLARATION OF INDEPENDENCE BY IAIN KEMP TO THE DIRECTORS OF METGASCO LIMITED

As lead auditor of Metgasco Limited for the year ended 30 June 2011, 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.

Iain Kemp

Director

BDO Audit (NSW-VIC) Pty Ltd

Sydney, this 21st day of September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Consolidated	
		2011	**2010**
	Note	**$**	**$**
Revenue	5	**727,779**	**977,834**
Other Income	5	**34,184**	5,391
Less: Expenses			
Finance Costs	6	**26,476**	21,386
Accounting, Compliance, Legal & Professional		**152,536**	211,760
Investor Relations		**272,839**	346,707
Consulting Fees		**458,297**	569,753
Depreciation	6	**55,849**	54,684
Directors Fees		**193,546**	155,295
Employee Costs	6	**3,850,348**	2,633,098
Exploration Costs Expensed		**-**	**-**
Rent and Occupancy	6	**293,354**	311,060
Travel & Accommodation		**244,648**	128,307
Buyout of Royalty		**-**	909,091
Other Administrative		**281,719**	187,441
Loss before income tax		**(5,067,649)**	**(4,545,357)**
Income tax expense	7	**-**	**-**
Loss for the year		**(5,067,649)**	**(4,545,357)**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**(5,067,649)**	**(4,545,357)**
Loss attributable to owners of Metgasco		**(5,067,649)**	**(4,545,357)**
Earnings per share for loss from continuing operations			
Basic loss per share	27	**(2.0)**	(2.1)
Diluted loss per share	27	**(2.0)**	(2.1)

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 2011

		Consolidated	
		2011	**2010**
	Note	**$**	**$**
Assets			
Current Assets			
Cash and cash equivalents	8	**8,878,793**	20,136,492
Inventory	9	**1,463,266**	1,169,395
Trade and other receivables - Current	10	**553,880**	729,698
Total current assets		**10,895,939**	**22,035,585**
Non-current assets			
Exploration and evaluation expenditure	11	**62,150,836**	47,837,146
Plant and equipment	12	**4,290,890**	4,264,169
Trade and other receivables - Non -current	13	**856,736**	681,736
Total non-current assets		**67,298,462**	**52,783,051**
Total assets		**78,194,401**	**74,818,636**
Liabilities			
Current Liabilities			
Trade and other payables	15	**1,725,618**	1,520,561
Provisions	16	**524,200**	97,010
Borrowings	17	**102,177**	113,632
Total current liabilities		**2,351,995**	**1,731,203**
Non-current liabilities			
Provisions	18	**1,621,724**	412,888
Borrowings	17	**224,088**	198,498
Total non-current liabilities		**1,845,812**	**611,386**
Total liabilities		**4,197,807**	**2,342,589**
Net assets		**73,996,594**	**72,476,047**
Equity			
Contributed equity	19	**89,106,562**	83,004,589
Share option reserve	20	**4,281,907**	3,795,684
Accumulated losses		**(19,391,875)**	(14,324,226)
Total equity		**73,996,594**	**72,476,047**

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 2011

	Contributed Equity	Accumulated Losses	Share Option Reserve	Total Equity
	$	$	$	$
Consolidated				
Balance as at 1 July 2009	**54,105,290**	**(9,778,869)**	**3,085,825**	**47,412,246**
Total comprehensive income for the year	-	(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**
Total comprehensive income for the year		(5,067,649)		(5,067,649)
Transactions with owners in their capacity as owners				
Issue of share capital	6,438,803			6,438,803
Cost of share issues	(336,830)			(336,830)
Share based expense			486,223	486,223
Balance as at 30 June 2011	**89,106,562**	**(19,391,875)**	**4,281,907**	**73,996,594**

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 2011

		Consolidated	
		2011	**2010**
	Note	**$**	**$**
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and services tax)		(5,199,230)	(4,868,395)
Interest received		727,779	977,834
Hire of equipment		2,250	-
Net cash (outflow) / inflow from operating activities	26	**(4,469,201)**	**(3,890,561)**
Cash flows from investing activities			
Expenditure on exploration and evaluation		(12,499,272)	(21,585,079)
Receipts for exploration activities		-	108,691
R&D grant received		311,084	329,394
Net movement in bonds paid		(175,000)	(60,497)
Disposal of plant and equipment		11,193	26,631
Purchase of plant and equipment		(423,295)	(1,062,655)
Net cash (outflow)/inflow from investing activities		**(12,775,290)**	**(22,243,515)**
Cash flows from financing activities			
Net proceeds from Issue of shares		6,101,973	28,899,299
Repayment of borrowings		(88,705)	58,898
Finance costs paid		(26,476)	(24,549)
Net cash inflow from financing activities		**5,986,792**	**28,933,648**
Net increase in cash and cash equivalents held		**(11,257,699)**	**2,799,572**
Net cash and cash equivalents held at beginning of period		**20,136,492**	**17,336,920**
Cash and equivalents held at the end of the period	8	**8,878,793**	**20,136,492**

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 2011 have been authorised for issue in accordance with a resolution of the Directors 21 September 2011 and covers the consolidated entity consisting of Metgasco ("the Company") and its subsidiaries (collectively the "Group") 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 of 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.

The application of accounting judgments is manifested in the Group's approach to the recognition of deferred tax assets arising from operating losses. 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.

d) Principles of consolidation

The consolidated Financial Statements comprise the Financial Statements of Metgasco and its subsidiaries as at 30 June 2011. 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 2011, 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. 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 assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. 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 and to develop associated energy infrastructure.

h) Joint ventures

At the end of the reporting period 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 of 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 end of the reporting period, 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 16, 13 & 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 asses 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 drill hole casing and other consumable items and are recorded at weighted average 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 the end of the reporting period. 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 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.

i) *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.

i) *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.

iii) *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.

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 2011 reporting period. 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.

i) *AASB 1054 Australian Additional Disclosures effective 1 July 2011*

When this Standard is adopted for the first time for the year ended 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.

ii) *AASB 10 Consolidated Financial Statements effective 1 January 2013*

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities.

iii) *AASB 11 Joint Arrangements effective 1 January 2013*

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity has not entered into any joint arrangements.

iv) *AASB 2011-9 Presentation of Items of Other Comprehensive Income effective 1 January 2013*

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).

v) *AASB 119 Employee benefits effective 1 January 2013*

The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to IAS 19 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement.

When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

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.

Note 3 (continued)

Financial Risk Management

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

		Consolidated	
		2011	**2010**
	Note	**$**	**$**
Cash & cash equivalents		8,878,793	20,136,492
Loans and receivables		1,019,106	816,736
Financial liabilities at amortised cost		(1,541,771)	(1,494,876)

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 $326,265 (2010: $312,130) 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

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).

i) *Foreign exchange risk*
Small components of the Group’s purchases of well materials are denominated in US dollars. At the end of the reporting period 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 $11,859,797, would increase/decrease the annual amount of interest received by $118,597. Directors consider that there is no significant credit risk in respect of cash balances as those balances are all held with major Australia banks.

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.

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 and 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 operations of the group are conducted wholly within Australia.

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

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.

Note 5

Revenue and Other Income

	Consolidated	
	2011	**2010**
	$	**$**
From continuing activities:		
Interest received from financial institutions	727,779	977,834
Hire of equipment	2,250	-
Realised foreign exchange gain/(loss)	31,934	5,391
Total	**761,963**	**983,225**

Note 6

Expenses

Loss before income tax includes the following specific expenses:

	Consolidated	
	2011	**2010**
	$	**$**
Depreciation Expense		
Plant and equipment	55,849	54,684
Total depreciation	**55,849**	**54,684**
Rent and occupancy		
Rent under operating lease - Sydney	237,935	257,150
Occupancy costs	55,419	53,910
Total rent expense	**293,354**	**311,060**
Finance cost - external		
Interest expense	5,793	3,283
Bank charges	20,683	18,103
Total Finance Cost	**26,476**	**21,386**
Employee expenses		
Superannuation	212,870	153,987
Wages and salaries	2,599,084	1,635,428
Workers compensation	68,478	51,119
Payroll tax	111,562	10,153
Share based payments	486,223	709,859
Fringe benefits tax	-	-
Recruitment and consultants	169,167	43,161
Miscellaneous other	202,964	29,391
Total employee expenses	**3,850,348**	**2,633,098**

Depreciation charged on assets employed directly in the Group's exploration activities for the year was $490,780 (2010: $436,176) and is charged to exploration assets. Depreciation charged on assets not in the above category was $55,849 (2010: $54,684) for the year and is charged directly to the profit or loss.

Note 7

Income Tax Expense

	Consolidated	
	2011	2010
	$	$
Loss before tax expense	(5,067,649)	(4,545,357)
Prima facie tax benefit on loss at 30% (20010: 30%)	(1,520,294)	(1,363,607)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share - based payments	145,867	212,958
	(1,374,427)	**(1,150,649)**
Movements in unrecognised temporary differences	(21,000)	(22,477)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	1,395,427	1,173,126
Income tax expense	-	**-**
Unrecognised deferred tax assets and liabilities		
Capital raising costs	496,286	483,016
Accruals and provision for employees benefits	105,263	84,263
Carry forward tax losses:		
– Operating	5,972,656	4,011,368
– Exploration and evaluation expenditure	18,281,270	14,351,144
Deferred tax liability - taxable temporary differences	(18,281,270)	(14,351,144)
Net unrecognised deferred tax asset	**6,574,203**	**4,578,647**

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	
	2011	2010
	$	$
Cash at bank and on hand	374,231	187,208
Term deposits	8,504,562	19,949,284
Total	**8,878,793**	**20,136,492**

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 4.45% to 5.8% (2010: 2.55% to 6.00%). The maturity dates of the various term deposits range from 1 day to 52 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

	Consolidated	
	2011	2010
	$	$
Materials, consumables and equipment	1,463,266	1,169,395
Total	**1,463,266**	**1,169,395**

The cost of inventories recognised as an expense in 2011 and 2010 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

Trade receivables	27,370	-
Security bonds-Current	135,000	135,000
GST receivable	231,488	246,217
Prepayments	160,022	348,481
Total	**553,880**	**729,698**

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

Note 11

Exploration and Evaluation Expenditure

Expenditure for the entities operations (sole use)		
Movement during the financial period (at cost):		
Opening balance	47,837,146	20,840,860
Capitalised exploration expenditure	14,625,494	22,621,912
R & D grant	(311,804)	(329,394)
Government grants	-	-
Transfer of joint venture expenditure	-	4,703,768
Carrying amount at end of reporting period	**62,150,836**	**47,837,146**
Expenditure for the entities operations (Joint venture)		
Movement during the financial period (at cost):		
Opening balance	-	4,812,459
Contributions from joint venture partner	-	(108,691)
Capitalised exploration expenditure	-	-
Termination of joint venture	-	(4,703,768)
Carrying amount at end of reporting period	-	-
Total carrying amount at year end	**62,150,836**	**47,837,146**

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	
	2011	**2010**
	$	**$**
Office equipment at cost	151,562	143,549
Less accumulated depreciation	(81,669)	(59,444)
	69,893	**84,105**
Computer equipment at cost	438,184	394,037
Less accumulated depreciation	(328,503)	(228,477)
	109,681	**165,560**
Motor vehicles at cost	104,709	141,039
Less accumulated depreciation	(69,710)	(96,322)
	34,999	**44,717**
Motor vehicles under finance lease at cost	567,994	439,249
Less accumulated amortization	(245,136)	(163,229)
	322,858	**276,020**
Improvements at cost	203,827	201,104
Less accumulated depreciation	(62,977)	(42,665)
	140,850	**158,439**
Plant and equipment at cost	1,269,243	1,076,717
Less accumulated depreciation	(783,411)	(524,418)
	485,832	**552,299**
Richmond Valley Power Station - development costs	**3,126,777**	**2,983,029**
Total plant and equipment	**4,290,890**	**4,264,169**

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 below:

Office Equipment		
Carrying amount at beginning of financial year	84,105	84,684
Additions	8,554	19,422
Disposals	(231)	-
Depreciation	(22,535)	(20,001)
Carrying amount at end of financial year	**69,893**	**84,105**
Computer Equipment		
Carrying amount at beginning of financial year	165,560	151,065
Additions	44,148	116,061
Depreciation	(100,027)	(101,566)
Carrying amount at end of financial year	**109,681**	**165,560**
Motor Vehicles		
Carrying amount at beginning of financial year	44,717	72,967
Additions	31,618	-
Disposals	(17,481)	-
Depreciation	(23,855)	(28,250)
Carrying amount at end of financial year	**34,999**	**44,717**

Note 12 (continued)

Plant and Equipment

	Consolidated	
	2011	**2010**
	$	**$**
Motor Vehicles under Finance Lease		
Carrying amount at beginning of financial year	276,020	226,135
Additions	201,738	137,031
Disposals	(33,991)	(331)
Depreciation	(120,909)	(86,815)
Carrying amount at end of financial year	**322,858**	**276,020**
Improvements		
Carrying amounts at beginning of year	158,439	161,959
Additions	2,722	15,410
Depreciation	(20,311)	(18,930)
Carrying amount at end of year	**140,850**	**158,439**
Plant and Equipment		
Carrying amount at beginning of financial year	552,299	719,021
Additions	192,526	68,577
Depreciation	(258,993)	(235,299)
Carrying amount at end of financial year	**485,832**	**552,299**
Richmond Valley Power Station - development costs		
Carrying amount at beginning of financial year	2,983,029	2,269,498
Additions	143,748	713,531
Carrying amount at end of financial year	**3,126,777**	**2,983,029**
Total	**4,290,890**	**4,264,169**

Note 13

Trade and Other Receivables Non-Current

Security bonds Non-current	856,736	681,736
Total	**856,736**	**681,736**

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 its 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			
			2011	2010	2011	2010
			%	%	$	$
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

	Consolidated	
	2011	2010
	$	$
Employee benefits	510,112	337,815
Trade creditors	763,347	832,745
Accrued charges and expenses	452,159	350,001
Total	**1,725,618**	**1,520,561**

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	
	2011	2010
	$	$
Provision for site rehabilitation		
Opening balance	97,010	186,750
Amounts transferred to non-current	-	(89,740)
Amounts provided	427,190	-
Closing balance	**524,200**	**97,010**

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

Note 17

Borrowings Current and Non-Current

	Consolidated	
	2011	2010
	$	$
Current		
Finance lease liability	102,177	113,632
Non-Current		
Finance lease liability	224,088	198,498

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. The lease liability is secured by motor vehicles which have a book value of $322,858 at the end of the reporting period.

Full details of the lease commitments are as follows:

Finance Lease Commitments		
Within one year	129,083	137,301
Later than one year but not later than 5 years	244,361	225,677
Later than 5 years	-	-
Minimum lease payments	373,444	362,978
Future finance charges	(47,179)	(50,848)
Recognised as a liability	**326,265**	**312,130**

Note 18

Provisions Non-Current

Long service leave	68,024	66,719
Provision for site rehabilitation		
Opening balance	412,888	-
Amounts provided	1,140,812	256,429
Transferred from rehabilitation provision - current	-	89,740
Closing balance for site rehabilitation	1,553,700	346,169
Total	**1,621,724**	**412,888**

Provision is made for the future estimated cost of well site rehabilitation immediately a well is 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	
	No of Shares 2011	No of Shares 2010	2011 $	2010 $
(a) Share Capital				
Ordinary Shares - Fully Paid	276,213,792	249,006,674	89,106,562	83,004,589

(b) Movements in Ordinary Share Capital	Date	No. of Shares	Value $	Issue Price $
Balance at 30 June 2009		**185,994,145**	**54,105,290**	
Shares issued during the year	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
Share issue costs			(115,700)	
Balance at 30 June 2010		**249,006,674**	**83,004,589**	
Shares issued during the year				
	13/08/2010	1,796,794	-	-
	26/11/2010	1,286,668	-	-
	16/11/2010	100,000	29,380	$0.2938
	16/11/2010	44,000	15,127	$0.3438
	14/12/2010	226,837	115,846	$0.5107
	16/03/2011	250,000	78,450	$0.3138
	22/06/2011	23,846,153	6,200,000	$0.3000
	29/04/2011	(343,334)	-	-
Share issue costs			(336,830)	
Balance at 30 June 2011		**276,213,792**	**89,106,562**	

	No. of Options 2011	No. of Options 2010
Options (not quoted on ASX)		
Opening balance	9,221,510	6,944,718
Issued to employees	-	2,579,978
Exercised by employees	(394,000)	(50,000)
Lapsed	(655,556)	(253,186)
Closing balance	**8,171,954**	**9,221,510**

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 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 8,171,954 options over ordinary shares on issue. There were no options granted during the reporting period which had vesting dates within the reporting period. No options were issued in the year by the Company with vesting dates after 30 June 2011. The 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 one of the Group's 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 17 the use of various gearing ratios is not employed.

Note 20

Share Based Payments

The Metgasco Limited Employees and Officers Equity Plan ("EOEP") was approved in November 2004. A summary of the rules of the EOEP 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. Options will expire five years from their 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	
	2011	**2010**
	$	**$**
Opening balance	3,795,684	3,085,825
Cost of options issued under EOEP	486,223	709,859
Closing balance of reserve	**4,281,907**	**3,795,684**

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.

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

Note 20 (continued)

Share Based Payments

Consolidated and Parent Entity 2011

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicab -le Spot Price	Balance at beginning of year	Granted during year	Lapsed during year	Exercised during year	Balance at end of year	Fair Value
			$	$	Number	Number	Number	Number	Number	$
20/04/2006	20/04/2006	20/04/2011	0.30	0.41	100,000	-	-	(100,000)	-	-
22/05/2006	20/05/2006	22/05/2011	0.32	0.32	50,000	-	-	(50,000)	-	-
22/05/2006	22/05/2007	22/05/2011	0.32	0.32	100,000	-	-	(100,000)	-	-
22/05/2006	22/05/2008	22/05/2011	0.32	0.32	100,000	-	-	(100,000)	-	-
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
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	30,000	-	-	-	30,000	6,394
29/11/2006	29/11/2006	01/01/2012	0.35	0.35	184,000	-	-	(44,000)	140,000	29,840
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	164,759	-	-	-	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	114,884	-	-	-	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	289,486	-	-	-	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	390,777	-	-	-	390,777	224,325
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	1,240,000	-	(327,778)	-	912,222	300,067
01/09/2009	01/09/2012	01/09/2014	0.50	0.445	1,240,000	-	(327,778)	-	912,222	300,067
Total					**9,221,510**	**-**	**(655,556)**	**(394,000)**	**8,171,954**	**3,694,650**
Weighted average exercise price					0.79				0.83	

Note 20 (continued)

Share Based Payments

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 2011 and 30 June 2010 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	2011	2010
Weighted average share value	-	$0.445
Risk free rate	-	5.63%
Exercise price	-	$0.50
Standard deviation / volatility	-	58.6%

Share Based Payments – Deferred Share Awards to Employees

Grant Date	Vesting Date	Issue Price	Balance at beginning of year	Granted during year	Vested / lapsed during year	Balance at end of year	Fair Value
		$	Number	Number	Number	Number	$
13/08/2010	13/08/2010	0.45	-	392,144	(392,144)	-	-
13/08/2010	13/08/2013	0.45	-	1,794,651	(505,279)	1,289,372	303,001
16/11/2010	16/11/2010	0.45	-	210,000	(210,000)	-	-
16/11/2010	16/11/2013	0.45	-	686,667	(343,334)	343,333	80,683
Total				**3,083,462**	**(1,450,757)**	**1,632,705**	**383,684**

Refer note 2(z) for details of accounting policy on share based payments.

Note 20 (continued)

Share Based Payment
Consolidated and Parent entity 2010

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicab -le Spot Price	Balance at beginning of year	Granted during year	Exercised or lapsed during year	Balance at end of 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
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
Total					**6,944,718**	**2,579,978**	**(303,186)**	**9,221,510**	**3,990,496**
Weighted average exercise price					0.91	0.50		0.79	

Note 21

Key Management Personnel Disclosures

	Consolidated	
	2011	2010
	$	$
Short-term employee benefits	2,188,656	1,684,874
Post-employment benefits	312,758	258,342
Other long-term benefits	13,322	9,655
Share based payments	718,268	545,790
Termination payments	336,234	-
Total	**3,569,238**	**2,498,661**

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 and Note 23 of the Financial Statements.

At 30 June 2011, the direct and indirect interests of the Directors and Key Management Personnel in the securities of Metgasco are as follows:

Shares 2011	Opening Balance	Granted as Compensation	Received on Exercise of Options	Other Changes	Shares Disposed	Closing Balance
P. Power *	6,029,931	-	-	-	-	6,029,931
N. Heath	208,204	210,000	-	-	-	418,204
P. Henderson	-	200,000	-	-	-	200,000
S. Koroknay	30,000	90,000	-	-	-	120,000
L. Gill	-	90,000	-	-	-	90,000
D. Johnson **	12,369,930	448,334	-	(343,334)	-	12,474,930
G. McLoughlin	9,997,177	448,333	-	-	-	10,445,510
K. Dixon	35,507	163,431	250,000	-	-	448,938
M. O'Brien	220,479	416,666	-	-	-	637,145
A. Stewart	145,833	160,000	-	-	-	305,833
P. Stanmore	85,370	300,067	-	-	-	385,437
R. Maxam	604,569	283,200	-	-	-	887,859

* Shareholding was current at 1 July 2010 which was date of resignation
** Shareholding was current at 1 April 2011 which was date of resignation

Options 2011	Opening Balance	Options Granted	Options Lapsed/ Exercised	Other Changes	Closing Balance	Vested & Exercisable at 30 June 2011
P. Power*	200,000	-	-	-	200,000	200,000
D. Johnson**	1,266,775	-	(555,556)	-	711,219	711,219
G. McLoughlin	1,266,775	-	-	-	1,266,775	711,219
N. Heath	250,000	-	-	-	250,000	250,000
K. Dixon	726,214	-	(250,000)	-	476,214	547,990
M. O'Brien	662,962	-	-	-	662,962	200,000
A. Stewart	347,785	-	-	-	347,785	247,785
P. Stanmore	605,048	-	-	-	605,048	292,661
R. Maxam	100,000	-	-	-	100,000	-

* Option holding was current at 1 July 2010 which was date of resignation
** Option holding was current at 1 April 2011 which was date of resignation

Note 21 (continued)

Key Management Personnel Disclosures

Shares 2010	Opening Balance	Granted as Compensation	Received on Exercise of Options	Other Changes	Shares Disposed	Closing Balance
P. Power	6,006,761	-	-	23,170	-	6,029,931
N. Heath	161,864	-	-	46,340	-	208,204
S. Koroknay	-	-	-	30,000	-	30,000
L. Gill	-	-	-	-	-	-
D. Johnson	12,369,930	-	-	-	-	12,369,930
G. McLoughlin	10,116,715	-	-	-	(119,538)	9,997,177
R. Wood *	1,981,473	-	-	-	-	1,981,473
K. Dixon	-	2,174	-	33,333	-	35,507
M. O'Brien	87,143	-	-	133,336	-	220,479
A. Stewart	112,500	-	-	33,333	-	145,833
P. Stanmore	52,038	-	-	33,332	-	85,370
R. Maxam	-	-	-	604,569	-	604,569

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

Options 2010	Opening Balance	Options Granted	Options Lapsed/ Exercised	Closing Balance	Vested & Exercisable at 30 June 2010
P. Power	300,000	-	(100,000)	200,000	200,000
D. Johnson	711,219	555,556	-	1,266,775	625,641
G. McLoughlin	711,219	555,556	-	1,266,775	625,641
R. Wood	561,029	-	(60,222)	500,807	500,807
N. Heath	250,000	-	-	250,000	250,000
K. Dixon	600,288	125,926	-	726,214	547,990
M. O'Brien	200,000	462,962	-	662,962	200,000
A. Stewart	247,785	100,000	-	347,785	209,750
P. Stanmore	227,270	377,778	-	605,048	227,270
R. Maxam	-	100,000	-	100,000	-

All holdings of shares and options disclosed this year and prior year are held either directly or indirectly by Directors and Key Management Personnel 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 than what has been disclosed in the remuneration reports and Note 23 of the Financial Statements. This includes loans, dividends, and consulting services. Any shares issued to Directors or Key Management Personnel throughout the year were issued as a component of disclosed remuneration 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	
	2011	**2010**
	$	**$**
Amounts paid/payable to BDO Audit (NSW-VIC) Pty Ltd for audit or review of the financial report	75,417	70,174
Total	**75,417**	**70,174**

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 the end of the reporting period are disclosed in note 20 to the financial statements. A person associated with G. McLoughlin was employed on an arm's length short term contract to undertake corporate financial modelling during the year. The total remuneration paid amounted to $41,531. There are no further related party transactions to disclose.

Note 24

Contingent Liabilities

Bank guarantees Department of Primary Industry	855,497	680,497
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 16, 13 & 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	1,805,000	1,350,000
Later than one year but not later than 5 years	-	1,600,000
Later than 5 years	-	-
Total	**1,805,000**	**2,950,000**
Office Rent		
Within one year	309,427	250,773
Later than one year but not later than 5 years	194,646	386,765
Later than 5 years	-	-
Total	**2,309,073**	**637,538**

The minimum contractual commitment towards remuneration costs of Executive Directors is $570,000.

Note 26

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

	Consolidated	
	2011	2010
	$	$
Loss from ordinary activities after income tax	**(5,067,648)**	**(4,545,357)**
Non cash flows in operating loss		
– Depreciation	55,849	54,684
– Share Based Payments	486,223	709,859
- Profit on disposal of assets	(31,934)	-
– (Increase) / decrease in other receivables	175,818	(184,733)
– Increase / (decrease) in other payables	205,056	74,986
– Increase / (decrease) in provisions	1,305	-
– (Increase) / decrease in inventory	(293,870)	-
Cash flows used in operating activities	**(4,469,201)**	**(3,890,561)**

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 $419,515 (2010: $137,031).

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 Limited used to calculate basic earnings per share	5,067,649	4,545,357
Loss attributable to owners of Metgasco Ltd used to calculate basic earnings per share	5,067,649	4,545,357
Diluted earnings per share		
Loss from continuing operations attributable to owners of Metgasco Limited used to calculates diluted earnings per share	5,067,649	4,545,357
Loss attributable to owners of Metgasco Ltd used to calculate diluted earnings per share	5,067,649	4,545,357
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	252,097,445	220,353,752
Earnings per share	**(2.0)c**	**(2.1)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 2011.

Note 30

Parent Entity Disclosures

	Parent	
	2011	**2010**
	$	**$**
Current assets	10,895,939	22,035,585
Non-current assets	67,298,462	52,783,155
Total assets	**78,194,401**	**74,818,740**
Current liabilities	2,351,995	1,731,307
Non-current liabilities	1,845,812	611,386
Total Liabilities	**4,197,807**	**2,342,693**
Contributed equity	89,106,562	83,004,589
Retained earnings / (accumulated losses)	(19,391,875)	(14,324,226)
Share option reserve	4,281,907	3,795,684
Total equity	**73,996,594**	**72,476,047**
Profit / (loss) for the year	(5,067,649)	(4,545,357)
Other Comprehensive income / (loss) for the year		-
Total comprehensive income / (loss) for the year	**(5,067,649)**	**(4,545,357)**

Included in the non-current assets of the parent is an amount receivable from the wholly owned subsidiary, Richmond Valley Power Pty Ltd for $3,126,776. 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.

Contingent Liabilities

Bank guarantees Department of Primary Industry	855,497	680,497
Rental bond / corporate credit card	136,239	136,239

Should the parent entity 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.

Commitments

The parent entity is committed to a minimum program of works in the coming years involving exploration and evaluation activities in PEL 16, 13 & 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	1,805,000	1,350,000
Later than one year but not later than 5 years	-	1,600,000
Later than 5 years	-	-
Total	**1,805,000**	**2,950,000**
Office Rent		
Within one year	309,427	250,773
Later than one year but not later than 5 years	194,646	386,765
Later than 5 years	-	-
Total	**2,309,073**	**637,538**

The minimum contractual commitment towards remuneration costs of Executive Directors is $570,000.

Note 31

Events Subsequent to the End of the Reporting Period

On 26 July 2011 Metgasco completed a Share Purchase Plan ("SPP"). This SPP raised $15.3 million through the allotment of 58,723,231 ordinary shares at $0.26 per share.

On 12 September 2011, the Group, under the Metgasco Employee Share Equity Plan, issued 3,816,411 shares to employees by way of long term and short term incentives. Of these shares, 549,432 were issued without restrictions whilst 3,266,979 were subject to a 3 year trading lock and share price performance targets. Of these 1,241,935 shares are proposed to be issued to Directors subject to Shareholder approval.

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 2011 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 9 to 15 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2011, 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.

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:

Peter Henderson
Managing Director & CEO

Steven Koroknay
Chairman Audit & Risk Management Committee

Sydney, 21 September 2011

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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 consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 of the financial report that gives a true and fair view 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.

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*, which has been given to the directors of Metgasco Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2011 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards 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 or pages 9 to 15 of the directors' report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Metgasco Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (NSW-VIC) Pty Ltd

Iain Kemp
Director

Sydney, this 21st day of September 2011

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 16 September 2011.

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	457
1,001 – 5,000	1,189
5,001 – 10,000	958
10,001 – 100,000	2,750
100,001 and above	527
Total	**5,881**

There were 560 holders of less than a marketable parcel of 1,409 ordinary shares.

20 Largest Shareholders

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

Name	Number Held	% of Issued Shares
CSG Nominees Ltd	12,604,412	3.74
Ms Glenda McLoughlin	11,042,284	3.27
HSBC Custody Nominees (Australia) Ltd	9,803,125	2.91
Mr David Johnson	7,781,028	2.31
Enmore Medical Centre Pty Ltd	6,457,693	1.91
CitiCorp Nominees Pty Ltd	5,249,826	1.56
Dansar Pty Ltd	4,712,774	1.40
Magnim Pty Ltd	4,609,733	1.37
Lit Wick Enterprises Pty Ltd	4,250,000	1.26
The Australian National University	4,206,409	1.25
Molopo Energy Ltd	3,916,193	1.16
HSBC Custody Nominees (Australia) Ltd	3,207,469	0.95
Blackanco Nominees Pty Ltd <Aust Equity>	2,841,107	0.84
National Nominees Ltd	2,803,946	0.83
JP Morgan Nominees Australia Ltd	2,773,164	0.82
Blackanco Nominees Pty Ltd<Gen A/C>	2,608,099	0.77
Berne No 132 Nominees Pty Ltd	2,397,456	0.71
Blackanco Nominees Pty Ltd<Nom A/C>	1,972,396	0.58
Geotech Investments Pty Ltd	1,760,036	0.52
Blackanco Nominees Pty Ltd<EPL A/C>	1,612,952	0.48
Total of top 20 holders of fully paid ordinary shares		**28.64%**

Substantial shareholders

As at 21st September 2011 there were no substantial shareholders.

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. Option holders have no voting rights.

Interests in Mining Tenements*

The Group's relevant interests in exploration tenements as at 30 June 2011 is as follows.

Tenement	Resource Type	30 June 2011	30 June 2011
PEL 13	Coal seam gas	100%	100%
PEL 13	Conventional	100%	100%
PEL 16	Coal seam gas	100%	100%
PEL 16	Conventional	100%	100%
PEL 426	Coal seam gas	100%	100%
PEL 426	Conventional	100%	100%

* 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
CO2	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
Km2	Square kilometre
Mcf	Thousand cubic feet (1,000 cubic feet)
Metgasco or the Group	Metgasco Ltd ACN 088 196 383
Md	Millidarcy (unit measurement of permeability)
MMcf	Million cubic feet (1,000,000 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

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	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
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) Peter Henderson Glenda McLoughlin Steven Koroknay Leonard Gill
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: Date: 14th November 2011 Time: 11:00am Venue: Christie Corporate Mozambique Room, Level 4 100 Walker Street, North Sydney
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	
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