METGASCO

ABN 24 088 196 383

ANNUAL REPORT
For the year ended 30 June 2012

Contents to financial report

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 2012.

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's") covering approximately 4,556 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

Metgasco is the sole title-holder and operator of three exploration licences covering some 4,556 km^2 in northern New South Wales (PEL's 13, 16 and 426). As the company seeks to transition from explorer to gas producer the focus of exploration and appraisal activity has been directed at expanding the reserve base in the licence areas near the township of Casino, where Metgasco has been engaged in negotiations with potential customers for gas sales, and the drilling of wells to help meet this supply. However, while the company expanded its resource base and achieved the first certified reserves in PEL 13, further drilling has been delayed until new regulation of the CSG industry by the NSW Government is put in place.

An initial gas certification was determined for the Walloon Coal Measures in PEL 13 comprising 31.2 PJ of 2P reserves (Proved plus Probable), 302.4 PJ of 3P reserves (Proved, Probable and Possible) and 1,334.1 PJ of 2C (Contingent Resource). This extended the reserves position already established in the adjacent PEL 16 area west of Casino and expanded the extent of the CSG play referred to as the Eden Creek Trend towards the west and north. Further, prior to being shut-in, initial testing of the Harrier P01 multi-lateral (HP01), which was drilled the previous year on this trend in PEL 16 and in proximity to the lead lateral well Corella P11, indicated gas rates at least as good, if not better than the Corella P11 well can be expected once fully dewatered. An additional three multilaterals, Harrier P02, P03 and P04, that were proposed to further demonstrate well productivity await Government approval before drilling can be undertaken.

Seismic data acquired in 2010 indicates that the Kingfisher, Mackellar and Mackellar North prospects could be part of larger structures in PEL 16 referred to as the Greater Mackellar Structure. Incorporating the results of the Kingfisher E01 discovery well into the seismic mapping suggests that the 138 metres of gas bearing sandstone encountered in the Kingfisher well can be intersected at substantially shallower levels to the north. Metgasco intends to further evaluate these reservoirs through the drilling of a new conventional well, Rosella E01, as well as a further 500 metre section below the sands encountered in Kingfisher. The company considers that the deeper section containing the Ripley Road Sandstone and the Laytons Range Conglomerate is likely to have higher permeability than that observed in the discovery well. This view is based upon analogues with the Surat Basin, investigation of comparable core data and results from previous production testing in Kingfisher E01.

Directors' report (continued)

EXPLORATION AND APPRAISAL (continued)

The Company intends to acquire approximately 34 line km of new 2D seismic in the Kingfisher / Greater Mackellar area to further clarify the structural relationships and confirm the location of the Rosella E01 well. Wet weather has to date prevented completion of this seismic program, frustrating our efforts to appraise the structure updip from the Kingfisher well. Acquisition of this seismic information remains a highly desirable part of confirming a location for the proposed Rosella E01 well to test the Greater Mackellar Structure. The work will be conducted as soon as ground conditions become suitable for deployment of the recording equipment, currently expected before the end of 2012.

Several desktop studies were completed to assist exploration of the acreage. Regional geological studies were completed on the prospectivity of the conventional targets in the licence areas and to better define the character of the shallow overburden rocks. Studies included a review of reservoir properties and the strata overlying the Walloon Coal Measures. The objective of these studies was to develop a better understanding of the controls on hydrocarbon prospectivity in the Clarence Moreton Basin. The company has completed a major remapping of leads and prospects in the three licences. A second element to this program has been an examination and analysis of core and cutting samples from wells previously drilled within the basin. This study has provided a better understanding of the range of reservoir quality that can be expected in the primary targets of the proposed Rosella E01 well.

RESERVES

As at 30 June 2012, Metgasco had established a reserve position in PEL 13 and PEL 16 net to Metgasco of:

Gas Reserves (Petajoules)	as at 30 June 2012
1P (proven)	2.7
2P (proven and probable)	427.9
3P (proven, probable, possible)	2,541.7
2C (contingent resource)	2,511.5

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

COMMERCIALISATION STRATEGY AND INFRASTRUCTURE

In 2011/12 Metgasco has focussed on developing two markets, gas sales in the Casino region and larger east coast domestic and overseas LNG markets. Metgasco is in negotiations with a number of potential customers in both market segments. Plans for early sales to local businesses have been delayed due to the NSW Government's new regulations and slow approvals. It is expected that local sales will be facilitated by low cost pipelines, compressed natural gas and possibly more widely by micro LNG distribution. The Richmond Valley Power Station which already has Part 3A approval has been on hold while Metgasco waits for approval of its production lease. In the meantime Metgasco is examining ways to improve the power station's profitability.

Directors' report (continued)

COMMERCIALISATION STRATEGY AND INFRASTRUCTURE (continued)

Over the second half of the year, it has become accepted that supplies of gas from interstate will become very tight for several reasons, causing gas shortages and higher prices in NSW- hence it is critical for security of supply that NSW increases its self-sufficiency in gas production. Coal Seam Gas is acknowledged as the only way this will be achieved in the short term, so the government is expected to move to address approval delays that have held back development over the last 18 months. Metgasco participated constructively with industry associations and with the State government in developing the NSW Governments new policies and regulations concerning the Aquifer Interference Policy, CSG Code of Conduct and the Strategic Regional Land Use Policy. In September 2012, the NSW Government announced these policies and other initiatives to provide confidence to the general community that CSG is safe. In doing so it gave the green light to Metgasco and the industry.

Metgasco continues to discuss gas sales for domestic and LNG export in Queensland and with customers interested in securing export LNG through floating LNG facilities off the NSW coast. Whilst negotiations remain confidential, it is clear that future demand far exceeds contracted supply. Metgasco considers it is well placed to secure significant gas sales at attractive pricing. First gas sales to an LNG market can be achieved in the 2017/2018 time frame.

Metgasco is reviewing pipeline routes, with the Lions Way pipeline still the preferred northern route to the Queensland markets. Metgasco is in discussions with the NSW Government to ensure the State's new approval process takes into account the environmental work already completed by Metgasco on the pipeline route. Cultural Heritage remains the primary outstanding study required and Metgasco intends to ensure that consultations with both traditional owners and existing landholders are handled correctly.

CORPORATE

On 10 August 2011, Metgasco announced that it had raised $15.3 million in new capital through a placement of 58,723,231 ordinary shares to existing shareholders via a share purchase plan at $0.26 per share.

In March 2012 Metgasco announced that Executive Director Ms Glenda McLoughlin was retiring. The roles of Chief Financial Officer and Company Secretary were assumed by Mr Sean Hooper who was Metgasco's Financial Controller.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no other significant changes in the state of affairs of the Group during the year.

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 RESULTS FOR THE YEAR

The consolidated net loss after tax of the Group for the year ended 30 June 2012 was $5,136,147 (2011: $5,067,649).

Directors' report (continued)

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 2012.

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. Metgasco relies upon the timely receipt of approvals from Government in order to efficiently execute its work program.

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
Peter Henderson	Managing Director
Glenda McLoughlin	Executive Director, Chief Financial Officer and joint Company Secretary – Resigned 29 February 2012
Steven Koroknay	Non-Executive Director
Leonard (Len) Gill	Non-Executive Director

Nicholas (Nick) John Victor Geddes, Glenda McLoughlin and Sean Hooper were the Company Secretaries during the financial year 2012.

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. From 1993 he was director of Esso Australia Pty Ltd later ExxonMobil Australia Pty Ltd, with functional responsibility for Gas & Power Marketing.

Directors' report (continued)

DIRECTORS (continued)
Mr Heath worked on the early development and commissioning of Esso's Gippsland basin oil and gas fields offshore Victoria. In 1987 Mr Heath became the Managing Director of Esso subsidiary Delhi Petroleum Pty Ltd with operations in central Australia. Mr Heath has served as Chairman of the Australian Petroleum Production and Exploration Association ("APPEA"), which awarded him the Reg Sprigg Gold Medal and honorary life membership.

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

Other directorships: Non-Executive Chairman of MEO Australia Limited.

Previous directorships of listed companies during the last three years: 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 Australia 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).

Special responsibilities: Managing Director and Chief Executive Officer.

Other directorships: None

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

Glenda McLoughlin – B.Ec, MBA, FAICD
Chief Financial Officer & Company Secretary
Appointed: 29 April 2002, Resigned: 29 February 2012

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: None

Directors' report (continued)

DIRECTORS (continued)
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 in senior management positions, namely Head of 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 Director of Eastern Corporation Limited (Retired 2010), Non-Executive Director Innamincka Petroleum Limited (Retired 2011).

Leonard (Len) 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).

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.

Directors' report (continued)

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	12	12
Peter Henderson	12	12
Glenda McLoughlin (Resigned on 29 February 2012)	8	8
Steven Koroknay	12	12
Leonard (Len) Gill	12	12

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 Nomination 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:

270,000 ordinary shares were issued at an average price of $0.33 on the exercise of 270,000 options.

Out of 2,321,330 options that lapsed during the year, a total of 390,741 were 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

Metgasco has a structured remuneration framework which provides a competitive base pay coupled with short and long term incentives to reward employees for above average performance and to create incentive over time to build value in the Company.

Directors' report (continued)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Use of Remuneration consultants

Metgasco’s Nomination and Remuneration Committee has obtained from Godfrey Remuneration Group extensive data relating to remuneration in the Australian oil and gas sector. The levels of base pay as well as short term and long term incentives being awarded to employees of companies with a similar size (by market capitalisation) to Metgasco have been used to assist in setting appropriate remuneration levels for Metgasco employees.

Metgasco has neither sought nor received any recommendations from remuneration consultants during the year.

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. Industry remuneration data is obtained by the Nomination and Remuneration committee for this purpose from Godfrey Remuneration Group. 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 approved 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 2012 were $225,632.

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

Base Pay

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

Benefits

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

Directors' report (continued)

EXECUTIVE TEAM (CONTINUED)

Short Term Performance Incentives (STIs)
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 awards discretionary STIs that are 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.

Long Term Incentives (LTIs)
All employees have the opportunity to be awarded LTIs by way of equity incentives as deferred shares or options to acquire a share. Each year the Nominations and Remuneration Committee reviews management's recommendations relating to an appropriate LTI award. The maximum LTI varies according to salary grade. The maximum opportunity is 50% of base pay.

The use of deferred shares or options as a long term incentive attempts to provide employees with a strong incentive to grow the value of the Company and ensure a degree of staff retention. All LTIs issued are subject to a three year trading lock and are forfeited if the employee leaves the company, unless the Board decides otherwise. 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. 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 of the Group during the reporting period are as follows:

- Nicholas Heath, Non-Executive Director
- Peter Henderson, Managing Director & CEO
- Glenda McLoughlin, Executive Director, Chief Financial Officer and Company Secretary (Resigned: 29 February 2012)
- Steven Koroknay, Non-Executive Director
- Leonard (Len) Gill, Non-Executive Director

Details of Remuneration
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 2012 are as follows:

Total equity compensation granted in the reporting period

Directors and Key Management Personnel	*Total no of shares granted for no consideration Short term incentives*	*Total no of shares granted for no consideration Long term incentives (1)*
Peter Henderson	-	645,161
Glenda McLoughlin (Resigned on 29 February 2012)	-	596,774

(1) Unless otherwise described, trading lock for 3 years. Share price must reach $0.45.
No options were issued during the year.

Directors' report (continued)

Remuneration 2012

	Short Term Employment Benefits				Post Employ-ment Benefits	Long Term Benefits	Share Based Payments				
Name	**Cash salary & fees**	**Other benefits**	**Terminat-ion payments**	**Short term incentive**	**Superannu-ation**	**Long service leave**	**Net no. of shares granted in period**	**Share Expense for year**	**Option Expense for year**	**Total**	**% of remun-eration that is equity based**
Directors	**$**	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**$**	**$**
P. Henderson	**389,285**	**18,815**	**-**	**50,000**	**39,536**	**-**	**645,161**	**102,694**	**-**	600,330	17.1
N. Heath	**87,736**	**-**	**-**	**-**	**7,896**	**-**	**-**	**-**	**-**	95,632	-
G. McLoughlin*	**262,826**	**-**	**-**	**77,250**	**30,607**	**-**	**596,774**	**-**	**-**	370,683	-
S. Koroknay	**56,850**	**-**	**-**	**-**	**10,750**	**-**	**-**	**-**	**-**	67,600	-
L. Gill	**57,248**	**-**	**-**	**-**	**5,152**	**-**	**-**	**-**	**-**	62,400	-
Total	**853,945**	**18,815**	**-**	**127,250**	**93,941**	**-**	**1,241,935**	**102,694**	**-**	**1,196,645**	8.6

Details of shares granted as remuneration for the reporting period ending 30 June 2012

Name	**No. of deferred shares granted**	**Fair value per share grant date**	**Date granted**	**Date vesting**
Directors				
P. Henderson	645,161	361,290	15/11/2011	1/09/2014
G. McLoughlin*	596,774	334,193	15/11/2011	1/09/2014
Total	**1,241,935**			

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.

*Resigned 29 February 2012. The 596,774 deferred shares were cancelled on resignation.

Directors' report (continued)

Incentives granted to KMP 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	100	-	100	-	10
G. McLoughlin*	84	16	100	-	21

(1) Available for vesting in future periods
*Resigned 29 February 2012

Remuneration 2011

	Short Term Employment Benefits				Post Employ - ment Benefits	Long Term Benefits	Share Based Payments				
Name	Cash salary & fees	Other benefits	Terminat - ion payments	Short term incentive	Superannu- ation	Long service leave	Net no. of shares granted in period	Share Expense for year	Option Expense for year	Total	% of remun -eration that is equity based
Directors	**$**	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**$**	**$**
P. Henderson *	83,745	4,094	-	-	7,534	-	200,000	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**

* P. Henderson appointed Managing Director on 4 April 2011
** D. Johnson resigned as Managing Director on 1 April 2011
*** G. McLoughlin resigned on 29 February 2012
Short term incentives comprised entirely of cash bonuses granted to executives on 23 August 2010.

Directors' report (continued)

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 2012, inclusive of superannuation, under the contract is $424,320. 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.

Glenda McLoughlin

Ms McLoughlin provided services under an employment contract whereby the base remuneration for the year ended 30 June 2012 inclusive of superannuation under the contract was $370,000. Ms McLoughlin's remuneration level was subject to an annual review which references remuneration levels at a pool of comparable companies. Remuneration was determined by the Board with reference to those benchmarks. Ms McLoughlin was 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 was able to terminate the contract on the grounds of serious misconduct, incapacity and nonperformance. The Chief Financial Officer was able to resign by giving three months notice. The Group was able to terminate the contract by giving twelve months notice.

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
N. Heath	100,000	0.2938	100,000	40,000

End of Audited Remuneration Report

Directors' report (continued)

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	-	633,590
Peter Henderson (1)	-	2,497,161
Steven Koroknay	-	235,386
Leonard (Len) Gill	-	295,386

(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 13 November 2012. 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**
Peter Henderson	368,727	983,273	1,352,000

There are no trading restrictions placed on the short term incentive shares which have been issued in lieu of a cash bonus. Shares issued 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 $0.35 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 Grant Thornton Audit Pty Ltd amounted to $77,217.

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, Grant Thornton Audit Pty Ltd, did not provide any non-audit services to the Group.

All non-audit services would be reviewed by the Audit Committee to ensure that they do not impact the impartiality and objectivity of the auditor and that none of the services would undermine the general principles relating to auditor independence as set out in Accounting Professional and Ethical Standards (APES) 110 Code of Ethics for Professional Accountants.

Directors' report (continued)

Voting and Comments at the Company's 2011 Annual General Meeting
Metgasco received 89.8% of "yes" votes on its remuneration report for the 2011 financial year. The company did not receive any specific feedback at the AGM on its remuneration report.

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 11 September 2012 the NSW government announced the renewal of Metgasco's Petroleum Exploration Licences 13 and 16. It also announced the granting of Metgasco's first Petroleum Production Lease. We expect to commence our drilling program in the next 6 months, with a work program that satisfies the work commitments in the two blocks.

PEL 13: one core well
PEL 16: two lateral wells

The total cost will be less than $5 million.

On 17 September 2012 Metgasco completed the placement of 51million shares at $0.20 to raise $10.2 million.

On 18 September 2012 Metgasco announced a share purchase plan. Under the plan eligible shareholders were entitled to apply for up to $15,000 in additional shares. The last date for payment is 22 October 2012.

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

Steven J. Korotknay

Steven Korotknay
Chairman Audit and Risk Management Committee
25 September 2012

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;

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Principle 1: Lay solid foundations for management and oversight (continued)

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

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 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Principle 1: Lay solid foundations for management and oversight (continued)

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 2012.

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
- Within the last three years has not been a principle of a material professional advisor or a material consultant
- 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

The independence of Directors is assessed regularly. Currently the Board is comprised of four 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Principle 2: Structure the Board to add value (continued)

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 2012 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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 focused 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 as at the date of this report is as follows:

- Women represented on the Board: 0%
- Women represented in Senior Executive Positions: 0%
- Women represented in the Whole Organisation: 25%

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Principal 3: Promote ethical and responsible decision making (continued)

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Principal 5: Make timely and balanced disclosure (continued)

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. (continued)

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 communication 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Principal 6: Respect the rights of shareholders (continued)

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 uses a standard risk management approach to identify, assess, mitigate and report against identified risks. During the period, management has provided reports to the Board to aid in the discussion and management of key risk issues. 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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Principal 7: Recognise and manage risk (continued)

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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Auditor's Independence Declaration
To the Directors of Metgasco Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Metgasco Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

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

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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

I S Kemp
Partner – Audit & Assurance

Sydney, 25 September 2012

Consolidated statement of comprehensive income

For the year ended 30 June 2012

	Note	***2012*** ***$***	*2011* *$*
Revenue	5(a)	**949,146**	727,779
Other income	5(b)	**20,689**	34,184
Expenses			
Finance costs	6(c)	**(22,711)**	(26,476)
Accounting, compliance, legal & professional		**(447,162)**	(152,536)
Investor relations		**(388,582)**	(272,839)
Consulting fees		**(384,005)**	(458,297)
Depreciation	6(a)	**(51,889)**	(55,849)
Directors fees		**(205,673)**	(193,546)
Employee costs	6(d)	**(3,689,593)**	(3,850,348)
Rent and occupancy	6(b)	**(319,359)**	(293,354)
Travel & accommodation		**(239,307)**	(244,648)
Other administrative		**(357,701)**	(281,719)
Loss before income tax		**(5,136,147)**	(5,067,649)
Income tax expense	7	**-**	-
Net loss for the year		**(5,136,147)**	(5,067,649)
Other comprehensive income		**-**	**-**
Total comprehensive loss for the year		**(5,136,147)**	(5,067,649)
Loss attributable to owners Metgasco		**(5,136,147)**	(5,067,649)
Earnings per share for loss from continuing operations			
Basic loss per share (cents)	27	(1.5)	(2.0)
Diluted loss per share (cents)	27	(1.5)	(2.0)

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 2012

	Note	2012 $	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	8	**12,220,672**	8,878,793
Inventory	9	**1,822,763**	1,463,266
Trade and other receivables	10	**1,340,840**	553,880
Total current assets		**15,384,275**	10,895,939
Non-current assets			
Exploration and evaluation expenditure	11	**67,086,667**	62,150,836
Plant and equipment	12	**4,416,963**	4,290,890
Other receivables	13	**856,736**	856,736
Total non-current assets		**72,360,366**	67,298,462
TOTAL ASSETS		**87,744,641**	78,194,401
LIABILITIES			
Current liabilities			
Trade and other payables	15	**1,208,476**	1,725,618
Provisions	16	**453,700**	524,200
Borrowings	17	**125,454**	102,177
Total current liabilities		**1,787,630**	2,351,995
Non-current liabilities			
Provisions	18	**1,307,158**	1,621,724
Borrowings	17	**145,955**	224,088
Total non-current liabilities		**1,453,113**	1,845,812
TOTAL LIABILITIES		**3,240,743**	4,197,807
NET ASSETS		**84,503,898**	73,996,594
EQUITY			
Contributed equity	19	**104,116,311**	89,106,562
Share option reserve	20	**4,915,609**	4,281,907
Accumulated losses		**(24,528,022)**	(19,391,875)
TOTAL EQUITY		**84,503,898**	73,996,594

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 2012

	Contributed equity $	*Accumulated losses* $	*Share option reserve (note 20)* $	*Total equity* $
At 1 July 2010	83,004,589	(14,324,226)	3,795,684	72,476,047
Loss for the year	-	(5,067,649)	-	(5,067,649)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	(5,067,649)	-	(5,067,649)
Transactions with owners in their				
Issue of share capital	6,438,803	-	-	6,438,803
Cost of share issues	(336,830)	-	-	(336,830)
Share based expenses	-	-	486,223	486,223
At 30 June 2011	89,106,562	(19,391,875)	4,281,907	73,996,594
Loss for the year	**-**	**(5,136,147)**	**-**	**(5,136,147)**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive loss for the year	**-**	**(5,136,147)**	**-**	**(5,136,147)**
Transactions with owners in their capacity as owners:				
Issue of share capital	**15,357,867**	**-**	**-**	**15,357,867**
Cost of share issues	**(348,118)**	**-**	**-**	**(348,118)**
Share based expenses	**-**	**-**	**633,702**	**633,702**
At 30 June 2012	**104,116,311**	**(24,528,022)**	**4,915,609**	**84,503,898**

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 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of goods and service taxes)		**(6,203,301)**	(5,199,230)
Interest received		**949,146**	727,779
Hire of equipment		**-**	2,250
Net cash flows used in operating activities	26	**(5,254,155)**	(4,469,201)
Cash flows from investing activities			
Expenditure on exploration and evaluation		**(6,044,112)**	(12,499,272)
R&D grant received		**346,128**	311,084
Net movement in bonds paid		**-**	(175,000)
Disposal of property, plant and equipment		**34,410**	11,193
Purchase of property, plant and equipment		**(619,664)**	(423,295)
Net cash flows used in investing activities		**(6,283,238)**	(12,775,290)
Cash flows from financing activities			
Net proceeds from issues of shares	19	**15,009,749**	6,101,973
Repayments of borrowings		**(107,766)**	(88,705)
Finance costs paid		**(22,711)**	(26,476)
Net cash flows from financing activities		**14,879,272**	5,986,792
Net increase/(decrease) in cash and cash equivalents held		**3,341,879**	(11,257,699)
Cash and cash equivalents at beginning of year		**8,878,793**	20,136,492
Cash and cash equivalents at the end of year	8	**12,220,672**	8,878,793

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2012

1 CORPORATE INFORMATION

The Financial Statements of Metgasco for the year ended 30 June 2012 have been authorised for issue in accordance with a resolution of the directors on 25 September 2012 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.

The registered office and principal place of business of the Company is: Level 9, 77 Pacific Highway North Sydney NSW 2060.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Metgasco Limited is a for-profit entity for the purpose of preparing the Financial Statements.

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.

(b) Compliance with IFRS

The Financial Statements comply with International Financial Reporting Standards (IFRS) 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Critical accounting estimates and judgments (continued)

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.

Drilling and associated expenses

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.

Impairment of exploration assets

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.

Deferred tax assets

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.

Share based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Allowance for inventory obsolescence

The assessment of the allowance for inventory obsolescence requires a degree of estimation and judgement. The level of the allowance is assessed by taking into account the ageing of inventories and other factors that affect inventory obsolescence.

Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Principles of consolidation

The consolidated financial statements comprise the financial statements of Metgasco and its subsidiaries, as at and for the year ended 30 June 2012. 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 2012, 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 are 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Exploration expenditure and petroleum tenement leases (continued)

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 are 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Employee benefits

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

(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.

ii) 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follow.

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) Accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are for 30 June 2012 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 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.

ii) *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.

iii) *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).

iv) *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. The changes will have an immaterial impact on the financial statements.

Notes to the financial statements (continued)

For the year ended 30 June 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) New accounting standards and interpretations (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

v) *AASB 12 Disclosure of Interests in Other Entities*

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

vi) *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'), The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

Notes to the financial statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT

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

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

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Cash & cash equivalents	**12,220,672**	8,878,793
Loans and receivables	**991,736**	1,019,106
Financial liabilities at amortised cost	**(1,206,122)**	(1,541,771)

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/corporate credit cards and trade receivables. See notes 10 and 24 accompanying the financial statements.

Of the financial liabilities disclosed above, the sum of $271,409 (2011: $326,265) 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 ("USD"). 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 $10,549,733, would increase/decrease the annual amount of interest received by $105,497. Directors consider that there is no significant credit risk in respect of cash balances as those balances are all held with major Australian banks.

Notes to the financial statements (continued)

For the year ended 30 June 2012

3 FINANCIAL RISK MANAGEMENT (continued)

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 has sufficient cash reserves to meet all short term and long term financial liabilities as disclosed in notes 15 and 17.

Notes to the financial statements (continued)

For the year ended 30 June 2012

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.

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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

5 REVENUE AND OTHER INCOME

	CONSOLIDATED	
	2012	*2011*
	$	*$*
(a) Revenue		
Interest received from financial institutions	**949,146**	727,779
Total revenue	**949,146**	727,779
(b) Other income		
Gain on disposal of assets	**20,689**	31,934
Miscelleaneous income	**-**	2,250
Total other income	**20,689**	34,184

6 EXPENSES

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Loss before income tax includes the following specific expenses:		
(a) Depreciation		
Plant and equipment	**51,889**	55,849
Total depreciation	**51,889**	55,849
(b) Rent and occupancy		
Rent under operating lease - Sydney	**241,989**	237,935
Occupancy costs	**77,370**	55,419
Total rent and occupancy	**319,359**	293,354
(c) Finance cost - external		
Interest expense	**3,647**	5,793
Bank charges	**19,064**	20,683
Total finance costs	**22,711**	26,476
(d) Employee costs		
Superannuation	**205,969**	212,870
Wages and salaries	**2,559,180**	2,599,084
Workers compensation	**(76,123)**	68,478
Payroll tax	**147,738**	111,562
Fringe benefits tax	**10,743**	-
Share based payments	**633,702**	486,223
Recruitment and consultants	**170,859**	169,167
Miscellaneous others	**37,525**	202,964
Total employee costs	**3,689,593**	3,850,348

Depreciation charged on assets employed directly in the Group's exploration activities for the year was $481,342 (2011: $490,780) and is charged to exploration assets. Depreciation charged on assets not in the above category was $51,889 (2011: $55,849) for the year and is charged directly to the profit or loss.

Notes to the financial statements (continued)

For the year ended 30 June 2012

7 INCOME TAX

	CONSOLIDATED 2012 $	2011 $
(a) Income tax expense		
Loss before income tax expense	**(5,136,147)**	(5,067,649)
Prima facie tax benefit on loss at 30% (2011: 30%)	**(1,540,844)**	(1,520,294)
Tax effect of amounts which are not deductible in calculating taxable income:		
Share based payments	**190,111**	145,867
	(1,350,733)	(1,374,427)
Movements in unrecognised temporary differences	**(26,031)**	(21,000)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	**1,376,764**	1,395,427
Income tax expense	**-**	-
(b) Unrecognised deferred tax assets and liabilities		
Capital raising costs	**621,613**	496,286
Accruals and provision for employees benefits	**79,232**	105,263
Carry forward tax losses:		
– Operating	**7,358,407**	5,972,656
– Exploration and evaluation expenditure	**20,126,000**	18,281,270
Deferred tax liability - taxable temporary differences	**(20,126,000)**	(18,281,270)
Net unrecognised deferred tax asset	**8,059,252**	6,574,205

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.

Effective from 1 July 2012, the Petroleum Resource Rent Tax (“PRRT”) scheme is extended to include onshore oil and gas activities. Under the new legislation, a tax starting base is available to taxpayers who hold interest in petroleum projects at 2 May 2010. The Company has unrecognised deferred tax assets which will be available to be utilised against future PRRT projects.

8 CASH AND CASH EQUIVALENTS

	CONSOLIDATED 2012 $	2011 $
Cash at bank and in hand	**136,620**	374,231
Term deposits	**12,084,052**	8,504,562
Total	**12,220,672**	8,878,793

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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

8 CASH AND CASH EQUIVALENTS (continued)

b) Term deposits

Term deposits attract rates of interest ranging from 3.6% to 5% (2011: 4.45% to 5.8%). 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.

9 INVENTORY

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Materials, consumables and equipment	**1,822,763**	1,463,266
Total	**1,822,763**	1,463,266

The cost of inventories recognised as an expense in 2012 and 2011 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.

10 TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Trade receivables	**-**	27,370
Security bonds-current	**135,000**	135,000
GST receivable	**160,493**	231,488
Prepayments	**203,365**	160,022
R&D grant receivable	**841,982**	-
Total	**1,340,840**	553,880

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

11 EXPLORATION AND EVALUATION EXPENDITURE

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Expenditure for the entities operations		
Movement during the financial period (at cost):		
Opening balance	**62,150,836**	47,837,146
Capitalised exploration expenditure	**6,123,941**	14,625,494
R & D grant	**(1,188,110)**	(311,804)
Carrying amount at end of year	**67,086,667**	62,150,836

Notes to the financial statements (continued)

For the year ended 30 June 2012

11 EXPLORATION AND EVALUATION EXPENDITURE (continued)

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.

12 PLANT AND EQUIPMENT

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Office equipment		
At cost	**165,140**	151,562
Accumulated depreciation	**(104,014)**	(81,669)
Net carrying amount	**61,126**	69,893
Computer equipment		
At cost	**471,662**	438,184
Accumulated depreciation	**(406,303)**	(328,503)
Net carrying amount	**65,359**	109,681
Motor vehicles		
At cost	**118,574**	104,709
Accumulated depreciation	**(51,953)**	(69,710)
Net carrying amount	**66,621**	34,999
Motor vehicles under finance lease at cost		
At cost	**623,640**	567,994
Accumulated depreciation	**(346,724)**	(245,136)
Net carrying amount	**276,916**	322,858
Improvements		
At cost	**203,827**	203,827
Accumulated depreciation	**(83,400)**	(62,977)
Net carrying amount	**120,427**	140,850

Notes to the financial statements (continued)

For the year ended 30 June 2012

12 PLANT AND EQUIPMENT (continued)

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Plant and equipment		
At cost	**1,730,461**	1,269,243
Accumulated depreciation	**(1,048,199)**	(783,411)
Net carrying amount	**682,262**	485,832
Richmond Valley Power Station - development costs		
At cost	**3,144,252**	3,126,777
Net carrying amount	**3,144,252**	3,126,777
Total plant and equipment		
At cost	**6,457,556**	5,862,296
Accumulated depreciation	**(2,040,593)**	(1,571,406)
Net carrying amount	**4,416,963**	4,290,890

Reconciliations of the carrying amounts of each class of 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	**69,893**	84,105
Additions	**14,345**	8,554
Disposals	**(767)**	(231)
Depreciation	**(22,345)**	(22,535)
Carrying amount at end of financial year	**61,126**	69,893
Computer equipment		
Carrying amount at beginning of financial year	**109,681**	165,560
Additions	**36,281**	44,148
Disposals	**(1,788)**	-
Depreciation	**(78,815)**	(100,027)
Carrying amount at end of financial year	**65,359**	109,681
Motor vehicles		
Carrying amount at beginning of financial year	**34,999**	44,717
Additions	**52,865**	31,618
Disposals	**-**	(17,481)
Depreciation	**(21,243)**	(23,855)
Carrying amount at end of financial year	**66,621**	34,999
Motor vehicles under finance lease at cost		
Carrying amount at beginning of financial year	**322,858**	276,020
Additions	**90,388**	201,738
Disposals	**(10,713)**	(33,991)
Depreciation	**(125,617)**	(120,909)
Carrying amount at end of financial year	**276,916**	322,858

Notes to the financial statements (continued)

For the year ended 30 June 2012

12 PLANT AND EQUIPMENT (continued)

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the current and previous financial year are set out below (continued):

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Improvements		
Carrying amount at beginning of financial year	**140,850**	158,439
Additions	**-**	2,722
Depreciation	**(20,423)**	(20,311)
Carrying amount at end of financial year	**120,427**	140,850
Plant and equipment		
Carrying amount at beginning of financial year	**485,832**	552,299
Additions	**461,218**	192,526
Depreciation	**(264,788)**	(258,993)
Carrying amount at end of financial year	**682,262**	485,832
Richmond Valley Power Station - development costs		
Carrying amount at beginning of financial year	**3,126,777**	2,983,029
Additions	**17,475**	143,748
Carrying amount at end of financial year	**3,144,252**	3,126,777
Total plant and equipment		
Carrying amount at beginning of financial year	**4,290,890**	4,264,169
Additions	**672,572**	625,054
Disposals	**(13,268)**	(51,703)
Depreciation	**(533,231)**	(546,630)
Carrying amount at end of financial year	**4,416,963**	4,290,890

13 OTHER RECEIVABLES (NON-CURRENT)

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Security bonds - Non-current	**856,736**	856,736
Total	**856,736**	856,736

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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

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 2(d).

Name of entity	Country of incorporation	Class of Shares	Equity holding			
			2012 %	*2011* %	***2012*** ***$***	*2011* *$*
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.

15 TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED	
	2012 ***$***	*2011* *$*
Trade payables	**594,553**	763,347
Accrued charges and expenses	**340,160**	452,159
Employee benefits	**273,763**	510,112
Total	**1,208,476**	1,725,618

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

16 PROVISIONS (CURRENT)

	CONSOLIDATED	
	2012 ***$***	*2011* *$*
Provision for site rehabilitation		
Opening balance	**524,200**	97,010
Amounts transferred from non-current	**443,700**	-
Amounts provided	**-**	427,190
Rehabilitation work	**(514,200)**	-
Closing balance for site rehabilitation	**453,700**	524,200

The Group recognises the costs of site rehabilitation for the wells at the time of drilling. 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

17 BORROWINGS

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Current		
Finance lease liability	**125,454**	102,177
	125,454	102,177
Non-current		
Finance lease liability	**145,955**	224,088
	145,955	224,088

The Group has borrowings in the form of finance leases. The rate of interest charged across the leases held varies from 7.4% to 10.3%. 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 $276,916 at the end of the reporting period.

Full details of the lease commitments are as follows:

Finance Lease Commitments		
Within one year	**144,700**	129,083
Later than one year but not later than 5 years	**152,984**	244,361
Minimum lease payments	**297,684**	373,444
Future finance charges	**(26,275)**	(47,179)
Recognised as a liability	**271,409**	326,265

18 PROVISIONS (NON-CURRENT)

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Long service leave	**84,022**	68,024
Provision for site rehabilitation		
Opening balance	**1,553,700**	412,888
Amounts provided	**143,136**	1,140,812
Expensed during the year	**(30,000)**	-
Transferred to rehabilitation provision - current	**(443,700)**	-
Closing balance for site rehabilitation	**1,223,136**	1,553,700
Total	**1,307,158**	1,621,724

Provision is made for the future estimated cost of well site rehabilitation at the time of drilling. 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

19 CONTRIBUTED EQUITY

	Parent Entity		Parent Entity	
	No of Shares 2012	No of Shares 2011	**2012 $**	2011 $
(a) Share Capital				
Ordinary Shares - Fully Paid	**337,414,140**	276,213,792	**104,116,311**	89,106,562

(b) Movements in Ordinary Share Capital

	Date	No. of Shares	Value $	Issue Price $
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**	
Shares issued during the year				
	05/08/11	58,723,231	15,268,040	0.26
Share rights issued during the year				
	15/08/11	549,432	-	-
	15/11/11	2,025,044	-	-
	15/11/11	1,241,935	-	-
	15/11/11	200,000	-	-
	15/11/11	120,000	-	-
Shares cancelled during the year				
	15/08/11	(115,278)	-	-
	31/01/12	(635,484)	-	-
	19/03/12	(1,178,532)	-	-
Share options exercised by employees	03/01/12	270,000	89,827	-
Share issue costs		-	(20,584)	-
Other share costs		-	(327,534)	-
Balance at 30 June 2012		**337,414,140**	**104,116,311**	

Notes to the financial statements (continued)

For the year ended 30 June 2012

19 CONTRIBUTED EQUITY (continued)

(b) Movements in Ordinary Share Capital (continued)

	No. of Options 2012	*No. of Options 2011*
Options (not quoted on ASX)		
Opening balance	**8,171,954**	9,221,510
Exercised by employees	**(270,000)**	(394,000)
Lapsed	**(2,321,330)**	(655,556)
Closing balance	**5,580,624**	8,171,954

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 5,580,624 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 2012. The Company options are not quoted on the ASX.

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.

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	
	2012	*2011*
	$	*$*
Opening balance	**4,281,907**	3,795,684
Cost of securities issued under EOEP	**633,702**	486,223
Closing balance of reserve	**4,915,609**	4,281,907

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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

20 SHARE BASED PAYMENTS (continued)

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:

Consolidated and Parent Entity 2012

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable 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	$
3/10/2006	3/10/2006	1/01/2012	0.30	0.255	100,000	-	-	(100,000)	-	-
3/10/2006	3/10/2006	1/01/2012	0.50	0.255	150,000	-	(150,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.35	0.350	30,000	-	(30,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.40	0.350	30,000	-	(30,000)	-	-	-
29/11/2006	29/11/2007	1/01/2012	0.50	0.350	40,000	-	(40,000)	-	-	-
29/11/2006	29/11/2007	1/01/2012	0.40	0.350	50,000	-	(50,000)	-	-	-
29/11/2006	29/11/2007	1/01/2012	0.35	0.350	30,000	-	(30,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.35	0.350	140,000	-	(70,000)	(70,000)	-	-
29/11/2006	29/11/2006	1/01/2012	0.40	0.350	216,000	-	(146,000)	(70,000)	-	-
29/11/2006	29/11/2006	1/01/2012	0.50	0.350	370,000	-	(370,000)	-	-	-
29/11/2006	29/11/2006	1/01/2012	0.30	0.350	30,000	-	-	(30,000)	-	-
21/11/2007	21/11/2007	21/11/2012	0.82	0.900	500,000	-	-	-	500,000	286,070
21/11/2007	4/02/2008	21/11/2012	0.82	0.900	500,000	-	-	-	500,000	286,070
21/11/2007	21/11/2007	30/06/2012	0.90	0.900	236,710	-	(236,710)	-	-	-
21/11/2007	30/06/2008	30/06/2012	0.90	0.900	75,669	-	(75,669)	-	-	-
21/11/2007	30/06/2008	30/06/2012	1.00	0.900	164,759	-	(164,759)	-	-	-
21/11/2007	30/06/2009	30/06/2012	1.10	0.900	250,304	-	(250,304)	-	-	-
21/11/2007	30/06/2007	30/06/2012	0.90	0.900	114,884	-	(114,884)	-	-	-
21/11/2007	30/06/2008	30/06/2012	0.90	0.900	72,263	-	(72,263)	-	-	-
21/11/2007	14/09/2008	30/06/2012	0.90	0.900	100,000	-	(100,000)	-	-	-
4/02/2008	4/02/2009	4/02/2013	0.90	0.940	100,000	-	-	-	100,000	68,256
4/02/2008	4/02/2010	4/02/2013	0.90	0.940	100,000	-	-	-	100,000	68,256

Notes to the financial statements (continued)

For the year ended 30 June 2012

20 SHARE BASED PAYMENTS (continued)

Consolidated and Parent Entity 2012 (continued)

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable 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	$
4/02/2008	4/02/2009	4/02/2013	1.00	0.940	65,000	-	-	-	65,000	43,384
14/02/2008	14/02/2009	14/02/2013	1.00	0.820	50,000	-	-	-	50,000	28,638
21/02/2008	21/02/2008	21/02/2013	1.00	0.830	375,000	-	-	-	375,000	206,603
21/05/2008	21/05/2008	21/05/2013	1.00	1.100	375,000	-	-	-	375,000	313,844
1/07/2008	1/07/2008	1/07/2013	1.20	1.050	289,486	-	-	-	289,486	184,903
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	310,375	-	-	-	310,375	198,247
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	241,283	-	-	-	241,283	162,882
1/07/2008	1/07/2010	1/07/2013	1.40	1.050	100,000	-	-	-	100,000	60,442
1/07/2008	1/07/2010	1/07/2013	1.60	1.050	390,777	-	-	-	390,777	224,325
21/08/2008	21/08/2008	21/08/2013	1.00	0.720	375,000	-	-	-	375,000	150,014
21/11/2008	21/11/2008	21/11/2013	1.00	0.380	375,000	-	-	-	375,000	62,286
1/09/2009	1/09/2011	1/09/2014	0.50	0.445	912,222	-	-	-	912,222	300,067
1/09/2009	1/09/2012	1/09/2014	0.50	0.445	912,222	-	(390,741)	-	521,481	171,536
Total					**8,171,954**	**-**	**(2,321,330)**	**(270,000)**	**5,580,624**	**2,815,823**
Weighted average exercise price					**0.83**				**0.92**	

Notes to the financial statements (continued)

For the year ended 30 June 2012

20 SHARE BASED PAYMENTS (continued)

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	13/08/2013	0.45	1,289,372	-	(368,651)	920,721	377,495
16/11/2010	16/11/2013	0.45	343,333	-	(343,333)	-	-
12/09/2011	1/09/2014	0.31	-	2,025,045	(505,258)	1,519,787	516,728
15/11/2011	1/09/2014	0.31	-	1,241,935	(596,774)	645,161	361,290
15/11/2011	4/04/2014	0.34	-	200,000	-	200,000	112,000
15/11/2011	18/07/2014	0.26	-	60,000	-	60,000	33,600
Total			1,632,705	3,526,980	(1,814,016)	3,345,669	1,401,113

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

Notes to the financial statements (continued)

For the year ended 30 June 2012

20 SHARE BASED PAYMENTS (continued)

Consolidated and Parent Entity 2011

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable 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	0.410	100,000	-	-	(100,000)	-	-
22/05/2006	20/05/2006	22/05/2011	0.32	0.320	50,000	-	-	(50,000)	-	-
22/05/2006	22/05/2007	22/05/2011	0.32	0.320	100,000	-	-	(100,000)	-	-
22/05/2006	22/05/2008	22/05/2011	0.32	0.320	100,000	-	-	(100,000)	-	-
3/10/2006	3/10/2006	1/01/2012	0.30	0.255	100,000	-	-	-	100,000	15,196
3/10/2006	3/10/2006	1/01/2012	0.50	0.255	150,000	-	-	-	150,000	18,301
29/11/2006	29/11/2006	1/01/2012	0.35	0.350	30,000	-	-	-	30,000	6,394
29/11/2006	29/11/2006	1/01/2012	0.40	0.350	30,000	-	-	-	30,000	6,086
29/11/2006	29/11/2007	1/01/2012	0.50	0.350	40,000	-	-	-	40,000	7,409
29/11/2006	29/11/2007	1/01/2012	0.40	0.350	50,000	-	-	-	50,000	10,144
29/11/2006	29/11/2007	1/01/2012	0.35	0.350	30,000	-	-	-	30,000	6,394
29/11/2006	29/11/2006	1/01/2012	0.35	0.350	184,000	-	-	(44,000)	140,000	29,840
29/11/2006	29/11/2006	1/01/2012	0.40	0.350	216,000	-	-	-	216,000	43,820
29/11/2006	29/11/2006	1/01/2012	0.50	0.350	370,000	-	-	-	370,000	68,534
29/11/2006	29/11/2006	1/01/2012	0.30	0.350	30,000	-	-	-	30,000	6,740
21/11/2007	21/11/2007	21/11/2012	0.82	0.900	500,000	-	-	-	500,000	286,070
21/11/2007	4/02/2008	21/11/2012	0.82	0.900	500,000	-	-	-	500,000	286,070
21/11/2007	21/11/2007	30/06/2012	0.90	0.900	236,710	-	-	-	236,710	126,696
21/11/2007	30/06/2008	30/06/2012	0.90	0.900	75,669	-	-	-	75,669	40,501
21/11/2007	30/06/2008	30/06/2012	1.00	0.900	164,759	-	-	-	164,759	84,587
21/11/2007	30/06/2009	30/06/2012	1.10	0.900	250,304	-	-	-	250,304	123,479
21/11/2007	30/06/2007	30/06/2012	0.90	0.900	114,884	-	-	-	114,884	61,578
21/11/2007	30/06/2008	30/06/2012	0.90	0.900	72,263	-	-	-	72,263	38,678

Notes to the financial statements (continued)

For the year ended 30 June 2012

20 SHARE BASED PAYMENTS (continued)

Consolidated and Parent Entity 2011 (continued)

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable 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	$
21/11/2007	14/09/2008	30/06/2012	0.90	0.900	100,000	-	-	-	100,000	55,919
4/02/2008	4/02/2009	4/02/2013	0.90	0.940	100,000	-	-	-	100,000	68,256
4/02/2008	4/02/2010	4/02/2013	0.90	0.940	100,000	-	-	-	100,000	68,256
4/02/2008	4/02/2009	4/02/2013	1.00	0.940	65,000	-	-	-	65,000	43,384
14/02/2008	14/02/2009	14/02/2013	1.00	0.820	50,000	-	-	-	50,000	28,638
21/02/2008	21/02/2008	21/02/2013	1.00	0.830	375,000	-	-	-	375,000	206,603
21/05/2008	21/05/2008	21/05/2013	1.00	1.100	375,000	-	-	-	375,000	313,844
1/07/2008	1/07/2008	1/07/2013	1.20	1.050	289,486	-	-	-	289,486	184,903
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	310,375	-	-	-	310,375	198,247
1/07/2008	1/07/2009	1/07/2013	1.20	1.050	241,283	-	-	-	241,283	162,882
1/07/2008	1/07/2010	1/07/2013	1.40	1.050	100,000	-	-	-	100,000	60,442
1/07/2008	1/07/2010	1/07/2013	1.60	1.050	390,777	-	-	-	390,777	224,325
21/08/2008	21/08/2008	21/08/2013	1.00	0.720	375,000	-	-	-	375,000	150,014
21/11/2008	21/11/2008	21/11/2013	1.00	0.380	375,000	-	-	-	375,000	62,286
1/09/2009	1/09/2011	1/09/2014	0.50	0.445	1,240,000	-	(327,778)	-	912,222	300,067
1/09/2009	1/09/2012	1/09/2014	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**	

Notes to the financial statements (continued)

For the year ended 30 June 2012

21 KEY MANAGEMENT PERSONNEL

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Short-term employee benefits	**1,000,010**	964,564
Post-employment employee benefits	**93,941**	114,365
Other long-term employee benefits	**-**	4,338
Share based payments	**102,694**	310,754
Termination benefits	-	336,234
Total compensation	**1,196,645**	1,730,255

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 2012, the direct and indirect interests of the Key Management Personnel in the securities of Metgasco are as follows:

Shares 2012	**Opening Balance**	**Granted as Compensation**	**Received on Exercise of Options**	**Other Changes**	**Shares Disposed**	**Closing Balance**
N. Heath	418,204	-	100,000	115,386	-	633,590
P. Henderson	200,000	645,161	-	300,000	-	1,145,161
S. Koroknay	120,000	-	-	115,386	-	235,386
L. Gill	180,000	-	-	115,386	-	295,386
G. McLoughlin *	10,445,510	596,774	-	-	(550,682)	10,491,602

* Shareholding was current at 29 February 2012 which was the date of resignation

Options 2012	**Opening Balance**	**Options Granted**	**Options Lapsed/ Exercised**	**Other Changes**	**Closing Balance**	**Vested & Exercisable at 30 June 2012**
G. McLoughlin *	1,266,775	-	(737,932)	-	528,843	-
N. Heath	250,000	-	(250,000)	-	-	-

* Option holding was current at 29 February 2012 which was the date of resignation

Notes to the financial statements (continued)

For the year ended 30 June 2012

21 KEY MANAGEMENT PERSONNEL (continued)

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	-	180,000
D. Johnson **	12,369,930	448,334	-	(343,334)	-	12,474,930
G. McLoughlin	9,997,177	448,333	-	-	-	10,445,510

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

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

*** 90,000 shares were acquired by Mr Gill on 10 August 2010 and disclosed to the ASX via an Appendix 3Y. The disclosure has been corrected to reflect this.

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

* 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

All holdings of shares and options disclosed this year and prior year are held either directly or indirectly by 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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

22 AUDITORS' REMUNERATION

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

	CONSOLIDATED	
	2012	*2011*
	$	*$*
During the year, fees paid/payable to the Company's auditors were:		
For audit and review:		
- Grant Thornton Audit Pty Ltd	**77,217**	-
- Other	**-**	75,417
Total	**77,217**	75,417

Grant Thornton Audit Pty Ltd merged with BDO Audit (NSW-VIC) Pty Ltd during the year and fees charged by both firms are included under Grant Thornton Audit Pty Ltd.

23 RELATED PARTY DISCLOSURES

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. There are no further related party transactions to disclose.

24 CONTINGENCIES LIABILITIES

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Bank guarantees Department of Primary Industry	**855,497**	855,497
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.

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.

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Minimum Exploration & Evaluation expenditure for exploration Tenements		
Within one year	**1,170,000**	1,805,000
Total	**1,170,000**	1,805,000
Office Rent		
Within one year	**232,074**	309,427
Later than one year but not later than 5 years	**7,485**	194,646
Total	**1,409,559**	504,073

The minimum contractual commitment towards remuneration costs of Executive Directors is $229,000.

Notes to the financial statements (continued)

For the year ended 30 June 2012

26 STATEMENT OF CASH FLOWS RECONCILIATION

	CONSOLIDATED	
	2012	*2011*
	$	*$*
(a) Reconciliation of net loss after tax to net cash flows from operations		
Net loss for the year	**(5,136,147)**	(5,067,649)
Adjustments for:		
Depreciation	**51,889**	55,849
Net profit on disposal of property, plant and equipment	**(20,689)**	(31,934)
Finance cost classified as financing activities	**22,711**	-
Share based payment expense	**633,702**	486,223
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	**55,020**	175,818
(Increase)/Decrease in inventory	**(359,497)**	(293,870)
(Decrease)/Increase in trade and other payables	**(280,793)**	205,057
(Decrease)/Increase in provisions	**(220,351)**	1,305
Net cash flows used in operating activities	**(5,254,155)**	(4,469,201)

(b) 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 $90,388 (2011: $419,515).

27 EARNINGS PER SHARE

	CONSOLIDATED	
	2012	*2011*
	$	*$*
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Loss attributable to owners of Metgasco Ltd used to calculate basic earnings per share	5,136,147	5,067,649
Diluted earnings per share		
Loss attributable to owners of Metgasco Ltd used to calculate diluted earnings per share	5,136,147	5,067,649
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**331,625,345**	252,097,445
Loss per share (cents)	**(1.5)**	**(2.0)**

Notes to the financial statements (continued)

For the year ended 30 June 2012

27 EARNINGS PER SHARE (continued)

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

28 FINANCING FACILITIES

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

29 GOVERNMENT GRANTS

There have been no grants of any type received or that are receivable during the year ended 30 June 2012.

30 PARENT ENTITY DISCLOSURES

	2012	*2011*
	$	***$***
Current assets	**15,384,275**	10,895,939
Non-current assets	**72,360,366**	67,298,462
Total assets	**87,744,641**	78,194,401
Current liabilities	**1,787,630**	2,351,995
Non-current liabilities	**1,453,113**	1,845,812
Total liabilities	**3,240,743**	4,197,807
Contributed equity	**104,116,311**	89,106,562
Accumulated losses	**(24,528,022)**	(19,391,875)
Share option reserve	**4,915,609**	4,281,907
Total equity	**84,503,898**	73,996,594
Loss for the year	**(5,136,147)**	(5,067,649)
Other comprehensive income for the year	**-**	-
Total comprehensive loss for the year	**(5,136,147)**	(5,067,649)

Included in the non-current assets of the parent is an amount receivable from the wholly owned subsidiary, Richmond Valley Power Pty Ltd for $3,144,252 (2011: $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**	855,497
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.

Notes to the financial statements (continued)

For the year ended 30 June 2012

30 PARENT ENTITY DISCLOSURES (continued)

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.

	2012	*2011*
	$	***$***
Minimum Exploration & Evaluation Expenditure for Exploration Tenements		
Within one year	**1,170,000**	1,805,000
Total	**1,170,000**	1,805,000
Office Rent		
Within one year	**232,074**	309,427
Later than one year but not later than 5 years	**7,485**	194,646
Total	**239,559**	504,073

The minimum contractual commitment towards remuneration costs of Executive Directors is $227,000.

31 EVENTS AFTER THE REPORING PERIOD

On 11 September 2012 the NSW government announced the renewal of Metgasco's Petroleum Exploration Licences 13 and 16. It also announced the granting of Metgasco's first Petroleum Production Lease. We expect to commence our drilling program in the next 6 months, with a work program that satisfies the work commitments in the two blocks.

- PEL 13: one core well
- PEL 16: two lateral wells

The total cost will be less than $5 million.

On 17 September 2012 Metgasco completed the placement of 51 million shares at $0.20 and raised $10.2 million.

On 18 September 2012 Metgasco announced a share purchase plan. Under the plan eligible shareholders were entitled to apply for up to $15,000 in additional shares. The last date for payment is 22 October 2012.

Directors' declaration

In the opinion of the Directors of Metgasco Limited:

a. the consolidated financial statements and notes of Metgasco Limited are in accordance with the Corporations Act 2001, including

   i) giving a true and fair view of its financial position as at 30 June 2012;

   ii) and of its performance for the financial year ended on that date; and

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

b. there are reasonable grounds to believe that Metgasco Limited will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2012.

Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Peter Henderson
Managing Director & CEO

Steven Korokнay
Chairman Audit & Risk Management Committee

Sydney, 25 September 2012

Grant Thornton Audit Pty Ltd
ACN 130 913 594

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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 (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies 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 which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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.

Auditor's opinion
In our opinion:

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

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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 the notes to the financial statements.

Report on the remuneration report
We have audited the remuneration report included in pages 8 to 13 of the directors' report for the year ended 30 June 2012. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Metgasco Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

I S Kemp
Partner – Audit & Assurance

Sydney, 25 September 2012

Shareholder information

For the year ended 30 June 2012

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 21 September 2012.

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	**456**
1,001 – 5,000	**1,085**
5,001 – 10,000	**863**
10,001 – 100,000	**2,419**
100,001 and above	**537**
Total	**5,360**

There were 821 holders of less than a marketable parcel of 2,174 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 Pty Ltd	**34,570,577**	**8.83**
ERM Power Limited	**31,841,903**	**8.13**
CitiCorp Nominees Pty Ltd	**9,189,498**	**2.35**
HSBC Custody Nominees (Australia) Ltd	**7,995,603**	**2.04**
Kalsie Holdings Pty Ltd <Iyer Super Fund A/C>	**6,457,693**	**1.65**
Mr David Johnson	**5,874,907**	**1.50**
National Nominees Ltd	**5,580,899**	**1.42**
JP Morgan Nominees Australia Ltd	**5,479,599**	**1.40**
Kalsie Holdings Pty Ltd <Iyer Super Fund A/C>	**5,000,000**	**1.28**
Dansar Pty Ltd <J&A Vaughan Super Fund A/C>	**4,712,774**	**1.20**
Magnim Pty Ltd <Cox Investment A/C>	**4,609,773**	**1.18**
Lit Wick Enterprises Pty Ltd	**4,000,000**	**1.02**
Fast Freeze International Limited	**3,463,286**	**0.88**
Ms Glenda Mcloughlin	**3,195,000**	**0.82**
Maxa Pty Ltd	**2,952,043**	**0.75**
CS Fourth Nominees Pty Ltd	**2,520,000**	**0.64**
The Australian National University	**2,500,000**	**0.64**
Allagai Holdings Pty Ltd	**2,277,818**	**0.58**
Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	**2,200,220**	**0.56**
Pan Australian Nominees Pty Limited	**2,200,000**	**0.56**
Total of top 20 holders of fully paid ordinary shares		**37.43%**

Substantial shareholders

As at 21 September 2012 there were no substantial shareholders.

Shareholder information (continued)

For the year ended 30 June 2012

SHAREHOLDER INFORMATION (continued)

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 2012 are as follows.

Tenement	Resource Type	30 June 2012	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.
**Awaiting Government renewal at 30 June 2012. Renewal received September, 2012

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

Glossary of terms

For the year ended 30 June 2012

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 Securities 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 absorbed 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
KMP	Key management personnel
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

Glossary of terms (continued)

For the year ended 30 June 2012

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

For the year ended 30 June 2012

CORPORATE DIRECTORY

Directors	Nicholas Heath (Chairman) Peter Henderson Glenda McLoughlin (Resigned: 29 February 2012) Steven Koroknay Leonard (Len) 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	Sean Hooper Nicholas Geddes
Notice of Annual General Meeting	The Annual General Meeting of Metgasco will be held: Date: 13 November 2012 Time: 11.00 am Venue: Christie Corporate Level 4, 100 Walker Street North Sydney
Home Stock Exchange	Australian Securities Exchange (ASX) 4 Bridge Street Sydney, NSW 2000
ASX Symbol	MEL
Auditor	Grant Thornton Audit Pty Ltd 383 Kent Street Sydney, NSW 2000
Solicitors	Piper Alderman Level 23 Governor Macquarie Tower 1 Farrer Place Sydney NSW 2000
Share Registry	Computershare Investor Services Pty Limited GPO Box 7115 Sydney, NSW 2001
How to contact us	
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By Email	info@metgasco.com.au
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