



**FINANCIAL REPORT THE  
HALF YEAR ENDED  
31 DECEMBER 2009**

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## 1. REVIEW OF ACTIVITIES

### SUMMARY

In the half year to 31 December 2009, Metgasco has continued to explore and appraise its coal seam gas (CSG) and conventional gas resources and in parallel further develop the infrastructure requirements to support broad scale production from the Company's resource base. Specific achievements in the half year to 31 December 2009 are as follows:

- Drilling of the Company's first deep conventional well, Kingfisher E1, resulted in an exciting gas discovery. A total gas bearing interval of 138.3 metres has been identified from wireline logging with an estimated net pay of 30.3 metres. The Company is in the process of conducting production testing on a number of target zones. The first target zone in the Ripley Road sandstone tested gas production at a stabilized rate of 2.97 million scfd for 15 hours through a 1" choke.
- Improved production performance at Corella P11 CSG pilot well with a new peak production rate of 220 Mscf/d achieved.
- Commenced drilling Corella P18, the Company's next generation coal seam gas pilot well. Currently pipe is stuck in this well. The Company is currently developing a program for completing this well.
- Completed acquisition of outstanding interests in PEL 13 and PEL 426 from Molopo Australia Limited. Completed acquisition of outstanding joint venture interests in PEL 16 from CS Energy. Following these transactions, Metgasco now has a 100% working interest and full operational control in all its tenements in the Clarence Moreton basin.
- Commenced expressions of interest process for PEL 16 assets. Metgasco has commenced a process to identify potential partners for its coal seam gas and conventional gas assets in PEL 16. With proven gas reserves demonstrated and a large 2P reserve position established, the Company considers that this is an appropriate time to encourage further investment from a compatible joint venture party in field development.
- Completed share purchase plan (SPP) to raise \$25 million to accelerate Metgasco's exploration, appraisal and development program. The Company ended the half year with a strong cash position of \$29.8 million
- Subsequent to the end of the period, Metgasco achieved a major upgrade to its gas reserves with 2P reserves increasing by 33% to 397 petajoules and 3P reserves increasing by 46% to 2,239 petajoules.

## EXPLORATION AND APPRAISAL

In addition to large CSG gas reserves in the Clarence Moreton Basin of northern New South Wales, Metgasco is now identifying the potential for a significant conventional gas position in the Clarence Moreton Basin. The combination of CSG and conventional gas together with its strategic location in northern New South Wales provides Metgasco with the opportunity to be a key supplier into the east coast gas and power market.

### Coal Seam Gas Program

Metgasco has a significant acreage position of approximately 5,700km<sup>2</sup> covering the Walloon Coal Measures in the Clarence Moreton Basin in northern New South Wales. The large scale of the Company's 3P reserve position demonstrates the potential of the Clarence Moreton basin to be a major contributor to gas supplies on the east coast of Australia. Current independently certified CSG reserves within PEL 16 are as follows:

Subsequent to the end of the period the Company's independent reserve certifier advised that reserves in PEL had been increased as follows:

#### PEL 16 – Independently Certified Coal Seam Gas Reserves (Metgasco 100%)

Gas Reserves	Reserves (PJ) 10 March 2009	Reserves (PJ) 16 February 2010
1P (Proven, Undeveloped)	2.7	2.7
2P (Proven and Probable)	298	396.7
3P (Proven, Probable, Possible)	1,538	2,239.3
2C Contingent Resource	-	1,177.4

(1) Announced to the market on 16 February 2010.

(2) 1P reserves = proved

(3) 2P reserves = proved + probable

(4) 3P reserves = proved + probable + possible

(5) This reserve statement has been prepared by Mr Tim Hower of MHA Petroleum Consultants (Denver) and personnel under his supervision. Reserve estimates have been developed within the guidelines of definitions of proved, probable and possible reserves provided by the Society of Petroleum Engineers and the World Petroleum Council. These methods are consistent with the ASX Listing Rules. Mr Hower has consented to the use of the reserve figures in this announcement and the form and context in which the information appears.

### Drilling Activity

During the period the Company completed drilling the following wells:

- Corella E17 – coal seam gas exploration well. This vertical well was drilled to a total depth of 788 metres. The well confirmed the presence and thickness of the Walloon Coal Measures and the coal character at this location and evaluated the impact of alternative drilling techniques.
- Riflebird E15 – coal seam gas exploration well. This well was drilled as the vertical offtake for a future surface to in-seam pilot production well. This well is currently suspended awaiting a workover to clear a bridge in the hole so that logging and testing can be completed.

- Corella P18 – coal seam gas pilot production well. Metgasco commenced drilling Corella P18 on 5 December 2009. This well is designed as a dual lateral completion with a single vertical well intersect which will act as the water and gas offtake well. The drilling of the vertical offtake well and the surface to in-seam section was completed in December. Subsequent to the end of the reporting period further drilling was undertaken to intersect the surface to in-seam section with the vertical offtake well. Subsequent to this, horizontal drilling continued to 785 metres until a drill break occurred which led to the drillpipe becoming stuck in the hole. Remedial attempts to clear the blockage and recover the drill string have been unsuccessful. The Company intends to drill a sidetrack in the future to complete the laterals. Successful completion of the sidetrack will require additional work to be undertaken on the vertical intercept well. Resumption of the lateral drill will be dependent on this rectification work and the availability of an alternative rig.

### ***Gas Production Testing***

During the period a significant milestone was achieved when the lead trial production well Corella-P11 achieved a rate of 200,000 scf/d. The well which has been on test since January 2009 has now produced in excess of 30mmcf of gas and 20,000bbl of water. The well has now generated sufficient data to allow history matching to be completed. This is a necessary pre requisite to proven or “1P” reserve certification. The Company considers that there is scope for further improvement in reservoir productivity via well optimisation and also new production methods, but that an important milestone has been set that will facilitate the movement towards commercial production in the Clarence Moreton Basin. This step also demonstrates that 2P reserves can be converted into 1P reserves using the skill base developed by the Company involving a combination of geological knowledge and specific drilling practices.

## **Conventional Gas Program**

### ***Kingfisher E1***

Kingfisher E1 is the first appraisal well of the Kingfisher field located in PEL 16. The field has a current estimated area of closure of 25 km<sup>2</sup> estimated from seismic data. Kingfisher E1 was drilled in November 2009 to appraise the Heifer Creek and upper Gatton sandstones and explore the lower Gatton and Ripley Road sandstones.

This well was a follow up well to Riflebird E14 drilled in March 2008 using a coal seam gas rig (ADR 100). Riflebird E14 was drilled to a depth of 1,296 metres which was the depth capacity of the rig available at the time. Conventional gas reservoirs were encountered in the Heifer Creek sandstone with a small amount of liquids recovered.

Kingfisher E1 was drilled in November 2009 to a total depth of 2,090 metres. A short duration production test was run in an open hole section at 1,274 metres on gas bearing sands in the Heifer Creek and upper Gatton previously encountered in Riflebird E14. The well produced at a rate of 900,000 scfd after a 4 hour test on a 32/64” choke. Production testing appeared to generate some instability in the hole. Consequently, the testing process was curtailed and operations undertaken to run back to bottom to wash and ream the hole to bottom. This section was subsequently cased.

On completion of drilling activity, the Company ran wireline logs in the well which showed that the well had penetrated multiple gas bearing sands over an interval from 1,058 to 2,067 metres. On 9 December 2009, Metgasco advised that following its initial analysis of wireline logs and other data that it had developed a revised Contingent Resource estimate for the Kingfisher Field as follows:

Kingfisher Field Contingent Resource		
P90	P50	P10
24 Bcf	77 Bcf	284 Bcf

Contingent resource estimates are based on defined P90, P50 and P10 areas with a combined total of 30.3 metres of net pay. Wireline logging indicates that an additional 108 metres of possible gas bearing sand was intersected in the well that could increase the total resource.

Subsequent to the end of the period, Metgasco commenced the reservoir testing program by perforating a 5.3 metre interval in the Ripley Road sandstone which is the lowest identified target zone in the well. The well was shut in and pressure allowed to stabilise. The testing program commenced with a 7 hour clean up flow prior to the flow test through a 1" choke. A 15 hour flow test produced a stabilised rate of 2.97 million scfd. On 5 February, Metgasco advised that the composition of gas samples from this flow test showed the following:

- 95.8% methane;
- 2.1 % nitrogen;
- 0.3% carbon dioxide; and
- 1.8% other.

Additional zones are expected to be perforated and tested over the coming months.

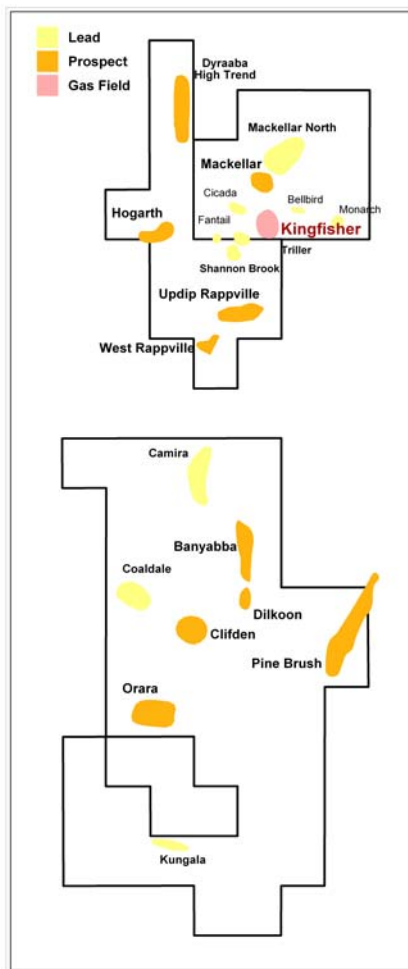
### ***Seismic Program***

During the period, Metgasco completed reprocessing 1,570 km of 2D seismic over the Clarence Moreton basin. Additional re-processing of pre-existing seismic data over the Hogarth Range area in PEL 13 is currently underway. The reprocessing of basin wide data has enabled basin wide assessments on deeper conventional prospectivity. A detailed review of all conventional Prospects and Leads is also underway. The completion of processing of the new 2D seismic program has enabled the Company to identify a number of other prospects and leads in PEL 16.

### ***Portfolio of Leads and Prospects in PEL 16***

Area		Bcf OGIP (Pmean)	Bcf OGIP (P10)
Mackellar	Prospect	63	688
Mackellar North	Lead	146	1,793
Bellbird	Lead	28	295
Cicada	Lead	35	352
Fantail	Lead	30	315
Monarch	Lead	53	528
Triller	Lead	36	389
<b>TOTAL</b>		<b>391</b>	<b>4,360</b>

In addition, Metgasco has identified a number of leads and prospects in PEL 13 and PEL 426.



## INFRASTRUCTURE PROGRAM & COMMERCIAL DEVELOPMENTS

### Richmond Valley Power Station

Approval of the Environmental Assessment for the 30MW Richmond Valley Power Station (RVPS) which was lodged with the New South Wales Department of Planning on 11 August 2008 is progressing. During the half year further discussions have been held with New South Wales officials in order to progress issuance of the necessary approvals.

### Lions Way Pipeline

The Company is in the process of developing a 145km high pressure gas transmission pipeline to supply gas from near Casino in northern New South Wales to customers in south east Queensland. This pipeline will provide a major new gas transportation corridor to south-east Queensland. Brisbane is the only capital city on the east coast of Australia supplied by a single gas pipeline. The development of an additional new gas transportation corridor will enhance the security of gas supply to Brisbane.

During the period to December 31 2009, further environmental work and ground inspection activities were completed. This work has identified where some realignments are required and a revised preferred route has now been determined. The next stage of activities will involve the preparation of easement agreements under relevant NSW and Queensland legislation.

## CORPORATE DEVELOPMENTS

### Share Purchase Plan Raises \$25 Million

On 4 November 2009, Metgasco announced the launch of a Share Purchase Plan (SPP) to fund an accelerated exploration, appraisal and development program. Under the terms of the SPP Metgasco resolved to issue shares at a subscription price of \$0.45 per share up to an aggregate cap of \$25 million. The subscription price represented a discount of approximately 13.5% to the volume weighted average price of Metgasco's shares over the five trading days prior to the announcement of the SPP.

The SPP closed on 3 December 2009 and was oversubscribed by 44% with applications exceeding \$36 million. Accordingly a scale back was applied.

### Suncor Royalty Termination

On 16 July 2009, Metgasco exercised its option to purchase and cancel the 5% gross overriding royalty held over PEL 16 by Sunoco Inc of Canada. The cost of exercising this option was \$1 million inclusive of GST.

### Acquisition of Outstanding Interests in PEL 13 and PEL 426

In October, Metgasco announced that it has agreed to acquire the remaining outstanding interests it did not already own in two Clarence Moreton basin permits from Molopo Australia Limited ("Molopo"). As a result of this transaction, Metgasco secured 100% ownership of these exploration permits. Under the terms of the transaction, Metgasco has made a cash payment of \$3 million and issued \$4 million worth of Metgasco shares in two tranches. In addition, Metgasco has entered into a royalty deed which provides for a 2.5% royalty to be paid to Molopo on the wellhead value of 50% of conventional gas produced and sold from PEL 13. Conventional gas is considered to be gas produced from reservoirs below 800 metres subsea depth in PEL 13. Metgasco holds an option to buy out the royalty.

This transaction was approved by shareholders at the Company's Annual General Meeting held on 26 November 2009 and completed on 3 December 2009.

### Strong Cash Position at end of the Half Year

The Company ended the half year well funded with a cash position of \$29.8 million.

### Shareholder Base

At the end of the Half Year, Metgasco had 248,956,674 shares on issue and 9,402,358 options outstanding. The number of shareholders was 6,226.

## 2. DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Metgasco Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2009.

### Directors

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

Name	Role	Qualifications
Dr Peter Power	Chairman (Non-executive)	B.Sc, Ph D Geology
David Johnson	Managing Director	B.App Sc (Geol), MBA
Rick Wood (Resigned 16 October 2009)	Executive Director	B. Eng
Glenda McLoughlin	Executive Director	B. Ec, MBA, FAICD
Nicholas Heath	Non Executive Director	B. Eng (Chemical), FAICD
Steven Koroknay (Appointed 19 January 2010)	Non Executive Director	B. Eng (Hons) – Civil Eng (Sydney), FAICD, FIEA.

### Principal Activities

Metgasco is engaged in the exploration, development and commercialisation of hydrocarbon assets, principally coal seam methane and the development of associated energy infrastructure.

### Review of Operations

Information related to the operational performance of the Company is provided on pages 3 to 8 of this Half Year Report.

### Financial Results

The operating loss incurred by the Company in the period was \$2,953,733. Employment costs compared to the corresponding period ending December 31 2008 were lower however the comparative period contained an abnormally high non cash charge for share based payment expense. The increase in the loss for the period is primarily driven by management's decision to write off the costs of buying out the royalty over PEL16 for \$909,091. The Company has not expensed any carried forward exploration assets in the period.

### Significant Events Subsequent to 31 December 2009

Mr Steven Koroknay was appointed as a non executive, independent director on 19 January 2010. Mr Koroknay has more than 30 years experience in the oil and gas industry in technical, operational and senior management roles. Mr Koroknay was previously in senior roles with Esso Australia and Bridge Oil and most recently was a founder and managing director of Anzon Australia.

On 16 February 2010, Metgasco advised shareholders that it had achieved an increase in its independently certified gas reserves as described on page 4.

### **Auditor's Independence Declaration**

A copy of the independence declaration by the lead auditor under Section 307C is included on page 11 to these Half Year Financial Statements.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 15<sup>th</sup> day of March 2010.

A handwritten signature in black ink, appearing to read 'P Power', with a long horizontal flourish extending to the right.

Dr Peter Power  
Chairman

### 3. AUDITOR'S INDEPENDENCE DECLARATION



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

As lead auditor for the review of Metgasco Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'I. Fergusson', is written over a horizontal line. The signature is cursive and somewhat stylized.

Ian Fergusson

Director

A handwritten signature in black ink, appearing to read 'BDO', is written over a horizontal line. The signature is cursive and somewhat stylized.

BDO Audit (NSW - VIC) Pty Ltd

Sydney, Monday 15 March 2010.

#### 4. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Consolidated Entity Half Year	
	31 December 2009	31 December 2008
	\$	\$
<b>Other Revenue</b>	287,794	405,455
Employment expenses	(1,228,629)	(1,711,049)
Professional fees	(745,152)	(391,621)
Borrowing expenses	(7,603)	(9,443)
Administration expenses	<u>(1,260,143)</u>	<u>(310,308)</u>
<b>Loss before income tax expense</b>	<b>(2,953,733)</b>	<b>(2,016,966)</b>
Income tax expense	-	-
<b>Net loss after tax from continuing operations</b>	<b><u>(2,953,733)</u></b>	<b><u>(2,016,966)</u></b>
Other comprehensive income	-	-
Total comprehensive income for the half year	<b><u>(2,953,733)</u></b>	<b><u>(2,016,966)</u></b>
Earnings per share attributable to ordinary equity holders of Metgasco Ltd		
	\$	\$
Basic loss per share	(0.01)	(0.01)
Diluted loss per share	(0.01)	(0.01)

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

## 5. CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Consolidated Entity	
	31 December 2009	30 June 2009
	\$	\$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	29,839,034	17,336,920
Inventory	1,153,903	1,516,215
Trade and other receivables	1,863,857	450,023
<b>Total Current Assets</b>	<b><u>32,856,794</u></b>	<b><u>19,303,158</u></b>
<b>NON-CURRENT ASSETS</b>		
Exploration and evaluation expenditure	41,295,905	25,653,319
Plant and equipment	3,567,889	3,685,329
Trade and other receivables	579,489	579,489
<b>Total Non-Current Assets</b>	<b><u>45,443,283</u></b>	<b><u>29,918,137</u></b>
<b>TOTAL ASSETS</b>	<b><u>78,300,077</u></b>	<b><u>49,221,295</u></b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	4,263,245	1,319,051
Provisions	186,750	186,750
Borrowings	94,966	103,644
<b>Total Current Liabilities</b>	<b><u>4,544,961</u></b>	<b><u>1,609,445</u></b>
<b>NON CURRENT LIABILITIES</b>		
Provisions	55,434	50,016
Borrowings	127,847	149,588
<b>Total Non Current Liabilities</b>	<b><u>183,281</u></b>	<b><u>199,604</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>4,728,242</u></b>	<b><u>1,809,049</u></b>
<b>NET ASSETS</b>	<b><u>73,571,835</u></b>	<b><u>47,412,246</u></b>
<b>EQUITY</b>		
Contributed equity	83,105,290	54,105,290
Share option reserve	3,199,147	3,085,825
Retained earnings	(12,732,602)	(9,778,869)
<b>TOTAL EQUITY</b>	<b><u>73,571,835</u></b>	<b><u>47,412,246</u></b>

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

## 6. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	<b>Consolidated Entity</b>	
	<b>Half Year</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(2,949,365)	(1,627,136)
Receipts from farm-in partner	105,311	732,014
Interest received	285,366	162,026
Receipts from equipment hiring	-	278,460
<b>Net cash (outflow) from operating activities</b>	<b><u>(2,558,688)</u></b>	<b><u>(454,636)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditure on exploration and evaluation	(10,092,853)	(4,256,141)
Bonds paid	(15,000)	-
Government grants received	-	96,591
Purchases of plant and equipment	(117,491)	(422,977)
Disposal of plant and equipment	-	12,674
R&D Grant received	-	371,796
Inventory reduction	316,564	(234,632)
<b>Net cash (outflow) from investing activities</b>	<b><u>(9,908,780)</u></b>	<b><u>(4,432,689)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	25,000,000	16,000
Proceeds/(repayment) of borrowings	(30,418)	79,825
<b>Net cash inflow from financing activities</b>	<b><u>24,969,582</u></b>	<b><u>95,825</u></b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS HELD</b>	<b>12,502,114</b>	<b>(4,791,500)</b>
Net cash at beginning of period	17,336,920	6,769,660
<b>NET CASH AT END OF PERIOD</b>	<b><u>29,839,034</u></b>	<b><u>1,978,160</u></b>

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

## 7. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Contributed Equity	Retained Earnings	Share Option Reserve	Total Equity
	\$	\$	\$	\$
<b>At 1 July 2008</b>	<b>35,047,696</b>	<b>(5,683,158)</b>	<b>2,196,120</b>	<b>31,560,658</b>
Total comprehensive income for the period	-	(2,016,966)	-	(2,016,966)
<b>Transactions with owners in their capacity as owners</b>				
Issue of share capital	16,000	-	-	16,000
Cost of share issues	-	-	-	-
Share based expense	-	-	826,258	826,258
<b>As at 31 December 2008</b>	<b>35,063,696</b>	<b>(7,700,124)</b>	<b>3,022,378</b>	<b>30,385,950</b>
Total comprehensive income for the period	-	(2,078,745)	-	(2,078,745)
<b>Transactions with owners in their capacity as owners</b>				
Issue of share capital	19,945,421	-	-	19,945,421
Cost of share issues	(903,827)	-	-	(903,827)
Share based expense	-	-	63,447	63,447
<b>At 30 June 2009</b>	<b>54,105,290</b>	<b>(9,778,869)</b>	<b>3,085,825</b>	<b>47,412,246</b>
Total comprehensive income for the period	-	(2,953,733)	-	(2,953,733)
<b>Transactions with owners in their capacity as owners</b>				
Issue of share capital	29,000,000	-	-	29,000,000
Cost of share issues	-	-	-	-
Share based expense	-	-	113,322	113,322
<b>At 31 December 2009</b>	<b>83,105,290</b>	<b>(12,732,602)</b>	<b>3,199,147</b>	<b>73,571,835</b>

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

## 8. NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

### Note 1. Summary of Significant Accounting Policies

These general purpose financial statements for the year reporting period ended 31 December 2009 have been prepared in accordance with AASB Standard 134 "Interim Financial Reporting" and the Corporations Act 2001. The historical cost basis has been used.

These interim financial statements do not include all the notes of the type normally included in an annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2009 and any public announcements made by Metgasco Ltd during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these half year financial statements as those employed in the Consolidated Entity's June 30 2009 annual financial statements.

#### Going Concern

The Group has prepared these half year financial statements on the basis that it is a going concern. In making this assumption the Group acknowledges that whilst not currently required, 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 exploration and evaluation activities of the Group's gas reserves and projects, with a view to their ultimate commercial development.

### Note 2. Segment Information

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

This has resulted in 2 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 decision. The executive management team comprises the chief executive officer, chief financial officer, chief operating officer, general manager exploration and general manager of gas marketing.

#### 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 on northern NSW.

Richmond Valley Power Station

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

These segments were not reported in the Company's last annual report as it was considered at that time that the Company 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 and all costs to date have been capitalised.

**Note 3. Revenue**

Revenue is comprised of solely of interest received.

**Note 4. Individually Significant Items**

As mentioned in the Review of Operations, the Company exercised its option to purchase the gross overriding royalty held by Suncor Inc over future hydrocarbon production in PEL 16. The cost of this, which was \$909,091 GST exclusive, has been expensed in the period.

**Note 5. Contingent Assets and Liabilities**

An amount of \$771,239 is included in the balance sheet under Trade and other Receivables, current and also non current. This amount is also disclosed as a contingent liability. A liability of \$635,000 is realisable should the Company not fulfil its rehabilitation obligations on the well sites where it has drilled. The other amounts are bonds for the following purposes.

Corporate credit card	30,000
Rental bond	106,239

**Note 6. Contributed Equity**

Ordinary Shares	No of Shares		Value	
	Half Year Ended 31 Dec 2009	Year Ended 30 June 2009	Half Year Ended 31 Dec 2009	Year Ended 30 June 2009
Opening Balance	185,994,145	132,231,134	54,105,290	35,047,696
Cost of share issue (net of equity)	-	-	-	(903,827)
Public Issue	55,555,555	39,151,142	25,000,000	19,961,421
Issued to 3 <sup>rd</sup> parties	7,378,712	-	4,000,000	-
Exercise of options	-	14,611,869	-	-
Issued to employees	28,262	-	-	-
Closing Balance	248,956,674	185,994,145	83,105,290	54,105,290

Options (not quoted on ASX)	No of Options Half Year Ended 31 Dec 2009	No of Options Year Ended 30 June 2009
Opening Balance	6,944,718	19,321,458
Issued to Employees	2,540,000	1,599,963
Issued to Contractors	-	750,000
Exercised by Employees	-	(14,611,869)
Options lapsed	(82,360)	(114,834)
Closing Balance	9,402,358	6,944,718

**Note 7. Interest in Tenements and Joint Ventures**

A summary of the Consolidated Entity's interests in all tenements is as follows.

PEL 13	100%
PEL 16	100%
PEL 426	100%

**Note 8. Events Subsequent to Balance Date**

At the date of this report there have been no events which have occurred following the end of the reporting period which in the opinion of Directors, require disclosure.

## 9. DECLARATION BY DIRECTORS

The Directors of METGASCO LIMITED declare that:

1. The financial statements comprising the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and Consolidated Statements of Changes in Equity and notes to the consolidated financial statements of the consolidated entity are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards AASB134 Interim Financial Reporting and the Corporations Regulations 2001;  
and
  - (b) give a true and fair view of the consolidated entity's financial position as at 31st December 2009 and of its performance for the half year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



.....  
G.A. McLoughlin  
Director

Sydney, 15 March 2010

## 10. INDEPENDENT REVIEW REPORT



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### INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Metgasco Limited

#### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Metgasco Limited, which comprises the condensed statement of financial position as at 31 December 2009, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

#### Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Metgasco Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report. A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independence

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

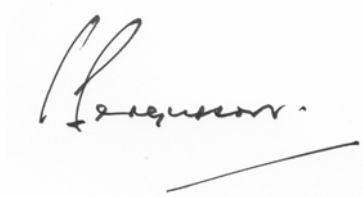
## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Metgasco Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.



BDO Audit (NSW - VIC) Pty Ltd



Ian Fergusson  
Director

Sydney, Monday 15 March 2010.

## 11. CORPORATE PARTICULARS

<b>Directors:</b>	Peter Power	Non-Executive Director and Chairman
	David Johnson	Managing Director
	Glenda McLoughlin	Executive Director
	Nicholas Heath	Non Executive Director
	Steven Koroknay	Non Executive Director
<b>Company Secretaries:</b>	Glenda McLoughlin	
	Nicholas Geddes	
<b>ASX Symbol:</b>	MEL	
<b>Registered Office:</b>	Level 9 77 Pacific Hwy North Sydney NSW 2060	
	Telephone:	(02) 9923 9100
	Facsimile:	(02) 9923 9199
	Website:	<a href="http://www.metgasco.com.au">www.metgasco.com.au</a>
	Email:	<a href="mailto:info@metgasco.com.au">info@metgasco.com.au</a>
<b>Auditors:</b>	BDO Audit (NSW-VIC) Pty Ltd Level 19, 2 Market Street Sydney NSW 2000	
<b>Bankers:</b>	National Australia Bank Level 17, 500 Oxford St Bondi Junction NSW 2022	
<b>Share Registry:</b>	Computershare Investor Services Pty Limited GPO Box 7115 Sydney NSW 2001	
<b>Australian Company Number:</b>	ACN 088 196 383	
<b>Date and Place of Incorporation:</b>	22 June 1999, Sydney, Australia	