METGASCO

2016 Annual Report

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METGASCO

EXECUTIVE CHAIRMAN'S LETTER

Dear Shareholders

I am pleased to present to you the 2016 Annual Report for Metgasco Limited. The 2016 financial year has seen significant changes for the Company.

Disposal of Main Undertaking and Settlement with NSW Government

The year commenced with discussions between the Company and the NSW Government over damages associated with the 2014 suspension of the Rosella drilling program and the future gas operations in the Northern Rivers area of New South Wales, following Metgasco's successful court case in April 2015, against the New South Wales Government, with the New South Wales Supreme Court quashing the suspension of Metgasco's Rosella E01 conventional drilling approval.

While these discussion proceeded, Metgasco put a temporary hold on its legal and field activities under its production and exploration licences and continued to evaluate various other oil and gas exploration opportunities outside the Clarence-Moreton Basin.

As previously reported, the discussions resulted in Metgasco receiving an indicative verbal offer, that the Directors of the Company at that time, considered was not acceptable and was unlikely to be accepted by shareholders. Accordingly, on 1 September 2015, Metgasco advised the NSW Government that it would remove its hold on activities and proceed with its business, which included:

- pursuing a claim for damages from the NSW Government in relation to the Government's unlawful suspension of Metgasco's 2014 drilling program;
- preparing for a judicial review for the award of a production licence for PPLA 9 (and, if necessary for the renewal of PEL 426); and
- concluding contractual agreements for a seismic acquisition program to the west of Lismore and for the drilling of the Rosella conventional/tight gas prospect, with the intention of acquiring the seismic data in 2015 and drilling the Rosella well in 2016.

Metgasco made it clear to the NSW Government that it preferred to negotiate compensation for damages out of court and advised the Government that it was prepared to put a hold on court action until 31 August 2015, while negotiations proceeded. Given negotiations to that date did not resolve the matter, Metgasco initiated court action for damages.

In November 2015, the NSW Government offered to buy-back Metgasco's three Northern Rivers petroleum licences, PEL 13, PEL 16 and PEL 426, and in doing so, also settle the legal disputes with Metgasco. The offer proposed a settlement of $25 million. Metgasco's Board of Directors at that time, took the view that the offer was in the Company's best interests and recommended that shareholders vote in favour of the proposal.

On 16 December 2015, shareholders voted to approve the disposal of the Company's main undertaking to the State of New South Wales on the terms of the Deed of Settlement dated 30 October 2015.

On 22 December 2015, the Company received from the NSW Government, $25,000,000 and the refund of $430,000 in bonds, as settlement of the NSW Government's settlement / buy-back offer approved by shareholders on16 December 2015.

Board Changes

Following this settlement, there were wholesale changes to the Board of Directors with Mr. Philip Amery appointed to the Board on 23 December 2015 and Messrs Gill and Short retiring from the Board on 8 February 2016. Also with effect from 8 February 2016, Mr. Alexander Lang and Mr. Terry White were appointed to the Board with Mr. Lang being appointed as Chairman.

Following the resignation of Mr. Peter Henderson, the Company's Managing Director, Mr. Lang was appointed as Executive Chairman.

Mr. John Patton, nominated by Keybridge Capital Limited (ASX:KBC), a significant shareholder of the Company, which held a relevant interest in the Company's shares of approx. 10.54%, was appointed to the Board on 19 September 2016.

Mr. Andrew Purcell, nominated by M&A Advisory Pty Ltd, a significant shareholder of the Company, which held a relevant interest in the Company's shares of approx. 19.2%, was appointed to the Board on 26 September 2016.

Capital Management

The cash received from the NSW Government settlement has been deployed in liquid investments which have an appropriate balance of yield and risk. In addition, the Board paid particular attention to costs and capital management whilst it continued to seek new business opportunities.

Two particular capital management and efficiency steps were initiated during the quarter ended 31 March 2016:

1. an On-Market Share Buy-Back Facility (**Share Buy-Back**), announced on 17 December 2015, was commenced on 4 February 2016. As of 4 April 2016, the Share Buy-Back was suspended indefinitely, having fulfilled its purposes. Under the Share Buy-Back, 38,033,721 shares were purchased and cancelled at an average price of $0.059146 per share and a total cost of $2,249,528.52. This average price per share compared with the Company's effective cash backing of $0.070 per share. The Share Buy-Back facilitated the exit of shareholders who did not to wish retain their shares, as well as increasing the effective cash backing for ongoing shareholders.

2. an Unmarketable Parcel Share Sale Facility (**UMP Facility**) was announced on 18 February 2016. Holders of these parcels had until 31 March 2016 to decide whether to take action to retain their shares or allow Metgasco to acquire them at $0.06 per share (being the Minimum Sale Price calculated in accordance with Metgasco's Constitution). The results of the UMP Facility were:

    a) 1,137 shareholders holding 3,337,430 shares had their shares purchased and cancelled by the Company;

    b) 333 shareholders holding 923,153 shares elected either to retain their shares or to top up their holdings to a value greater than $500; and

    c) as at 8 April 2016, Metgasco had 2,927 shareholders holding 401,108,520 shares, as a consequence of the shares purchased and cancelled under the UMP Facility, a reduction of 1,142 from the number of shareholders before the cancellation of shares under the Share Sale Facility and UMP Facility, reducing ongoing administration costs.

In August 2016, the Board recommended, subject to the receipt of an appropriate Class Ruling from the Australian Taxation Office (**ATO**), an equal capital reduction of the Company by way of a payment to each shareholder of an amount of $0.025 per share (**Capital Return**). The Capital Return was approved by shareholders at a General Meeting on 12 September 2016. The Company awaits the issue of the Class Ruling from the ATO and anticipates the payment of the Capital Return to shareholders in November 2016.

New Business

During 2016, the Board continued its search for new business opportunities in the oil and gas sector, reviewing a significant number of opportunities. In line with the Company's strategy, each opportunity has been reviewed for its potential to deliver short term reliable returns, long term growth opportunities and an appropriate risk / reward balance.

Byron Energy Limited

Following a rigorous review process, on 9 June 2016, Metgasco announced the execution of a binding Heads of Agreement with Byron Energy Limited (**Byron**) (ASX:BYE) in relation to the provision of secured development funding and the acquisition of staged investment rights. The structure of the arrangement provides for strong short term returns on the cash deployed, very attractive medium term farm-in rights as well as long term opportunities to participate in future successes of Byron.

The highlights of this investment are:

a) Metgasco entered into an indirect exposure over Byron's South Marsh Island 71 (**SM71**) development project in the Gulf of Mexico via a senior secured loan to Byron, for the purposes of development funding of the SM71 project through to production (**Funding Facility**). The maximum net financial exposure for Metgasco is approx. A$7.8m;

b) Metgasco acquired farm-in rights for a 10% working interest in Byron's Bivouac Peak, Louisiana, USA, oil and gas project, in consideration for Metgasco funding a disproportionate share of the costs of the first well and reimbursing part of Byron's past costs. Metgasco's net financial exposure is expected to be approx. A$1.3m including estimated past costs of approx. US$64,000;

c) on 26 July 2016, Metgasco notified Byron of its election to exercise its option to farm-in to Byron's Bivouac Peak project;

d) in consideration for Metgasco providing the Funding Facility, Byron has issued 10 million unlisted options to Metgasco with an exercise price of A$0.25 per share and a term of three years, which was approved by Byron shareholders at a general meeting on 12 September 2016.

e) the Heads of Agreement provides a framework agreement to pursue future farm-in and co-investment opportunities in relation to Byron's current (and future) Gulf of Mexico exploration portfolio.

On 22 September 2016, Metgasco announced that it had signed a formal Participation Agreement with Byron in relation to its interest in the Bivouac Peak oil and gas project, formalising Metgasco's position in the project which has the potential, on a success case, to be value transformative to Metgasco.

The Board continue to review and consider, a range of opportunities in the Australian oil and gas sector and hold a very positive outlook for the Company.

On behalf of the Board, I would like to thank all shareholders for their continued support of the Company's strategy of seeking value enhancing new business opportunities in the oil and gas sector, particularly in Australia.

Alexander Lang
Executive Chairman

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 2016.

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

The first half of the reporting year was dominated by the court proceedings the Company was conducting against the NSW Government in relation to our exploration licenses in the Northern Rivers Region of NSW and the settlement negotiations with the State Government. On 16 December 2015, the General Meeting of the Shareholders of Metgasco voted to accept an offer made by the NSW Government to settle all court proceedings and to buy back the exploration licenses previously granted to the Company.

The Deed of Settlement was duly executed and the agreed settlement sum of $25,000,000 was received into the Company's accounts on 22 December 2015.

In accordance with the settlement, exploration licenses PEL 13 and PEL 16 were cancelled and Metgasco withdrew its application to renew PEL 426 and its application for a production license PPLA 9.

Following the settlement, Metgasco proceeded to close down its operations in the Northern Rivers region. Required remediation work was undertaken and all existing plant and equipment demobilised. The number of staff members was progressively reduced.

By June 2016, the Metgasco office in Casino had been closed down and its staff have been made redundant.

As a consequence of the loss of opportunity in the Northern Rivers Region, the Company has shifted its focus to exploring other opportunities in the Oil & Gas sector within Australia and abroad. In parallel with the shift in focus away from the operations in NSW, the Board of Directors has undergone significant change and diversification as detailed below. The Board has undertaken a rigorous review of the management structure and management cost. As at 30 June 2016, the Company is led by three Directors and two long term staff members supporting the ongoing administration as well as the due diligence on future opportunities.

During the second half of the reporting period, the Board undertook a number of strategic planning sessions. The Board resolved to pursue a select number of opportunities in the Oil & Gas sector with the aim to build a diversified portfolio that provides strong cash flows as well as exploration and development opportunities. The Company has investigated a number of potential transactions including participation in exploration opportunities and partnerships with other Oil & Gas companies providing exploration and production opportunities.

In June 2016, the Company reached a binding Heads of Agreement with Byron Energy limited (ASX:BYE) in relation to the provision of secured development funding and the acquisition of staged investment rights. See further detail below.

The Board is actively pursuing and undertaking due diligence on a number of other attractive opportunities.

Certified Reserves and Resources

The company has no certified reserves or resources at present.

Reconciliation of Reserve and Resource Movements

The table below sets out the reserve /resource movements during the reporting period following a vote taken by shareholders at a General Meeting held on 16 December 2015 to accept a Metgasco Board recommendation to withdraw from its Northern Rivers exploration licences and from all court action against the NSW Government in return for a $25 million payment from the NSW Government, following which, all Metgasco's licences were cancelled:

Independently certified gas reserves and resources – Petajoules (PJ) All reserves and resources were 100% owned by Metgasco			
Reserve Category	**PEL 13**	**PEL 16**	**Total**
2C Contingent Resource as at 30 June 2015	1,636	2,792	4,428
Adjustment following the Company's withdrawal from its NSW exploration licences	(1,636)	(2,792)	(4,428)
2C Contingent Resource as at 30 June 2016	-	-	-

Corporate

There were no capital raisings during the reporting period.

During the year, two particular capital management and efficiency steps were initiated:

1. An On-Market Share Buy-Back Facility (**Share Buy-Back**), announced on 17 December 2015, commenced on 4 February 2016. As of 4 April 2016, the Share Buy-Back was suspended indefinitely, having fulfilled its purposes. Under the Share Buy-Back, 38,033,721 shares were purchased and cancelled at an average price of $0.059146 per share and a total cost of $2,266,370.00. This average price per share compared with the Company's effective cash backing of $0.070 per share as at 11 April 2016. The Share Buy-Back facilitated the exit of shareholders who did not to wish retain their shares, as well as increasing the effective cash backing for ongoing shareholders.
2. An Unmarketable Parcel Share Sale Facility (**UMP Facility**) was announced on 18 February 2016. Holders of these parcels had until 31 March 2016 to decide whether to take action to retain their shares or allow Metgasco to acquire them at $0.06 per share (being the Minimum Sale Price calculated in accordance with Metgasco's Constitution). The results of the UMP Facility were:
   a) 1,137 shareholders holding 3,337,430 have had their shares purchased and cancelled by the Company;
   b) 333 shareholders holding 923,153 shares elected either to retain their shares or to top up their holdings to greater than a total of $500; and
   c) as at 8 April 2016, Metgasco had 2,927 shareholders holding 401,108,520 shares, as a consequence of the shares purchased and cancelled under the UMP Facility, a reduction of 1,142 from the number of shareholders before the cancellation of shares under the Share Sale Facility and UMP Facility, reducing ongoing administration costs.

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

On 9 June 2016, the Company announced it had reached binding Heads of Agreement with Byron Energy Limited (**Byron**) (ASX:BYE) in relation to the provision of secured development funding and the acquisition of staged investment rights. On 22 July 2016, the Company announced that the associated Convertible Note Deed and General Security Deed documents had been executed. On 28 July 2016, the Company announced that Metgasco has given notice to Byron Energy Limited of its decision to farm-in to the Bivouac Peak onshore Louisiana project on terms previously negotiated as set out in Metgasco's ASX announcement dated 9 June 2016.

Metgasco continues to pursue transformative Transaction, Acquisition and Partnership opportunities and is pleased with the quality of projects and partners with which it is engaged. Potential transaction opportunities remain focused on assets capable of generating reliable income streams via exposure to operating production and with a preference for opportunities within Australia.

Operating Results for the Year

The consolidated net profit after tax of the Group for the year ended 30 June 2016 amounted to $23,052,034 (2015: Loss $3,867,393).

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 2016.

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 Petroleum (Onshore) Act and Environmental Protection Act and associated regulations in NSW. Metgasco has a policy of complying with its environmental performance obligations. Metgasco relied upon the timely receipt of approvals from NSW Government in order to efficiently execute its work program. Since the cessation of activities in Northern NSW, Metgasco has focused on timely conclusion of its remaining remediation activities and has consequently achieved the necessary recognition and return of remaining environmental bonds from the relevant authorities.

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:

Alexander Lang	Non-Executive Director and Chairman (appointed 8 February 2016) and Executive Chairman as from 1 June 2016
Philip Amery	Non-Executive Director (appointed 23 December 2015)
Terry White	Non-Executive Director (appointed 8 February 2016)
Leonard Gill	Non-Executive Director and Chairman (resigned 8 February 2016)
Gregory Short	Non-Executive Director (resigned 8 February 2016)
Peter Henderson	Managing Director and Chief Executive Officer (resigned 1 June 2016)

Sean Hooper	Company Secretary (resigned 14 January 2016)
Philip Mackey	Company Secretary (appointed 14 January 2016)

Alexander Lang
Independent Executive Chairman
Appointed: 8 February 2016
Appointed Executive Chairman on 1 June 2016

Mr Alexander Lang has more than 20 years' experience as a senior commercial, finance and risk management executive with broad experience leading multi-national businesses. He has held senior roles with companies such as Thiess, Laing O'Rourke and McConnell Dowell Group, as well as Non-Executive Director roles with companies such as Boulder Steel Limited. Mr. Lang combines lateral and strategic thinking with strong collaborative leadership and people management skills. He also has outstanding negotiation skills with a track record of closing complex negotiations with multiple stakeholders. Mr. Lang holds professional qualifications in Law (Germany).

Special responsibilities: Executive Chairman as from 1 June 2016

Other directorships of listed companies: None

Previous directorships of listed companies during the last three years: Non-executive director of Boulder Steel Limited (ASX:BDG) (Retired October 2013).

Philip Amery
Independent Non-Executive Director
Appointed: 23 December 2015

Mr Amery is an experienced capital markets advisor and private banker. He holds BA and LLB degrees (Adelaide) and is a graduate of the Financial Asset Management and Engineering Program of the Swiss Finance Institute.

Special responsibilities: Chairman of the Audit and Risk Management Committee until 8 February 2016, member of the Nomination and Remuneration Committee until 8 February 2016 *

* Subsequent to the changes to the Board on 8 February 2016, the Board decided to suspend all Board Committees and agreed that all matters previously attended to by each Committee would now be considered by the Board.

Other directorships of listed companies: None

Previous directorships of listed companies during the last three years:
Non-executive director of Chesser Resources Limited (ASX:CHZ) (Retired October 2015).

Terry White, B.Sc. (Hons)
Independent Non-Executive Director
Appointed: 8 February 2016

Mr Terry White has more than 30 years as a senior petroleum executive with board exposure across the exploration and production business developed through management responsibilities for exploration, production, project execution and operations, gas marketing and business unit performance. He also has a track record of exploration success in Australia and the USA with extensive experience of new ventures activities, deep-water exploration, field appraisal and joint ventures. A large part of this career has been associated with large companies such as BHP Billiton, but he also has experience with smaller oil and gas companies. Mr. White holds a B.Sc. (Hons) and is a Graduate of the Institute of Company Directors (GAICD).

Special responsibilities: None

Other directorships in listed companies: None

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

Gregory Short, B.Sc. (Geology) (Hons), Graduate of AICD
Independent Non-Executive Director
Appointed: 6 August 2013
Elected Chairman on 23 December 2015
Resigned: 8 February 2016

Mr Short is a geoscientist and manager with over 40 years' experience in the upstream oil and gas industry. He retired from ExxonMobil in 2006 after a 33 year career as a geologist and in managerial roles. Mr Short has extensive international experience in predominantly management in Malaysia, Africa and North America and spent the last 15 years of his career in management assignments that included Exploration Manager for USA, Chad and Nigeria as well as serving seven years in Angola as Geoscience Director.

Mr Short brings valuable experience in taking start-up ventures from exploration through to development and production.

Special responsibilities: Member of the Nomination and Remuneration Committee, Chairman of the Audit and Risk Management Committee until 29 January 2016 and member of the Audit and Risk Management Committee until 8 February 2016.

Other directorships in listed companies: Non-Executive Director of MEO Australia, Pryme Energy Limited and Po Valley Energy Limited.

Leonard Gill, B. Eng (Hons), MAICD
Independent Non-Executive Director
Elected Chairman on 20 December 2013 and stood down as Chairman on 23 December 2015
Resigned: 8 February 2016

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 part of Energy Australia) 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, Chairman of the Nomination and Remuneration Committee until 8 February 2016.

Other directorships: Non-Executive Director of WDS Limited and Non-Executive Director of Family Life.

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

Peter Henderson, B. Eng. (Mech), GAICD, SPE
Managing Director & Chief Executive Officer
Appointed: 4 April 2011
Resigned: 1 June 2016

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 until 1 June 2016.

Other directorships: None

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

Indemnification of Directors and Officers

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

Meetings of Directors

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

Director	Number of meetings attended while a Director	Number of meetings held while a Director
Alexander Lang	10	10
Philip Amery	13	13
Terry White	10	10
Leonard Gill	13	14
Peter Henderson	21	22
Gregory Short	13	14

Audit and Risk Management Committee Meetings*
Greg Short was the Chairman of the Audit and Risk Management Committee until 29 January 2016 and a member of the committee his resignation from the Board on 8 February 2016. From 23 December 2015 to 8 February 2016, Philip Amery was Chairman of the Audit and Risk Management Committee. This committee met twice during the year with all members in attendance.

Nomination and Remuneration Committee Meetings*
The Nomination and Remuneration Committee was responsible for nominations and for reviewing the remuneration strategy for Directors and Key Management Personnel. Leonard Gill was Chairman of the Nomination and Remuneration Committee until his resignation from the Board on 8 February 2016. This committee met once during the reporting period and all members attended the meeting.

*Subsequent to the changes to the Board on 8 February 2016, the Board decided to suspend all Board Committees and agreed that all matters previously attended to by each Committee would now be considered by the Board.

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 21.

Options Exercised or Lapsing in the Year
No options were exercised by staff in the year and up to the date of this report.

Full details of options outstanding can be found in Note 21 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 21 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.

Use of Remuneration Consultants
Metgasco has neither sought nor received any recommendations from remuneration consultants during the year. The remuneration rates of its senior management have been frozen since July 2012 in response to adverse market conditions.

Non-Executive Directors
Remuneration for non-executive directors is normally determined at market rates by conducting an annual benchmarking exercise against a pool of comparable companies.

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 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 2016 were $134,907.

Executive Team
The executive team are remunerated through:

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

REMUNERATION REPORT (CONTINUED)

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-cash benefits in particular cases.

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

Short Term Performance Incentives (STIs)
All employees have the opportunity to be awarded STIs. Each year the Nomination 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 shares.

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 Nomination 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.

Key Management Personnel
The Directors and key management personnel of the Group during the reporting period are as follows:

- Alexander Lang — Non-Executive Director and Chairman (appointed 8 February 2016)
- Philip Amery — Non-Executive Director (appointed 23 December 2015)
- Terry White — Non-Executive Director (appointed 8 February 2016)
- Leonard Gill — Non-Executive Director and Chairman (resigned 8 February 2016)
- Gregory Short — Non-Executive Director (resigned 8 February 2016)
- Peter Henderson — Managing Director and Chief Executive Officer (resigned 1 June 2016)
- Sean Hooper — Company Secretary (resigned 14 January 2016)

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 2016 are as follows:

REMUNERATION REPORT (CONTINUED)

Remuneration 2016

	Short Term Employment Benefits			Post-Employment Benefits		Long Term Benefits	Share Based Payments				
Name	**Cash Salary & fees**	**Other benefits**	**Performance Bonus**	**Termination Payments**	**Superannua -tion**	**Long Service Leave**	**Net no. of shares granted in period**	**Share expense for year**	**Option expense for year**	**Total**	**% of remuneration that is equity based**
Directors	**$**	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**$**	
P. Henderson*	334,885	3,732	88,426	333,259	36,112	-	-	-	-	796,414	-
A Lang	24,450	-	-	-	-	-	-	-	-	24,450	-
P Amery	19,246	-	-	-	1,828	-	-	-	-	21,074	-
T White	14,485	-	-	-	1,376	-	-	-	-	15,861	-
G. Short**	29,003	-	-	-	2,755	-	-	-	-	31,758	-
L. Gill**	38,141	-	-	-	3,623	-	-	-	-	41,764	-
Executive Officers											
S. Hooper***	137,214	-	30,720	151,965	20,628	-	-	(128,359)****	-	212,168	N/A
Total	**597,424**	**3,732**	**119,146**	**485,224**	**66,322**	**-**	**-**	**(128,359)**	**-**	**1,143,489**	**N/A**

***** Resigned 1 June 2016
** Resigned 8 February 2016
*** Resigned 14 January 2016
**** This represents the cancellation of long term incentive rights granted to Mr Hooper in 2013 as a result of leaving the Company.

No shares were granted as remuneration for the reporting period ending 30 June 2016.

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

	STI % achieved	**STI % forfeited**	**LTI % achieved**	**LTI % forfeited**	**% of total remuneration that is performance based**
P. Henderson	100%	-	-	100%	-
S. Hooper	100%	-	-	100%	-

In November 2015, the Board resolved to grant Mr. Henderson and Mr. Hooper the STIs as detailed above, in relation to the then business objective of achieving settlement closure with the NSW government in relation to the buyback of the Company's Petroleum Exploration Licenses.

REMUNERATION REPORT (CONTINUED)

Remuneration 2015

	Short Term Employment Benefits			Post-Employment Benefits		Long Term Benefits	Share Based Payments				
Name	**Cash Salary & fees**	**Other benefits**	**Retention incentive**	**Termination Payments**	**Superannua -tion**	**Long Service Leave**	**Net no. of shares granted in period**	**Share expense for year**	**Option expense for year**	**Total**	**% of remuneration that is equity based**
Directors	**$**	**$**	**$**	**$**	**$**	**$**		**$**	**$**	**$**	
P. Henderson	425,916	36,447	23,600	-	34,995	-	-	91,688***	-	612,646	15%
N. Heath*	12,404	-	-	-	1,178	-	-	-	-	13,582	-
G. Short	46,000	-	-	-	4,370	-	-	-	-	50,370	-
P. Berry**	27,980	-	-	-	2,658	-	-	-	-	30,638	-
L. Gill	70,414	-	-	-	6,689	-	-	-	-	77,103	-
Executive Officers											
S. Hooper	234,544	12,381	10,000	-	29,991	-	-	81,256	-	368,172	22%
Total	**817,258**	**48,828**	**33,600**	**-**	**79,881**	**-**	**-**	**172,944**	**-**	**1,152,511**	**15%**

* Retired 30 September 2014
** Resigned 21 January 2015
*** This represents the amortisation of long term incentive share rights granted to Mr Henderson in 2011 and 2012, consistent with accounting principles. No share rights were granted to Mr Henderson in relation to the 2013, 2014 or 2015 financial years.

No equity was granted as remuneration to directors for the reporting period ending 30 June 2015.

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

	STI % achieved	STI % forfeited	LTI % achieved	LTI % forfeited	% of total remuneration that is performance based
P. Henderson	-	100%	-	100%	-
S. Hooper	-	100%	-	100%	-

REMUNERATION REPORT (CONTINUED)

Key Management Personnel Remuneration

There were no payments received or receivable by key management personnel of the Group or related parties of the Group other than those which are disclosed in the remuneration section of the Directors' Report and in Notes 22 and 24 of the Financial Statements.

At 30 June 2016, the direct and indirect interests of the Key Management Personnel in the securities of Metgasco are as follows:

Shares 2016	Opening Balance	Granted as Compensation	Received on Exercise of Options	Long term incentives lapsing	Shares Acquired	Closing Balance
Alexander Lang	-	-	-	-	-	-
Philip Amery	-	-	-	-	1,304,000	1,304,000
Terry White	-	-	-	-	-	-
Peter Henderson*	1,927,000	-	-	(983,273)	800,000	1,743,727
Gregory Short**	150,000	-	-	-	600,000	750,000
Leonard Gill***	745,386	-	-	-	-	745,386
Sean Hooper****	3,193,268	-	-	(2,981,103)	-	212,165

* Resigned 1 June 2016. Closing balance is the quantum held at resignation.
** Resigned 8 February 2016. Closing balance is the quantum held at resignation.
*** Resigned 8 February 2016. Closing balance is the quantum held at resignation.
**** Resigned 14 January 2016. Closing balance is the quantum held at resignation.

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

No options were held directly or indirectly by management personnel during the year ended 30 June 2016.

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 this remuneration report and in Notes 22 and 24 of the Financial Statement. This includes loans, dividends, and consulting services. Any shares issued to Directors or other 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 this remuneration section of the Directors' Report.

Details of Employment Agreements

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

Peter Henderson - Managing Director & Chief Executive Officer
Mr Henderson provided services under an employment contract whereby the base remuneration for the year ended 30 June 2016, inclusive of superannuation, was $325,000. This arrangement represented a variation to Mr. Henderson's terms of employment negotiated between the board and Mr. Henderson in January 2016. Pursuant to this arrangement Mr. Henderson's termination benefits were to remain calculated on Mr. Henderson's prior contractual terms as noted in the 2015 Annual Report. Mr Henderson's remuneration level was 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 was 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 was entitled to terminate the contract immediately on the grounds of serious misconduct, incapacity or non-performance. The Managing Director was able to resign by giving six months' notice. The Group was entitled to terminate the contract by giving six months' notice. Mr Henderson left the Company on 1 June 2016 and was paid six months' notice under the above terms.

REMUNERATION REPORT (CONTINUED)

Options Exercised by Directors or other Key Management Personnel during the year
During the year no options were exercised by Directors or other Key Management Personnel.

Voting and comments made at the Company's 2015 Annual General Meeting
The Remuneration Report for the financial year ended 30 June 2015 was not adopted. The Company has since reduced its staff number to two. There are currently no Executives or Key Management Personnel.

The remuneration paid to executives in the period 1 July 2015 to 7 February 2016, were arrangements made by the previous Board. With the refresh of the Board as from 8 February 2016, there has been a significant focus on reducing costs across the organisation. The CFO and Company Secretary roles were outsourced, resulting in a saving of more than $150,000 on the previous remuneration paid to the CFO and Company Secretary, including base salary and incentive payments. Further, the CEO resigned as from 1 June 2016 and the Chairman has stepped into the role of Executive Chairman. This further change will see a further saving in excess of $300,000 annually.

Accordingly in the current circumstances of the Company, the Board believes that it has the appropriate remuneration structure in place and have also determined that no STI or LTI payments are appropriate. This will be reviewed in the event of a material improvement to the Company's operational outlook.
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End of Audited Remuneration Report

Directors' and Officers' Interests and Benefits

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

	Options	Ordinary Shares
Alexander Lang	-	-
Philip Amery	-	1,304,000
Terry White	-	-

Note that no shares have been resolved to be issued by way of short term and long term incentives to Directors.

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

There is no proposal to issue shares to Directors as part of their remuneration.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15, and forms part of this report.

Audit Services

During the year, audit and review fees payable to Grant Thornton Audit Pty Ltd amounted to $47,000.

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 and Risk Management 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.

Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Metgasco Limited and its subsidiaries have adopted the third edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

The Group's Corporate Governance Statement was approved by the Board on 25 August 2016. The Corporate Governance Statement is available on Metgasco's website at http://www.metgasco.com.au/information/corporate-governance-statement.

Significant Events after End of Reporting Period

As noted above on 22 July 2016 the Company announced that, further to the execution of the Binding Heads of Agreement with Byron Energy Limited (ASX:BYE) announced on 9 June 2016, the associated Convertible Note Deed and General Security Deed documents have been executed.

All Terms of the Convertible Note as announced and documented in the Binding Heads of Agreement remained essentially unchanged. Metgasco also negotiated an option by which Byron may elect an early repayment of the Funding Facility from 90 days of initial drawdown and up to eighteen months from that date, at 115% of principal outstanding (along with any accrued interest and line fee). This inclusion in the final Note documentation does not affect Metgasco's other rights, including the proposed issuance of options and farm-in rights. Line fees are accruing to Metgasco as of this date.

On 28 July 2016 the Company announced that it has given notice to Byron Energy Limited of its decision to farm-in to the Bivouac Peak onshore Louisiana project on terms previously negotiated as set out in Metgasco's ASX announcement dated 9 June 2016.

On 8 August 2016, the Company announced a shareholder meeting would be held on 12 September 2016 to consider a return of capital to shareholders of $0.025 per share amounting to approximately $9,962,000.

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

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

Alexander Lang
Executive Chairman
25 August 2016

Grant Thornton

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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 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P J Woodley
Partner - Audit & Assurance

Sydney, 25 August 2016

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $	2015 $
Revenue	*5 (a)*	**709,010**	**324,891**
Other Income	*5 (b)*	**25,416,848**	**-**
Expenses			
Finance costs	*6 (c)*	**(12,218)**	**(15,108)**
Accounting, compliance, legal & professional costs		**(219,817)**	**(758,574)**
Investor relations		**(259,585)**	**(384,366)**
Consulting fees		**(295,462)**	**(283,107)**
Depreciation	*6 (a)*	**(3,441)**	**(13,655)**
Impairment of inventory and other non-current assets		**(268,433)**	**-**
Directors fees		**(104,094)**	**(128,818)**
Exploration and rehabilitation activities expensed		**(384,157)**	**(929,602)**
Employee costs	*6 (d)*	**(1,217,556)**	**(1,076,314)**
Rent and occupancy	*6 (b)*	**(69,130)**	**(267,459)**
Loss on disposal of assets		**-**	**(31,028)**
Travel & accommodation		**(44,295)**	**(81,276)**
Other administrative		**(195,636)**	**(222,977)**
Profit/(Loss) before income tax		**23,052,034**	**(3,867,393)**
Income tax expense	*7*	**-**	**-**
Net Profit/(Loss) for the year		**23,052,034**	**(3,867,393)**
Other comprehensive income		**-**	**-**
Total comprehensive Profit/(Loss) for the year		**23,052,034**	**(3,867,393)**
Profit/(Loss) attributable to owners of the parent		**23,052,034**	**(3,867,393)**
Earnings per share for profit from continuing operations			
Basic profit/(loss) per share (cents)	*28*	5.3	(0.9)
Diluted profit/(loss) per share (cents)	*28*	5.3	(0.9)

This statement should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016	2015
		$	$
ASSETS			
Current			
Cash and cash equivalents	*8*	**17,741,979**	**7,655,361**
Short term investments	*9*	**10,907,399**	**-**
Inventory	*10*	**-**	**167,131**
Trade and other receivables	*11*	**346,179**	**88,779**
Current assets		**28,995,557**	**7,911,271**
Non-current			
Exploration and evaluation expenditure	*12*	**-**	**-**
Plant and equipment	*13*	**-**	**362,133**
Other receivables	*14*	**11,000**	**646,000**
Non-current assets		**11,000**	**1,008,133**
TOTAL ASSETS		**29,006,557**	**8,919,404**
LIABILITIES			
Current			
Trade and other payables	*16*	**259,841**	**406,947**
Provisions	*17*	**-**	**-**
Borrowings	*18*	**-**	**17,039**
Current liabilities		**259,841**	**423,986**
Non-current			
Provisions	*19*	**7,331**	**272,673**
Borrowings	*18*	**-**	**-**
Total non-current		**7,331**	**272,673**
TOTAL LIABILITIES		**267,172**	**696,659**
NET ASSETS		**28,739,385**	**8,222,745**
EQUITY			
Share capital	*20*	**121,524,352**	**123,990,967**
Share option reserve	*21*	**8,652**	**389,423**
Accumulated losses		**(92,793,619)**	**(116,157,645)**
TOTAL EQUITY		**28,739,385**	**8,222,745**

This statement should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Share capital	*Accumulated losses*	*Share option reserve (Note 21)*	*Total equity*
	$	**$**	**$**	**$**
At 30 June 2014	**123,990,967**	**(117,656,006)**	**5,715,622**	**12,050,583**
Loss for the year	-	(3,867,393)	-	(3,867,393)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	**(3,867,393)**	-	**(3,867,393)**
Transactions with owners in their capacity as owners				
Share based payment expense	-	-	39,555	39,555
Transfer share option reserve to accumulated losses	-	5,365,754	(5,365,754)	-
At 30 June 2015	**123,990,967**	**(116,157,645)**	**389,423**	**8,222,745**
Profit for the year	-	23,052,034	-	23,052,034
Other comprehensive income	-	-	-	-
Total comprehensive profit for the year	-	**23,052,034**	-	**23,052,034**
Transactions with owners in their capacity as owners				
Share based payment expense	-	-	(68,779)	(68,779)
Transfer share option reserve to accumulated losses	-	311,992	(311,992)	-
Share Buyback	(2,266,370)	-	-	(2,266,370)
Unmarketable parcel buyback	(200,245)	-	-	(200,245)
At 30 June 2016	**121,524,352**	**(92,793,619)**	**8,652**	**28,739,385**

This statement should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016	2015
		$	$
Operating activities			
Payments to suppliers and employees (inclusive of goods and service taxes)		(2,578,137)	(3,392,234)
Interest and rebates received		407,167	324,891
Receipts from customers		-	65,099
Net cash flow from operating activities	*27*	(2,170,970)	(3,002,244)
Investing activities			
Expenditure on exploration, evaluation and decommissioning		(551,767)	(1,021,962)
Purchase of short term investments		(10,907,399)	-
Bond refund		635,000	127,897
Proceeds from the sale of exploration assets		25,250,000	-
Proceeds on disposal of property, plant and equipment		327,626	116,727
Purchase of property, plant and equipment		-	(18,642)
Net cash flow from investing activities		14,753,460	(795,980)
Financing activities			
Repayments of borrowings		(17,039)	(11,576)
Share Buyback		(2,466,615)	-
Finance costs paid		(12,218)	(15,108)
Net cash flow from financing activities		(2,495,872)	(26,684)
Net increase/(decrease) in cash and cash equivalents held		10,086,618	(3,824,908)
Cash and cash equivalents at the beginning of year		7,655,361	11,480,269
Cash and cash equivalents, end of year	*8*	17,741,979	7,655,361

This statement should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1. Corporate Information

a) Nature of operations

Metgasco Limited and subsidiaries' (the Group) principal activities include gas exploration, appraisal, and development and investment in and development of associated energy infrastructure.

b) General information and statement of compliance

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Metgasco Limited is a for-profit entity for the purpose of preparing the financial statements.

Metgasco Limited is the Group's ultimate parent company. Metgasco Limited is a public company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Level 3, 2 Elizabeth Plaza, North Sydney NSW 2060.

The consolidated financial statements for the year ended 30 June 2016 were approved and authorised for issue by the board of directors on 25 August 2016.

2. Summary of Significant Accounting Policies

a) Critical accounting estimates and judgments

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

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

Assessment of impairment indicators

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows 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.

Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

2. Summary of Significant Accounting Policies (continued)

Assessment of impairment indicators (continued)

An assessment is also made at the end of the reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount.

The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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.

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.

Provision for site restoration

The Group estimates the future restoration costs of wells at the time of installation. In most instances removal of these assets occurs many years into the future. The calculation of this provision requires management to make assumptions regarding removal date, application of environmental legislation, the extent of restoration activities required and available technologies. The Group has satisfied the restoration of all wells and has no provision at 30 June 2016.

b) 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 2016. 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 2016, 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.

2. Summary of Significant Accounting Policies (continued)

c) 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.

d) 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.

e) Business undertakings

The Group intends to conduct oil and gas exploration activities and to develop associated energy infrastructure.

f) Joint ventures

At the end of the reporting period the Group was not a party to any joint venture arrangements.

g) 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).

h) 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.

i) Earnings per share

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

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

2. Summary of Significant Accounting Policies (continued)

j) Exploration expenditure and petroleum tenement leases

The Group was previously actively involved in hydrocarbon exploration and evaluation activities in relation to coal seam gas and conventional hydrocarbons on PEL 13, 16 & 426. In accordance with AASB 6, exploration expenditure was previously 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 was expected to be recouped by:
  - Successful development of the area of interest; or
  - By sale of the area of interest.

Exploration and evaluation activities had not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the interest are continuing.

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

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

All exploration expenditure during the year has been expensed.

k) Inventory

Inventories comprise of drill hole casing and other consumable items and are recorded at weighted average cost. All inventory is impaired at year-end.

l) 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.

m) 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. All property, plant and equipment is impaired at year-end.

2. Summary of Significant Accounting Policies (continued)

n) 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 are depreciated at rates from 4% to 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.

o) 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 cash flows 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).

p) Restoration and rehabilitation

Estimates of the cost of restoration and rehabilitation represent the anticipated cost to decommission the Company's existing wells. 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.

q) 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.

r) 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 reporting 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 and share rights to Directors and employees as part of their remuneration.

- The fair value of options and share rights 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 and share rights.

- 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 and share rights are not tradable.

2. Summary of Significant Accounting Policies (continued)

r) Employee benefits (continued)

(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.

s) 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.

t) 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.

u) 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.

v) 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 carry forward exploration costs whilst the treatment of exploration costs continues 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.

w) Short Term Investments

Financial assets at fair value through profit and loss are accrued at fair value with gains or losses recognised in profit or loss. A financial asset is classified as fair value through profit and loss if acquired principally for the purpose of selling in the short term or if it is a derivative that is not designated as a hedge. Assets in this category are classified as current assets in the statement of financial position if they are expected to be settled within 12 months, otherwise they are classified as non-current assets.

x) New and revised standards effective for these financial statements

A number of new and revised standards and an interpretation became effective for the first time to annual periods beginning on or after 1 July 2015. Information on these new standards is presented below.

AASB 2015-4 *Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent*

AASB 2015-4 amends AASB 128 *Investments in Associates and Joint Ventures* to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 *Consolidated Financial Statements* for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015.

The adoption of this amendment has not had a material impact on the Group.

y) Accounting Standards issued but not yet effective and not been adopted early by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

2. Summary of Significant Accounting Policies (continued)

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date	Likely impact on initial application
AASB 9 *Financial Instruments (December 2014)* [Also refer to AASB 2013-9 and AASB 2014-1 below]	*AASB 139 Financial Instruments: Recognition and Measurement*	AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are: a. Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments. d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. e. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • the change attributable to changes in credit risk are presented in Other Comprehensive Income ('OCI') • the remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:	1 January 2018	*The Group is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.*

2. Summary of Significant Accounting Policies (continued)

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date	Likely impact on initial application
		• classification and measurement of financial liabilities; and • de-recognition requirements for financial assets and liabilities. AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements. Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.		
AASB 1057 *Application of Australian Accounting Standards*		In May 2015, the AASB decided to revise Australian Accounting Standards that incorporate IFRSs to minimise Australian-specific wording even further. The AASB noted that IFRSs do not contain application paragraphs that identify the entities and financial reports to which the Standards (and Interpretations) apply. As a result, the AASB decided to move the application paragraphs previously contained in each Australian Accounting Standard (or Interpretation), unchanged, into a new Standard AASB 1057 *Application of Australian Accounting Standards*.	1 January 2016	*When this Standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements.*
AASB 15 *Revenue from Contracts with Customers*		AASB 15: - replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and some revenue-related Interpretations; - establishes a new revenue recognition model; - changes the basis for deciding whether revenue is to be recognised over time or at a point in time; - provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing); and - expands and improves disclosures about revenue.	1 January 2018	*The Group is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.*
AASB 16 *Leases*	AASB 117 *Leases*	AASB 16: - replaces AASB 117 *Leases* and some lease-related Interpretations - requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases - provides new guidance on the application of the definition of lease and on sale and lease back accounting	1 January 2019	*The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is*

2. Summary of Significant Accounting Policies (continued)

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date	Likely impact on initial application
		- largely retains the existing lessor accounting requirements in AASB 117 - requires new and different disclosures about leases.		*first adopted for the year ending 30 June 2020.*
AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*		The amendments to AASB 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in AASB 3 Business Combinations, should: - apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e., the existing interest is not remeasured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and - provide disclosures for business combinations as required by AASB 3 and other Australian Accounting Standards. When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.	30 June 2017	*The Group is yet to undertake a detailed assessment of the impact of this amendment. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2017.*
AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		The amendments address a current inconsistency between AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures (2011). The amendments clarify that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, any gain or loss recognised will depend on whether the assets or subsidiary constitute a business, as defined in AASB 3 Business Combinations. Full gain or loss is recognised when the assets or subsidiary constitute a business, whereas gain or loss attributable to other investors' interests is recognised when the assets or subsidiary do not constitute a business.	30 June 2017	*When these amendments are first adopted for the year ending 30 June 2017, it is unlikely there will be material impact on the financial statements. However, the full assessment of this is yet to be determined.*

2. Summary of Significant Accounting Policies (continued)

New/revised pronouncement	Superseded pronouncement	Nature of change	Effective date	Likely impact on initial application
		This amendment effectively introduces an exception to the general requirement in AASB 10 to recognise full gain or loss on the loss of control over a subsidiary. The exception only applies to the loss of control over a subsidiary that does not contain a business, if the loss of control is the result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Corresponding amendments have also been made to AASB 128 (2011).		
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle		These amendments arise from the issuance of Annual Improvements to IFRSs 2012-2014 Cycle in September 2014 by the IASB. Among other improvements, the amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of AASB 5 Non-current Assets Held for Sale and Discontinued Operations does not apply. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of AASB 5.	30 June 2017	*When these amendments are first adopted for the year ending 30 June 2017, it is unlikely there will be material impact on the financial statements. However, the full assessment of this is yet to be determined.*

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 is as follows:

	Consolidated	
	2016	**2015**
	$	**$**
Cash and cash equivalents	**17,741,979**	**7,655,361**
Short term investments	**10,907,399**	**-**
Loans and receivables	**11,000**	**646,000**
Financial liabilities at amortised cost	**242,276**	**277,555**

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 11, 14 and 25 accompanying the financial statements.

3. Financial Risk Management (continued)

Of the financial liabilities disclosed above, the sum of nil (2015: $17,039) represents amounts due on finance leases and the maturity analysis can be seen in Note 18 to the accounts. The remainder represents trade payables and various accrued amounts that are expected to be settled within 30 to 60 days from the reporting date as disclosed in Note 16 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

In prior years 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 previous reporting periods, 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 $17,741,979 would increase/decrease the annual amount of interest received by $177,419.

Directors consider that there is no significant credit risk in respect of cash balances as those balances are all held with major Australian banks.

b) Credit risk

Credit risk is the risk that the other party to a contract or financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to contracts fail to settle their obligations owing to the Group. The Group was in the exploration and appraisal stage of development and had 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 16 and 18.

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.

During the current year the Company's exploration licences were cancelled and exploration activities ceased. The Richmond Valley Power Station activities ceased and the land was sold. Accordingly these two segments have ceased. The Company was previously operating in two reportable segments with those being hydrocarbon exploration and the development of the Richmond Valley Power Station project.

Description of segments

Management determined the operating segments based on reports reviewed by the executive management team for making strategic decisions. The executive management team comprised the Chief Executive Officer and Chief Financial Officer.

4. Segment Information (continued)

i) *Hydrocarbon exploration and development*
This segment comprised 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*
This segment comprised the development of a 30 megawatt gas fired power station located outside the township of Casino (Richmond Valley Power Station). As indicated above, the site was sold during the financial year.

No segment revenue is disclosed because no discrete information is provided to the executive management team as both activities were in their exploration and start-up phase. Neither activity was generating revenue and all operating expenses to date have been expensed through the statement of profit or loss.

Total asset amounts provided to the Executive Committee and the Board in internal reports are not broken down by segment.

5. Revenue and Other Income

		Consolidated	
		2016	**2015**
		$	**$**
(a)	**Revenue**		
	Interest received from financial institutions and other parties	**709,010**	**324,891**
	Total revenue	**709,010**	**324,891**
(b)	**Other income**		
	Gain on disposal of assets	**102,626**	**-**
	Unrealised gain/(loss) on listed investments	**(3,202)**	**-**
	Gain on disposal of exploration licences	**25,250,000**	**-**
	Miscellaneous income	**67,424**	**-**
	Total other income	**25,416,848**	**-**

6. Expenses

Profit/(Loss) before income tax includes the following specific expenses:

		Consolidated 2016 $	Consolidated 2015 $
(a)	**Depreciation**		
	Plant and equipment	**3,441**	**13,655**
	Total depreciation	**3,441**	**13,655**
(b)	**Rent and occupancy**		
	Rent under operating lease - Sydney	**109,223**	**119,351**
	Occupancy costs	**(40,093)**	**148,108**
	Total rent and occupancy	**69,130**	**267,459**
(c)	**Finance cost - external**		
	Bank charges	**12,218**	**15,108**
	Total Finance Cost	**12,218**	**15,108**
(d)	**Employee costs**		
	Superannuation	**68,952**	**64,011**
	Wages and salaries	**1,349,489**	**828,247**
	Workers compensation	**8,337**	**22,938**
	Payroll tax	**(19,666)**	**35,438**
	Share based payments write back	**(68,779)**	**39,555**
	Recruitment and consultants	**-**	**18,015**
	Miscellaneous / movement in employee provisions	**(120,777)**	**68,110**
	Total employee costs	**1,217,556**	**1,076,314**

Depreciation charged on assets employed directly in the Group’s exploration activities for the year was $32,390 (2015: $115,852) and expensed with the exploration activities. Depreciation charged on assets not in the above category was $3,441 (2015: $13,655) for the year and is charged directly to the statement of profit or loss.

7. Income Tax

		Consolidated 2016 $	Consolidated 2015 $
(a)	**Income tax expense**		
	Profit/(Loss) before income tax expense	**23,052,034**	**(3,867,393)**
	Prima facie tax benefit on profit/(loss) at 30% (2015: 30%)	**6,915,610**	**(1,160,218)**
	Tax effect of amounts which are not deductible in calculating taxable income:		
	Share based payments	**(20,634)**	**11,867**
		6,894,976	**(1,148,351)**
	Movements in unrecognised temporary differences	**(49,262)**	**9,908**
	Tax effect of current year tax losses for which no deferred tax asset has been recognised	**-**	**1,138,443**
	Utilisation of unused tax losses	**6,845,714**	**-**
	Income tax expense	**-**	**-**
(b)	**Unrecognised deferred tax assets and liabilities**		
	Capital raising costs	**1,063,729**	**1,063,729**
	Accruals and provision for employees benefits	**7,469**	**56,731**
	Carry forward tax losses:		
	– Operating	**2,788,808**	**11,471,922**
	– Exploration and evaluation expenditure	**25,049,097**	**24,933,850**
	Deferred tax liability - taxable temporary differences	**(25,049,097)**	**(24,933,850)**
	Net unrecognised deferred tax asset	**3,860,006**	**12,592,382**

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 2016 $	Consolidated 2015 $
Cash at bank and on hand	**356,152**	**243,260**
Term deposits	**17,385,827**	**7,412,101**
Total	**17,741,979**	**7,655,361**

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.

8. Cash and Cash Equivalents (continued)

b) Term deposits

Term deposits attract rates of interest ranging from 2.35% to 3.15% (2015: 2.25% to 3.55%). The maturity dates of the various term deposits range from 7 days to 41 days after the end of the reporting period.

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

9. Short term investments

	Consolidated	
	2016	2015
	$	$
Exchange traded bonds	6,196,633	-
Unlisted credit fund	4,710,766	-
Total	10,907,399	-

Short term investments include:

- Exchange Traded Bonds with coupon rates between 5.75% and 7.75% with maturity dates from March 2019 to May 2022
- An unlisted investment fund with a BBB credit rating

10. Inventory

	Consolidated	
	2016	2015
	$	$
Opening balance	167,131	305,572
Disposals	-	(138,441)
Impairment	(167,131)	-
Carrying amount at end of year	-	167,131

The cost of inventories recognised as an expense in 2016 was nil. Inventory is valued at the lower of costs and net realisable value. The assessment of the allowance for inventory obsolescence requires a degree of estimation and judgment. The level of the allowance is assessed by taking into account the ageing of inventories, the expected amount to be recovered through the use of inventory, disposals and other factors that affect inventory obsolescence. 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.

11. Trade and Other Receivables (Current)

	Consolidated	
	2016	2015
	$	$
Trade receivables	-	37,500
GST receivable	-	20,557
Accrued Income	301,843	-
Rent deposits	3,182	-
Prepayments	41,154	30,722
Total	346,179	88,779

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

12. Exploration and Evaluation Expenditure

	Consolidated	
	2016	2015
	$	$
Expenditure for the entities operations		
Movement during the financial period (at cost):		
Opening balance	-	-
Capitalised exploration expenditure	-	-
R & D grant	-	-
Impairment charges	-	-
Carrying amount at end of year	-	-

Due to the cancellation of exploration licences, and following the buyback of the exploration licences by the NSW Government the Group has expensed all exploration and remediation activities during the 2016 and 2015 financial years.

13. Plant and Equipment

	Consolidated	
	2016	2015
	$	$
Office equipment		
At cost	33,612	33,612
Accumulated impairment and deprecation	(33,612)	(24,804)
Net carrying amount	-	8,808
Computer equipment		
At cost	59,870	76,111
Accumulated depreciation and impairment	(59,870)	(59,470)
Net carrying amount	-	16,641
Motor vehicles		
At cost	-	-
Accumulated depreciation	-	-
Net carrying amount	-	-
Motor vehicles under finance lease at cost		
At cost	205,868	269,268
Accumulated depreciation and impairment	(205,868)	(252,105)
Net carrying amount	-	17,163
Improvements		
At cost	104,174	127,077
Accumulated depreciation and impairment	(104,174)	(39,182)
Net carrying amount	-	87,895

13. Plant and Equipment (continued)

	Consolidated 2016 $	2015 $
Plant and equipment		
At cost	**291,465**	**305,613**
Accumulated depreciation and impairment	**(291,465)**	**(268,987)**
Net carrying amount	**-**	**36,626**
Richmond Valley Power Station – development costs		
At cost	**-**	**3,144,252**
Accumulated impairment	**-**	**(2,949,252)**
Net carrying amount	**-**	**195,000**
Total plant and equipment		
At cost	**694,989**	**3,955,933**
Accumulated depreciation and impairment	**(694,989)**	**(3,593,800)**
Net carrying amount	**-**	**362,133**

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:

	2016	2015
Office and equipment		
Carrying amount at beginning of financial year	**8,808**	**22,355**
Disposals	**-**	**(5,949)**
Impairment	**(7,515)**	**-**
Depreciation	**(1,293)**	**(7,598)**
Carrying amount at end of financial year	**-**	**8,808**
Computer equipment		
Carrying amount at beginning of financial year	**16,641**	**22,221**
Additions	**-**	**12,642**
Impairment	**(9,388)**	**-**
Depreciation	**(7,253)**	**(18,222)**
Carrying amount at end of financial year	**-**	**16,641**
Motor vehicles		
Carrying amount at beginning of financial year	**-**	**24,853**
Disposals	**-**	**(14,939)**
Depreciation	**-**	**(9,914)**
Carrying amount at end of financial year	**-**	**-**

13. Plant and Equipment (continued)

	Consolidated 2016 $	Consolidated 2015 $
Motor vehicles under finance lease at cost		
Carrying amount at beginning of financial year	**17,163**	**29,025**
Disposals	**-**	**(933)**
Impairment	**(11,196)**	**-**
Depreciation	**(5,967)**	**(10,929)**
Carrying amount at end of financial year	**-**	**17,163**
Improvements		
Carrying amount at beginning of financial year	**87,895**	**99,491**
Additions	**-**	**-**
Disposals	**-**	**(3,642)**
Impairment	**(83,597)**	**-**
Depreciation	**(4,298)**	**(7,954)**
Carrying amount at end of financial year	**-**	**87,895**
Plant and equipment		
Carrying amount at beginning of financial year	**36,626**	**137,567**
Additions	**-**	**6,000**
Disposals	**-**	**(32,051)**
Impairment	**(19,606)**	**-**
Depreciation	**(17,020)**	**(74,890)**
Carrying amount at end of financial year	**-**	**36,626**
Richmond Valley Power Station – development costs		
Carrying amount at beginning of financial year	**195,000**	**195,000**
Disposals	**(195,000)**	**-**
Carrying amount at end of financial year	**-**	**195,000**
Total plant and equipment		
Carrying amount at beginning of financial year	**362,133**	**530,512**
Additions	**-**	**18,642**
Disposals	**(195,000)**	**(57,514)**
Impairment	**(131,302)**	**-**
Depreciation	**(35,831)**	**(129,507)**
Carrying amount at end of financial year	**-**	**362,133**

Impairment loss

At 30 June 2016, the Group reviewed the carrying amount of its plant and equipment for indicators of impairment in accordance with the Group's accounting policy (refer Note 2(m)).

The recoverable amounts of plant and equipment were also formerly reassessed, and an impairment was required during 2016 financial year of $131,302 (2015: $Nil).

14. Other Receivables (Non-current)

	Consolidated 2016 $	Consolidated 2015 $
Security bonds non-current	**11,000**	**646,000**
Total	**11,000**	**646,000**

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. All well rehabilitation has been completed and the NSW Government is in the process of preparing to release the final security deposit.

15. 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(b).

Name of entity	Country of incorporation	Class of Shares	Equity holding			
			2016	2015	**2016**	2015
			%	**%**	**$**	$
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 and during June 2016, the Company applied for Clarence-Moreton No. 1 Pty Ltd and The Lions Way Pipeline Pty Ltd to be deregistered. Both entities were officially deregistered on 17 August 2016.

16. Trade and Other payables (Current)

	Consolidated 2016 $	Consolidated 2015 $
Trade payables	**63,147**	**122,679**
Accrued charges and expenses	**179,129**	**137,837**
Employee benefits	**17,565**	**146,431**
Total	**259,841**	**406,947**

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

17. Provisions (Current)

	Consolidated 2016 $	Consolidated 2015 $
Provision for site rehabilitation		
Opening balance	-	100,000
Rehabilitation work	-	(100,000)
Closing balance for site rehabilitation	-	-
Total	-	-

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. All the sites have now been rehabilitated.

18. Borrowings

	Consolidated 2016 $	Consolidated 2015 $
Current	-	17,039
Finance lease liability	-	17,039

The Group had previous borrowings in the form of finance leases. The rate of interest charged for the lease held was 6.0%. The fair value of the above financial liabilities approximates their carrying value. The lease liability was secured by motor vehicles which had a book value of $17,163 at the end of the previous reporting period.

Full details of the lease commitments are as follows:

Finance Lease Commitments

Within one year	-	17,271
Later than one year but not later than 5 years	-	-
Minimum lease payments	-	17,271
Future finance charges	-	(232)
Recognised as a liability	-	17,039

19. Provisions (Non-current)

	Consolidated	
	2016	2015
	$	$
Long service leave	7,331	42,673
Lease make good	-	30,000
Provision for site rehabilitation		
Opening balance	200,000	200,000
Amounts provided	(200,000)	-
Closing balance for site rehabilitation	-	200,000
Total	7,331	272,673

Provision was made for the 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. All sites have now been rehabilitated.

20. Share Capital

	Parent Entity		Parent Entity	
	No of Shares	No of shares	$	$
	2016	2015	2016	2015
(a) Share Capital				
Ordinary Shares - Fully Paid	401,108,520	444,004,548	121,524,352	123,990,967

(b) Movements in Ordinary Share Capital

	Date	No of Shares	Value $	Issue Price $
Balance at 30 June 2015		444,004,548	123,990,967	
Shares cancelled during the year	16/12/2015	(1,524,877)	-	-
On market buyback	4/2/2016 - 30/3/2016	(38,033,721)	(2,266,370)	-
Unmarketable parcel buyback	11/4/2016	(3,337,430)	(200,245)	-
Balance at 30 June 2016		401,108,520	121,524,352	

	No of Options	No of Options
	2016	2015
Options (not quoted on ASX)		
Opening balance	-	1,202,222
Exercised by employees	-	-
Lapsed	-	(1,202,222)
Closing balance	-	-

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.

20. Share Capital (continued)

At the end of the reporting period there were no 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 2016. The Company's 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, as disclosed in Note 18, the use of various gearing ratios is not employed.

After substantial cost reductions, analysis of the strong cash flows generated by the production financing arrangement with Byron Energy Limited and a comprehensive review of the Company's current activities and forward business opportunities, the Metgasco Board announced on 28 June 2016, it had determined that it is in the best interests of shareholders to accelerate near term returns by recommending a capital return of 2.5c per share. A Notice of Meeting was issued on 8 August 2016, calling a General Meeting of Metgasco Shareholders to approve the capital return on 12 September 2016. Relevant taxation advice is being obtained and an Australian Taxation Office Class Ruling will be applied for in connection with the capital return.

21. 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 at no cost 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	
	2016	**2015**
	$	**$**
Opening balance	**389,423**	**5,715,622**
Cost of securities issued under EOEP	**(68,779)**	**39,555**
Transferred to accumulated losses	**(311,992)**	**(5,365,754)**
Closing balance of reserve	**8,652**	**389,423**

21 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 2016

There were no options outstanding or issued during the year.

Share Based Payments – Deferred Share Awards to Employees

Grant Date	Vesting Date	Issue Price	Balance at Beginning of year	Granted during year	Vested / Forfeited during year	Balance at end of year	Fair Value
		$	Number	Number	Number	Number	$
23/08/2012	24/08/2015	0.22	541,604	-	541,604	-	-
14/11/2012	24/08/2015	0.20	983,272	-	983,272	-	-
25/07/2013	23/07/2016	0.053	2,643,697	-	2,544,640	99,057	5,140
Total			**4,168,573**		**4,069,516**	**99,057**	**5,140**

Refer Note 2(r) for details of accounting policy on share based payments.

21 Share Based Payments (continued)

Consolidated and Parent Entity 2015

Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable Spot Price	Balance at beginning of year	Granted during year	Lapsed / forfeited during year	Exercised during year	Balance at end of year	Fair Value
			$	$	Number	Number	Number	Number	Number	$
1/09/2009	1/09/2012	1/09/2014	0.50	0.445	912,222	-	912,222	-	-	-
1/09/2009	1/09/2012	1/09/2014	0.50	0.445	290,000	-	290,000	-	-	-
Total					**1,202,222**	-	**1,202,222**	-	**-**	**-**
Weighted average exercise price					**0.50**				**-**	

Share Based Payments – Deferred Share Awards to Employees

Grant Date	Vesting Date	Issue Price	Balance at Beginning of year	Granted during year	Vested / Forfeited during year	Balance at end of year	Fair Value
		$	Number	Number	Number	Number	$
12/09/2011	01/09/2014	0.31	447,462	-	447,462	-	-
15/11/2011	01/09/2014	0.31	645,161	-	645,161	-	-
15/11/2011	18/07/2014	0.26	30,000	-	30,000	-	-
23/08/2012	24/08/2015	0.22	1,270,972	-	729,368	541,604	119,153
14/11/2012	24/08/2015	0.20	983,272	-	-	983,272	196,654
25/07/2013	01/07/2014	0.053	400,000	-	400,000	-	-
25/07/2013	23/07/2016	0.053	5,713,648	-	3,069,951	2,643,697	140,116
Total			**9,490,515**		**5,321,942**	**4,168,573**	**455,923**

Refer Note 2(r) for details of accounting policy on share based payments.

22. Key Management Personnel

	Consolidated	
	2016	**2015**
	$	**$**
Short-term employee benefits	**720,302**	**899,686**
Post-employment employee benefits	**551,546**	**79,881**
Share based payments	**(128,359)**	**172,944**
Total compensation	**1,143,489**	**1,152,511**

23. Auditor's Remuneration

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

	Consolidated	
	2016	**2015**
	$	**$**
During the year, fees paid/payable to the Company's auditors were:		
For audit and review – Grant Thornton Audit Pty Ltd	**47,000**	**64,500**

24. Related Party Disclosures

Directors and Directors' related entities share and option holdings at the end of the reporting period are disclosed in the remuneration report. There are no further related party transactions to disclose.

25. Contingent Liabilities and Assets

	Consolidated	
	2016	**2015**
	$	**$**
Bank guarantees Department of Primary Industry	**11,000**	**696,104**

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

The Group has also a credit card limit of $50,000, of which $41,155 is unused as at 30 June 2016.

26. Commitments

As a result of the licences being bought back by the NSW Government, the group has no commitment in relation to its exploration and evaluation activities. The Group has no further operating lease commitments.

	Consolidated	
	2016	**2015**
	$	**$**
Minimum Exploration & Evaluation expenditure for exploration Tenements within one year	**-**	**2,600,000**
Total	**-**	**2,600,000**
Office Rent		
Within one year	**-**	**143,612**
Later than one year but not later than five years	**-**	**-**
Total	**-**	**143,612**

27. Statement of Cash Flows Reconciliation

		Consolidated	
		2016	2015
		$	$
(a)	**Reconciliation of net loss after tax to net cash flows from operations**		
	Net profit/(loss) for the year	**23,052,034**	**(3,867,393)**
	Adjustments for:		
	Depreciation	**35,831**	**13,655**
	Impairment of inventory and other non-current assets	**268,433**	**-**
	Gain on disposal of exploration assets as investing activities	**(25,250,000)**	**-**
	Net loss on disposal of inventory	**-**	**90,150**
	Net profit on disposal of property, plant and equipment	**(102,626)**	**(59,122)**
	Finance cost classified as financing activities	**12,218**	**15,108**
	Share based payment expense	**(68,779)**	**39,555**
	Exploration costs classified as investing activities	**351,767**	**929,602**
	Changes in assets and liabilities:		
	(Increase)/Decrease in trade and other receivables	**(257,400)**	**(17,122)**
	Decrease in inventory	**-**	**48,290**
	Decrease in trade and other payables	**(147,106)**	**(227,692)**
	Increase/(Decrease) in provisions	**(65,342)**	**32,725**
	Net cash flows used in operating activities	**(2,170,970)**	**(3,002,244)**

(b) Non cash financing and investing activities

$Nil (2015: $Nil)

28. Earnings Per Share

	Consolidated	
	2016	2015
	$	$
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit/(Loss) attributable to owners of Metgasco Ltd used to calculate basic earnings per share	**23,052,034**	**(3,867,393)**
Diluted earnings per share		
Profit/(Loss) attributable to owners of Metgasco Ltd used to calculate diluted earnings per share	**23,052,034**	**(3,867,393)**
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**431,213,540**	**445,948,097**
Profit/(Loss) per share (cents)	**5.3**	**(0.9)**

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

29. Fair value measurement

Fair value measurement of financial instruments

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

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

The following table shows the levels within the hierarchy of financial assets measured at fair value on a recurring basis at 30 June 2016 and 30 June 2015:

30 June 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Exchange Traded Bonds	6,197	-	-	6,197
Unlisted credit fund	-	4,710	-	4,710
Total assets	6,197	4,710	-	10,907
Net fair value	6,197	4,710	-	10,907

30 June 2015	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Exchange Traded Bonds	-	-	-	-
Unlisted credit fund	-	-	-	-
Total assets	-	-	-	-
Net fair value	-	-	-	-

30. Financial Facilities

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

31. Government Grants

There have been no grants of any type received or that are receivable during the year ended 30 June 2016.

32. Parent Entity Disclosures

	Consolidated	
	2016	2015
	$	$
Current assets	28,995,557	7,911,271
Non-current assets	11,000	1,008,133
Total assets	29,006,557	8,919,404
Current liabilities	259,841	423,986
Non-current liabilities	7,331	272,673
Total liabilities	267,172	696,659
Contributed equity	121,524,352	123,990,967
Accumulated losses	(92,793,619)	(116,157,645)
Share option reserve	8,652	389,423
Total equity	28,739,385	8,361,186
Profit/(Loss) for the year	23,052,034	3,867,393)
Other comprehensive income for the year	-	-
Total comprehensive income/(loss) for the year	23,052,034	(3,867,393)

Included in the non-current assets of the parent was an amount receivable from the wholly owned subsidiary, Richmond Valley Power Pty Ltd for $195,000 which was repaid during the year (2015: $195,000). The amount receivable by the parent entity from wholly owned subsidiaries was for funds advanced for the purpose of the development of the Richmond Valley Power Station.

Commitments

The parent entity has no current commitments. It does not currently have exploration and evaluation activities.

	Consolidated	
	2016	2015
	$	$
Minimum Exploration & Evaluation expenditure for exploration Tenements within one year	-	2,600,000
Total	-	2,600,000
Office Rent		
Within one year	-	143,612
Later than one year but not later than five years	-	-
Total	-	143,612

Contingent Liabilities

	2016	2015
	$	$
Bank guarantees Department of Primary Industry	11,000	696,104

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.

33. Events After the Reporting Period

As noted above' on 22 July 2016 the Company announced that, further to the execution of the Binding Heads of Agreement with Byron Energy Limited (ASX:BYE) announced on 9 June 2016, the associated Convertible Note Deed and General Security Deed documents have been executed.

All Terms of the Convertible Note as announced and documented in the Binding Heads of Agreement remain essentially unchanged. Metgasco also negotiated an option by which Byron may elect an early repayment of the Funding Facility from 90 days of initial drawdown and up to eighteen months from that date, at 115% of principal outstanding (along with any accrued interest and line fee). This inclusion in the final Note documentation does not affect Metgasco's other rights, including the proposed issuance of options and farm-in rights. Line fees are accruing to Metgasco as of this date.

On 28 July 2016 the Company announced that it has given notice to Byron Energy Limited of its decision to farm-in to the Bivouac Peak onshore Louisiana project on terms previously negotiated as set out in Metgasco's ASX announcement dated 9 June 2016.

On 8 August 2016 the Company announced a shareholder meeting would be held on 12 September 2016 to consider a return of capital to shareholders of $0.025 per share amounting to $9,962,000.

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

DIRECTORS' DECLARATION

1. 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 2016 and of its performance for the financial year ended on that date; and

      ii) 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.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Executive Chairman and Chief Financial Officer for the financial year ended 30 June 2016.

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

Signed in accordance with a resolution of the directors:

Alexander Lang
Executive Chairman
Sydney, 25 August 2016

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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 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is 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, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 2016 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 11 to 16 of the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P J Woodley
Partner - Audit & Assurance

Sydney, 25 August 2016

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 7 October 2016.

Distribution of Ordinary Shares:

Analysis of ordinary shareholders by size of shareholding:

Number of Shares	Ordinary Share Held	No. of Shareholders	% of Issued Shares
1 - 1,000 [1]	18,807	123	0.00%
1,001 - 5,000	411,185	134	0.10%
5,001 - 10,000	3,325,135	363	0.83%
10,001 - 100,000	61,378,353	1,607	15.40%
100,000 - and over	333,331,343	497	83.65%
Total	398,464,823	2,720	100.00%
1. 305 shareholders hold less than a marketable parcel of shares in Metgasco as at 7 October 2016			

Twenty Largest Shareholders

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

Shareholders		Ordinary Shares Held	% of Issued Shares
1	M&A ADVISORY PTY LTD	72,642,670	18.23%
2	MR PAUL FUDGE	15,296,128	3.84%
3	KEYBRIDGE CAPITAL LIMITED	13,274,621	3.33%
4	AURORA FUNDS MANAGEMENT LIMITED	11,544,118	2.90%
5	KEYBRIDGE CAPITAL LIMITED	9,919,970	2.49%
6	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	7,384,628	1.85%
7	PW AND VJ COOPER PTY LIMITED	6,641,161	1.67%
8	FAST FREEZE INTERNATIONAL LIMITED	6,251,286	1.57%
9	CITICORP NOMINEES PTY LIMITED	4,977,540	1.25%
10	MR PETER JOHN GRAY	3,435,821	0.86%
11	AURORA FUNDS MANAGEMENT LIMITED	3,261,718	0.82%
12	TRIBAL N Z TRADERS LIMITED	3,206,202	0.80%
13	NAMBIA PTY LTD	3,192,153	0.80%
14	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	3,057,523	0.77%
15	GYTON PTY LTD	3,031,912	0.76%
16	CHIFLEY PORTFOLIOS PTY LTD	2,729,638	0.69%
17	COLOWELL PTY LIMITED	2,654,867	0.67%
18	MELLETT SUPER PTY LTD	2,500,000	0.63%
19	MR ROBERT ALEXANDER HOAD	2,500,000	0.63%
20	SAXON ACQUISITIONS PTY LTD	2,360,488	0.59%
Total		**179,862,444**	**45.14%**

Substantial Holders

The following shareholders have notified that they are substantial shareholders of Metgasco:

Shareholders	Ordinary Shares Held	% of Issued Shares
Keybridge Capital Limited [1]	40,656,035	10.14%
Lawndale Group Pty Ltd, Amanda Purcell and their associates: [2 3]	75,375,197	18.79%
M&A Advisory Pty Ltd		
Twinkle Capital Pty Ltd		
Breakwater Holdings Pty Ltd		

1 Substantial shareholder notice dated 4 July 2016

2 Substantial shareholder notice dated 22 August 2016

3 Substantial shareholder notice dated 24 August 2016

On Market Buy-Back

There is no current on-market share buy-back by the Company.

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.

CORPORATE DIRECTORY

Directors	Alexander Lang (Executive Chairman) Philip Amery John Patton Andrew Purcell Terry White
Company Secretary	Phil Mackey
Registered Office	Metgasco Limited ABN 24 088 196 383 Level 3, 2 Elizabeth Plaza North Sydney, NSW 2060 Telephone: +61 2 9923 9100 Facsimile: +61 2 9923 9199 Email: info@metgasco.com.au www.metgasco.com.au
2016 Annual General Meeting	The 2016 Annual General Meeting of Metgasco Limited will be held on: Date: Thursday, 24 November 2016 Time: 10:00am Venue: Christie Corporate Mozambique Room, Level 4 100 Walker Street, North Sydney
Stock Exchange	Australian Securities Exchange (ASX) 4 Bridge Street Sydney, NSW 2000
ASX Symbol	MEL
Share Registry	Registry Direct Pty Limited Level 6, 2 Russell Street Melbourne VIC 3000
Auditor	Grant Thornton Audit Pty Ltd Level 17, 383 Kent Street Sydney, NSW 2000
Solicitors	MARQUE Lawyers Pty Ltd Level 4, 343 George Street Sydney, NSW 2000

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